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Accounting trends and techniques, 61st annual survey 2007 edition

Matthew C. Calderisi

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Accounting Trends & Techniques

61st

SIXTY-FIRST EDITION

2007

American Institute of Certified Public Accountants

AICPA®

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

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1339-344

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New York, NY 10036-8775

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1 2 3 4 5 6 7 8 9 0 AAP 0 9 8 7

ISSN 1531-4340

ISBN 978-0-87051-694-8

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Acknowledgments

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Constance J. Crawford, CPA
Nickole Forbes, CPA
Lisa Hopson, CPA
Kathleen V. Karatas, CPA
Gene P. Leporiere, CPA
Toni Monier, CPA
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Preface

Accounting Trends & Techniques—2007, Sixty-First Edition (the current edition), is a compilation of reporting and disclosure data obtained from a survey of the annual reports to stockholders of 600 publicly traded companies. This AICPA publication is produced for the purpose of providing accounting professionals with an invaluable resource for incorporating new and existing accounting and reporting guidance into financial statements using presentation techniques adopted by some of the most recognized companies headquartered in the United States. The annual reports surveyed were those of selected industrial, merchandising, technology, and service companies for fiscal periods ending between February 2006 and January 2007.

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

Accounting techniques are illustrated by excerpts from the annual reports of the survey companies and represent various presentation practices already subjected to the audit requirements mandated by the Public Company Accounting Oversight Board (PCAOB). Furthermore, the excerpts selected for inclusion were subjected to an evaluation process and found to be particularly relevant and useful to financial statement preparers. Every edition of *Accounting Trends & Techniques* has all new illustrations so the readers are provided only current financial statement preparation techniques.

The current edition includes illustrative excerpts of company disclosures related to recently issued technical guidance, such as SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. Readers should be aware that the effective dates of recently released technical guidance affect the timing of its inclusion in the financial statements of the survey companies which, in turn, affects the timing of the resulting illustrative excerpts available for potential inclusion in *Accounting Trends & Techniques*.

Each of the 600 survey companies included in the current edition is listed in the "Appendix of 600 Companies" both alphabetically and by company reference number, a numerical identifier unique to this publication. Additionally, the "Company Index" that follows the aforementioned appendix lists those companies from whose annual reports illustrative examples have been provided and the parenthetical references as to where those excerpts can be found within the text. The final two indexes include a "Pronouncement Index," which provides for easy cross-referencing of new pronouncements to the applicable descriptive narratives preceding the various sections of tables and excerpts, and a "Subject Index," which provides for topical cross-referencing.

We would appreciate your feedback! We hope that you find this year's edition to be informative and useful. Also, we encourage you to give us your comments regarding the content of this publication, suggested improvements for future editions, and any other feedback. Please direct your comments to Doug Bowman, Technical Manager, using the below contact information. All comments will be considered and kept strictly confidential.

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Section 1: General

COMPANIES SELECTED FOR SURVEY

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

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

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

1.04

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	2006	2005
Advertising, marketing	4	2
Aerospace	17	17
Apparel	13	13
Beverages	10	10
Building materials, glass	8	8
Chemicals	29	27
Computer and data services	17	20
Computer peripherals	7	7
Computer software	11	11
Computers, office equipment	9	11
Diversified outsourcing services	12	11
Electronics, electrical equipment	43	43
Engineering, construction	13	14
Entertainment	11	10
Food	26	26
Food and drug stores	13	14
Food services	10	10
Forest and paper products	15	15
Furniture	9	11
General merchandisers	11	9
Health care	9	11
Homebuilders	10	7
Hotels, casinos, resorts	8	6
Industrial and farm equipment	39	36
Mail, package and freight delivery	1	—
Medical products and equipment	12	12
Metal products	16	17
Metals	17	15
Mining, crude-oil production	13	12
Miscellaneous	3	5
Motor vehicles and parts	15	14
Network communications	6	6
Packaging, containers	8	6
Petroleum refining	12	14
Pharmaceuticals	10	10
Publishing, printing	19	21
Rubber and plastic products	5	6
Scientific, photographic, and control equipment	18	19
Semiconductors	12	14
Soaps, cosmetics	8	7
Specialty retailers	17	18
Telecommunications	10	12
Temporary help	5	5
Textiles	4	4
Tobacco	5	5
Toys, sporting goods	3	2
Transportation equipment	4	4
Trucking, truck leasing	5	5
Waste management	3	3
Wholesalers	15	15
Total Companies	**600**	**600**

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

1.06

TABLE 1-2: REVENUE OF SURVEY COMPANIES

	2006	2005	2004	2003
Less than $100,000,000	17	21	16	23
Between $100,000,000 and $500,000,000	30	34	40	41
Between $500,000,000 and $1,000,000,000	33	35	43	52
Between $1,000,000,000 and $2,000,000,000	82	103	105	110
Between $2,000,000,000 and $3,000,000,000	86	80	82	77
Between $3,000,000,000 and $4,000,000,000	55	44	42	42
Between $4,000,000,000 and $5,000,000,000	34	34	39	43
Between $5,000,000,000 and $10,000,000,000	108	99	93	91
More than $10,000,000,000	155	150	140	121
Total Companies	**600**	**600**	**600**	**600**

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

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

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

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

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

Quarterly Financial Data

1.10

LANCE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Interim Financial Information (Unaudited)

A summary of interim financial information follows (in thousands, except per share data):

	2006 Interim Period Ended			
	April 1 (13 Weeks)	July 1 (13 Weeks)	September 30 (13 Weeks)	December 30 (13 Weeks)
Net sales and other operating revenues	$180,745	$188,341	$188,628	$172,402
Cost of sales	104,866	105,660	106,768	98,282
Selling, marketing and delivery	65,045	60,285	60,571	54,191
General and administrative	11,458	11,771	9,296	10,389
Other expense/(income), net	162	517	(243)	(245)
(Loss)/income from continuing operations before interest and taxes	(786)	10,108	12,236	9,785
Interest expense, net	669	828	901	758
(Loss)/income from continuing operations before taxes	(1,455)	9,280	11,335	9,027
Income tax (benefit)/expense	(531)	3,386	3,940	3,014
Net (loss)/income from continuing operations	(924)	5,894	7,395	6,013
Income/(loss) from discontinued operations	250	418	129	(644)
Income tax expense/(benefit)	91	153	45	(236)
Net income/(loss) from discontinued operations	159	265	84	(408)
Net (loss)/income	$ (765)	$ 6,159	$ 7,479	$ 5,605
From continuing operations:				
Net (loss)/income per common share—basic	$ (0.03)	$ 0.19	$ 0.24	$ 0.19
Net (loss)/income per common share—diluted	(0.03)	0.19	0.24	0.19
From discontinued operations:				
Net income/(loss) per common share—basic	—	.0.01	—	(0.01)
Net income/(loss) per common share—diluted	—	0.01	—	(0.01)
Dividends declared per common share	$ 0.16	$ 0.16	$ 0.16	$ 0.16

	2005 Interim Period Ended			
	March 26 (13 Weeks)	June 25 (13 Weeks)	September 24 (13 Weeks)	December 31 (14 Weeks)
Net sales and other operating revenues	$138,592	$ 159,832	$ 166,173	$ 186,840
Cost of sales	77,311	88,029	94,632	109,359
Selling, marketing and delivery	48,415	51,602	52,138	63,899
General and administrative	7,872	11,384	7,668	10,681
Other expense/(income), net	14	66	(246)	129
Income from continuing operations before interest and taxes	4,980	8,751	11,981	2,772
Interest expense, net	543	550	358	534
Income from continuing operations before taxes	4,437	8,201	11,623	2,238
Income tax expense	1,545	2,981	3,917	580
Net income from continuing operations	2,892	5,220	7,706	1,658
Income/(loss) from discontinued operations	580	654	480	(208)
Income tax expense/(benefit)	202	238	162	(90)
Net income/(loss) from discontinued operations	378	416	318	(118)
Net Income	$ 3,270	$ 5,636	$ 8,024	$ 1,540

(continued)

	2005 Interim Period Ended			
	March 26 (13 Weeks)	June 25 (13 Weeks)	September 24 (13 Weeks)	December 31 (14 Weeks)
From continuing operations:				
Net income per common share—basic	$ 0.10	$ 0.18	$ 0.26	$ 0.05
Net income per common share—diluted	0.10	0.18	0.26	0.05
From discontinued operations:				
Net income per common share—basic	0.01	0.01	0.01	—
Net income per common share—diluted	0.01	0.01	0.01	—
Dividends declared per common share	$ 0.16	$ 0.16	$ 0.16	$ 0.16

1.11

THE SCOTTS MIRACLE-GRO COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 23. Quarterly Consolidated Financial Information (Unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal 2006 and fiscal 2005 (in millions, except per share data).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Fiscal 2006					
Net sales	$249.5	$907.5	$1,048.0	$492.1	$2,697.1
Gross profit	53.5	346.4	406.0	150.0	955.9
Income (loss) from continuing operations	(52.7)	94.8	133.3	(42.7)	132.7
Income from discontinued operations	—	—	—	—	—
Net income (loss)	(52.7)	94.8	133.3	(42.7)	132.7
Basic earnings (loss) per common share					
Income (loss) from continuing operations	$ (0.78)	$ 1.40	$ 1.97	$ (0.64)	$ 1.97
Income from discontinued operations	—	—	—	—	—
Net income (loss) per common share	$ (0.78)	$ 1.40	$ 1.97	$ (0.64)	$ 1.97
Common shares used in basic EPS calculation	68.0	67.5	67.5	66.8	67.5
Diluted earnings (loss) per common share					
Income (loss) from continuing operations	$ (0.78)	$ 1.36	$ 1.92	$ (0.64)	$ 1.91
Income from discontinued operations	—	—	—	—	—
Net income (loss) per common share	$ (0.78)	$ 1.36	$ 1.92	$ (0.64)	$ 1.91
Common shares and dilutive potential common shares used in diluted EPS calculation	68.0	69.6	69.4	66.8	69.4

(continued)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Fiscal 2005					
Net sales	$246.5	$813.4	$ 901.2	$408.2	$2,369.3
Gross profit	61.1	327.6	333.8	137.9	860.4
Income (loss) from continuing operations	(62.5)	83.3	88.1	(8.5)	100.4
Income (loss) from discontinued operations	(0.2)	(0.1)	0.4	0.1	0.2
Net income (loss)	(6.27)	83.2	88.5	(8.4)	100.6
Basic earnings (loss) per common share					
Income (loss) from continuing operations	$ (0.95)	$ 1.25	$ 1.32	$ (0.13)	$ 1.51
Income from discontinued operations	—	—	0.01	—	—
Net income (loss) per common share	$ (0.95)	$ 1.25	$ 1.33	$ (0.13)	$ 1.51
Common shares used in basic EPS calculation	66.0	66.6	67.0	67.4	66.8
Diluted earnings (loss) per common share					
Income (loss) from continuing operations	$ (0.95)	$ 1.22	$ 1.29	$ (0.13)	$ 1.47
Income from discontinued operations	—	—	—	—	—
Net income (loss) per common share	$ (0.95)	$ 1.22	$ 1.29	$ (0.13)	$ 1.47
Common shares and dilutive potential common shares used in diluted EPS calculation	66.0	68.2	68.6	67.4	68.6

Common stock equivalents, such as stock awards, are excluded from the diluted loss per share calculation in periods where there is a net loss because their effect is anti-dilutive.

The Company's business is highly seasonal with 70% to 75% of net sales occurring in the second and third fiscal quarters combined.

Unusual items during fiscal 2006 consisted of impairment charges, restructuring and other costs, and an insurance recovery. These items are reflected in the quarterly financial information as follows: first quarter restructuring and other charges of $4.7 million and impairment of intangible assets of $1.0 million; second quarter restructuring and other charges of $1.1 million; third quarter restructuring and other charges of $1.1 million; and fourth quarter restructuring and other charges of $2.5 million and impairment of intangible assets of $65.4 million. Also included in the first and second quarters are a $1.0 million and $9.1 million benefit from an insurance recovery, respectively.

Unusual charges during fiscal 2005 consisted of the charge to record the deferred contribution amounts under the Roundup® marketing agreement, impairment charges and restructuring and other costs. These charges are reflected in the quarterly financial information as follows: first quarter restructuring and other charges of $0.2 million and impairment of intangible assets of $22.0 million; second quarter restructuring and other charges of $0.1 million; third quarter deferred contribution charge under the Roundup® marketing agreement of $45.7 million; and fourth quarter restructuring and other charges of $8.3 million and impairment of intangible assets of $1.4 million. Also included in the fourth quarter is $3.6 million relating to an immaterial correction of prior periods' amortization expense.

Selected Information for Five Years

1.12

DARDEN RESTAURANTS, INC. (MAY)

FIVE-YEAR FINANCIAL SUMMARY

(In thousands, except per share data)	2006	2005	2004[1]	2003	2002
Operating results					
Sales	$5,720,640	$5,278,110	$5,003,355	$4,654,971	$4,366,911
Costs and expenses:					
Cost of sales:					
Food and beverage	1,691,906	1,593,709	1,526,875	1,449,162	1,384,481
Restaurant labor	1,850,199	1,695,805	1,601,258	1,485,046	1,373,416
Restaurant expenses	885,403	806,314	774,806	713,699	636,575
Total cost of sales, excluding restaurant depreciation and amortization[2]	$4,427,508	$4,095,828	$3,902,939	$3,647,907	$3,394,472
Selling, general and administrative	536,379	497,478	472,109	431,722	417,158
Depreciation and amortization	221,456	213,219	210,004	191,218	165,829
Interest, net	43,105	43,119	43,659	42,597	36,585
Asset impairment and restructuring charges (credits), net	9,674	4,549	41,868	3,924	(2,568)
Total costs and expenses	$5,238,122	$4,854,193	$4,670,579	$4,317,368	$4,011,476
Earnings before income taxes	482,518	423,917	332,776	337,603	355,435
Income taxes	144,324	133,311	105,603	111,624	122,664
Net earnings	$ 338,194	$ 290,606	$ 227,173	$ 225,979	$ 232,771
Net earnings per share:					
Basic	$ 2.26	$ 1.85	$ 1.39	$ 1.33	$ 1.33
Diluted	$ 2.16	$ 1.78	$ 1.34	$ 1.27	$ 1.27
Average number of common shares outstanding:					
Basic	149,700	156,700	163,500	170,300	174,700
Diluted	156,900	163,400	169,700	177,400	183,500
Financial position					
Total assets	$3,010,170	$2,937,771	$2,780,348	$2,664,633	$2,529,736
Land, buildings and equipment	2,446,035	2,351,454	2,250,616	2,157,132	1,926,947
Working capital (deficit)	(648,471)	(637,341)	(337,174)	(314,280)	(157,662)
Long-term debt less current portion	494,653	350,318	653,349	658,086	662,506
Stockholders' equity	1,229,763	1,273,019	1,175,288	1,130,055	1,069,606
Stockholders' equity per outstanding share	8.37	8.25	7.42	6.85	6.21
Other statistics					
Cash flow from operations	$ 717,090	$ 583,242	$ 525,411	$ 508,635	$ 508,101
Capital expenditures	338,155	329,238	354,326	423,273	318,392
Dividends paid	59,206	12,505	12,984	13,501	9,225
Dividends paid per share	0.400	0.080	0.080	0.080	0.053
Advertising expense	229,693	214,608	210,989	200,020	184,163
Stock price:					
High	42.75	33.11	25.60	27.83	29.77
Low	28.80	19.30	17.80	16.46	15.40
Close	36.51	32.80	22.50	18.35	25.03
Number of employees	157,300	150,100	141,300	140,700	133,200
Number of restaurants	1,427	1,381	1,325	1,271	1,211

[1] Fiscal year 2004 consisted of 53 weeks while all other fiscal years presented on this summary consisted of 52 weeks.
[2] Excludes restaurant depreciation and amortization of $205,375, $198,422, $195,486, $177,127 and $155,837, respectively.

1.13

UNITED STATIONERS INC. (DEC)

SELECTED FINANCIAL DATA

The selected consolidated financial data provided below for prior periods has been restated to reflect discontinued operations. See Note 1 to the Consolidated Financial Statements. The selected consolidated financial data of the Company for the years ended December 31, 2002 through 2006 have been derived from the Consolidated Financial Statements of the Company, which have been audited by Ernst & Young LLP, an independent registered public accounting firm. The selected consolidated financial data below should be read in conjunction with, and is qualified in its entirety by, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of the Company included in Items 7 and 8, respectively, of this Annual Report. Except for per share data, all amounts presented are in thousands:

	2006[(1)]	2005	2004[(2)]	2003	2002
Income statement data:					
Net sales	$4,546,914	$4,279,089	$3,838,701	$3,652,413	$3,522,564
Cost of goods sold	3,792,833	3,637,065	3,254,169	3,105,635	2,995,349
Gross profit	754,081	642,024	584,532	546,778	527,215
Operating expenses:					
Warehousing, marketing and administrative expenses	516,234	471,193	422,595	406,446	408,296
Restructuring and other charges (reversal), net[(3)]	1,941	(1,331)	—	—	6,510
Total operating expenses	518,175	469,862	422,595	406,446	414,806
Operating Income	235,906	172,162	161,937	140,332	112,409
Interest expense	(8,276)	(3,050)	(3,324)	(6,816)	(16,695)
Interest income	970	342	362	262	—
Loss on early retirement of debt[(4)]	—	—	—	(6,693)	—
Other expense, net[(5)]	(12,786)	(7,035)	(3,488)	(4,826)	(2,421)
Income from continuing operations before income taxes and cumulative effect of a change in accounting principle	215,814	162,419	155,487	122,259	93,293
Income tax expense	80,510	60,949	57,523	46,480	34,991
Income from continuing operations before cumulative effect of a change in accounting principle	135,304	101,470	97,964	75,779	58,302
(Loss) income from discontinued operations, net of tax	(3,091)	(3,969)	(7,993)	3,331	1,926
Income before cumulative effect of a change in accounting principle	132,213	97,501	89,971	79,110	60,228
Cumulative effect of a change in accounting principle[(6)]	—	—	—	(6,108)	—
Net income	$ 132,213	$ 97,501	$ 89,971	$ 73,002	$ 60,228
Net income per share—basic:					
Income from continuing operations before cumulative effect of a change in accounting principle	$ 4.37	$ 3.08	$ 2.93	$ 2.29	$ 1.75
(Loss) income from discontinued operations, net of tax	(0.10)	(0.12)	(0.24)	0.10	0.06
Cumulative effect of a change in accounting principle	—	—	—	(0.19)	—
Net income per common share—basic	$ 4.27	$ 2.96	$ 2,69	$ 2.20	$ 1.81
Net income per share—diluted:					
Income from continuing operations before cumulative effect of a change in accounting principle	$ 4.31	$ 3.02	$ 2.88	$ 2.27	$ 1.73
(Loss) income from discontinued operations, net of tax	(0.10)	(0.12)	(0.23)	0.10	0.06
Cumulative effect of a change in accounting principle	—	—	—	(0.19)	—
Net income per common share—diluted	$ 4.21	$ 2.90	$ 2.65	$ 2.18	$ 1.78
Cash dividends declared per share	$ —	$ —	$ —	$ —	$ —

(continued)

	2006	2005	2004	2003	2002
Balance sheet data:					
Working capital[7]	$ 551,556	$ 421,005	$ 545,552	$ 498,523	$ 476,204
Total assets[7]	1,553,394	1,542,201	1,413,108	1,299,492	1,349,716
Total debt[8]	117,300	21,000	18,000	17,324	211,249
Total stockholders' equity	800,940	768,512	737,071	677,460	559,371
Statement of cash flows data:					
Net cash provided by operating activities	$ 13,994	$ 236,067	$ 50,701	$ 171,015	$ 110,940
Net cash used in investing activities	(18,624)	(171,748)	(13,378)	(14,279)	(28,249)
Net cash provided by (used in) financing activities	2,198	(62,680)	(32,032)	(164,416)	(93,917)
Other data:					
Pro forma amounts assuming the accounting change for EITF Issue No. 02-16:[6]					
Net income	$ 132,213	$ 97,501	$ 89,971	$ 79,110	$ 58,862
Earnings per share:					
Basic	4.27	2.96	2.69	2.39	1.77
Diluted	4.21	2.90	2.65	2.37	1.74

(1) In 2006, the Company recorded $60.6 million, or $1.21 per diluted share in one-time favorable benefits from the Company's product content syndication program and certain marketing program changes.

(2) During 2004, the Company recorded a pre-tax write-off of approximately $13.2 million in supplier allowances, customer rebates and trade receivables, inventory and other items associated with the Company's Canadian Division.

(3) Reflects restructuring and other charges in the following years: *2006*—$6.0 million charge for the 2006 Workforce Reduction Program, partially offset by a $4.1 million reversal of previously established restructuring reserves. *2005*—$1.3 million reversal of previously established restructuring reserves. 2002—$8.9 million restructuring reserve established for the 2002 Restructuring Plan (as defined), partially offset by a $2.4 million reversal of previously established restructuring reserves.

(4) During 2003, the Company redeemed its 8.375% Senior Subordinated Notes and replaced its then existing credit agreement with a new Five-Year Revolving Credit Agreement. As a result, the Company recorded a loss on early retirement of debt totaling $6.7 million, of which $5.9 million was associated with the redemption of the 8.375% Senior Subordinated Notes and $0.8 million related to the write-off of deferred financing costs associated with replacing the prior credit agreement.

(5) Primarily represents the loss on the sale of certain trade accounts receivable through the Company's Receivables Securitization Program (as defined and further described as noted in the next sentence). For further information on the Company's Receivables Securitization Program, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Off-Balance Sheet Arrangements—Receivables Securitization Program" under Item 7 of this Annual Report.

(6) Effective January 1, 2003, the Company adopted EITF Issue No. 02–16. As a result, during the first quarter of 2003 the Company recorded a non-cash, cumulative after-tax charge of $6.1 million, or $0.19 per diluted share, related to the capitalization into inventory of a portion of fixed promotional allowances received from vendors for participation in the Company's advertising publications.

(7) In accordance with Generally Accepted Accounting Principles ("GAAP"), total assets exclude $225.0 million in 2006 and 2005, $118.5 million in 2004, $150.0 million in 2003, $105.0 million in 2002 and $125.0 million in 2001 of certain trade accounts receivable sold through the Company's Receivables Securitization Program. For further information on the Company's Receivables Securitization Program, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Off-Balance Sheet Arrangements—Receivables Securitization Program" under Item 7 of this Annual Report.

(8) Total debt includes current maturities.

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

1.14

SEQUA CORPORATION (DEC)

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

Operating Results 2006–2005

Sales

Overall sales increased 9% in 2006, led by strong advances in the Aerospace and Industrial Machinery segments. The Automotive segment increased modestly, and the Metal Coating, Specialty Chemicals and Other Products segments decreased slightly. The effect on sales of exchange rate movements was negligible for the year. A detailed discussion of sales by operating segment follows:

Sales of the Aerospace segment increased 17% in the current year. The advance reflects the ongoing benefit of new product introductions and of sales added through long-term contracts with airline customers. These contracts, which give Chromalloy the exclusive right to provide repairs, replacement parts or inventory and engine management services on specific engines within the airline's fleet, have spurred sales and represent a source of ongoing revenue growth. Sales to the military and to marine and industrial turbine customers declined slightly in 2006.

Sales of the Automotive segment increased 1% in 2006. Sales of ARC Automotive, the airbag inflator unit, increased 1% in 2006 due to improvement in domestic sales of passenger and side-impact inflators, offset by lower sales at the Italian operation. Sales of Casco Products, which manufactures

cigarette lighters and electronic sensors, increased 2% in 2006. Higher sales of electronic products in Europe and North America were partially offset by a decline in domestic lighter sales in 2006.

Sales of the Metal Coating segment decreased 3% in the current year. Lower steel sales from a metal management program in 2005 were partially offset by increased sales to the building products market in 2006. The improvement in sales to the building products market is expected to continue in 2007.

Sales of the Specialty Chemicals segment declined 2% in 2006. Sales in 2006 were affected by modestly lower shipments of TAED. Sales at the international marketing and distributions units advanced 7% in the current year. Sales growth through new product introductions and expansion of the distribution units is expected in 2007.

Sales of the Industrial Machinery segment advanced sharply, posting a 20% improvement in 2006. The segment's increase was primarily driven by higher sales of graphic arts equipment in the US and Europe and increased sales of emission control equipment in Europe. Sales for 2006 also reflect increased sales of industrial products equipment in Asia.

Sales of the Other Products segment decreased 1% in 2006. Sales for After Six increased 3% reflecting a continued high level of demand from the formalwear market. Revenues from Centor, the real estate holding company, declined $0.5 million, or 34%, in the current year due to a decrease in rental income resulting from the pending sale of its sole remaining property in New Jersey. In December 2006, Centor sold two properties in Virginia which contributed rental income of approximately $0.9 million in 2006. No rental income is expected to be earned in 2007.

Operating Income

Overall operating income increased by 7% in 2006, as advances at the Aerospace, Metal Coating, Industrial Machinery and Other Products segments were mitigated by a decline at the Automotive segment and higher corporate expenses. The results of the Specialty Chemicals segment in 2006 were on par with last year. Sequa's foreign operations contributed operating income of $69.1 million in 2006, compared with $66.1 million in 2005. The increase in results from foreign operations is primarily driven by higher sales at the overseas operations of the Aerospace segment partially offset by lower sales at ARC Automotive's Italian operation as well as start-up costs to operate its new China facility. A detailed review of operating income by segment follows:

Operating profits of the Aerospace segment advanced 24% in 2006, primarily due to the benefit of higher sales and absorption of fixed costs. Results for the year were unfavorably affected by several factors: a $3.9 million provision for customer claims related to repair services provided to certain commercial airline customers; a $1.5 million reduction of sales to defer revenue in excess of the amount contractually recoverable at the balance sheet date; and a $1.2 million loss on the sale of pre-petition accounts receivable. The effect of these factors were more than offset by $3.0 million of income resulting from the recognition of deferred revenue associated with a terminated contract with a commercial airline and the absence of two charges taken in 2005: $5.6 million to reserve for receivables due from two airline customers that filed for bankruptcy protection and a $1.7 million pension curtailment charge caused by changes to Sequa's defined benefit plan.

Results of the Automotive segment declined 38% reflecting a sharp decline at ARC Automotive partially offset by improved results at Casco Products. The lower results at ARC Automotive are due to the following factors: start-up costs at new plants in Mexico and China that amounted to $9.6 million; lower sales in Europe; impact of higher steel surcharges; and a charge of $2.0 million related to headcount reductions in the US. Barring any further deterioration in the automotive industry, the benefits of transferring manufacturing operations to lower-cost regions are expected to begin to accrue over the near term. Casco Products posted an improvement as a result of higher sales and benefits derived from a series of actions to source from lower-cost regions and improve overall operating efficiencies, particularly through operational excellence programs.

Operating income in the Metal Coating segment advanced 3% in 2006. The impact of lower sales under metal management programs was more than offset by improved operating efficiencies, price increases and an improved sales mix.

Results of the Specialty Chemicals segment in 2006 were relatively unchanged from last year, reflecting lower TAED sales and higher energy costs. In early 2006, a fire damaged a granulation plant at the segment's Warwick facility, causing it to be shut down for three months. The $14.0 million cost associated with the fire (to repair the property and equipment and the premium cost to outsource the granulation process during the shutdown) was covered by insurance. The results in 2006 include $2.3 million of income from insurance proceeds to compensate for the business interruption caused by the fire.

Operating income of the Industrial Machinery segment advanced 31% in 2006 as a result of higher sales in all product categories at all major operations, combined with ongoing productivity improvements stemming from Six Sigma and low-cost sourcing activities.

Operating income of the Other Products segment increased $0.4 million, or 89%, in 2006. Results for the year reflect higher sales at the After Six unit mitigated by $0.5 million of one-time charges related to contract cancellation fees and severance costs. Results of the Centor unit declined primarily due to a decrease in rental income from its New Jersey property.

Corporate expenses increased 6% in 2006 primarily due to a $3.1 million increase in environmental provisions associated with previously divested operations and $1.8 million of charges in relation to a voluntary separation program for corporate employees implemented in the fourth quarter of 2006. These factors were partially offset by the absence of a $1.8 million charge recorded in 2005 related to a separation agreement with a former senior executive officer, as well as lower insurance costs and professional service fees.

Pension Expense

Operating income includes net periodic pension cost, exclusive of plan curtailments, of $1.2 million in 2006 and $4.3 million in 2005 related to all significant funded defined benefit plans. The decrease in net periodic pension cost is primarily reflected in the results of operations of the Specialty Chemicals segment of $1.9 million and the Aerospace segment of $1.0 million. On an annual basis, Sequa reviews the assumptions used in accounting for these plans. In order to reflect market conditions in the calculation of the net periodic pension cost, the long-term expected rate of return in 2006 and 2005 was 8.3%; the discount rate used in 2006 was 5.85%

and 2005 was 6.00%. Net periodic pension cost, exclusive of plan curtailments, declined in 2006 from the 2005 level for the following reasons: actual returns on plan assets in 2005 exceeded the expected returns, which served to increase the asset base on which 2006 expected returns were calculated; the increased returns and increased asset base decreased the level of amortizable actuarial losses; and, effective December 31, 2005, Sequa's largest defined benefit plan was amended to limit actual and future participation.

In the third quarter of 2005, Sequa's largest defined benefit plan was amended whereby, effective December 31, 2005, all active participants who had not reached the age of 45 were excluded from further participation in the plan. Such individuals instead received an increased contribution to the Sequa 401(k) plan. Individuals 45 years of age or older had the one-time option of either continuing in the plan or electing to receive the additional contribution to the 401(k) plan. The third-quarter 2005 plan amendment resulted in a curtailment charge of $2.3 million (Aerospace, $1.7 million; Metal Coating, $0.4 million; and Corporate, $0.2 million). In addition, as a result of the merger of the Atlantic Research Corporation Employees' Pension Plan into Sequa's largest defined benefit plan effective December 31, 2005, Sequa recorded a final curtailment charge of $0.2 million in the fourth quarter of 2005.

Interest Expense

Interest expense in 2006 increased by $0.5 million compared with the prior year, primarily as a result of interest expense incurred on the $100 million of foreign debt issued on December 21, 2005 partially offset by the redemption, through unsolicited offers, of $100.4 million of the 8.875% Senior Notes maturing April 2008.

Interest Income

Interest income increased $3.0 million in 2006 compared with the prior year. The increase reflects a combination of higher average levels of cash and cash equivalents and higher interest rates.

Equity in Income of Unconsolidated Joint Ventures

Sequa has investments in a number of unconsolidated joint ventures, which amounted to $86.5 million and $75.9 million at December 31, 2006 and 2005, respectively. Equity income from these joint ventures was $19.4 million in 2006 and $15.6 million in 2005. The increase is primarily attributable to increased sales at certain of the joint venture operations stemming from obtaining additional approvals to provide coating services or manufacture components for OEM customers. Profits from the joint ventures are expected to continue to increase as the joint ventures work to increase their portfolio of new service and part offerings.

Chromalloy is a partner in joint ventures aimed at strengthening its ties to certain OEMs and airline customers, as well as ensuring close cooperation with respect to the dissemination of technical specifications and requirements. Sequa's investment in Chromalloy's joint ventures was $81.8 million and $74.4 million at December 31, 2006 and 2005, respectively. Equity income from Chromalloy's joint ventures was $19.6 million in 2006 and $15.8 million in 2005. The largest of the Chromalloy joint ventures are discussed in the following paragraphs.

Chromalloy and Siemens Westinghouse Power Corporation and Siemens Aktiengesellschaft (collectively referred to as Siemens) have joint ownership of four operating companies. Three of the companies provide service and repairs for heavy industrial gas turbines manufactured by other companies, and for gas turbines based on the mature technologies of Siemens and its affiliates. These three operating companies are: TurboCare Gas Turbine Services LLC ("TCGTS"), Turbine Services Ltd ("TS") and Gas Turbine Technologies, S.p.A. ("GTT"). The fourth operating company, Turbine Airfoil Coating and Repair, LLC ("TACR"), provides coating and component services on Siemens' advanced engines. Chromalloy has a 49% ownership interest in TCGTS, which serves the North, Central and South American markets. Chromalloy has a 51% ownership interest in, and operating control over, TS, which has operating assets in the UK and Thailand and serves Europe, the Far East and Middle East. The financial statements of TS are consolidated with those of Sequa, and a Siemens minority interest is reflected. MJB International Limited ("MJB"), a partnership with Al Masaood, is 49% owned by TS and provides repair and maintenance services for industrial gas turbines from a facility in the United Arab Emirates. Sequa has guaranteed a new bank line of credit, as restructured in the second quarter of 2006 to replace the existing line of credit, for MJB, up to $6.8 million. At December 31, 2006, $2.2 million was outstanding under this facility. Chromalloy has a 20% ownership interest in GTT, which serves Italy and certain other countries. Chromalloy has a 49% ownership interest in TACR.

Chromalloy has a 52.6% ownership interest in BELAC, a component manufacturing operation that produces new replacement parts for jet engines. The 52.6% ownership interest does not equate to a controlling interest, primarily due to a super majority vote requirement (at least 75% approval) on certain key operational decisions. While Chromalloy's partners in this joint venture are major commercial airlines, whose industry has been under significant pressure, management believes that the venture is adequately capitalized to carry on its principal operations without additional subordinated financial support. At December 31, 2006, Sequa's investment in BELAC totaled $10.2 million. BELAC is not a variable interest entity as defined in Financial Accounting Standards Board Interpretation No. 46, "*Consolidation of Variable Interest Entities*," and therefore its financial statements are not consolidated with those of Sequa.

Chromalloy has two 50/50 joint ventures with Rolls-Royce plc: Turbine Surface Technologies Ltd ("TSTL"), which provides advanced coatings for Rolls-Royce turbine components, and Turbine Repair Technologies Ltd ("TRTL"), which provides advanced component repair services for certain Rolls-Royce engines. Sequa has guaranteed 50% of TSTL's future lease payments under the terms of a capital lease, as well as 50% of an overdraft facility for its TSTL joint venture. Total amounts subject to the guarantees may not exceed 9.3 million British pounds, as adjusted for a new overdraft facility executed in June 2006 and a previously expired portion of the guarantee. At December 31, 2006, 6.0 million British pounds were outstanding related to the guarantees.

Advanced Coatings Technologies ("ACT"), a 50%-owned joint venture with United Technologies Corporation, owns and operates an electron beam ceramic coater for the application of Pratt & Whitney coatings to jet engine parts. In January 2007, Chromalloy and Pratt & Whitney announced plans to expand the ACT joint venture by opening a new facility which will double the capacity of the existing operation.

Chromalloy expects to contribute approximately $17 million in machinery and equipment to the joint venture over the next 12 months.

Premium on Redemption of Senior Notes

In 2006, other income/expense includes a charge of $4.3 million for premiums incurred on the redemption, through unsolicited offers, of $100.4 million of the 8.875% Senior Notes, maturing April 2008.

Other, Net

In 2006, Other, net included $5.6 million of gain on the sale of property, plant and equipment; $3.4 million of gains related to insurance proceeds; $3.4 million of charges for the amortization of capitalized debt issuance costs; $2.3 million of income on the cash surrender value of corporate owned life insurance; $1.9 million of charges for letters of credit and commitment fees; and $1.4 million of expense related to minority interest holders.

In 2005, Other, net included $6.2 million of expense to record losses and to reduce the investment in a business transferred under contractual arrangements in 2004; $2.6 million of expense related to minority interest holders; $1.9 million of charges for the amortization of capitalized debt issuance costs; $1.5 million of gain on the sale of property, plant and equipment; $1.3 million of charges for letters of credit and commitment fees; and $0.9 million gain on the fair market value of forward foreign exchange contracts that did not qualify for cash flow hedge accounting.

Income From Continuing Operations Before Income Taxes

Income from continuing operations before income taxes was $83.8 million for the year ended December 31, 2006, which was composed of $65.7 million of profits earned by Sequa's foreign operations and $18.1 million of profits earned by Sequa's domestic operations. For the year ended December 31, 2005, Sequa's foreign operations contributed $70.0 million of income from continuing operations before income taxes and the domestic operations incurred $9.9 million of losses from continuing operations before income taxes. The results of the domestic operations include approximately $65.9 million and $71.6 million of interest expense for the year ended December 31, 2006 and 2005, respectively, incurred primarily on the 9% and 8.875% Senior Notes.

The improvement in the results of the domestic operations from 2005 to 2006 primarily reflects higher operating results at the Aerospace, Metal Coating and Industrial Machinery segments, as well as a reduction in domestic interest expense due to the redemption of a portion of the 8.875% Senior Notes during 2006, and a gain on the sale of domestic property. The Metal Coating segment serves only the domestic market and the domestic operations of the Aerospace and Industrial Machinery segments represent a majority of each segment's sales. At the Aerospace segment, both domestic and foreign operations have experienced an increase in operating income, primarily as a result of sales added through long-term contracts with airline customers. At the Industrial Machinery segment, operating income of domestic operations increased more than that of foreign operations, due to increased demand in the domestic graphic arts market.

The decrease in results from foreign operations is primarily attributable to an increase in interest expense due to $100 million of foreign debt incurred in December 2005 partially offset by increased operating results at Sequa's foreign operations.

Income Tax (Provision) Benefit

The effective tax rate for continuing operations was 25.8% in 2006, compared with 23.3% in 2005. In 2006, the $21.6 million income tax provision reflects higher domestic rates on taxable income compared with foreign tax rates.

In 2005, the $14.0 million income tax provision reflects lower foreign rates on taxable income when compared with domestic tax rates; the utilization of net operating loss carryforwards by certain foreign entities; a $0.8 million reversal of tax reserves based on a current analysis of probable exposures; and a $1.1 million reversal of tax reserves related to the satisfactory resolution of a state tax matter.

In the fourth quarter of 2004, the American Jobs Creation Act of 2004 was passed, which provided a special one-time 85% dividends received deduction on the repatriation of certain foreign dividends paid by December 31, 2005, provided the criteria outlined in the tax law were met. After evaluating the Internal Revenue Service guidance as well as the local laws and other agreements that govern dividends distributed by foreign subsidiaries, Sequa repatriated through a dividend approximately $184.8 million of foreign earnings in the fourth quarter of 2005. Of the total amount, $84.8 million represented available cash on hand at certain foreign operations, and the remaining $100.0 million represented funds available under a loan agreement with a major foreign bank leveraging certain foreign operations. The loan agreement was effective December 21, 2005. Sequa recorded a tax provision of $9.1 million for the year ended December 31, 2005 related to the above dividend, which is separately identified in the Consolidated Statement of Income.

Income (Loss) From Discontinued Operations

During 1991, Sequa adopted a formal plan to divest the investment portfolio of its leasing subsidiary, Sequa Capital Corporation ("Sequa Capital"), and to classify it as a discontinued operation. In 2006, the remaining investments in leveraged leases, with an aggregate net book value of $42.7 million, were sold for net cash proceeds of $47.0 million. Sequa recognized a net after-tax gain on the sales of $3.4 million or $0.31 per share (pre-tax gain of $4.3 million).

On September 14, 2005, Delta Airlines and certain of its subsidiaries filed a voluntary petition for reorganization under Chapter 11. Sequa Capital held an investment in an aircraft leveraged lease with Delta with a net amount of $13.9 million at September 14, 2005. Sequa Capital determined that this investment was fully impaired as a result of the bankruptcy filing. The after-tax charge to discontinued operations amounted to $9.7 million or $0.91 per share in 2005.

Risk/Concentration of Business

Sequa's largest operation, Chromalloy (2006 sales of $1,048.7 million, or 48.0% of total consolidated 2006 sales, operating income of $80.4 million, or 62.4% of total consolidated 2006 operating income, and total assets at December 31, 2006 of $1,084.3 million, or 53.4% of total consolidated 2006 assets), has confronted a difficult operating environment since the events of September 11, 2001. While global

airline traffic has rebounded, high fuel costs, high cost structures imbedded at the legacy carriers (those carriers in existence prior to the de-regulation of the airline industry) and continuing terror threats have placed additional pressures on the airline industry, leading several airlines to file for protection under Chapter 11. Chromalloy's repair and OEM operations derive approximately 80% of sales from the commercial aviation market. The large repair and overhaul business is directly related to the number of hours jet engines are flown, while the smaller OEM business is related to the number of new jet engines placed in service. In 2005, Chromalloy's results included a $5.6 million charge to reserve pre-petition receivables related to certain Delta and Northwest Airlines contracts. Both Delta and Northwest filed voluntary petitions for reorganization under Chapter 11 on September 14, 2005. At December 31, 2006, trade and unbilled receivables due from commercial airlines totaled approximately $139.9 million. A discussion of various Chromalloy customers that are operating, or have operated, under Chapter 11 follows.

The aggregate amount due to Chromalloy from Delta and Northwest on the date of their Chapter 11 filings was approximately $12.0 million. In addition, Chromalloy currently leases 40 jet engines to Northwest. These leases were extended through December 31, 2012. Sequa, in conjunction with outside legal counsel, has reviewed the various contracts through which Chromalloy conducts business with Delta and Northwest. Based on this review, Sequa believes that certain contracts will be considered executory in nature and that the underlying business objectives of the contracts will result in their assumption by the respective airlines. Therefore, Sequa expects that associated pre-petition receivables will ultimately be collected. Sequa believes that certain other contracts may not be assumed and, therefore, recorded a $5.6 million charge to reserve related receivables in the third quarter of 2005. It is possible that the relative rights and obligations of Chromalloy and the airlines may be changed during the course of the bankruptcy proceedings although such changes, if any, and their impact cannot presently be predicted. Chromalloy continues to discuss its business relationship with both Delta and Northwest. In addition, Sequa believes that the engines leased to Northwest are not impaired. In 2006, Sequa sold $11.0 million of pre-petition accounts receivable and recognized a loss of $1.2 million on the sale. Delta accounted for $58.9 million or 5.6% of Chromalloy's sales in 2006 (4.3% of sales in 2005 and 3.6% of sales in 2004), and Northwest accounted for $44.6 million or 4.3% of Chromalloy's sales in 2006 (2.7% of sales in 2005 and 1.3% of sales in 2004).

United Airlines ("UAL"), which emerged from Chapter 11 in February 2006, accounted for $138.9 million or 13% of Chromalloy's sales in 2006 (13% of sales in 2005 and 18% of sales in 2004). In September 2003, Chromalloy signed a 10-year engine materials-by-the-hour contract with UAL which began to contribute repair revenues in March 2004. At December 31, 2006, trade and unbilled receivables with UAL totaled $39.7 million.

Independence Air filed for protection under Chapter 11 on November 7, 2005 and suspended operations in early January 2006. In 2005, Independence Air accounted for less than 1% of Chromalloy's sales. The pre-petition net accounts receivable balance was nominal, and the impact of the Independence Air filing on Chromalloy's operations was not significant.

In September 2004, US Airways Group Inc. ("US Airways") filed a voluntary petition for reorganization under Chapter 11. Chromalloy's pre-petition trade receivable balance with US Airways was not material. US Airways emerged from Chapter 11 and merged with America West Airlines. In 2006, US Airways accounted for less than 1% of Chromalloy's sales.

Chromalloy competes for turbine engine repair business with a number of other companies, including the OEMs, which in certain cases have obligations (contractual and otherwise) to approve vendors to perform repair services on their engines and components. Chromalloy has a number of such approvals, including licensing agreements, that allow it to repair certain components of engines. The loss of a major OEM's approval to repair components for its engines could have an adverse effect on Chromalloy, although management believes it has certain actions available to mitigate this effect.

Sequa is engaged in the automotive airbag inflator business through ARC Automotive. ARC Automotive's largest customers for airbag inflators are Delphi Automotive Systems and its subsidiaries ("Delphi") and Key Safety Systems, Inc. and its subsidiaries ("Key Safety"). Delphi accounted for $88.4 million or 35% of ARC Automotive's sales in 2006 and $91.4 million or 36% of sales in 2005. Key Safety accounted for approximately $77.8 million or 31% of ARC Automotive's sales in 2006 and $91.7 million or 37% of sales in 2005. These two customers accounted for approximately 45% of the Automotive segment's sales in 2006. On October 8, 2005, Delphi filed for protection under Chapter 11. Sequa's relationship with Delphi is governed by long-term supply and licensing agreements that govern ARC Automotive's relationship with Delphi. In January 2006, these agreements were listed as executory in nature by Delphi, and Sequa believes that the underlying business objectives of the agreements will result in their assumption. Sequa expects that the $0.9 million pre-petition receivables will ultimately be collected.

Casco Products is engaged in the automotive products market and supplies cigarette lighters, power outlets, and other automotive accessories to the automotive industry. In 2006, a European automobile manufacturer accounted for 22% of Casco Products' sales (20% in 2005).

Precoat Metals markets its coating services to steel and aluminum producers and distributors, building products manufacturers, merchant can makers, and manufacturers of other diverse products. US Steel, historically Precoat Metals' largest customer, accounted for $51.6 million or 19% of Precoat Metals' sales in 2006, compared with $35.8 million or 13% in 2005.

In the Specialty Chemicals segment, one customer accounted for 29% of 2006 sales (35% of 2005 annual sales) and the top three customers accounted for 43% of 2006 sales (45% of 2005 annual sales). All of these customers are international consumer products companies with whom Warwick has been doing business for many years.

MEGTEC Systems markets its industrial drying systems and emission control equipment directly to customers in the coating, converting, and metal finishing industries and sells auxiliary press equipment directly to international web printing press manufacturers and their customers. One customer accounted for 20% of sales in 2006 and 19% of sales in 2005.

Derivative and Other Financial Instruments

Sequa is exposed to market risk from changes in foreign currency exchange rates and from changes in the prices of certain commodities which affect its earnings, cash flows and financial condition. Sequa manages its exposure to this market risk through its regular operating and financial activities

and, when appropriate, through the use of derivative financial instruments. Sequa has established a control environment, which assigns senior executives, and in certain instances operational management, responsibility for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Sequa does not buy, hold or sell derivative financial instruments for trading purposes. Sequa's primary foreign currency exposures relate to the British pound and to the Euro. To mitigate the short- and near-term effect of changes in currency exchange rates, Sequa utilizes forward foreign exchange contracts and derivatives thereof to manage its exposure to certain existing assets and liabilities and to hedge forecasted transactions and firm commitments denominated in currencies other than the functional currency. Depending on the volatility of the market, Sequa utilizes natural gas swap agreements to convert a portion of its natural gas requirements to fixed rates. Depending on the use of a derivative and whether it has been designated and qualifies as an effective hedge, gains and losses resulting from changes in the value of the derivative are recognized currently in earnings or reported in Accumulated Other Comprehensive Income, a separate component of shareholders' equity.

A hypothetical 10% uniform decrease in all foreign currency exchange rates relative to the US dollar would have decreased the fair value of Sequa's financial instruments by $0.5 million as of December 31, 2006 and increased the fair value by $3.9 million as of December 31, 2005. The sensitivity analysis relates only to Sequa's exchange rate-sensitive financial instruments, which include cash and debt amounts denominated in foreign currencies and all open foreign forward exchange contracts at December 31, 2006 and 2005. The effect of this hypothetical change in exchange rates ignores the effect this movement may have on the value of net assets, other than financial instruments, denominated in foreign currencies and does not consider the effect this movement may have on anticipated foreign currency cash flows.

At December 31, 2006 and 2005, substantially all of Sequa's debt was at fixed rates, with the exception of the $100.0 million variable rate debt issued on December 21, 2005. Sequa currently does not hold interest rate derivative contracts. Accordingly, a change in market interest rates would not have a material effect on Sequa's interest expense but would affect the fair value of Sequa's debt. Generally, the fair market value of fixed-rate debt increases as interest rates fall and decreases as interest rates rise. The fair value of Sequa's total debt was $807.2 million at December 31, 2006 and $970.1 million at December 31, 2005. A hypothetical 1% increase in interest rates would have decreased the fair value of Sequa's total debt by approximately $14.5 million at December 31, 2006 and $21.9 million at December 31, 2005. A hypothetical 1% decrease in interest rates would have increased the fair value of Sequa's total debt by approximately $14.9 million at December 31, 2006 and $22.5 million at December 31, 2005. The fair value of Sequa's total debt is based primarily upon quoted market prices of Sequa's unsecured securities. The estimated changes in the fair values of Sequa's debt are based upon changes in the present value of future cash flows derived from the hypothetical changes in market interest rates.

Environmental Matters

Sequa's environmental department, under senior management's direction, manages all activities related to Sequa's involvement in environmental cleanup. This department establishes the projected range of expenditures for individual sites with respect to which Sequa may be considered a potentially responsible party under applicable federal or state laws. These projected expenditures, which are reviewed periodically, include: remedial investigation and feasibility studies; outside legal, consulting and remediation project management fees; the projected cost of remediation activities; and site closure and post-remediation monitoring costs. The assessments take into account currently available facts, existing technology, presently enacted laws, past expenditures, and other potentially responsible parties and their probable level of involvement. Outside technical, scientific and legal consulting services are used to support management's assessments of costs at significant individual sites.

It is Sequa's policy to accrue environmental remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In 2006, 2005 and 2004, Sequa recorded charges of $3.8 million, $1.5 million and $2.5 million, respectively, to increase its accruals for remediation costs. Of the total 2004 charge, $1.0 million was included in the results of discontinued operations and relates to the ARC propulsion Gainesville, Virginia facility. Sequa has placed its insurance carriers on notice of a claim with respect to certain contamination, and Sequa's present accruals do not consider possible recoveries from such carriers. At December 31, 2006, the range of probable exposure for all remediation costs, excluding financial liabilities assumed by Aerojet, is estimated to range from $11.3 million to $14.8 million, and Sequa's Consolidated Balance Sheet includes accruals for remediation costs of $12.8 million. These accruals are at undiscounted amounts and are included in accrued expenses and other noncurrent liabilities. Actual costs to be incurred at identified sites in future periods may vary from these estimates, given inherent uncertainties in evaluating environmental exposures.

With respect to all known environmental liabilities, Sequa's actual cash expenditures for remediation of previously contaminated sites were $5.2 million in 2006, $5.1 million in 2005 and $2.6 million in 2004. Sequa anticipates that remedial cash expenditures will be between $5.1 million and $7.0 million during 2007 and between $1.7 million and $2.0 million during 2008. Sequa's capital expenditures for projects to eliminate, control or dispose of pollutants were $1.0 million, $1.2 million and $1.0 million in 2006, 2005 and 2004, respectively. Sequa anticipates annual environment-related capital expenditures to be approximately $1.9 million in 2007 and $1.1 million in 2008. Sequa's operating expenses to eliminate, control and dispose of pollutants were $8.9 million in 2006, $9.3 million in 2005 and $9.2 million in 2004. Sequa anticipates that environmental operating expenses will be approximately $9.4 million per year during 2007 and 2008.

Backlog

The business of Sequa for which backlog is significant is MEGTEC Systems (Industrial Machinery segment). The dollar amount of backlog for this segment was $79.4 million or 47% of total consolidated backlog and $100.8 million or 57% of total consolidated backlog as of December 31, 2006 and 2005, respectively. Backlog in this segment was high at the end of 2005 due to certain significant orders from the printing industry in the fourth quarter of 2005. Despite the decrease in backlog, 2007 sales are expected to at least reach the 2006 level.

Liquidity and Capital Resources

Net cash provided by operating activities was $64,0 million in 2006, compared with $55.8 million in 2005. The $8.2 million increase primarily reflects increased income from continuing operations after tax partially offset by higher working capital requirements. Cash used for investing activities was $34.9 million in 2006, compared with $76.4 million in 2005. The $41.5 million decrease primarily relates to $47.0 million of net cash proceeds received from the sale of leveraged leases included in discontinued operations, partially offset by an increase in capital expenditures in the Metal Coating segment primarily related to a new plant in Birmingham, Alabama. Cash used for financing activities was $142.8 million in 2006, compared with cash provided by financing activities of $116.2 million in 2005. The $259.0 million decrease relates primarily to $173.4 million of net debt payments (compared with $127.0 million of net proceeds from debt in 2005) partially offset by a $39.5 million increase due to the release of restricted cash requirements in 2006.

On March 27, 2006, Sequa Capital sold its ownership in two container ship leveraged leases for $30.8 million of net cash proceeds. In the third quarter of 2006, Sequa Capital sold its ownership interest in the remaining leveraged leases for $16.2 million of net cash proceeds. Proceeds from the sales are being used for general corporate purposes.

In December 2006, Sequa sold two properties held by Centor in Gainesville, Virginia for net cash proceeds of $8.0 million and recognized a gain on the sale of $5.0 million. As part of the sale. Sequa guaranteed 50% of the base rental income due from a third party lessee under an existing lease agreement, which expires in October 2010. Sequa deferred $1.8 million of additional gain, the maximum exposure of the guarantee, which will be recognized as the guarantee lapses.

During 2006, Sequa purchased, through unsolicited offers, $100.4 million in aggregate of the 8.875% Senior Notes, maturing April 2008, at an average premium of $104.4. Management may elect to make additional purchases of outstanding Senior Notes based on availability and other considerations.

In 2006, Sequa contributed $6.0 million to its domestic qualified pension plans. In 2006, Sequa recorded a $30.3 million charge, net of tax, through other comprehensive income in accordance with the adoption of SFAS 158. A further discussion of the adoption of SFAS 158 is included in Note 14 to the Consolidated Financial Statements. In 2005, Sequa contributed $13.3 million to its qualified pension plans. In 2005, Sequa recorded income of $8.5 million, net of tax, through other comprehensive income, primarily due to the December 31, 2005 merger of the Atlantic Research Employee Pension Plan with Sequa's largest defined benefit plan, the latter of which was more favorably funded.

On March 26, 2006, Standard & Poor's Ratings Services revised its outlook on Sequa to stable from negative. In September 2006, Moody's changed its rating practices for debt instruments, which resulted in lowering Sequa's debt rating to B2 from B1. Sequa's unsecured debt ratings, which are below investment grade, are as follows: Moody's, B2; Standard & Poor's Rating Services, BB−; and Fitch Ratings, BB.

In the fourth quarter of 2005, Sequa repatriated $184.8 million in the form of a dividend from various foreign operating units under the guidelines of the American Jobs Creation Act (the "Act"). The Act provided for a special one-time 85% dividends-received deduction on certain foreign dividends paid in 2005 provided the criteria outlined in the tax law were met. Under the Act, uses of the repatriated funds included the domestic expansion of production, payment and training of domestic workers and the retirement of debt.

Of the $184.8 million repatriated under the Act, $84.8 million represented available cash on hand at certain foreign operations, and the remaining $100.0 million was available through a December 21, 2005 foreign loan agreement. Due to the complexities of foreign and domestic tax issues associated with the repatriation, and the associated need to restructure certain lines of foreign ownership, a $28.0 million short-term loan existed at December 31, 2005 between a Thailand subsidiary of Chromalloy and Bangkok Bank. A $28.4 million restricted cash balance resided within Thailand as collateral for principal and interest owed on the Bangkok Bank loan as of December 31, 2005. The Bangkok loan was repaid in full in the first quarter of 2006. The restricted cash balance is separately identified in the Consolidated Balance Sheet.

As indicated above, on December 21, 2005, certain foreign units in the Specialty Chemicals and Aerospace segments, each of which are indirect, wholly owned foreign subsidiaries of Sequa, and Sequa, as agent for such subsidiaries, entered into a Facility Agreement (the "Facility Agreement") with Barclays Bank PLC ("Barclays") acting as agent and Security Agent for further syndication and arranged by Barclays Capital. The Facility Agreement comprises a multicurrency variable rate $100.0 million five-year term loan with quarterly principal repayments of $3.0 million; a $35.0 million five-year term revolving credit facility available to the participating foreign subsidiaries; and a $50.0 million five-year term letter of credit facility, which replaces Sequa's existing letter of credit facility. The Facility Agreement is secured by assets of the Specialty Chemicals segment as well as certain foreign operations of the Aerospace segment. The Facility Agreement is subject to financial covenants relating to the participating subsidiaries, including, as defined by the terms of the Facility Agreement, ratios of Net Borrowings to EBITDA; EBITDA to Interest Expense; Cash Flow to Senior Debt Service and Cash Flow to Total Debt Service. Operating restrictions, with specified allowed maximums as defined in the Facility Agreement, include amounts to be expended on mergers and acquisitions, investments in joint ventures, intercompany loans, capital lease obligations and guarantees. Investments in joint ventures by certain foreign subsidiaries are restricted in excess of 10 million British pounds in aggregate from the date of the Facility Agreement. Sequa believes that the joint ventures owned by these foreign units are adequately capitalized and any new investments, if required, could be funded through other Sequa legal entities.

At December 31, 2006, Sequa was contingently liable for $37.9 million of outstanding letters of credit and $3.9 million of surety bonds not reflected in the accompanying Consolidated Balance Sheet. In addition, Sequa has guaranteed a new bank line of credit, as restructured in the second quarter of 2006 to replace the existing line of credit, for MJB, up to $6.8 million. Sequa also guaranteed up to 9.3 million British pounds, as adjusted for a new overdraft facility executed in June 2006 and a previously expired portion of the guarantee, of its TSTL joint venture's capitalized lease payments and overdraft facility. At December 31, 2006, $2.2 million was outstanding under MJB's bank line of credit and 6.0 million British pounds were outstanding related to the TSTL guarantees. Sequa is not currently aware of any existing conditions that would cause risk of loss relative to the outstanding letters of credit, surety bonds or the guarantees.

Sequa Receivables Corporation ("SRC"), a special purpose corporation wholly owned by Sequa, has a Receivables Purchase Agreement ("RPA") that extends through May 8, 2009, as amended on October 4, 2006. Under the RPA, SRC may sell an undivided percentage ownership interest, up to a maximum participation of $75.0 million, in Sequa's eligible trade receivables through a bank-administered multi-seller commercial paper conduit. The RPA was amended twice in the second quarter of 2005, first to include certain foreign trade receivables in order to broaden the total pool of eligible trade receivables and, second, to terminate the participation of two parties to the agreement, leaving one sole administrator of the commercial paper conduit, which resulted in a reduction of the facility and usage fees. The RPA was further amended in October 2005 to exclude receivables of Delta, Northwest and Delphi, all of which filed for voluntary petitions for reorganization under Chapter 11 in the latter half of 2005. The RPA was amended again in April 2006 to reinstate United Airlines as an eligible receivable and in October 2006 to extend the terms of the RPA. Sequa's availability under the RPA as of December 31, 2006 is approximately $50.9 million. A back-up liquidity line provided by the bank is annually renewable at the bank's option and contains a net worth covenant applicable to Sequa. The sale of receivables through the bank-administered conduit is funded through the sale of A1/P1 rated commercial paper. SRC pays a facility fee of 0.55% per annum plus 0.40% per annum above the commercial paper rate based on usage. SRC's assets will be available to satisfy its obligations to its creditors, which have a security interest in SRC's assets, prior to distribution to Sequa. SRC is shielded from credit exposure related to Sequa, and therefore the discount rate offered by the buyer of Sequa trade receivables is based on the highest rated (A1/P1) commercial paper. The structure employed provides Sequa a low-cost source of funds that would not otherwise be available to Sequa. In accordance with SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125*," transactions under the RPA qualify as a sale of receivables. At December 31, 2006 and 2005, no trade receivables were sold under the RPA. However, amounts were sold and settled in full during 2005, resulting in nominal discount expense recorded in Other, net in the Consolidated Statement of Income for the period.

Capital expenditures for continuing operations amounted to $100.6 million in 2006, with spending concentrated in the Aerospace, Automotive and Metal Coating segments. These funds were primarily used to upgrade existing facilities and equipment and to expand capacity, Sequa currently anticipates that capital spending in 2007 will be approximately $100.0 million and will be concentrated primarily in the Aerospace, Automotive and Metal Coating segments.

At December 31, 2006, Sequa's contractual obligations were as follows:

(Thousands of dollars)	Payments Due by Period				
Contractual Obligations	Total	2007	Years 2008–2009	Years 2010–2011	Years =>2012
Long-term debt[(a)]	$ 765,845	$ 24,182	$721,179	$20,484	$ —
Interest on long-term debt[(b)]	170,516	66,168	103,215	1,133	—
Operating leases[(c)]	68,927	17,842	27,484	15,003	8,598
Purchase obligations[(d)]	37,105	30,367	6,738	—	—
Other long-term liabilities:					
Projected minimum required pension contributions	13,200	600	5,700	5,700	1,200
Environmental remediation[(e)]	12,500	5,600	3,300	2,100	1,500
Total	$1,068,093	$144,759	$867,616	$44,420	$11,298

(a) Represents long-term debt cash payment schedule and excludes amortizable debt discount of $0.9 million.

(b) Interest on long-term debt represents interest payments due on Sequa's 8⅞% and 9% Senior Notes and the Barclays Facility Agreement. Interest payments on other debt amounts are not significant.

(c) Operating lease obligations include future rental payments on a leased property that was excluded from the sale of the ARC propulsion business.

(d) Purchase obligations are agreements to purchase goods and services that are considered enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the appropriate timing of the transactions. The amounts shown represent those amounts considered by Sequa to be enforceable and legally binding and include short-term purchase orders for the purchase of goods or services as well as capital expenditure commitments.

(e) Actual environmental remediation expenditures may be higher than amounts contractually obligated as Sequa may undertake remediation activities without requirements imposed by consent orders or consent agreements with Federal and state authorities or by litigation.

Management currently anticipates that the following will provide sufficient funds to support Sequa's operations for the next 12 months: cash flow from operations; $173.3 million of cash and cash equivalents on hand at December 31, 2006; amounts available under the RPA; amounts available under the $35.0 million multicurrency revolving credit facility and the $50.0 million facility for the issuance of letters of credit that is secured by assets of certain foreign units in both the Aerospace and Specialty Chemicals segments. Expected requirements include $66.2 million of estimated interest payments due on the outstanding 9% and 8⅞% Senior Notes and the Barclays Facility Agreement; $16.5 million of principal payments on the Barclays Facility Agreement; $100.0 million of estimated capital expenditures for continuing operations; the other contractual obligations summarized above; and any future requirements for letters of credit and surety bonds, which totaled $41.8 million at December 31, 2006.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements include certain guarantees that may be a source of potential risk to a company's future liquidity, capital resources and results of operations, regardless of whether they are recorded as liabilities.

Sequa's guarantees are primarily limited to the use of letters of credit and surety bonds that serve to guarantee Sequa's own performance with respect to liabilities owed or contractual deadlines. A discussion of Sequa's letters of credit and surety bonds is included in the Liquidity and Capital Resources section of this Annual Report on Form 10-K.

SRC, a special purpose corporation wholly owned by Sequa, has an RPA that extends through May 8, 2009. A further discussion of the RPA is included in Note 2 to the Consolidated Financial Statements and in the Liquidity and Capital Resources section of this Annual Report on Form 10-K and is incorporated herein by reference.

At December 31, 2006, all minimum required capital contributions to Sequa's joint ventures were satisfied. Future contributions to the joint ventures require the approval of the respective joint venture's board of directors. In January 2007, Chromalloy entered into an agreement with Pratt & Whitney to expand the ACT joint venture. Chromalloy expects to contribute machinery and equipment valued at approximately $17 million to support the expansion. In addition, Sequa has guaranteed a new bank line of credit, as restructured in the second quarter of 2006 to replace the existing line of credit, for MJB up to $6.8 million. Sequa has also guaranteed up to 9.3 million British pounds, as adjusted for a new overdraft facility executed in June 2006 and a previously expired portion of the guarantee, of the TSTL joint venture's capitalized lease payments and overdraft facility. At December 31, 2006, $2.2 million was outstanding under the MJB credit line, and 6.0 million British pounds were outstanding related to the TSTL guarantees. Sequa is not aware of any existing conditions that would cause demand for payment relative to the outstanding letters of credit, surety bonds, or the guarantees.

Significant Accounting Policies and Estimates

Sequa believes that the application of the following accounting policies is important to its financial position and results of operations and requires significant judgments and estimates on the part of management. For a summary of all of Sequa's significant accounting policies see Note 1 to the Consolidated Financial Statements included in this Annual Report on Form 10-K and incorporated herein by reference.

Allowance for Doubtful Accounts

Certain of Sequa's operating segments provide services to industries that are experiencing, or have experienced, difficult economic pressures. The Aerospace segment performs repair and other services for the commercial airline industry, and the ARC Automotive unit of the Automotive segment has a major customer operating under Chapter 11. See the Risk/Concentration of Business section of the Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K for further discussion. Many of Sequa's customers are large, well-known companies, and the customer base is monitored through a review of account balance agings, an assessment of customer financial condition, and interactions with the customers. Reserves are established through a combination of specific identification of problem accounts and percentages of aging brackets.

Inventory Valuation

The Aerospace segment (Chromalloy) maintains significant inventories of parts to serve the commercial aviation repair market. In order to ensure that any obsolete or slow moving inventory is properly identified and valued, Chromalloy has in place a policy that mandates minimum write-down requirements based on usage. The policy provides for a consistent and systematic approach to valuing inventory at the lower of cost or market, with inventory values reassessed quarterly and at year-end for adequacy. The decline in air travel immediately after September 11, 2001, and the related reduction in the number of hours jet engines are flown, had an unfavorable impact on inventory valuations. A future precipitous decline in air travel would have a similar unfavorable impact. Management believes that the long-term outlook for the industry is positive.

Property, Plant and Equipment

Sequa periodically evaluates whether current facts or circumstances indicate that the carrying amount of its property, plant and equipment may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, Sequa estimates the undiscounted future cash flows (excluding interest) resulting from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, Sequa recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

Goodwill

SFAS No. 142 requires that goodwill and other indefinite lived intangible assets be tested for impairment on an annual basis. Sequa updated its review of goodwill on its selected annual test dates of October 1, 2006, 2005 and 2004 and noted no impairment. In assessing the recoverability of goodwill, assumptions are made with respect to future business conditions and estimated expected future cash flows to determine the fair value of a reporting unit. If these estimates and assumptions change in the future due to such factors

as a decline in general economic conditions; a long-term or permanent decline in air travel; competitive pressures on sales and margins; and other factors beyond management's control, an impairment charge may be required. Details of remaining goodwill balances by segment are included in Note 23 to the Consolidated Financial Statements of this Annual Report on Form 10-K and are incorporated herein by reference.

Revenue Recognition

Generally, sales are recorded when persuasive evidence of an arrangement exists; the selling price is fixed or determinable; collectibility is reasonably assured; and the services have been rendered or the products have been shipped and risk of loss has transferred to the customer.

The Industrial Machinery segment, which consists solely of MEGTEC Systems, manufactures and sells large industrial equipment. For contracts that include multiple deliverables, such as installation, repair, training, aftermarket supplies or service, Sequa applies the guidance in Emerging Issues Task Force ("EITF") 00-21 "*Revenue Arrangements with Multiple Deliverables*" to determine whether the contract or arrangement contains more than one unit of accounting. An arrangement is separated if: (1) the delivered element(s) has value to the customer on a stand-alone basis; (2) there is objective and reliable evidence of the fair value of the undelivered element(s); and (3) the arrangement includes a general right of return relative to the delivered element(s), delivery or performance of the undelivered element(s) is considered probable and is substantially in the control of Sequa. If all three criteria are fulfilled, the appropriate revenue recognition convention is then applied to each separate unit of accounting. The total arrangement consideration is allocated to the separate units of accounting based on each component's objectively determined fair value, such as sales prices for the component when it is regularly sold on a stand-alone basis or third-party prices for similar components. If the three criteria are not met, revenue is deferred until such criteria are met or until the period in which the last undelivered element is delivered. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements or meeting other specified performance conditions.

The Aerospace Segment, which consists solely of Chromalloy, provides repair and overhaul services to commercial airline customers, certain of which services are provided under long-term materials-by-the-hour and power-by-the-hour contracts. Sequa applies the proportional performance method to recognize revenue under these contracts. Revenue is recognized as units are delivered based on the relative fair value in proportion to the total estimated contract consideration or, in the case when the services are similar, based on an allocation of total contract revenue. Accounting for these contracts involves management judgment in estimating total contract consideration and applying the relative fair value to the services provided. Total contract consideration is estimated by applying a contractual billing rate per flight hour to the customer's estimated total flight hours of a defined fleet over the term of a contract. The services to be provided over the term of a contract are estimated from the frequency and extent of maintenance and overhaul requirements, which are based on historical performance trends and regulatory guidelines. Significant factors that influence these estimates primarily include flight hour assumptions and fleet utilization.

As of December 31, 2006 and December 31, 2005, unbilled revenues recorded as an asset in relation to these contracts were $67.0 million and $39.3 million, respectively. The unbilled asset balance represents the cumulative difference between revenue recognized for delivered items and the amounts billed under the hourly billing arrangements in our contracts based on flight hours less any amounts of revenue that are deferred because they are not contractually recoverable. The unbilled balance is reviewed on a quarterly basis to ensure that the amounts are recoverable based on performance under the contract.

Previously, Sequa had applied the Emerging Issues Task Force ("EITF") Issue No. 00-21 "*Revenue Arrangements with Multiple Deliverables*" to these contracts. In the fourth quarter of 2006, Sequa changed its accounting for these contracts to adopt a proportional performance model in accordance with Staff Accounting Bulletin ("SAB") Topic 13. Sequa believes that this change is preferable as it better reflects its performance over the term of the contracts. This change in accounting principle did not have an impact on the financial statements in any of the periods presented.

Pensions

Pension expense and pension liabilities are actuarially determined and are affected by management's assumptions with respect to the discount rate for obligations, the future rate of increase in compensation levels, and the expected long-term rate of return on plan assets. Pension expense and liabilities can also be affected by changes in plan benefits and the actual return on plan assets. The discount rate is based on an analysis of discounted cash flows using an interest spot rate curve in conjunction with a further review of high- and medium-grade corporate long-term bond rates. The rate of increase in compensation levels is based on management's assessment of the current and future economic environment and overall salary trends. The expected long-term rate of return considers the allocation of plan assets, the historical performance of total plan assets, and economic and other indicators of future performance. In addition, Sequa may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks. A decrease of one percentage point in both the discount rate applied to projected benefit obligations and the assumed rate of return on plan assets of our significant defined benefit plans would increase the annual pension expense by approximately $5.0 million and $4.0 million, respectively.

In September 2006, Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*" ("SFAS 158"), was issued. SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet. Changes in the funded status are to be recognized through comprehensive income in the year in which the changes occur. In addition, SFAS 158 requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet, with limited exceptions. An employer with publicly traded equity securities is required initially to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006 ("Phase I"). Accordingly, Sequa adopted Phase I of SFAS 158 at December 31, 2006 and recorded a $30.3 million, net of tax, charge to other comprehensive income in

accordance with the provisions of SFAS 158. Sequa measures the funded status of its plans as of December 31 (its fiscal year-end).

In 2006, the $4.2 million actuarial loss included in the calculation of the benefit obligation of Sequa's significant defined benefit plans was primarily driven by an increase in salary assumptions used in certain of the foreign plans. In 2005, Sequa used the RP2000 mortality table to calculate the benefit obligations for its defined benefit plans. The change to the RP2000 mortality table in 2005 from the 83GAM mortality table used in 2004 resulted in an actuarial loss of approximately $14 million in 2005. In addition, Sequa lowered the discount rate used to value its projected benefit obligation from 6% in 2004 to 5.85% in 2005. This change resulted in an actuarial loss of approximately $10 million in 2005.

Income Taxes

Sequa's annual tax rate is based on its income, statutory tax rates and tax planning opportunities available to the company in the various jurisdictions in which it operates. Significant judgment is required in determining the company's annual tax rate and in evaluating its tax positions. Sequa establishes reserves when, despite its belief that the company's tax return positions are fully supportable, Sequa believes that certain positions are subject to challenge and that it may not succeed. Sequa adjusts these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit.

Sequa has significant domestic net operating loss carryforwards. Management believes that such carryforwards will be utilized before their expiration through future reversals of existing taxable temporary differences, future earnings and available tax planning strategies. Sequa's ability to generate the expected amounts of domestic taxable income from future operations is dependent upon general economic conditions; the state of the airline industry and other major markets; competitive pressures on sales and margins; and other factors beyond management's control. There can be no assurance that Sequa will meet its expectations for future domestic taxable income in the carryforward period or that available tax strategies can be enacted. However, management has considered the above factors in reaching the conclusion that it is more likely than not that future domestic taxable income and available tax strategies will be sufficient to fully realize the domestic operating loss carryforwards and deferred tax assets at December 31, 2006.

Environmental

Sequa's environmental department, under senior management's direction, manages all activities related to Sequa's involvement in environmental cleanup. This department establishes the projected range of expenditures for individual sites with respect to which Sequa may be considered a potentially responsible party under applicable federal or state laws. These projected expenditures, which are reviewed periodically, include: remedial investigation and feasibility studies; outside legal, consulting and remediation project management fees; the projected cost of remediation activities; and site closure and post-remediation monitoring costs. The assessments take into account currently available facts, existing technology, presently enacted laws, past expenditures, and other potentially responsible parties and their probable level of involvement. Outside technical, scientific and legal consulting services are used to support management's assessments of costs at significant individual sites. It is Sequa's policy to accrue environmental remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures.

Other Information

In June 2006, FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"), was issued. FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes.*" FIN 48 also prescribes a two-step evaluation process for tax positions. The first step is recognition and the second is measurement. For recognition, an enterprise judgmentally determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, it is measured and recognized in the financial statements as the largest amount of tax benefit that is greater than 50% likely of being realized. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized, or continue to be recognized, upon adoption. The cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, Sequa plans to adopt FIN 48 on January 1, 2007. As a result of the adoption of FIN 48, Sequa expects to recognize an increase of approximately $20 million to its reserve for certain tax benefits, which will be recorded as a reduction to the January 1, 2007 balance of retained earnings.

In September 2006, the SEC released Staff Accounting Bulletin No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" ("SAB 108"). SAB 108 provides guidance on how the effects of prior-year uncorrected financial statement misstatements should be considered in quantifying a current year misstatement. SAB 108 requires registrants to quantify misstatements using both an income statement ("rollover") and balance sheet ("iron curtain") approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior years are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings as of the beginning of the fiscal year of adoption. SAB 108 is effective for fiscal years ending on or after November 15, 2006. The application of SAB 108 did not have an impact on Sequa's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. Sequa is currently evaluating the effect of adopting SFAS 157 on its financial statements.

Forward-Looking Statements

This document includes forward-looking statements made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. All statements other than statements of historical fact contained in this Annual Report on Form 10-K and other periodic reports filed by Sequa under the Securities Exchange Act of 1934, as amended, and other written or oral statements made by Sequa or on its behalf, are forward-looking statements. When used herein, the words "anticipates," "expects," "believes," "goals," "intends," "plans," or "projects" and similar expressions are intended to identify forward-looking statements. These include, among others, statements relating to:

- Future earnings and other measurements of financial performance
- The effect of economic downturns or growth in particular markets
- Future cash flows and uses of cash
- Pension plan assumptions and future contributions
- Restructuring costs and savings
- The outcome of contingencies
- Future levels of indebtedness and capital spending
- Product developments and new business opportunities

It is important to note that forward-looking statements are based on a number of assumptions about future events and are subject to various risks, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and estimates expressed or implied in such forward-looking statements. Although Sequa believes that the assumptions on which any forward-looking statements in this Annual Report on Form 10-K and other periodic reports filed by Sequa are reasonable, no assurance can be given that such assumptions will prove correct. All forward-looking statements in this Annual Report on Form 10-K are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Annual Report on Form 10-K.

Ethics and Code of Business Conduct

Sequa has adopted a Code of Business Conduct (the "Code of Conduct") which is available in its entirety on the Sequa web site at (www.sequa.com) and to any stockholder requesting a copy. All Sequa employees, officers, and directors, including the Chief Executive Officer, the Senior Vice President, Legal (the chief legal officer), and the Executive Vice President, Chief Financial Officer, are required to adhere to the Code of Conduct in discharging their work-related responsibilities. Employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Conduct. Amendments to the Code of Conduct, and any waivers from the Code of Conduct granted to directors or executive officers, will be filed with the Securities and Exchange Commission in accordance with applicable rules and regulations and will also be made available through Sequa's web site.

Sequa has a confidential helpline through which employees may report concerns about Sequa's business practices. In accordance with the Sarbanes-Oxley Act of 2002, the Audit Committee has established procedures for the receipt and handling of complaints regarding accounting, internal accounting controls or auditing matters, and to allow for the confidential, anonymous submission by employees of concerns regarding auditing or accounting matters.

New York Stock Exchange Certification

Each year, the Chief Executive Officer of a company listed on the New York Stock Exchange ("NYSE") must certify to the NYSE that he is not aware of any violation by the company of the NYSE corporate governance listing standards as of the date of that certification, qualifying the certification to the extent necessary.

In 2006, Sequa's Chief Executive Officer certified, without qualification, that he was not aware of any violation by Sequa of the NYSE corporate governance listing standards.

Operating Results 2005–2004

Sales

Overall sales increased 7% in 2005, led by strong advances in the Aerospace and Industrial Machinery segments. The Automotive and Metal Coating segments posted more moderate advances and the Specialty Chemicals segment decreased modestly. The Other Products segment posted a 20% decline. The effect on sales of exchange rate movements was negligible for the year. A detailed discussion of sales by operating segment follows:

Sales of the Aerospace segment advanced 10% in 2005, a reflection of the recovery of the commercial airline aftermarket and of sales added through long-term contracts with airline customers. Sales to marine and industrial turbine customers rose 7% due to development and sales of high technology turbine components. Military sales declined slightly, reflecting the absence of sales generated by a division that was sold in the fourth quarter of 2004.

Sales of the Automotive segment advanced 2% in 2005, with ARC Automotive ahead slightly and Casco Products up 5%. At the domestic operation of ARC Automotive, a 22% increase in unit volume (primarily in passenger and side impact products) led to higher sales and more than offset the effect of lower average selling prices. ARC's European inflator operation posted a 34% decline in sales, the result of a move early in the year by an overseas end-user to re-source certain of its supply contracts. Sales of Casco Products advanced 5% due to higher sales of power outlets and electronic products in Europe and increased sales of lighters in Latin America. Domestic operations posted a sharp advance in lighter sales partially offset by a decline in sales of power outlets.

The Metal Coating segment posted a 7% improvement over 2004, the result of increased sales under metal management programs and higher sales to the container products market. These factors were partially offset by a decline in sales to the building products market due to the fallout from the volatility in the domestic steel industry during 2004.

Sales of the Specialty Chemicals segment declined 2% in 2005 due to a slight decline in volumes of the detergent additive, TAED, and in sales of the specialty chemicals distribution units. These factors were partially offset by sales added from

the acquisition in late 2004 of a small manufacturer of test products used by the detergent and chemicals industries. Excluding the impact of this acquisition, local currency sales were down 3% in 2005.

The Industrial Machinery segment posted a 17% sales increase in 2005, reflecting higher sales of emission control equipment primarily in the US market and improvement in the graphic arts market in Europe.

Sales of the Other Products segment declined 20% in 2005, as a decline in sales at the After Six unit was partially offset by higher revenues from Centor, Sequa's real estate holding company.

Operating Income

Overall operating income advanced 52%, led by strong advances at the Aerospace, Metal Coating and Industrial Machinery segments, as well as improvements at the Automotive and Specialty Chemicals segments. The increase in operating income also reflected a $5.8 million decline in pension costs (after inclusion of a $2.5 million pension curtailment loss incurred as a result of changes to Sequa's defined benefit plan). These factors were mitigated by a charge of $5.6 million at the Aerospace segment to reserve for receivables due from two airline customers that filed for bankruptcy protection in the third quarter. Sequa's foreign operations contributed $66.0 million of operating income in 2005, compared with $61.4 million in 2004. A detailed review of operating results by segment follows:

In the Aerospace segment, operating profit advanced 51% in 2005 due to the following factors: a higher level of sales and improved absorption, particularly in the engine component repair operations; the absence of $8.2 million of up-front contract costs recognized in 2004; and the disposition of two operating units that generated losses in 2004. The 2005 results were mitigated by a charge of $5.6 million to reserve for receivables due from two airline customers that filed for bankruptcy protection in the third quarter.

Operating profit of the Automotive segment increased 14% in 2005 with advances at the Casco Products unit partially offset by a slight decline at ARC Automotive. ARC Automotive's results in 2005 were affected by the following factors: costs related to the start-up of new plants in China and Mexico; increased raw material costs stemming from steel surcharges; and lower sales at its Italian operation. These factors were partially offset by higher domestic sales; the absence of a $4.1 million asset impairment charge recorded in 2004 at its Italian operation; and lower selling, general and administrative costs. Casco Products posted improved results in 2005 due to the following: higher sales; the benefits of continuing Six Sigma initiatives; previous restructuring actions; and lower pension expense.

Operating income advanced 19% in the Metal Coating segment. The impact of higher natural gas costs and increased raw material costs was more than offset by improved operating efficiencies, price increases, an improved sales mix, and the settlement of a legal claim which resulted in a reversal of charges of $1.4 million recorded in 2004.

The Specialty Chemicals segment posted a 6% increase in operating income in 2005, due to the inclusion of profits from a small manufacturer of test products used by the detergent and chemicals industries acquired in late 2004 and to operating efficiencies achieved through ongoing Operational Excellence programs and lower pension costs.

Operating profit of the Industrial Machinery segment more than tripled in 2005, as a result of the following factors: the higher level of sales; productivity improvements generated through Six Sigma programs; and lower pension and insurance costs.

Results of the Other Products segment decreased sharply in 2005, due primarily to lower sales at the After Six men's formalwear unit.

Corporate expenses decreased 7% in 2005, due to declines in pension expense, professional fees related to Sarbanes-Oxley compliance, and insurance costs. The benefit of these factors was partially offset by a $1.8 million charge related to a separation agreement with a former senior executive officer.

Pension Expense

Operating income included net periodic pension cost, exclusive of plan curtailments, of $4.3 million in 2005 and $12.5 million in 2004 related to all significant funded defined benefit plans. On an annual basis, Sequa reviews the assumptions used in accounting for these plans. In order to reflect market conditions in the calculation of the net periodic pension cost, the long-term expected rate of return in 2005 and 2004 was 8.3%; the discount rate used in 2005 and 2004 was 6.0%. Net periodic pension cost, exclusive of plan curtailments, declined in 2005 from the 2004 level for the following reasons: actual returns on plan assets in 2004 exceeded the expected returns, which served to increase the asset base on which 2005 expected returns were calculated; the increased returns and increased asset base decreased the level of amortizable actuarial losses; and, effective January 1, 2005, plan benefits were frozen for Casco Products and MEGTEC Systems employees participating in Sequa's largest defined benefit plan.

The plan amendment effective January 1, 2005 resulted in a curtailment charge recorded in December 2004 of $0.8 million (Automotive, $0.4 million and Industrial Machinery, $0.4 million).

Interest Expense

Interest expense in 2005 was on par with the prior year.

Interest Income

Interest income increased $1.0 million in 2005 compared with the prior year. The increase reflected a combination of higher average levels of cash and cash equivalents and higher interest rates.

Equity in Income of Unconsolidated Joint Ventures

Sequa has investments in a number of unconsolidated joint ventures, which amounted to $75.9 million and $69.9 million at December 31, 2005 and 2004, respectively. The combination of income and losses of these joint ventures was equity income of $15.6 million in 2005 and $9.8 million in 2004. The increase is primarily attributable to increased sales at certain of the joint venture operations stemming from obtaining additional approvals to provide coating services or manufacture components for OEM customers.

Chromalloy is a partner in joint ventures aimed at strengthening its ties to certain OEMs and airline customers, as well

as ensuring close cooperation with respect to the dissemination of technical specifications and requirements. Sequa's investment in Chromalloy's joint ventures was $74.4 million and $68.0 million at December 31, 2005 and 2004, respectively. The combination of income and losses of Chromalloy's joint ventures was equity income of $15.8 million in 2005 and $10.3 million in 2004.

Other, Net

In 2005, Other, net included $6.2 million of expense to record losses and to reduce the investment in a business transferred under contractual arrangements in 2004; $2.6 million of expense related to minority interest holders; $1.9 million of charges for the amortization of capitalized debt issuance costs; $1.5 million of gain on the sale of property, plant and equipment; $1.3 million of charges for letters of credit and commitment fees; and $0.9 million gain on the fair market value of forward foreign exchange contracts that did not qualify for cash flow hedge accounting.

In 2004, Other, net included $2.8 million of expense related to a minority interest holder; $2.6 million of loss on the sale of a business transferred under contractual arrangements; $2.5 million loss on the fair market value of forward foreign exchange contracts that did not qualify for cash flow hedge accounting; $1.9 million of charges for the amortization of capitalized debt issuance costs; $1.4 million of charges for letters of credit and commitment fees; and $1.1 million of income on the cash surrender value of corporate owned life insurance.

Income Tax (Provision) Benefit

In 2005, the $14.0 million income tax provision reflected lower foreign rates on taxable income when compared with domestic tax rates; the utilization of net operating loss carryforwards by certain foreign entities; a $0.8 million reversal of tax reserves based on a 2005 analysis of probable exposures; and a $1.1 million reversal of tax reserves related to the satisfactory resolution of a state tax matter.

In the fourth quarter of 2004, the American Jobs Creation Act of 2004 was passed, which provided a special one-time 85% dividends received deduction on the repatriation of certain foreign dividends paid by December 31, 2005, provided the criteria outlined in the tax law are met. After evaluating the complexities of the IRS guidance as well as the local laws and other agreements that govern dividends distributed by foreign subsidiaries, Sequa repatriated through a dividend approximately $184.8 million of foreign earnings in the fourth quarter of 2005. Of the total amount, $84.8 million represented available cash on hand at certain foreign operations and the remaining $100.0 million was available as result of executing a loan agreement with a major foreign bank leveraging certain foreign operations. The loan agreement was effective December 21, 2005. Sequa recorded a tax provision of $9.1 million for the year ended December 31, 2005 related to the above dividend, which is separately identified in the Consolidated Statement of Income.

In 2004, the $0.4 million tax benefit reflected lower rates on foreign taxable income when compared with a higher rate on domestic losses, compounded by certain foreign entities utilizing net operating loss carryforwards.

Income (Loss) from Discontinued Operations

In 1991, Sequa adopted a formal plan to divest the investment portfolio of its leasing subsidiary, Sequa Capital Corporation ("Sequa Capital"), and to classify it as a discontinued operation. On September 14, 2005, Delta Airlines and certain of its subsidiaries filed a voluntary petition for reorganization under Chapter 11. Sequa Capital held an investment in an aircraft leveraged lease with Delta with a net amount of $13.9 million at September 14, 2005. Sequa Capital determined that this investment was fully impaired as a result of the bankruptcy filing. The after-tax charge to discontinued operations amounted to $9.7 million or $0.91 per share in 2005.

On November 4, 2004, Sequa through its wholly owned subsidiary, Sequa Can Machinery, Inc., sold the business and substantially all of the assets and certain of the liabilities of Sequa Can Machinery to Stolle Machinery Company, LLC. Sequa received $40.8 million in cash, subject to certain adjustments. The income from Sequa Can Machinery, net of tax, included in discontinued operations was $1.3 million or $0.13 per basic share from discontinued operations in 2004. The 2004 sale of the Sequa Can Machinery business resulted in an after-tax gain of $3.2 million or $0.31 per basic share.

On April 1, 2004, Sequa, through TCT, an affiliated subsidiary of Chromalloy, sold the business and substantially all of the assets and certain of the liabilities of TCT to TCT Acquisition, Inc. TCT received $32.0 million in cash, subject to certain adjustments, and $8.0 million Face Amount of Series B Convertible Preferred Stock of TCT Acquisition, Inc., representing up to an 18.2% ownership interest in TCT Acquisition, Inc. An investor group and certain management executives of TCT Acquisition, Inc. hold the remaining 81.8% ownership interest. The Series B Convertible Preferred Stock does not possess voting rights, and Sequa does not have representation on the board of directors of TCT Acquisition, Inc. The income from TCT, net of tax, included in discontinued operations was $0.9 million or $0.09 per basic share from discontinued operations in 2004. The 2004 sale of the TCT business resulted in an after-tax gain of $2.7 million or $0.26 per basic share.

On October 17, 2003, Sequa, through its ARC subsidiary, completed the sale of substantially all of the assets—including the shares of ARC UK Limited—and certain of the liabilities related to the propulsion business of ARC (collectively referred to as the "ARC propulsion business"). The sale to Aerojet was pursuant to an agreement entered into by ARC on May 2, 2003. ARC received $133.0 million in cash subject to certain adjustments. ARC propulsion expense, net of tax, included in discontinued operations was $1.6 million or $0.15 per basic share from discontinued operations in 2004. The 2004 expense relates to environmental and other cleanup costs at the former Gainesville, Virginia facility, net of a purchase price adjustment.

Forward-Looking Information Excerpt

1.15

ENERGIZER HOLDINGS, INC. (SEP)

FORWARD-LOOKING INFORMATION

Statements in the Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report to Shareholders that are not historical, particularly statements regarding the health of the battery category, the impact of changes in the value of local currencies on segment profitability, Energizer's estimates of its share of total U.S. retail battery market and SWS share of the wet shave category in major markets, Energizer's positioning to meet consumer demand and the benefits of its portfolio of products, continuing increases in the cost of key commodity metals, the ability of announced battery price increases to offset those increases, the impact of such increases on per unit gross margins, the Company's anticipated charges and annualized cost savings from European restructuring projects, future tax rates, estimated capital expenditures for fiscal 2007 and their source of financing, the likelihood of acceleration of the Company's debt covenants, the anticipated adequacy of cash flows and the Company's ability to meet liquidity requirements, the Company's ability to mitigate future material, labor and transportation cost increases, the materiality of future expenditures for environmental matters and environmental control equipment, the impact of adverse changes in interest rates, the market risk of foreign currency derivatives, the mitigating impact of changes in value of the prepaid share option on deferred compensation liabilities, potential adjustments to accruals for promotional program costs, the impact of variations from assumptions on pension asset returns on the Company's pretax pension expense, and the valuation of long-lived assets, may be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

The Company advises readers that various risks and uncertainties could affect its financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected. Battery consumption trends could be negatively impacted by general economic conditions or product innovations. Global economic conditions and fluctuations in currency exchange rates could significantly impact current exchange rates, resulting in a more significant impact on segment profitability than is currently anticipated. Energizer's estimates of its U.S. alkaline market share and estimates of SWS share of the wet shave category are based solely on limited data available to the Company and management's reasonable assumptions about market conditions, and consequently may be inaccurate, or may not reflect segments of the retail market. Shifts in consumer demands or needs, competitive activity or product improvements, or further retailer consolidations may dilute or defeat the benefits of the Company's consumer positioning and strategy. Competitive promotional activity, or pricing or promotional demands from retailer customers, could limit the efficacy of battery price increases in future periods, while, on the other hand, manufacturing efficiencies and efforts to further reduce costs could have a favorable impact on the Company's production costs. The impact of commodity cost increases, nevertheless, could be more significant than anticipated, as it is difficult to predict with any accuracy whether raw material, energy and other input costs will stabilize or continue to increase, since such costs are impacted by multiple economic, political and other factors outside of the Company's control. With respect to the European restructuring and integration projects, the integration aspects are still under evaluation and review, and anticipated charges and cost savings are preliminary. Additional costs associated with restructuring or unexpected expenses associated with integration activities may lead to higher than anticipated charges to earnings, and estimates of annual savings may be impacted by a number of factors, including limits on available efficiencies, unforeseen integration complexities, and greater than anticipated ongoing operating expenses associated with the combined operations. Unforeseen fluctuations in levels of the Company's operating cash flows, or inability to maintain compliance with its debt covenants, could limit the Company's ability to meet future operating expenses and liquidity requirements, fund capital expenditures or service its debt as it becomes due. Unknown environmental liabilities and greater than anticipated remediation expenses or environmental control expenditures could have a material impact on the Company's financial position. Estimates of environmental liabilities are based upon, among other things, the Company's payments and/or accruals with respect to each remediation site; the number, ranking and financial strength of other responsible parties (PRPs); the status of the proceedings, including various settlement agreements, consent decrees or court orders; allocations of volumetric waste contributions and allocations of relative responsibility among PRPs developed by regulatory agencies and by private parties; remediation cost estimates prepared by governmental authorities or private technical consultants; and the Company's historical experience in negotiating and settling disputes with respect to similar sites—and such estimates may prove to be inaccurate. The Company's overall tax rate in future years may be higher than anticipated because of unforeseen changes in the tax laws or applicable rates, higher taxes on repatriated earnings or increased foreign losses. Economic turmoil and currency fluctuations could increase the Company's risk from unfavorable impact on variable-rate debt, currency derivatives and other financial instruments. Deferred compensation liabilities reflecting the value of the Common Stock may increase significantly, depending on market fluctuation and employee elections, but such increase may not be reflected in a comparable increase in the value of the prepaid share option. Adjustments to accruals for promotional programs and calculations of impairment of long-lived assets may be more significant than anticipated. The impact of decreases in the expected returns from pension assets may have a greater than anticipated impact on pension expenses. Additional risks and uncertainties include those detailed from time to time in the Company's publicly filed documents, including its Registration Statement on Form 10, as amended, and its Current Report on Form 8-K dated April 25, 2000.

Liquidity and Capital Resources Excerpt

1.16

CENTURYTEL, INC. (DEC)

LIQUIDITY AND CAPITAL RESOURCES

Excluding cash used for acquisitions, we rely on cash provided by operations to provide for our cash needs. Our operations have historically provided a stable source of cash flow which has helped us continue our long-term program of capital improvements.

Operating Activities

Net cash provided by operating activities was $840.7 million, $964.7 million and $955.8 million in 2006, 2005 and 2004, respectively. Our accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of those years. As relief from the effects of Hurricane Katrina, certain of our affected subsidiaries were granted a deferral from making their remaining 2005 estimated federal income and excise tax payments until 2006. During 2006, we made payments of approximately $75 million to satisfy our remaining 2005 estimated payments.

Investing Activities

Net cash used in investing activities was $193.7 million, $481.4 million and $413.3 million in 2006, 2005 and 2004, respectively. We received approximately $122.8 million cash from the redemption of our RTB stock upon dissolution of the RTB during 2006. Cash used for acquisitions was $75.5 million in 2005 (due to the acquisition of fiber assets in 16 metropolitan markets from KMC). Capital expenditures during 2006, 2005 and 2004 were $314.1 million, $414.9 million and $385.3 million, respectively.

Financing Activities

Net cash used in financing activities was $780.2 million in 2006, $491.7 million in 2005 and $578.5 million in 2004. Payments of debt were $82.0 million in 2006, $693.3 million in 2005 and $179.4 million in 2004. In accordance with previously announced stock repurchase programs, we repurchased 21.4 million shares (for $802.2 million), 16.4 million shares (for $551.8 million), and 13.4 million shares (for $401.0 million) in 2006, 2005 and 2004, respectively. The 2006 repurchases include 14.36 million shares repurchased (for an aggregate final price of approximately $528.4 million) under accelerated share repurchase agreements with investment banks (see Note 9 for additional information). We initially funded purchases under these agreements principally through borrowings under our $750 million credit facility and cash on hand and subsequently refinanced the credit facility borrowings through the issuance of short-term commercial paper. The 2005 repurchases include 12.9 million shares repurchased (for an aggregate final price of $437.5 million) under accelerated share repurchase agreements.

In February 2005, we remarketed substantially all of our $500 million of outstanding Series J senior notes due 2007 at an interest rate of 4.628%. We received no proceeds in connection with the remarketing as all proceeds were held in trust to secure the obligation of our equity unit holders to purchase common stock from us on May 16, 2005. In connection with the remarketing, we purchased and retired approximately $400 million of the notes, resulting in approximately $100 million remaining outstanding. We incurred a pre-tax charge of approximately $6 million in the first quarter of 2005 related to purchasing and retiring the notes. We purchased such notes with proceeds from the February 2005 issuance of $350 million of 5% senior notes, Series M, due 2015 and cash on hand.

On May 16, 2005, upon settlement of 15.9 million of our outstanding equity units, we received proceeds of approximately $398.2 million and issued approximately 12.9 million common shares. In late May 2005, we entered into accelerated share repurchase agreements with investment banks whereby we repurchased and retired 12.9 million shares of common stock for an aggregate final price of $437.5 million, the proceeds of which came from the settlement of the equity units mentioned above and cash on hand.

Other

For 2007, we have budgeted $325 million for capital expenditures. In 2006, we concluded that our prior extensive capital investment in our wireline network permitted us to reduce network capital spending to maintenance levels. We expect this to be the case for the foreseeable future. Our 2007 capital expenditure budget also includes amounts for expanding our new service offerings and expanding our data networks.

The following table contains certain information concerning our material contractual obligations as of December 31, 2006.

(Dollars in thousands)	Payments Due by Period				
Contractual Obligations	Total	2007	2008–2009	2010–2011	After 2011
Long-term debt, including current maturities and capital lease obligations[1]	$ 2,567,864	$ 155,012	$ 296,100	$ 691,268[2]	$ 1,425,484
Interest on long-term debt-obligations	1,549,609	169,565	301,167	251,086	827,791
MRC purchase price obligation[3]	336,000	336,000	—	—	—

[1] For additional information on the terms of our outstanding debt instruments.

[2] Includes $165 million aggregate principal amount of our convertible debentures, Series K, due 2032, which can be put to us at various dates beginning in 2010.

[3] This amount represents an estimated purchase price based on MRCC's net indebtedness as of September 30, 2006.

In December 2006, we entered into a stock purchase agreement with Madison River Communications Corp. ("MRCC") and its owner, Madison River Telephone Company, LLC. Under this agreement, we agreed to purchase all of the capital stock of MRCC in exchange for $830 million less MRCC's net indebtedness on the transaction's closing date (which was approximately $494 million at September 30, 2006), subject to certain closing adjustments. We expect to initially fund this acquisition using borrowings under our existing credit facility and are currently reviewing our longer term options for repaying or refinancing these borrowings.

We continually evaluate the possibility of acquiring additional communications operations and expect to continue our long-term strategy of pursuing the acquisition of attractively-priced communications properties in exchange for cash, securities or both. At any given time, we may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement. We may require additional financing in connection with any such acquisitions, the consummation of which could have a material impact on our financial condition or operations. Approximately 4.1 million shares of our common stock and 200,000 shares of our preferred stock remain available for future issuance in connection with acquisitions under our acquisition shelf registration statement. We also have access to debt and equity capital markets.

In December 2006, we secured a new five-year, $750 million revolving credit facility. The credit facility contains financial covenants that require us to meet a consolidated leverage ratio (as defined in the facility) not exceeding 4 to 1 and a minimum interest coverage ratio (as defined in the facility) of at least 1.5 to 1. The interest rate on revolving loans under the facility is based on our choice of several prevailing commercial lending rates plus an additional margin that varies depending on our credit ratings and aggregate borrowings under the facility. We must pay a quarterly commitment fee on the unutilized portion of the facility, the amount of which varies based on our credit ratings. Up to $150 million of the credit facility can be used for letters of credit, which reduces the amount available for other extensions of credit. Available borrowings under our credit facility are also effectively reduced by any outstanding borrowings under our commercial paper program. Our commercial paper program borrowings in turn are effectively limited to the total amount available under our credit facility. As of December 31, 2006, we had no amounts outstanding under our new credit facility but did have $23 million outstanding under our commercial paper program.

Moody's Investors Service ("Moody's") rates our long-term debt Baa2 (with a stable outlook) and Standard & Poor's ("S&P") rates our long-term debt BBB (with a negative outlook). Our commercial paper program is rated P2 by Moody's and A3 by S&P. Any downgrade in our credit ratings will increase our borrowing costs and commitment fees under our $750 million revolving credit facility. Downgrades could also restrict our access to the capital markets, accelerate the conversion rights of holders of our outstanding convertible securities, increase our borrowing costs under new or replacement debt financings, or otherwise adversely affect the terms of future borrowings by, among other things, increasing the scope of our debt covenants and decreasing our financial or operating flexibility.

The following table reflects our debt to total capitalization percentage and ratio of earnings to fixed charges and preferred stock dividends as of and for the years ended December 31:

	2006	2005	2004
Debt to total capitalization	44.8%	42.3	46.9
Ratio of earnings to fixed charges and preferred stock dividends*	3.97	3.60	3.57

* For purposes of the chart above, "earnings" consist of income before income taxes and fixed charges, and "fixed charges" include our interest expense, including amortized debt issuance costs, and our preferred stock dividend costs.

New Accounting Standards Excerpt

1.17

H.B. FULLER COMPANY (NOV)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 clarifies that a conditional asset retirement obligation, as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event that may or may not be within the control of the entity. The company adopted FIN 47 on December 2, 2006. Upon adoption, the company recorded a liability of $1.4 million and recognized a non-cash, cumulative effect charge of $0.7 million, net of taxes. See Note 5 to the Consolidated Financial Statements for further discussion.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is applicable beginning December 2, 2007. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings on December 2, 2007. The company is in the process of evaluating the impact of FIN 48 on its financial condition, results of operations and cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for

purposes of determining whether the current year's financial statements are materially misstated. SAB 108 requires registrants to apply the new quantification guidance to errors in existence at the beginning of the first fiscal year ending after November 15, 2006 by correcting errors determined to be material under this new quantification method through a one-time cumulative effect adjustment to beginning-of-year retained earnings. Upon adoption of SAB 108, the company recorded a one-time cumulative effect income adjustment to its beginning-of-year retained earnings of $0.4 million, net of taxes. See Note 13 to the Consolidated Financial Statements for additional information on the adoption of SAB 108.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The statement provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for the company beginning December 3, 2006. The company does not expect the adoption of SFAS 157 will have a material impact on its financial condition, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). This statement requires an employer to: (1) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for the plan's under-funded status, (2) measure the plans' assets and obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions) and (3) recognize as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year but are not recognized as components of net periodic benefit cost pursuant to other relevant accounting standards. SFAS 158 also requires an employer to disclose in the notes to the financial statements additional information on how delayed recognition of certain changes in the funded status of a defined benefit postretirement plan affects net periodic benefit cost for the next fiscal year. Adoption of SFAS 158 is required for public companies by the end of the fiscal year ending after December 15, 2006, which would be the fiscal year ending December 1, 2007 for the company. Measurement of the plans' assets and obligations that determine its funded status as of the end of the employer's fiscal year is required to be adopted for fiscal years ending after December 15, 2008, which would be the fiscal year ending November 28, 2009 for the company. Based upon the December 2, 2006 balance sheet and pension disclosures, the impact of adopting SFAS 158 is estimated to be a decrease in assets of $5.2 million, an increase in liabilities of $46.8 million and an increase in the accumulated other comprehensive loss of $52.0 million. The effect of adoption will differ from the estimate due to actual plan asset and liability experience in fiscal 2007.

Market Risk Information Excerpt

1.18

RPM INTERNATIONAL INC. (MAY)

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates and foreign currency exchange rates because we fund our operations through long- and short-term borrowings and denominate our business transactions in a variety of foreign currencies. We utilize a sensitivity analysis to measure the potential loss in earnings based on a hypothetical 1% increase in interest rates and a 10% change in foreign currency rates. A summary of our primary market risk exposures follows.

Interest Rate Risk

Our primary interest rate risk exposure results from our floating rate debt, including various revolving and other lines of credit (refer to Note B). At May 31, 2006, approximately 37.9% of our debt was subject to floating interest rates. If interest rates were to increase 100 bps from May 31, 2006 and assuming no changes in debt from the May 31, 2006 levels, the additional annual interest expense would amount to approximately $3.3 million on a pre-tax basis. A similar increase in interest rates in fiscal 2005 would have resulted in approximately $3.0 million in additional interest expense.

Our hedged risks are associated with certain fixed-rate debt whereby we have a $200.0 million notional amount interest rate swap contract designated as a fair value hedge to pay floating rates of interest based on six-month LIBOR that matures in fiscal 2010. Because critical terms of the debt and interest rate swap match, the hedge is considered perfectly effective against changes in the fair value of debt, and therefore, there is no need to periodically reassess the effectiveness during the term of the hedge.

All derivative instruments are recognized on the balance sheet and measured at fair value. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any ineffective portion of hedges are recognized as a gain or loss in our consolidated statement of income in the current period. Changes in the fair value of derivative instruments used effectively as fair value hedges are recognized in earnings (losses), along with the change in the value of the hedged item. Such derivative transactions are accounted for under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. The Company does not hold or issue derivative instruments for speculative purposes.

Foreign Currency Risk

Our foreign sales and results of operations are subject to the impact of foreign currency fluctuations. As most of our foreign operations are in countries with fairly stable currencies, such as Belgium, Canada and the United Kingdom, this effect has not generally been material. In addition, foreign debt is denominated in the respective foreign currency, thereby eliminating any related translation impact on earnings.

If the U.S. dollar continues to weaken, our foreign results of operations will be positively impacted, but the effect is not expected to be material. A 10% change in foreign currency exchange rates would not have resulted in a material impact to net income for the years ended May 31, 2006 and 2005. We do not currently hedge against the risk of exchange rate fluctuations.

Critical Accounting Policies and Estimates Excerpt

1.19

DOLLAR GENERAL CORPORATION (JAN)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. In addition to the estimates presented below, there are other items within our financial statements that require estimation, but are not deemed critical as defined below. We believe these estimates are reasonable and appropriate. However, if actual experience differs from the assumptions and other considerations used, the resulting changes could have a material effect on the financial statements taken as a whole.

Management believes the following policies and estimates are critical because they involve significant judgments, assumptions, and estimates. Management has discussed the development and selection of the critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosures presented below relating to those policies and estimates.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out ("LIFO") method. Under our retail inventory method ("RIM"), the calculation of gross profit and the resulting valuation of inventories at cost are computed by applying a calculated cost-to-retail inventory ratio to the retail value of sales. The RIM is an averaging method that has been widely used in the retail industry due to its practicality. Also, it is recognized that the use of the RIM will result in valuing inventories at the lower of cost or market ("LCM") if markdowns are currently taken as a reduction of the retail value of inventories.

Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, initial markups, markdowns, and shrinkage, which significantly impact the gross profit calculation as well as the ending inventory valuation at cost. These significant estimates, coupled with the fact that the RIM is an averaging process, can, under certain circumstances, produce distorted cost figures. Factors that can lead to distortion in the calculation of the inventory balance include:

- applying the RIM to a group of products that is not fairly uniform in terms of its cost and selling price relationship and turnover;
- applying the RIM to transactions over a period of time that include different rates of gross profit, such as those relating to seasonal merchandise;
- inaccurate estimates of inventory shrinkage between the date of the last physical inventory at a store and the financial statement date; and
- inaccurate estimates of LCM and/or LIFO reserves.

To reduce the potential of such distortions in the valuation of inventory, we expanded the number of departments we utilize for our gross profit calculation from 10 to 23 in 2005. Other factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and the utilization of an independent statistician to assist in the LIFO sampling process and index formulation. As part of this process we also perform an inventory-aging analysis for determining obsolete inventory. Our policy is to write down inventory to an LCM value based on various management assumptions including estimated markdowns and sales required to liquidate such aged inventory in future periods. Inventory is reviewed on a quarterly basis and adjusted as appropriate to reflect write-downs determined to be necessary. The estimated amount of the below-cost inventory write-downs for the strategic merchandising initiatives discussed above in the "Executive Overview" is based on management's assumptions regarding the timing and adequacy of markdowns and the final adjustment may vary materially from the estimate depending on various factors, including timing of the execution of the plan, retail market conditions and the accuracy of assumptions used by management in developing these estimates.

Factors such as slower inventory turnover due to changes in competitors' tactics, consumer preferences, consumer spending and unseasonable weather patterns, among other factors, could cause excess inventory requiring greater than estimated markdowns to entice consumer purchases, resulting in an unfavorable impact on our consolidated financial statements. Sales shortfalls due to the above factors could cause reduced purchases from vendors and associated vendor allowances that would also result in an unfavorable impact on our consolidated financial statements.

We calculate our shrink provision based on actual physical inventory results during the fiscal period and an accrual for estimated shrink occurring subsequent to a physical inventory through the end of the fiscal reporting period. This accrual is calculated as a percentage of sales at each retail store, at a department level, and is determined by dividing the book-to-physical inventory adjustments recorded during the previous twelve months by the related sales for the same period for each store. To the extent that subsequent physical inventories yield different results than this estimated accrual, our effective shrink rate for a given reporting period will include the impact of adjusting the estimated results to the actual results. Although we perform physical inventories in virtually all of our stores on an annual basis, the same stores do not necessarily get counted in the same reporting periods from year to year, which could impact comparability in a given reporting period.

Property and Equipment

Property and equipment are recorded at cost. We group our assets into relatively homogeneous classes and generally provide for depreciation on a straight-line basis over

the estimated average useful life of each asset class, except for leasehold improvements, which are amortized over the shorter of the applicable lease term or the estimated useful life of the asset. The valuation and classification of these assets and the assignment of useful depreciable lives involves significant judgments and the use of estimates.

Impairment of Long-Lived Assets

We review the carrying value of all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In accordance with Statement of Financial Accounting Standards ("SFAS") 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we review for impairment stores open more than two years for which current cash flows from operations are negative. Impairment results when the carrying value of the assets exceeds the undiscounted future cash flows over the life of the lease. Our estimate of undiscounted future cash flows over the lease term is based upon historical operations of the stores and estimates of future store profitability which encompasses many factors that are subject to variability and difficult to predict. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's fair value. The fair value is estimated based primarily upon future cash flows (discounted at our credit adjusted risk-free rate) or other reasonable estimates of fair market value.

In connection with the strategic real estate initiatives noted above, we performed a comprehensive review of all of our stores and recorded impairment charges in 2006 totaling approximately $9.4 million, including $8.0 million related to the approximately 400 underperforming stores targeted for closing by the end of 2007.

Insurance Liabilities

We retain a significant portion of the risk for our workers' compensation, employee health insurance, general liability, property loss and automobile coverage. These costs are significant primarily due to the large employee base and number of stores. Provisions are made to this insurance liability on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed by independent actuaries utilizing historical claim trends. If future claim trends deviate from recent historical patterns, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

Contingent Liabilities—Income Taxes

We are subject to routine income tax audits that occur periodically in the normal course of business. We estimate our contingent income tax liabilities based on our assessment of probable income tax-related exposures and the anticipated settlement of those exposures translating into actual future liabilities. The contingent liabilities are estimated based on both historical audit experiences with various state and federal taxing authorities and our interpretation of current income tax-related trends. The adoption of Financial Accounting Standards Board ("FASB") Interpretation 48, Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement 109, ("FIN 48") in fiscal 2007 is expected to have an impact on our estimates of contingent income tax liabilities which has not yet been quantified. If our income tax contingent liability estimates prove to be inaccurate, the resulting adjustments could be material to our future financial results.

Contingent Liabilities—Legal Matters

We are subject to legal, regulatory and other proceedings and claims. We establish liabilities as appropriate for these claims and proceedings based upon the probability and estimability of losses and to fairly present, in conjunction with the disclosures of these matters in our financial statements and SEC filings, management's view of our exposure. We review outstanding claims and proceedings with external counsel to assess probability and estimates of loss. We re-evaluate these assessments each quarter or as new and significant information becomes available to determine whether a liability should be established or if any existing liability should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded liability. In addition, because it is not permissible under GAAP to establish a litigation liability until the loss is both probable and estimable, in some cases there may be insufficient time to establish a liability prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

Lease Accounting and Excess Facilities

The majority of our stores are subject to short-term leases (usually with initial or primary terms of 3 to 5 years) with multiple renewal options when available. We also have stores subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of between 7 and 10 years with multiple renewal options. Approximately half of our stores have provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We recognize rent expense over the term of the lease. We record minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. We also receive tenant allowances, which we record as deferred incentive rent and amortize as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

For store closures where a lease obligation still exists, we record the estimated future liability associated with the rental obligation on the date the store is closed in accordance with

SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." Based on an overall analysis of store performance and expected trends, management periodically evaluates the need to close underperforming stores. Liabilities are established at the point of closure for the present value of any remaining operating lease obligations, net of estimated sublease income, and at the communication date for severance and other exit costs, as prescribed by SFAS 146. Key assumptions in calculating the liability include the timeframe expected to terminate lease agreements, estimates related to the sublease potential of closed locations, and estimation of other related exit costs. If actual timing and potential termination costs or realization of sublease income differ from our estimates, the resulting liabilities could vary from recorded amounts. These liabilities are reviewed periodically and adjusted when necessary.

Share-Based Payments

Our share-based stock option awards are valued on an individual grant basis using the Black-Scholes-Merton closed form option pricing model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the valuation of stock options, which affects compensation expense related to these options. These assumptions include the term that the options are expected to be outstanding, an estimate of the volatility of our stock price, applicable interest rates and the dividend yield of our stock. Other factors involving judgments that affect the expensing of share-based payments include estimated forfeiture rates of share-based awards. If our estimates differ materially from actual experience, we may be required to record additional expense or reductions of expense, which could be material to our future financial results.

SEGMENT INFORMATION

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

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

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

1.23

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Industry segments				
Revenue	478	420	406	420
Operating income or loss	335	328	304	318
Identifiable assets	383	381	366	378
Depreciation expense	400	392	374	395
Capital expenditures	377	352	337	354
Goodwill	245	200	174	127
Geographic area				
Revenue	292	306	321	323
Operating income or loss	43	41	65	68
Identifiable assets	58	73	96	89
Depreciation expense	29	37	49	40
Capital expenditures	33	32	46	35
Goodwill	9	11	18	9
Export sales	28	28	33	37
Sales to major customers	144	137	136	178

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ARCHER DANIELS MIDLAND COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Goodwill

The Company accounts for its goodwill and other intangible assets in accordance with SFAS Number 142, *Goodwill and Other Intangible Assets.* Under this standard, goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. The Company recorded a $10 million goodwill impairment charge during 2006 based on the annual impairment tests. The carrying value of the Company's other intangible assets is not material.

Goodwill balances attributable to consolidated businesses and investments in affiliates, by segment, are set forth in the following table.

(In thousands)	Consolidated Businesses	Investments in Affiliates	Total
2006			
Oilseeds Processing	$ 11,363	$ 9,144	$ 20,507
Corn Processing	76,961	7,074	84,035
Agricultural Services	8,567	15,683	24,250
Other	126,380	67,120	193,500
Total	$223,271	$99,021	$322,292
2005			
Oilseeds Processing	$ 12,279	$ 9,141	$ 21,420
Corn Processing	76,961	7,074	84,035
Agricultural Services	6,771	8,670	15,441
Other	137,151	67,120	204,271
Total	$233,162	$92,005	$325,167

The changes in goodwill during 2006 are related to acquisitions, the disposal of a subsidiary, goodwill impairments, and foreign currency translation adjustments.

Note 13. Segment and Geographic Information

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company's operations are classified into three reportable business segments: Oilseeds Processing, Corn Processing, and Agricultural Services. Each of these segments is organized based upon the nature of products and services offered. The Company's remaining operations are aggregated and classified as Other.

The Oilseeds Processing segment includes activities related to processing oilseeds such as soybeans, cottonseed, sunflower seeds, canola, peanuts, and flaxseed into vegetable oils and meals principally for the food and feed industries. In addition, oilseeds may be resold into the marketplace as a raw material for other processors. Crude vegetable oil is sold "as is" or is further processed by refining, bleaching, and deodorizing into salad oils. Salad oils can be further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oil is sold for use in chemicals, paints, and other industrial products. Refined oil can be further processed for use in the production of biodiesel. Oilseed meals are primary ingredients used in the manufacture of commercial livestock and poultry feeds.

The Corn Processing segment includes activities related to the production of sweeteners, starches, dextrose, and syrups for the food and beverage industry as well as activities related to the production, by fermentation, of bioproducts such as alcohol, amino acids, and other specialty food and feed ingredients.

The Agricultural Services segment utilizes the Company's extensive grain elevator and transportation network to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, and barley, and resells these commodities primarily as feed ingredients and as raw materials for the agricultural processing industry. Agricultural Services' grain sourcing and transportation network provides reliable and efficient services to the Company's agricultural processing operations. Also included in Agricultural Services are the activities of A.C. Toepfer International, a global merchandiser of agricultural commodities and processed products.

Other includes the Company's remaining operations, consisting principally of food and feed ingredient businesses and financial activities. Food and feed ingredient businesses include Wheat Processing with activities related to the production of wheat flour; Cocoa Processing with activities related to the production of chocolate and cocoa products; the production of natural health and nutrition products; and the production of other specialty food and feed ingredients. Financial activities include banking, captive insurance, private equity fund investments, and futures commission merchant activities.

Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on net sales less identifiable operating expenses, including an interest charge related to working capital usage. Also included in operating profit are the related equity in earnings of affiliates based on the equity method of accounting. General corporate expenses, investment income, unallocated interest expense, marketable securities transactions, and FIFO to LIFO inventory adjustments have been excluded from segment operations and classified as Corporate. Gross additions to property, plant, and equipment represent purchases of property, plant, and equipment plus amounts allocated to property, plant, and equipment related to acquired businesses.

Segment Information (In thousands)	2006	2005	2004
Sales to external customers			
Oilseeds Processing	$11,866,895	$11,803,309	$12,049,250
Corn Processing	4,860,083	4,363,924	4,005,181
Agricultural Services	15,439,567	15,198,831	15,638,341
Other	4,429,566	4,577,746	4,458,622
Total	$36,596,111	$35,943,810	$36,151,394
Intersegment sales			
Oilseeds Processing	$ 151,019	$ 158,519	$ 178,056
Corn Processing	367,504	398,252	315,173
Agricultural Services	1,207,426	1,084,477	2,192,090
Other	115,020	109,268	108,655
Total	$ 1,840,969	$ 1,750,516	$ 2,793,974
Net sales			
Oilseeds Processing	$12,017,914	$11,961,828	$12,227,306
Corn Processing	5,227,587	4,762,176	4,320,354
Agricultural Services	16,646,993	16,283,308	17,830,431
Other	4,544,586	4,687,014	4,567,277
Intersegment elimination	(1,840,969)	(1,750,516)	(2,793,974)
Total	$36,596,111	$35,943,810	$36,151,394
Interest expense			
Oilseeds Processing	$ 84,698	$ 51,994	$ 36,942
Corn Processing	30,592	19,600	9,931
Agricultural Services	68,111	42,620	43,424
Other	113,869	77,956	56,387
Corporate	67,910	134,410	195,307
Total	$ 365,180	$ 326,580	$ 341,991
Depreciation			
Oilseeds Processing	$ 155,538	$ 162,290	$ 168,836
Corn Processing	264,853	265,419	268,968
Agricultural Services	74,964	74,124	79,987
Other	137,295	139,502	144,625
Corporate	24,064	23,317	23,197
Total	$ 656,714	$ 664,652	$ 685,613
Equity in earnings of affiliates			
Oilseeds Processing	$ 61,174	$ 18,346	$ 30,475
Corn Processing	49,774	39,962	33,286
Agricultural Services	18,571	17,879	12,359
Other	32,695	106,443	88,919
Corporate	12,125	46,235	15,677
Total	$ 174,339	$ 228,865	$ 180,716
Operating profit			
Oilseeds Processing	$ 598,414	$ 344,654	$ 290,732
Corn Processing	877,358	530,233	660,947
Agricultural Services	275,469	261,659	249,863
Other	309,949	414,394	359,469
Total operating profit	2,061,190	1,550,940	1,561,011
Corporate	(205,940)	(34,565)	(843,000)
Earnings before income taxes	$ 1,855,250	$ 1,516,375	$ 718,011

Segment Information (In thousands)	2006	2005
Investments in and advances to affiliates		
Oilseeds Processing	$ 430,040	$ 356,124
Corn Processing	204,457	163,817
Agricultural Services	231,026	207,805
Other	744,243	805,527
Corporate	375,896	346,228
Total	$ 1,985,662	$ 1,879,501
Identifiable assets		
Oilseeds Processing	$ 5,522,442	$ 5,169,644
Corn Processing	3,026,926	2,769,364
Agricultural Services	3,246,816	2,912,294
Other	6,659,699	5,911,916
Corporate	2,813,147	1,834,887
Total	$21,269,030	$18,598,105
Gross additions to property, plant, and equipment		
Oilseeds Processing	$ 215,861	$ 192,790
Corn Processing	313,365	263,483
Agricultural Services	157,720	82,910
Other	140,330	93,211
Corporate	13,293	14,984
Total	$ 840,569	$ 647,378

Geographic Information

The following geographic area data include net sales and other operating income attributed to the countries based on the location of the subsidiary making the sale and long-lived assets based on physical location. Long-lived assets represent the sum of the net book value of property, plant, and equipment plus goodwill related to consolidated businesses.

(In thousands)	2006	2005	2004
Net sales and other operating income			
United States	$20,358,068	$19,450,145	$19,105,933
Germany	5,396,228	5,990,702	6,108,079
Other foreign	10,841,815	10,502,963	10,937,382
	$36,596,111	$35,943,810	$36,151,394
Long-lived assets			
United States	$ 3,975,424	$ 3,920,060	
Foreign	1,547,049	1,497,482	
	$ 5,522,473	$ 5,417,542	

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THE BLACK & DECKER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Goodwill and Other Identified Intangible Assets

The changes in the carrying amount of goodwill by reportable business segment, in millions of dollars, were as follows:

	Power Tools & Accessories	Hardware & Home Improvement	Fastening & Assembly Systems	Total
Goodwill at January 1, 2005	$417.1	$463.9	$303.0	$1,184.0
Activity associated with prior year acquisition	(31.6)	(.3)	—	(31.9)
Sale of business	(15.2)	—	—	(15.2)
Currency translation adjustment	(1.3)	—	(19.9)	(21.2)
Balance at December 31, 2005	369.0	463.6	283.1	1,115.7
Acquisition	84.2	—	—	84.2
Activity associated with prior year acquisition	(17.0)	—	—	(17.0)
Currency translation adjustment	.9	.2	11.6	12.7
Balance at December 31, 2006	$437.1	$463.8	$294.7	$1,195.6

Note 18. Business Segments and Geographic Information

The Corporation has elected to organize its businesses based principally upon products and services. In certain instances where a business does not have a local presence in a particular country or geographic region, however, the Corporation has assigned responsibility for sales of that business's products to one of its other businesses with a presence in that country or region.

The Corporation operates in three reportable business segments: Power Tools and Accessories, Hardware and Home Improvement, and Fastening and Assembly Systems. The Power Tools and Accessories segment has worldwide responsibility for the manufacture and sale of consumer and industrial power tools and accessories, lawn and garden tools, and electric cleaning, automotive, and lighting products, as well as for product service. In addition, the Power Tools and Accessories segment has responsibility for the sale of security hardware to customers in Mexico, Central America, the Caribbean, and South America; for the sale of plumbing products to customers outside the United States and Canada; and for sales of household products. On March 1, 2006, the Corporation acquired Vector. On October 2, 2004, the Corporation acquired the Porter-Cable and Delta Tools Group from Pentair, Inc. These acquired businesses are included in the Power Tools and Accessories segment. The Hardware and Home Improvement segment has worldwide responsibility for the manufacture and sale of security hardware (except for the sale of security hardware in Mexico, Central America, the Caribbean, and South America). The Hardware and Home Improvement segment also has responsibility for the manufacture of plumbing products and for the sale of plumbing products to customers in the United States and Canada. The Fastening and Assembly Systems segment has worldwide responsibility for the manufacture and sale of fastening and assembly systems.

Sales, segment profit, depreciation and amortization, and capital expenditures set forth in the following tables exclude the results of the discontinued European security hardware business, as more fully described in Note 3.

Business Segments

	Reportable Business Segments						
(Millions of dollars)	Power Tools & Accessories	Hardware & Home Improvement	Fastening & Assembly Systems	Total	Currency Translation Adjustments	Corporate, Adjustments, & Eliminations	Consolidated
2006							
Sales to unaffiliated customers	$4,735.6	$1,003.4	$666.5	$6,405.5	$ 41.8	$ —	$6,447.3
Segment profit (loss) (for Consolidated, operating income)	570.0	135.4	95.8	801.2	4.3	(65.1)	740.4
Depreciation and amortization	109.8	22.9	18.8	151.5	1.2	2.2	154.9
Income from equity method investees	13.2	—	—	13.2	—	(1.1)	12.1
Capital expenditures	71.7	14.0	16.6	102.3	.9	1.4	104.6
Segment assets (for Consolidated, total assets)	2,751.4	638.4	376.6	3,766.4	66.2	1,415.1	5,247.7
Investment in equity method investees	10.9	—	.3	11.2	—	(1.7)	9.5
2005							
Sales to unaffiliated customers	$4,821.4	$1,019.8	$662.2	$6,503.4	$ 20.3	$ —	$6,523.7
Segment profit (loss) (for Consolidated, operating income)	634.9	143.9	94.6	873.4	2.7	(81.2)	794.9
Depreciation and amortization	102.4	25.6	18.7	146.7	.4	3.5	150.6
Income from equity method investees	21.1	—	—	21.1	—	(1.7)	19.4
Capital expenditures	80.7	12.9	15.7	109.3	—	1.8	111.1
Segment assets (for Consolidated, total assets)	2,752.0	633.0	378.5	3,763.5	(33.3)	2,112.2	5,842.4
Investment in equity method investees	8.9	—	.3	9.2	—	(1.7)	7.5
2004							
Sales to unaffiliated customers	$3,840.8	$ 970.2	$619.9	$5,430.9	$(32.5)	$ —	$5,398.4
Segment profit (loss) (for Consolidated, operating income)	488.4	146.3	84.2	718.9	(5.0)	(100.7)	613.2
Depreciation and amortization	90.1	27.1	17.5	134.7	(1.2)	9.0	142.5
Income from equity method investees	15.8	—	—	15.8	—	(1.2)	14.6
Capital expenditures	78.8	25.9	14.0	118.7	(1.9)	1.0	117.8
Segment assets (for Consolidated, total assets)	2,709.8	604.9	362.6	3,677.3	71.6	1,806.1	5,555.0
Investment in equity method investees	12.5	—	.3	12.8	—	(1.7)	11.1

The profitability measure employed by the Corporation and its chief operating decision maker for making decisions about allocating resources to segments and assessing segment performance is segment profit (for the Corporation on a consolidated basis, operating income). In general, segments follow the same accounting policies as those described in Note 1, except with respect to foreign currency translation and except as further indicated below. The financial statements of a segment's operating units located outside of the United States, except those units operating in highly inflationary economies, are generally measured using the local currency as the functional currency. For these units located outside of the United States, segment assets and elements of segment profit are translated using budgeted rates of exchange. Budgeted rates of exchange are established annually and, once established, all prior period segment data is restated to reflect the current year's budgeted rates of exchange. The amounts included in the preceding table under the captions "Reportable Business Segments", and "Corporate, Adjustments, & Eliminations" are reflected at the Corporation's budgeted rates of exchange for 2006. The amounts included in the preceding table under the caption "Currency Translation Adjustments" represent the difference between consolidated amounts determined using those budgeted rates of exchange and those determined based upon the rates of exchange applicable under accounting principles generally accepted in the United States.

Segment profit excludes interest income and expense, non-operating income and expense, adjustments to eliminate intercompany profit in inventory, and income tax expense. In determining segment profit, expenses relating to pension and other postretirement benefits are based solely upon estimated service costs. Corporate expenses, as well as certain centrally managed expenses, including expenses related to share-based compensation, are allocated to each reportable segment based upon budgeted amounts. While sales and transfers between segments are accounted for at cost plus a reasonable profit, the effects of intersegment sales are excluded from the computation of segment profit. Intercompany profit in inventory is excluded from segment assets and is recognized as a reduction of cost of goods sold by the selling segment when the related inventory is sold to an unaffiliated customer. Because the Corporation compensates the management of its various businesses on, among other factors, segment profit, the Corporation may elect to record certain segment-related expense items of an unusual or non-recurring nature in consolidation rather than reflect such items in segment profit. In addition, certain

segment-related items of income or expense may be recorded in consolidation in one period and transferred to the various segments in a later period.

Segment assets exclude assets of discontinued operations, pension and tax assets, intercompany profit in inventory, intercompany receivables, and goodwill associated with the Corporation's acquisition of Emhart Corporation in 1989.

The reconciliation of segment profit to consolidated earnings from continuing operations before income taxes for each year, in millions of dollars, is as follows:

	2006	2005	2004
Segment profit for total reportable business segments	$801.2	$873.4	$718.9
Items excluded from segment profit:			
Adjustment of budgeted foreign exchange rates to actual rates	4.3	2.7	(5.0)
Depreciation of Corporate property	(.9)	(1.0)	(1.2)
Adjustment to businesses' postretirement benefit expenses booked in consolidation	(25.2)	(13.8)	.8
Other adjustments booked in consolidation directly related to reportable business segments	(.2)	3.3	(10.0)
Amounts allocated to businesses in arriving at segment profit in excess of (less than) Corporate center operating expenses, eliminations, and other amounts identified above	(38.8)	(69.7)	(90.3)
Operating income	740.4	794.9	613.2
Interest expense, net of interest income	73.8	45.4	22.1
Other expense (income)	2.2	(51.6)	2.8
Earnings from continuing operations before income taxes	$664.4	$801.1	$588.3

The reconciliation of segment assets to consolidated total assets at the end of each year, in millions of dollars, is as follows:

	2006	2005	2004
Segment assets for total reportable business segments	$3,766.4	$ 3,763.5	$3,677.3
Items excluded from segment assets:			
Adjustment of budgeted foreign exchange rates to actual rates	66.2	(33.3)	71.6
Goodwill	625.8	615.6	628.5
Pension assets	31.6	45.1	45.1
Other Corporate assets	757.7	1,451.5	1,132.5
	$5,247.7	$5,842.4	$5,555.0

Other Corporate assets principally consist of cash and cash equivalents, tax assets, property, assets of discontinued operations, and other assets.

Sales to The Home Depot, a customer of the Power Tools and Accessories and Hardware and Home Improvement segments, accounted for approximately $1.3 billion, $1.4 billion, and $1.0 billion of the Corporation's consolidated sales for the years ended December 31, 2006, 2005, and 2004, respectively. Sales to Lowe's Home Improvement Warehouse, a customer of the Power Tools and Accessories and Hardware and Home Improvement segments, accounted for approximately $.9 billion, $.9 billion, and $.7 billion of the Corporation's consolidated sales for the years ended December 31, 2006, 2005, and 2004, respectively.

The composition of the Corporation's sales by product group for each year, in millions of dollars, is set forth below:

	2006	2005	2004
Consumer and industrial power tools and product service	$3,481.1	$3,640.0	$2,888.0
Lawn and garden products	457.8	518.2	339.2
Consumer and industrial accessories	475.1	458.5	379.1
Cleaning, automotive, lighting, and household products	319.3	184.7	180.2
Security hardware	751.7	745.1	730.1
Plumbing products	296.0	308.0	259.5
Fastening and assembly systems	666.3	669.2	622.3
	$6,447.3	$6,523.7	$5,398.4

The Corporation markets its products and services in over 100 countries and has manufacturing sites in 10 countries. Other than in the United States, the Corporation does not conduct business in any country in which its sales in that country exceed 10% of consolidated sales. Sales are attributed to countries based on the location of customers. The composition of the Corporation's sales to unaffiliated customers between those in the United States and those in other locations for each year, in millions of dollars, is set forth below:

	2006	2005	2004
United States	$4,149.9	$4,317.8	$3,442.6
Canada	356.5	335.1	249.4
North America	4,506.4	4,652.9	3,692.0
Europe	1,357.1	1,350.2	1,266.5
Other	583.8	520.6	439.9
	$6,447.3	$6,523.7	$5,398.4

The composition of the Corporation's property, plant, and equipment between those in the United States and those in other countries as of the end of each year, in millions of dollars, is set forth below:

	2006	2005	2004
United States	$281.9	$328.3	$380.2
Mexico	120.9	120.0	110.7
Other countries	219.4	220.5	263.7
	$622.2	$668.8	$754.6

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DEVON ENERGY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Segment Information

Devon manages its business by country. As such, Devon identifies its segments based on geographic areas. Devon has three reportable segments: its operations in the U.S., its operations in Canada, and its international operations outside of North America. Substantially all of these segments' operations involve oil and gas producing activities. Certain information regarding such activities for each segment is included in Note 15.

Following is certain financial information regarding Devon's segments for 2006, 2005 and 2004. The revenues reported are all from external customers.

(In millions)	U.S.	Canada	International	Total
As of December 31, 2006				
Current assets	$ 1,307	$ 616	$1,289	$ 3,212
Property and equipment, net of accumulated depreciation, depletion and amortization	15,253	6,929	2,413	24,595
Goodwill	3,053	2,585	68	5,706
Other assets	1,289	35	226	1,550
Total assets	$20,902	$10,165	$3,996	$35,063
Current liabilities	$ 3,693	$ 569	$ 383	$ 4,645
Long-term debt	2,594	2,974	—	5,568
Asset retirement obligation, long-term	387	360	86	833
Other liabilities	864	16	45	925
Deferred income taxes	3,351	1,831	468	5,650
Stockholders' equity	10,013	4,415	3,014	17,442
Total liabilities and stockholders' equity	$20,902	$10,165	$3,996	$35,063

(continued)

(In millions)	U.S.	Canada	International	Total
Year ended December 31, 2006:				
Revenues:				
Oil sales	$ 1,218	$ 603	$1,384	$ 3,205
Gas sales	3,445	1,456	31	4,932
NGL sales	548	201	—	749
Marketing and midstream revenues	1,641	31	20	1,692
Total revenues	6,852	2,291	1,435	10,578
Expenses and other income, net:				
Lease operating expenses	813	543	132	1,488
Production taxes	235	7	99	341
Marketing and midstream operating costs and expenses	1,226	10	8	1,244
Depreciation, depletion and amortization of oil and gas properties	1,311	644	311	2,266
Depreciation and amortization of non-oil and gas properties	154	18	4	176
Accretion of asset retirement obligation	25	21	3	49
General and administrative expenses	316	92	(11)	397
Interest expense	199	222	—	421
Change in fair value of derivative financial instruments	181	(3)	—	178
Reduction of carrying value of oil and gas properties	—	—	121	121
Other income, net	(43)	(14)	(58)	(115)
Total expenses and other income, net	4,417	1,540	609	6,566
Earnings from continuing operations before income tax expense	2,435	751	826	4,012
Income tax expense (benefit):				
Current	299	143	377	819
Deferred	533	(105)	(58)	370
Total income tax expense	832	38	319	1,189
Earnings from continuing operations	1,603	713	507	2,823
Discontinued operations:				
Earnings from discontinued operations before income taxes	—	—	22	22
Income tax benefit	—	—	(1)	(1)
Earnings from discontinued operations	—	—	23	23
Net earnings	1,603	713	530	2,846
Preferred stock dividends	10	—	—	10
Net earnings applicable to common stockholders	$ 1,593	$ 713	$ 530	$ 2,836
Capital expenditures	$ 5,814	$ 1,670	$ 609	$ 8,093
As of December 31, 2005:				
Current assets	$ 2,042	$ 1,182	$ 982	$ 4,206
Property and equipment, net of accumulated depreciation, depletion and amortization	10,856	5,877	2,178	18,911
Goodwill	3,056	2,581	68	5,705
Other assets	1,213	17	221	1,451
Total assets	$17,167	$ 9,657	$3,449	$30,273
Current liabilities	$ 1,736	$ 925	$ 273	$ 2,934
Long-term debt	2,986	2,971	—	5,957
Asset retirement obligation, long-term	320	261	29	610
Other liabilities	467	12	57	536
Deferred income taxes	2,864	2,008	502	5,374
Stockholders' equity	8,794	3,480	2,588	14,862
Total liabilities and stockholders' equity	$17,167	$ 9,657	$3,449	$30,273

(continued)

(In millions)	U.S.	Canada	International	Total
Year ended December 31, 2005:				
Revenues:				
Oil sales	$ 1,062	$ 353	$ 944	$ 2,359
Gas sales	3,929	1,814	41	5,784
NGL sales	484	196	7	687
Marketing and midstream revenues	1,780	12	—	1,792
Total revenues	7,255	2,375	992	10,622
Expenses and other income, net:				
Lease operating expenses	710	498	116	1,324
Production taxes	273	6	56	335
Marketing and midstream operating costs and expenses	1,336	6	—	1,342
Depreciation, depletion and amortization of oil and gas properties	1,137	570	274	1,981
Depreciation and amortization of non-oil and gas properties	141	14	5	160
Accretion of asset retirement obligation	25	16	2	43
General and administrative expenses	245	59	(13)	291
Interest expense	224	309	—	533
Change in fair value of derivative financial instruments	86	8	—	94
Reduction of carrying value of oil and gas properties	—	—	212	212
Other income, net	(176)	(10)	(12)	(198)
Total expenses and other income, net	4,001	1,476	640	6,117
Earnings from continuing operations before income tax expense	3,254	899	352	4,505
Income tax expense (benefit):				
Current	761	106	351	1,218
Deferred	253	217	(82)	388
Total income tax expense	1,014	323	269	1,606
Earnings from continuing operations	2,240	576	83	2,899
Discontinued operations:				
Earnings from discontinued operations before income taxes	—	—	46	46
Income tax expense	—	—	15	15
Earnings from discontinued operations	—	—	31	31
Net earnings	2,240	576	114	2,930
Preferred stock dividends	10	—	—	10
Net earnings applicable to common stockholders	$ 2,230	$ 576	$ 114	$ 2,920
Capital expenditures	$ 2,200	$1,707	$ 308	$ 4,215

(continued)

(In millions)	U.S.	Canada	International	Total
Year ended December 31, 2004:				
Revenues:				
Oil sales	$ 976	$ 299	$824	$2,099
Gas sales	3,261	1,437	34	4,732
NGL sales	405	143	6	554
Marketing and midstream revenues	1,688	13	—	1,701
Total revenues	6,330	1,892	864	9,086
Expenses and other income, net:				
Lease operating expenses	714	438	107	1,259
Production taxes	220	5	30	255
Marketing and midstream operating costs and expenses	1,333	6	—	1,339
Depreciation, depletion and amortization of oil and gas properties	1,242	522	313	2,077
Depreciation and amortization of non-oil and gas properties	130	14	4	148
Accretion of asset retirement obligation	27	15	2	44
General and administrative expenses	221	56	—	277
Interest expense	197	278	—	475
Change in fair value of derivative financial instruments	63	(1)	—	62
Other income, net	(81)	(39)	(6)	(126)
Total expenses and other income, net	4,066	1,294	450	5,810
Earnings before income tax expense	2,264	598	414	3,276
Income tax expense (benefit):				
Current	356	49	320	725
Deferred	273	149	(52)	370
Total income tax expense	629	198	268	1,095
Earnings from continuing operations	1,635	400	146	2,181
Discontinued operations:				
Earnings from discontinued operations before income taxes	—	—	17	17
Income tax expense	—	—	12	12
Earnings from discontinued operations	—	—	5	5
Net earnings	1,635	400	151	2,186
Preferred stock dividends	10	—	—	10
Net earnings applicable to common stockholders	$1,625	$ 400	$151	$2,176
Capital expenditures	$1,674	$ 979	$279	$2,932

1.27

MARRIOTT INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Business Segments

We are a diversified hospitality company with operations in six business segments:

- North American Full-Service Lodging, which includes the Marriott Hotels & Resorts, JW Marriott Hotels & Resorts, Marriott Conference Centers, Renaissance Hotels & Resorts, and Renaissance ClubSport brands located in the continental United States and Canada;
- North American Limited-Service Lodging, which includes the Courtyard, Fairfield Inn, SpringHill Suites, Residence Inn, TownePlace Suites and Marriott ExecuStay brands located in the continental United States and Canada;
- International Lodging, which includes Marriott Hotels & Resorts, JW Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Courtyard, Fairfield Inn, Residence Inn, Ramada International and Marriott Executive Apartments brands located outside the continental United States and Canada;
- Luxury Lodging, which includes The Ritz-Carlton and Bulgari Hotels & Resorts brands worldwide;
- Timeshare, which includes the development, marketing, operation and sale of timeshare, fractional and whole ownership properties under the Marriott Vacation Club, The Ritz-Carlton Club, Grand Residences by Marriott and Horizons by Marriott Vacation Club brands worldwide; and
- Synthetic Fuel, which includes our interest in the operation of coal-based synthetic fuel production facilities.

In addition to the segments above, in 2002 we announced our intent to sell, and subsequently did sell, our Senior Living Services business segment and exited our Distribution Services business segment.

In 2006, the company analyzed its internal reporting process and implemented changes in the fourth quarter that were designed to improve efficiency. As part of this process, we evaluated the impact on segment reporting and made certain changes that were in accordance with U.S. generally accepted accounting principles. These reporting changes are in conformity with the requirements of FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," and will better enable investors to view the Company the way management views it. Accordingly, we now report six operating segments as compared to five before the change and indirect administrative expenses are no longer allocated to our segments. Senior management now allocates resources and assesses performance based on the six operating segments. The revised segment reporting is reflected throughout this report for all periods presented. Historical figures are presented in a manner that is consistent with the revised segment reporting.

We evaluate the performance of our segments based primarily on the results of the segment without allocating corporate expenses, interest expense or indirect general, administrative and other expenses. With the exception of the Synthetic Fuel segment, we do not allocate income taxes or interest income to our segments. As note sales are an integral part of the Timeshare segment, we include note sale gains in our Timeshare segment results, and we allocate other gains and losses as well as equity earnings or losses from our joint ventures and divisional general, administrative and other expenses to each of our segments. "Other unallocated corporate" represents that portion of our revenues, general, administrative and other expenses, equity in earnings or losses, and other gains or losses that are not allocable to our segments.

We have aggregated the brands presented within our North American Full-Service, North American Limited-Service, International and Luxury segments considering their similar economic characteristics, types of customers, distribution channels, the regulatory business environment of the brands and operations within each segment and our organizational structure and management reporting structure.

($ in millions)	2006	2005	2004
Revenues			
North American Full-Service segment	$ 5,196	$ 5,116	$ 4,691
North American Limited-Service segment	2,060	1,886	1,673
International segment	1,411	1,017	604
Luxury segment	1,423	1,333	1,263
Timeshare segment	1,840	1,721	1,502
Total lodging	11,930	11,073	9,733
Other unallocated corporate	65	56	45
Synthetic Fuel segment	165	421	321
	$12,160	$11,550	$10,099

($ in millions)	2006	2005	2004
Income from continuing operations			
North American Full-Service segment	$ 455	$ 349	$ 337
North American Limited-Service segment	380	303	233
International segment	237	133	109
Luxury segment	63	45	35
Timeshare segment	280	271	203
Total lodging financial results	1,415	1,101	917
Other unallocated corporate	(251)	(219)	(220)
Synthetic Fuel segment (after-tax)	5	125	107
Interest income, provision for loan losses and interest expense (excluding the Synthetic Fuel segment)	(72)	(55)	55
Income taxes (excluding the Synthetic Fuel segment)	(380)	(284)	(265)
	$ 717	$ 668	$ 594

($ in millions)	2006	2005	2004
Equity in earnings (losses) of equity method investees			
North American Full-Service segment	$ 2	$21	$ 8
North American Limited-Service segment	—	(6)	(17)
International segment	—	20	5
Luxury segment	(2)	(1)	(3)
Timeshare segment	(2)	1	(7)
Total lodging	(2)	35	(14)
Other unallocated corporate	5	1	—
Synthetic Fuel segment	—	—	(28)
	$ 3	$36	$(42)

($ in millions)	2006	2005	2004
Depreciation and amortization			
North American Full-Service segment	$ 24	$ 19	$ 26
North American Limited-Service segment	24	24	21
International segment	23	18	13
Luxury segment	7	10	10
Timeshare segment	39	46	49
Total lodging	117	117	119
Other unallocated corporate	61	57	39
Synthetic Fuel segment	10	10	8
	$188	$184	$166

($ in millions)	2006	2005	2004
Assets			
North American Full-Service segment	$1,104	$1,309	$1,270
North American Limited-Service segment	565	613	1,058
International segment	1,225	1,333	897
Luxury segment	755	656	687
Timeshare segment	2,560	2,454	2,321
Total lodging	6,209	6,365	6,233
Other unallocated corporate	2,288	2,062	2,319
Synthetic Fuel segment	91	103	116
	$8,588	$8,530	$8,668

($ in millions)	2006	2005	2004
Equity method investments			
North American Full-Service segment	$ 18	$ 21	$ 32
North American Limited-Service segment	35	50	77
International segment	73	119	84
Luxury segment	17	18	4
Timeshare segment	168	115	31
Total lodging	311	323	228
Other unallocated corporate	21	26	21
	$332	$349	$249

($ in millions)	2006	2005	2004
Goodwill			
North American Full-Service segment	$406	$407	$407
North American Limited-Service segment	72	72	72
International segment	273	273	272
Luxury segment	170	172	172
Total lodging	$921	$924	$923

($ in millions)	2006	2005	2004
Capital expenditures			
North American Full-Service segment	$ 75	$197	$ 56
North American Limited-Service segment	38	10	18
International segment	215	376	3
Luxury segment	104	84	5
Timeshare segment	28	27	38
Total lodging	460	694	120
Other unallocated corporate	69	86	61
	$529	$780	$181

Our tax provision of $286 million for 2006 includes: a tax benefit and tax credits of $94 million associated with our Synthetic Fuel segment; our tax provision of $94 million for 2005 includes a tax benefit and tax credits of $190 million associated with our Synthetic Fuel segment; and our tax provision of $100 million for 2004 includes a tax benefit and tax credits of $165 million associated with our Synthetic Fuel segment.

Segment expenses include selling expenses directly related to the operations of the businesses, aggregating $600 million in 2006, $609 million in 2005 and $454 million in 2004. Approximately 90 percent, 90 percent and 94 percent for 2006, 2005, and 2004, respectively, of the selling expenses are related to our Timeshare segment.

The consolidated financial statements include the following related to operations located outside the United States (which are predominately related to our International lodging segment): Revenues of $1,869 million in 2006, $1,388 million in 2005, and $972 million in 2004; Lodging financial results of $298 million in 2006 (28 percent from Asia, 30 percent from the Americas excluding the United States, 13 percent from the United Kingdom, 19 percent from Europe, 8 percent from the Middle East and Africa, and 2 percent from Australia), $178 million in 2005 and $163 million in 2004; and fixed assets of $684 million in 2006 and $574 million in 2005. Additionally, the "Assets held for sale" caption in our accompanying Consolidated Balance Sheet included fixed assets totaling $348 million and $376 million for year-end 2006 and year-end 2005, respectively, that were associated with properties located outside the United States. No individual country, other than the United States, constitutes a material portion of our revenues, financial results or fixed assets.

NATURAL BUSINESS YEAR

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

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

1.30 For 2006, 159 survey companies were on a 52–53 week fiscal year. During 2006, one survey company changed the date of their fiscal year end. Examples of fiscal year definitions follow.

1.31

TABLE 1-4: MONTH OF FISCAL YEAR END

	2006	**2005**	**2004**	**2003**
January	27	30	30	30
February	8	8	8	9
March	17	17	17	16
April	9	8	9	8
May	17	18	18	18
June	42	41	41	49
July	10	13	11	8
August	14	12	11	14
September	47	49	44	42
October	16	17	19	17
November	12	12	12	13
Subtotal	**219**	**225**	**220**	**224**
December	381	375	380	376
Total Companies	**600**	**600**	**600**	**600**

Definition of Fiscal Year

1.32

CHURCH & DWIGHT CO., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Fiscal Calendar

The Company's fiscal year begins on January 1st and ends on December 31st. Quarterly periods are based on a 4 weeks—4 weeks—5 weeks methodology. As a result, the first quarter can include a partial or expanded week in the first four week period of the quarter. Similarly, the last five week period in the fourth quarter could be a partial or expanded week. Certain subsidiaries operating outside of North America are included for periods beginning and ending one month prior to the period presented, which enables timely processing of consolidating results. There were no material intervening events that occurred at these locations in the one month period prior to the period presented.

1.33

KELLWOOD COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

C) Fiscal Year

Our fiscal year ends on the Saturday nearest January 31. References to our fiscal years represent the following:

Fiscal Year	Represents the 52 weeks ended
2004	January 29, 2005
2005	January 28, 2006

Fiscal Year	Represents the 53 weeks ended
2006	February 3, 2007

1.34

YUM! BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal year 2005 included 53 weeks. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks in fiscal years with 52 weeks and 17 weeks in fiscal years with 53 weeks. In fiscal year 2005, the 53rd week added $96 million to total revenues and $23 million to total operating profit in our Consolidated Statement of Income. Our subsidiaries operate on similar fiscal calendars with period or month end dates suited to their businesses. The subsidiaries' period end dates are within one week of YUM's period end date with the exception of all of our international businesses except China. The international businesses except China close one period or one month earlier to facilitate consolidated reporting.

COMPARATIVE FINANCIAL STATEMENTS

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

1.36 In their annual reports, the survey companies usually present an income statement as the first financial statement. For 2006, 328 survey companies presented an income statement first followed by a balance sheet; 219 survey companies presented a balance sheet first followed by an income statement; 14 survey companies presented an income statement first followed by a statement of cash flows; and 19 survey companies presented an income statement first combined with a statement of comprehensive income or followed by a separate statement of comprehensive income.

1.37 The financial statements, with rare exception, were presented on consecutive pages. Certain survey companies did not present their financial statements on consecutive pages but interspersed the Management's Discussion and Analysis of Financial Condition and Results of Operations among the financial statements by having comments discussing the content of a financial statement follow the presentation of a financial statement. Such interspersed material was not covered by an auditor's report and was not presented in lieu of notes. For 2006, three survey companies did not present their financial statements on consecutive pages.

ROUNDING OF AMOUNTS

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

1.39

TABLE 1-5: ROUNDING OF AMOUNTS

	2006	2005	2004	2003
To nearest dollar	10	12	12	21
To nearest thousand dollars:				
Omitting 000	316	327	322	322
Presenting 000	3	2	3	5
To nearest million dollars	271	259	263	252
Total Companies	**600**	**600**	**600**	**600**

NOTES TO FINANCIAL STATEMENTS

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

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

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

1.42

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	2006	2005	2004	2003
General reference only	512	511	514	509
General and direct references	87	88	86	91
Direct reference only	1	1	—	—
Total Companies	**600**	**600**	**600**	**600**

DISCLOSURE OF ACCOUNTING POLICIES

1.43 Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*, requires that the significant accounting policies of an entity be presented as an integral part of the financial statements of the entity. *APB Opinion No. 22* sets forth guidelines as to the content and format of disclosures of accounting policies. *APB Opinion No. 22* states that the preferable format is to present a Summary of Significant Accounting Policies preceding notes to financial statements or as the initial note. During 2006, 464 survey companies presented the Summary of Significant Accounting Policies as either the first footnote or as a separate presentation following the last financial statement and preceding the footnotes. Of the remainder, most survey companies presented the Summary of Significant Accounting Policies as the second footnote following a footnote which described the nature of operations.

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

1.45

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	2006	2005	2004	2003
Revenue recognition	590	586	586	587
Consolidation policy	570	578	572	572
Property	572	574	565	562
Use of estimates	567	575	570	571
Cash equivalents	546	543	553	551
Impairment	546	533	526	503
Amortization of intangibles	540	528	515	512
Depreciation methods	514	538	547	552
Inventory pricing	514	509	514	518
Interperiod tax allocation	508	487	477	464
Stock-based compensation	507	549	554	567
Financial instruments	506	479	496	505
Translation of foreign currency	428	440	436	441
Earnings per share calculation	368	376	370	402
Advertising costs	288	283	273	271
Nature of operations	286	323	295	325
Research and development costs	224	207	217	213
Credit risk concentrations	211	188	184	189
Employee benefits	185	168	149	172
Fiscal years	168	168	166	176
Environmental costs	144	137	134	138
Capitalization of interest	92	85	85	92

1.46

BALL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Critical and Significant Accounting Policies

In the application of accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingencies and reported amounts of revenues and expenses. These estimates are based on historical experience and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

Critical Accounting Policies

The company considers certain accounting policies to be critical, as their application requires management's best judgment in making estimates about the effect of matters that are inherently uncertain. Following is a discussion of the accounting policies we consider critical to our consolidated financial statements.

Revenue Recognition in the Aerospace and Technologies Segment

Sales under long-term contracts in the aerospace and technologies segment are recognized under the cost-to-cost, percentage-of-completion method. This business segment sells using two types of long-term sales contracts—cost-type sales contracts, which represent approximately two-thirds of sales, and fixed price sales contracts which account for the remainder. A cost-type sales contract is an agreement to perform the contract for cost plus an agreed upon profit component, whereas fixed price sales contracts are completed for a fixed price or involve the sale of engineering labor at fixed rates per hour. Cost-type sales contracts can have different types of fee arrangements, including fixed fee, cost, milestone and performance incentive fees, award fees or a combination thereof.

During initial periods of sales contract performance, our estimates of base, incentive and other fees are established at a conservative estimate of profit over the period of contract performance. Throughout the period of contract performance, we regularly reevaluate and, if necessary, revise our estimates of total contract revenue, total contract cost and extent of progress toward completion. Provision for estimated contract losses, if any, is made in the period that such losses are determined to be probable. Because of sales contract payment schedules, limitations on funding and contract terms, our sales and accounts receivable generally include amounts that have been earned but not yet billed. As a prime U.S. government contractor or subcontractor, the aerospace and technologies segment is subject to a high degree of regulation, financial review and oversight by the U.S. government.

Acquisitions

The company accounts for acquisitions using the purchase method as required by Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." Under SFAS No. 141, the acquiring company allocates the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition, including intangible assets that can be identified and named. The purchase price in excess of the fair value of the net assets and liabilities is recorded as goodwill. Among other sources of relevant information, the company uses independent appraisals and actuarial or other valuations to assist in determining the estimated fair values of the assets and liabilities.

Goodwill and Other Intangible Assets

We evaluate the carrying value of goodwill annually, and we evaluate our other intangible assets whenever there is evidence that certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Goodwill is tested for impairment using a fair value approach, using discounted cash flows to establish fair values. We recognize an impairment charge for any amount by which the carrying amount of goodwill exceeds its fair value. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. When a business within a reporting unit is disposed of, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology.

We amortize the cost of other intangibles over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested annually for impairment and written down to fair value as required.

Defined Benefit Pension Plans and Other Employee Benefits

The company has defined benefit plans that cover the majority of its employees. We also have postretirement plans that provide certain medical benefits and life insurance for retirees and eligible dependents. The accounting for these plans is subject to the guidance provided in SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R);" SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." These statements require that management make certain assumptions relating to the long-term rate of return on plan assets, discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. We believe that the accounting estimates related to our pension and postretirement plans are critical accounting estimates because they are highly susceptible to change from period to period based on the performance of plan assets, actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions.

Pension plan liabilities are revalued annually based on updated assumptions and information about the individuals covered by the plan. For pension plans, accumulated gains and losses in excess of a 10 percent corridor, the prior service cost and the transition asset are amortized on a straight-line

basis from the date recognized over the average remaining service period of active participants. For other postemployment benefits, the 10 percent corridor is not used.

In addition to defined benefit and postretirement plans, the company maintains reserves for employee medical claims, up to our insurance stop-loss limit, and workers' compensation claims. These are regularly evaluated and revised, as needed, based on a variety of information, including historical experience, third party actuarial estimates and current employee statistics.

Taxes on Income

Deferred tax assets, including operating loss, capital loss and tax credit carry forwards, are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that any portion of these tax attributes will not be realized. In addition, from time to time, management must assess the need to accrue or disclose a possible loss contingency for proposed adjustments from various federal, state and foreign tax authorities that regularly audit the company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions, including many foreign jurisdictions.

Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each balance sheet date, based upon enacted income tax laws and tax rates. Income tax expense or benefit is provided based on earnings reported in the financial statements. The provision for income tax expense or benefit differs from the amounts of income taxes currently payable because certain items of income and expense included in the consolidated financial statements are recognized in different time periods by taxing authorities.

Business Consolidation Costs

The company estimates its liabilities for business consolidation activities by accumulating detailed estimates of costs and asset sales proceeds, if any, for each business consolidation initiative. This includes the estimated costs of employee severance, pension and related benefits; impairment of property and equipment and other assets, including estimates of realizable value; contract termination payments for contracts and leases; contractual obligations and any other qualifying costs related to the exit plan. These estimated costs are grouped by specific projects within the overall exit plan and are then monitored on a monthly basis. Such disclosures represent management's best estimates, but require assumptions about the plans that may change over time. Changes in estimates for individual locations and other matters are evaluated periodically to determine if a change in estimate is required for the overall restructuring plan. Subsequent changes to the original estimates are included in current period earnings and identified as business consolidation gains or losses.

Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Ball Corporation and its controlled subsidiaries (collectively, Ball, the company, we or our). Equity investments in which we exercise significant influence, but do not control and are not the primary beneficiary, are accounted for using the equity method of accounting. Investments in which we do not exercise significant influence over the investee are accounted for using the cost method of accounting. Intercompany transactions are eliminated.

Cash Equivalents

Cash equivalents have original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting. Prior to the fourth quarter of 2006, the majority of the U.S. inventories in the metal beverage packaging, Americas, and metal food and household products packaging, Americas, segments were accounted for using the last-in, first-out (LIFO) method of accounting. During the fourth quarter of 2006, management changed its method of accounting for these inventories from the LIFO method to the FIFO method. The FIFO method of inventory accounting better matches revenues and expenses in accordance with sales contract terms. All periods have been retrospectively adjusted on a FIFO basis in accordance with SFAS No. 154.

Depreciation and Amortization

Property, plant and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Depreciation and amortization are provided using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives (buildings and improvements—15 to 40 years; machinery and equipment—5 to 15 years; other intangible assets—13 years, weighted average).

Deferred financing costs are amortized over the life of the related loan facility and are reported as part of interest expense. When debt is repaid prior to its maturity date, the write-off of the remaining unamortized deferred financing costs is also reported as interest expense.

Environmental Reserves

We estimate the liability related to environmental matters based on, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. We record our best estimate of a loss when the loss is considered probable. As additional information becomes available, we assess the potential liability related to our pending matters and revise our estimates.

Revenue Recognition in the Packaging Segments

Sales of products in the packaging segments are recognized when delivery has occurred and title has transferred, there is persuasive evidence of an agreement or arrangement, the price is fixed and determinable, and collection is reasonably assured.

Stock-Based Compensation

Ball has a variety of restricted stock and stock option plans. With the exception of the company's deposit share program, which through 2005 was accounted for as a variable plan and is discussed in Note 15, the compensation cost associated

with restricted stock grants has been calculated using the fair value at the date of grant and amortized over the restriction period. In the fourth quarter of 2006, Ball amended one of its deferred compensation stock plans to allow limited diversification, which required an initial mark-to-market adjustment of $6.7 million. Stock-based compensation is reported as part of selling, general and administrative expenses in the consolidated statements of earnings.

Effective January 1, 2006, the company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," and elected to use the modified prospective transition method and the Black-Scholes valuation model. Tax benefits associated with option exercises are reported in financing activities in the consolidated statements of cash flows beginning in 2006. Prior to January 1, 2006, expense related to stock options was calculated using the intrinsic value method under the guidelines of Accounting Principles Board (APB) Opinion No. 25, and has therefore not been included in the consolidated statements of earnings in 2005 or 2004. Ball's earnings as reported included after-tax stock-based compensation of $6.6 million and $12.5 million for the years ended December 31, 2005 and 2004, respectively. If the fair value based method had been used, after-tax stock-based compensation would have been $8.7 million in 2005 and $9.3 million in 2004, and diluted earnings per share would have been lower by $0.02 in 2005 and higher by $0.03 in 2004. Further details regarding the expense calculated under the fair value based method are provided in Note 15.

Foreign Currency Translation

Assets and liabilities of foreign operations are translated using period-end exchange rates, and revenues and expenses are translated using average exchange rates during each period. Translation gains and losses are reported in accumulated other comprehensive earnings as a component of shareholders' equity.

Derivative Financial Instruments

The company uses derivative financial instruments for the purpose of hedging exposures to fluctuations in interest rates, foreign currency exchange rates, product sales, raw materials purchasing and common share repurchases. The company's derivative instruments are recorded in the consolidated balance sheets at fair value. For a derivative designated as a fair value hedge of a recognized asset or liability, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. For a derivative designated as a cash flow hedge, or a derivative designated as a fair value hedge of a firm commitment not yet recorded on the balance sheet, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive earnings and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss associated with all hedges is reported in earnings immediately. In the statements of cash flows, hedge activities are classified in the same category as the items being hedged.

Realized gains and losses from hedges are classified in the consolidated statements of earnings consistent with the accounting treatment of the items being hedged. Gains and losses upon the early termination of effective derivative contracts are deferred in accumulated other comprehensive earnings and amortized to earnings in the same period as the originally hedged items affect earnings.

Reclassifications

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

New Accounting Pronouncements

In September 2006 the Financial Accounting Standards Board (FASB) issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an Amendment of FASB Statements No. 87, 88, 106 and 132(R)," which was effective in Ball's annual report for the year ended December 31, 2006. The new standard requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive earnings. It also requires disclosure of certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits and transition assets or obligations. The effects of Ball's adoption of this standard are detailed in Note 14, "Employee Benefit Obligations."

Also in September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a framework for measuring value and expands disclosures about fair value measurements. Although it does not require any new fair value measurements, the statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. The standard will be effective for Ball as of January 1, 2008.

Staff Accounting Bulletin (SAB) No. 108 was issued in September 2006 by the Securities and Exchange Commission (SEC) addressing the SEC staff's view regarding the process of consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of materiality. The company's process is consistent with the SEC's view.

In June 2006 the FASB issued Financial Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 became effective for Ball beginning on January 1, 2007. The company is evaluating the impact this standard will have on its consolidated financial statements. While adoption of this standard will require balance sheet reclassifications of the accruals for uncertain tax positions and a cumulative adjustment for the retrospective application of the standard, at the time of this filing the company is unable to determine the impact of any reclassifications or to determine whether the cumulative adjustment is material.

In March 2006 the Emerging Issues Task Force of the FASB reached a consensus on Issue No. 06-3 regarding whether taxes collected from customers and remitted to governmental authorities are presented in a company's income statement (a gross presentation) or only in its balance sheet (a net presentation). The decision, which is effective for Ball's

reporting beginning January 1, 2007, requires a company to disclose its policy for recording and reporting such taxes (gross or net) and, if on a gross basis, the amounts that are included in revenues and costs in the statement of earnings. Ball's current policy is to record taxes collected from customers as liabilities on its consolidated balance sheet and not in its consolidated statement of earnings.

In May 2005 the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a Replacement of APB Opinion No. 20 and FASB Statement No. 3." The new standard changes the requirements for the accounting for and reporting of a change in accounting principle and applies to all such voluntary changes. The previous accounting required that most changes in accounting principle be recognized in net earnings by including a cumulative effect of the change in the period of the change. SFAS No. 154, which was effective for Ball beginning January 1, 2006, requires retroactive application to prior periods' financial statements. The company applied SFAS No. 154 to its change from the LIFO to the FIFO method of accounting for certain inventories, which occurred in the fourth quarter of 2006.

In December 2004 the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123 (revised 2004) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The new standard, which was effective for Ball beginning January 1, 2006, establishes accounting standards for transactions in which an entity exchanges its equity instruments for goods or services, including stock option and restricted stock grants. On March 29, 2005, the SEC issued SAB No. 107, which summarizes the views of the SEC staff regarding the interaction between SFAS No. 123 (revised 2004) and certain SEC rules and regulations and provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. Upon the adoption of the standard, Ball elected to use the modified prospective transition method and the Black-Scholes valuation model. The adoption of SFAS No. 123 (revised 2004) resulted in higher stock-based compensation in 2006 of $6.3 million compared to 2005. Additional effects on the company's consolidated financial statements of adopting SFAS No. 123 (revised 2004) are discussed in Note 15.

In November 2004 the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) to be recognized as current-period charges. It also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 was effective for inventory costs incurred by Ball beginning on January 1, 2006. The adoption of SFAS No. 151 had an insignificant effect on Ball's consolidated financial statements.

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LEAR CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2) Summary of Significant Accounting Policies

Assets and Liabilities of Business Held for Sale

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company classifies the assets and liabilities of a business as held for sale when management approves and commits to a formal plan of sale and it is probable that the sale will be completed. The carrying value of the net assets of the business held for sale are then recorded at the lower of their carrying value or fair market value, less costs to sell. As of December 31, 2006, the assets and liabilities of the Company's North American interior business are classified as held for sale and all prior period balance sheet information has been restated.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of ninety days or less.

Accounts Receivable

The Company records accounts receivable as its products are shipped to its customers. The Company's customers are the major automotive manufacturers in the world. The Company records accounts receivable reserves for known collectibility issues, as such issues relate to specific transactions or customer balances. As of December 31, 2006 and 2005, accounts receivable are reflected net of reserves of $14.9 million and $20.4 million, respectively. The Company writes off accounts receivable when it becomes apparent based upon age or customer circumstances that such amounts will not be collected. Generally, the Company does not require collateral for its accounts receivable.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. The Company records inventory reserves for inventory in excess of production and/or forecasted requirements and for obsolete inventory in production and service inventories. As of December 31, 2006 and 2005, inventories are reflected net of reserves of $87.1 million and $85.7 million, respectively. A summary of inventories is shown below (in millions):

	2006	2005
Raw materials	$439.9	$449.2
Work-in-process	35.6	36.7
Finished goods	106.0	109.7
Inventories	$581.5	$595.6

Pre-Production Costs Related to Long-Term Supply Arrangements

The Company incurs pre-production engineering, research and development ("ER&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production ER&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the customer has not provided a non-cancelable right to use the tooling. During 2006 and 2005, the Company capitalized $122.0 million and $227.2 million, respectively, of pre-production ER&D costs for which reimbursement is contractually guaranteed by the customer. During 2006 and 2005, the Company also capitalized $449.0 million and $638.6 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the customer has provided a non-cancelable right to use the tooling. These amounts are included in other current and other long-term assets in the consolidated balance sheets. During 2006 and 2005, the Company collected $765.0 million and $715.8 million, respectively, of cash related to ER&D and tooling costs.

During 2006 and 2005, the Company capitalized $17.4 million and $44.4 million, respectively, of Company-owned tooling. These amounts are included in property, plant and equipment, net, in the consolidated balance sheets.

The classification of capitalized pre-production ER&D and tooling costs related to long-term supply agreements is shown below (in millions):

	2006	2005
Current	$ 87.7	$160.4
Long-term	116.2	146.9
Recoverable customer engineering and tooling	$203.9	$307.3

Gains and losses related to ER&D and tooling projects are reviewed on an aggregate program basis. Net gains on projects are deferred and recognized over the life of the related long-term supply agreement. Net losses on projects are recognized as costs are incurred.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciable property is depreciated over the estimated useful lives of the assets, using principally the straight-line method as follows:

Buildings and improvements	20 to 40 years
Machinery and equipment	5 to 15 years

A summary of property, plant and equipment is shown below (in millions):

	2006	2005
Land	$ 131.0	$ 131.5
Buildings and improvements	516.7	572.8
Machinery and equipment	2,077.5	2,116.0
Construction in progress	60.7	56.1
Total property, plant and equipment	2,785.9	2,876.4
Less—accumulated depreciation	(1,314.2)	(1,261.7)
Net property, plant and equipment	$ 1,471.7	$ 1,614.7

Depreciation expense was $387.0 million, $388.5 million and $350.6 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Costs associated with the repair and maintenance of the Company's property, plant and equipment are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency or safety of the Company's property, plant and equipment are capitalized and depreciated over the remaining life of the related asset.

Impairment of Goodwill

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. In conducting its impairment testing, the Company compares the fair value of each of its reporting units to the related net book value. If the fair value of a reporting unit exceeds its net book value, goodwill is considered not to be impaired. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. The Company conducts its annual impairment testing on the first day of the fourth quarter each year.

The Company utilizes an income approach to estimate the fair value of each of its reporting units. The income approach is based on projected debt-free cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. The Company believes that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash flow performance. This approach also mitigates the impact of cyclical trends that occur in the industry. Fair value is estimated using recent automotive industry and specific platform production volume projections, which are based on both third-party and internally-developed forecasts, as well as commercial, wage and benefit, inflation and discount rate assumptions. Other significant assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to management's application of these assumptions to this analysis, the Company believes that the income approach provides a reasonable estimate of the fair value of its reporting units.

The Company's 2006 annual goodwill impairment analysis, completed as of October 1, resulted in no impairment.

During the third and fourth quarters of 2005, events occurred which indicated a significant decline in the fair value of the Company's interior segment, as well as an impairment

of the related goodwill. These events included unfavorable operating results, primarily as a result of higher raw material costs, lower production volumes on key platforms, industry overcapacity, insufficient customer pricing and changes in certain customers' sourcing strategies, as well as the Company's decision to evaluate strategic alternatives with respect to this segment. The Company evaluated the net book value of goodwill within its interior segment by comparing the fair value of the reporting unit to the related net book value. As a result, the Company recorded total goodwill impairment charges of $1.0 billion in 2005 related to the interior segment. The Company also recognized a $2.9 million goodwill impairment charge related to this segment during the second quarter of 2006. The goodwill resulted from a $19.0 million purchase price adjustment for an indemnification claim related to the Company's acquisition of UT Automotive, Inc. ("UT Automotive") from United Technologies Corporation ("UTC") in May 1999. The purchase price adjustment was allocated to the Company's electronic and electrical and interior segments.

A summary of the changes in the carrying amount of goodwill, by reportable operating segment, for each of the two years in the period ended December 31, 2006, is shown below (in millions):

	Seating	Electronic and Electrical	Interior	Total
Balance as of January 1, 2005	$1,075.7	$945.9	$ 1,017.8	$ 3,039.4
Goodwill impairment charges	—	—	(1,012.8)	(1,012.8)
Foreign currency translation and other	(41.5)	(40.3)	(5.0)	(86.8)
Balance as of December 31, 2005	$1,034.2	$905.6	$ —	$ 1,939.8
Purchase price adjustment	—	16.1	2.9	19.0
Goodwill impairment charges	—	—	(2.9)	(2.9)
Foreign currency translation and other	26.5	14.3	—	40.8
Balance as of December 31, 2006	$1,060.7	$936.0	$ —	$ 1,996.7

Intangible Assets

The Company's intangible assets acquired through business acquisitions are valued based on independent appraisals. A summary of intangible assets as of December 31, 2006 and 2005, is shown below (in millions):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (Years)
Technology	$ 2.8	$ (0.8)	$ 2.0	10.0
Customer contracts	23.0	(8.4)	14.6	7.7
Customer relationships	29.8	(4.5)	25.3	19.0
Balance as of December 31, 2006	$55.6	$(13.7)	$41.9	14.7

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (Years)
Technology	$ 2.8	$(0.4)	$ 2.4	10.0
Customer contracts	20.8	(4.9)	15.9	7.7
Customer relationships	27.2	(2.4)	24.8	18.8
Balance as of December 31, 2005	$50.8	$(7.7)	$43.1	14.2

Excluding the impact of any future acquisitions, the Company's estimated annual amortization expense is approximately $5.0 million in each of the three succeeding years, decreasing to approximately $4.5 and $4.0 million in the two years thereafter.

Impairment of Long-Lived Assets

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If impairment indicators exist, the Company performs the required analysis and records impairment charges in accordance with SFAS No. 144. In conducting its analysis, the Company compares the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the undiscounted cash flows exceed the net book value, the long-lived assets are considered not to be impaired. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived assets. Fair value is estimated based upon either discounted cash flow analyses or estimated salvage values. Cash flows are estimated using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments, as well as assumptions related to discount rates. Changes in economic or operating conditions impacting these estimates and assumptions could result in the impairment of long-lived assets.

The Company recorded fixed asset impairment charges related to certain operating locations within its interior segment of $10.0 million and $82.3 million in the years ended December 31, 2006 and 2005, respectively. The remaining fixed assets of the Company's North American interior business were written down to zero in the fourth quarter of 2006 as a result of entering into the agreement relating to the divestiture of the North American interior business.

In the years ended December 31, 2006 and 2005, the Company also recognized fixed asset impairment charges of $5.8 million and $15.1 million, respectively, in conjunction with its restructuring actions. In the years ended December 31, 2004, the Company recognized fixed asset impairment charges of $3.0 million related to certain facility consolidations. The Company has certain other facilities that have generated operating losses in recent years. The results of the related impairment analyses indicated that impairment of the fixed assets was not required. However, the Company will continue to monitor the operating plans of these facilities for potential impairment.

These fixed asset impairment charges are recorded in cost of sales in the consolidated statements of operations for the years ended December 31, 2006, 2005 and 2004.

Revenue Recognition and Sales Commitments

The Company enters into agreements with its customers to produce products at the beginning of a vehicle's life. Although such agreements do not provide for minimum quantities, once the Company enters into such agreements, the Company is generally required to fulfill its customers' purchasing requirements for the entire production life of the vehicle. These agreements generally may be terminated by the customer at any time. Historically, terminations of these agreements have been minimal. In certain instances, the Company may be committed under existing agreements to supply products to its customers at selling prices which are not sufficient to cover the direct cost to produce such products. In such situations, the Company recognizes losses as they are incurred.

The Company receives blanket purchase orders from its customers on an annual basis. Generally, each purchase order provides the annual terms, including pricing, related to a particular vehicle model. Purchase orders do not specify quantities. The Company recognizes revenue based on the pricing terms included in its annual purchase orders as its products are shipped to its customers. The Company is asked to provide its customers with annual cost reductions as part of certain agreements. The Company accrues for such amounts as a reduction of revenue as its products are shipped to its customers. In addition, the Company has ongoing adjustments to its pricing arrangements with its customers based on the related content, the cost of its products and other commercial factors. Such pricing accruals are adjusted as they are settled with the Company's customers.

Amounts billed to customers related to shipping and handling costs are included in net sales in the consolidated statements of operations. Shipping and handling costs are included in cost of sales in the consolidated statements of operations.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales includes material, labor and overhead costs associated with the manufacture and distribution of the Company's products. Distribution costs include inbound freight costs, purchasing and receiving costs, inspection costs, warehousing costs and other costs of the Company's distribution network. Selling, general and administrative expenses include selling, research and development and administrative costs not directly associated with the manufacture and distribution of the Company's products.

Research and Development

Costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from the Company's customers, are charged to selling, general and administrative expenses as incurred. These costs amounted to $169.8 million, $174.0 million and $197.6 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Other Expense, Net

Other expense includes state and local non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with the Company's asset-based securitization and factoring facilities, losses on the extinguishment of debt, gains and losses on the sales of fixed assets and other miscellaneous income and expense. A summary of other expense is shown below (in millions):

	2006	2005	2004
Other expense	$101.3	$41.8	$38.6
Other income	(15.6)	(3.8)	—
Other expense, net	$ 85.7	$38.0	$38.6

Foreign Currency Translation

With the exception of foreign subsidiaries operating in highly inflationary economies, which are measured in U.S. dollars, assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the foreign exchange rates in effect at the end of the period. Revenues and expenses of foreign subsidiaries are translated using an average of the foreign exchange rates in effect during the period. Translation adjustments that arise from translating a foreign subsidiary's financial statements from the functional currency to U.S. dollars are reflected in accumulated other comprehensive loss in the consolidated balance sheets.

Transaction gains and losses that arise from foreign exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which operate as a hedge of a foreign currency investment position, are included in the statements of operations as incurred.

Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment," using the modified prospective transition method and recognized income of $2.9 million as a cumulative effect of a change in accounting principle related to a change in accounting for forfeitures. There was no income tax effect resulting from this adoption. SFAS No. 123(R) requires the estimation of expected forfeitures at the grant date and the recognition of compensation cost only for those awards expected to vest. Previously, the Company accounted for forfeitures as they occurred. The adoption of SFAS No. 123(R) did not result in the recognition of additional compensation cost related to outstanding unvested awards, as the Company recognized compensation cost using the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," for all employee awards granted after January 1, 2003. The pro forma effect on net income (loss) and net income (loss) per share, as if the fair value recognition provisions had been applied to all outstanding and unvested awards granted prior to January 1, 2003, is shown below (in millions, except per share data):

	2005	2004
Net income (loss), as reported	$(1,381.5)	$422.2
Add: Stock-based employee compensation expense included in reported net income (loss)	14.7	10.9
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(18.1)	(21.6)
Net income (loss), pro forma	$(1,384.9)	$411.5
Net income (loss) per share:		
Basic—as reported	$ (20.57)	$ 6.18
Basic—pro forma	(20.62)	6.03
Diluted—as reported	(20.57)	5.77
Diluted—pro forma	(20.62)	5.63

For the year ended December 31, 2006, total stock-based employee compensation expense was $32.0 million.

Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average common shares outstanding during the period. Diluted net income (loss) per share includes the dilutive effect of common stock equivalents using the average share price during the period. In addition, when the impact is dilutive, diluted net income per share is calculated by increasing net income for the after-tax interest expense on convertible debt and by increasing total shares outstanding by the number of shares that would be issuable upon conversion. Prior to the repurchase of substantially all of the Company's outstanding zero-coupon convertible notes during 2006, there were 4,813,056 shares issuable upon conversion of the Company's convertible zero-coupon senior notes. Tables summarizing net income (loss), for diluted net income (loss) per share (in millions) and shares outstanding are shown below:

	2006	2005	2004
Net income (loss)	$(707.5)	$(1,381.5)	$422.2
Add: After-tax interest expense on convertible debt	—	—	9.3
Net income (loss), for diluted net income (loss) per share	$(707.5)	$(1,381.5)	$431.5

	2006	2005	2004
Weighted average common shares outstanding	68,607,262	67,166,668	68,278,858
Dilutive effect of common stock equivalents	—	—	1,635,349
Shares issuable upon conversion of convertible debt	—	—	4,813,056
Diluted shares outstanding	68,607,262	67,166,668	74,727,263

The shares issuable upon conversion of the Company's outstanding zero-coupon convertible debt and the effect of common stock equivalents, including options, restricted stock units, performance units and stock appreciation rights were excluded from the computation of diluted shares outstanding for the years ended December 31, 2006 and 2005, as inclusion would have resulted in antidilution. A summary of these options and their exercise prices, as well as these restricted stock units, performance units and stock appreciation rights, is shown below:

	2006	2005	2004
Options			
Antidilutive options	2,790,305	2,983,405	—
Exercise prices	$22.12–$55.33	$22.12–$55.33	—
Restricted stock units	1,964,571	2,234,122	—
Performance units	169,909	123,672	—
Stock appreciation rights	1,751,854	1,215,046	—

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. During 2006, there were no material changes in the methods or policies used to establish estimates and assumptions. Generally, matters subject to estimation and judgment include amounts related to accounts receivable realization, inventory obsolescence, asset impairments, useful lives of intangible and fixed assets and unsettled pricing discussions with customers and suppliers; restructuring accruals; deferred tax asset valuation allowances and income taxes; pension and other postretirement benefit plan assumptions; accruals related to litigation, warranty and environmental remediation costs; and self-insurance accruals. Actual results may differ from estimates provided.

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the presentation used in the year ended December 31, 2006.

1.48

STEELCASE INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Steelcase Inc. and its majority-owned subsidiaries, except as noted below in *Majority-owned Dealer Transitions.* Our consolidation policy requires the consolidation of entities where a controlling financial interest is obtained as well as consolidation of variable interest entities in which we are designated as the primary beneficiary in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46(R)"), as amended. We adopted FIN 46(R) in 2004 and recorded a $4.2 net of tax charge in cumulative effect of accounting change upon adoption. All intercompany transactions and balances have been eliminated in consolidation.

In Q1 2006, we began reporting the operating results from our North America segment service activity on a gross basis in our income statement. Previously, this activity was reported on a net cost recovery basis in operating expenses since activities such as asset management and related consulting were viewed as an extension of product sales support. These activities have gradually evolved into revenue generating businesses and are expected to grow in the future as additional resources are dedicated to these and other service activities. Accordingly, we believe it is now appropriate to report revenues and related costs from service activities on a gross basis. The 2006 impact of this reporting change was an increase in revenue of $49.2, an increase in cost of sales of $44.0 and an increase in operating expenses of $5.2. This change has no impact on operating income, but it does slightly reduce operating income as a percent of sales.

Fiscal Year

Our fiscal year ends the last Friday in February with each fiscal quarter including 13 weeks. Each of the last three fiscal years being presented, February 24, 2006, February 25, 2005, and February 27, 2004 consisted of 52 weeks.

Unless the context otherwise indicates, reference to a year relates to a fiscal year rather than a calendar year. Additionally, Q1, Q2, Q3, and Q4 2006 reference the first, second, third, and fourth quarter of fiscal 2006, respectively. All amounts are in millions, except per share data, data presented as a percentage or unless otherwise indicated.

Reclassifications

Certain immaterial amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Majority-Owned Dealer Transitions

From time to time, we obtain equity interests in dealers that we intend to resell as soon as practicable ("dealer transitions"). We use the equity method of accounting for majority-owned dealers with a transition plan in place and where the nature of the relationship is one in which we do not exercise participative control.

In February 2004, we initiated a change in our participative control of eight dealers where we hold a majority position in the voting stock of the dealer. Accordingly, we consolidated the balance sheets of these dealers as of February 27, 2004 and in subsequent periods. The consolidation of these dealers had the effect of increasing our total assets and liabilities by $10.9 at February 27, 2004. The consolidation of these dealers had the impact of increasing revenue by $76.2 and $80.1 in 2006 and 2005, increasing cost of sales by $46.7 and $53.3 in 2006 and 2005 and increasing operating expenses by $29.3 and $29.0 in 2006 and 2005. There was no effect on net income for those dealers previously accounted for using the equity method of accounting since we have historically recognized our share of income through *Equity in income of unconsolidated ventures.* For those dealers where we do not share in the earnings and losses, the consolidation of the dealers had no impact on net income since the pretax earnings or losses were eliminated in *Other Income (Expense), net.*

Foreign Currency Translation

For most international operations, local currencies are considered their functional currencies. We translate assets and liabilities to United States dollar equivalents at exchange rates in effect as of the balance sheet date. We translate Consolidated Statements of Income accounts at average rates for the period. Translation adjustments are not included in determining net income but are disclosed and accumulated in *Other Comprehensive Income (Loss)* within the Consolidated Statements of Changes in Shareholders' Equity until sale or substantially complete liquidation of the net investment in the International subsidiary takes place. Foreign currency

transaction gains and losses are recorded in *Other Income (Expense), Net* and included a net gain of $1.9 in 2006.

Revenue Recognition

Revenue consists substantially of product sales and related service revenues. We also have finance revenue associated with Steelcase Financial Services.

Product sales are reported net of discounts and applicable returns and allowances and are recognized when title and risks associated with ownership have passed to the customer or dealer. Typically, this is when the product ships. Service and finance revenue are not material.

Cash Equivalents

Cash equivalents include demand bank deposits and highly liquid investment securities with an original maturity of three months or less at the time of purchase. Cash equivalents are reported at cost, which approximates fair value, and were $141.8 as of February 24, 2006 and $210.2 as of February 25, 2005.

Short-Term Investments

Short-term investments represent auction rate securities which are highly liquid, variable-rate debt securities. While the underlying securities have maturities in excess of one year, the interest rate is reset through auctions that are typically held every 7 to 28 days, creating short-term investments. The securities trade at par on the auction dates. Interest is paid at the end of each auction period. Because of the short interest rate reset period, the book value of the securities approximates fair value. In early 2006, we sold and converted all of our short-term investments in auction rate securities to cash.

Accounts and Notes Receivable

The Company has accounts receivable for products sold to various unconsolidated affiliates on terms generally similar to those prevailing with unrelated third parties. Affiliates include unconsolidated dealers and minority interests in unconsolidated joint ventures. Accounts receivable from affiliates were not material at February 24, 2006 or February 25, 2005.

Notes receivable includes project financing, asset-based lending and term financing with dealers. Notes receivable of $37.6 and $57.3 as of February 24, 2006 and February 25, 2005 are included within *Other Current Assets* and *Other Assets* on the Consolidated Balance Sheets. The allowance for uncollectible notes receivable was $8.0 and $6.2 at February 24, 2006 and February 25, 2005, respectively. Notes receivable from affiliates were not material at February 24, 2006 or February 25, 2005.

Allowance for Credit Losses

The allowance for credit losses related to accounts receivable, notes receivable and our investments in leases is maintained at a level considered by management to be adequate to absorb an estimate of probable future losses existing at the balance sheet date. In estimating probable losses, we review accounts that are past due or in bankruptcy. We also review accounts that may have higher credit risk using information available about the customer or dealer, such as financial statements, news reports and published credit ratings. We also use general information regarding industry trends, the general economic environment and information gathered through our network of field based employees. Using an estimate of current fair market value of the collateral and other credit enhancements, such as third party guarantees, we arrive at an estimated loss for specific accounts and estimate an additional amount for the remainder of the trade balance based on historical trends. This process is based on estimates, and ultimate losses may differ from those estimates. Receivable balances are written off when we determine that the balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance when received. We consider an accounts receivable balance past due when payment has not been received within the stated terms. We consider a note receivable past due when any installment of the note is unpaid for more than 30 days. There were no accounts past due over 90 days and still accruing interest as of February 24, 2006.

Inventories

Inventories are stated at the lower of cost or market. The North America segment primarily uses the last in, first out method to value its inventories. The SDP segment primarily uses the first in, first out or the average cost inventory valuation methods. The International segment values inventories primarily using the first in, first out method.

Property, Equipment and Other Long-Lived Assets

Property and equipment, including some internally-developed internal use software, is stated at cost. Major improvements that materially extend the useful life of the asset are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is provided using the straight-line method over the estimated useful life of the assets.

We review the carrying value of our long-lived assets held and used and assets to be disposed of using estimates of future undiscounted cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

Due to the restructuring and plant consolidation activities over the past several years, we are currently holding for sale several facilities that are no longer in use. These assets are stated at the lower of cost or net realizable value and are included within *Other Current Assets* on the Consolidated Balance Sheets since we expect them to be sold within one year. See Note 4 for further information.

Operating Leases

Rent expense for operating leases is recorded on a straight-line basis over the lease term unless the lease contains an escalation clause which is not fixed and determinable. The lease term begins when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. If a lease has a fixed and determinable escalation clause, the difference between rent expense and rent paid is recorded as deferred rent and is included in the Consolidated Balance Sheets. Rent for operating leases that do not have an escalation clause or where escalation is based on an inflation index is expensed over the lease term as it is payable.

Long-Term Investments

Long-term investments primarily include privately-held equity securities. These investments are carried at the lower of cost or estimated fair value. For these non-quoted investments, we review the assumptions underlying the performance of the privately-held companies to determine if declines in fair value below cost basis are other-than-temporary. A series of historic and projected operating losses by investees are considered in the review. If a determination is made that a decline in fair value below the cost basis is other-than-temporary, the investment is written down to its estimated fair value. Gains on these investments are recorded when they are realized. At February 24, 2006 and February 25, 2005, the carrying value of these investments was $6.1 and $5.8, respectively, and was included within *Other Assets* on the Consolidated Balance Sheets.

Investment in Leases

Steelcase Financial Services provides furniture leasing services to end-use customers and showroom financing to dealers. Prior to 2004, we originated both direct financing and operating leases and the remaining lease balance was recorded on our balance sheet. In 2004, we implemented a new strategy in which we originate leases for customers and earn an origination fee for that service, but we use third parties to provide lease funding. Our net investment in leases was $17.0 and $34.6 at February 24, 2006 and February 25, 2005, respectively, and was included within *Other Current Assets* and *Other Assets* on the Consolidated Balance Sheets. This investment has decreased over the past few years due to our new strategy as the underlying lease schedules have run-off and certain leases have been sold.

Goodwill and Other Intangible Assets

Goodwill represents the difference between the purchase price and the related underlying tangible and intangible net asset values resulting from business acquisitions. Annually, or more frequently if conditions indicate an earlier review is necessary, the carrying value of the goodwill of a reporting unit is compared to an estimate of its fair value. If the estimated fair value is less than the carrying value, goodwill is impaired and is written down to its estimated fair value.

Other intangible assets subject to amortization consist primarily of proprietary technology, trademarks and non-compete agreements and are amortized over their estimated useful economic lives using the straight-line method. Other intangible assets not subject to amortization are accounted for and evaluated for potential impairment in a manner consistent with goodwill.

Self-Insurance

We are self-insured for certain losses relating to workers' compensation claims and product liability claims. We have purchased insurance coverage to reduce our exposure to significant levels of these claims. Self-insured losses are accrued based upon estimates of the aggregate liability for uninsured claims incurred but not reported at the balance sheet date using certain actuarial assumptions followed in the insurance industry and our historical experience.

Other accrued expenses in the accompanying Consolidated Balance Sheets include a reserve for estimated future product liability costs of $8.5 and $8.7 incurred as of February 24, 2006 and February 25, 2005, respectively. Our accrual for workers' compensation claims included in the accompanying Consolidated Balance Sheets was $34.3 and $31.7 as of February 24, 2006 and February 25, 2005, respectively.

We are also self-insured for the majority of domestic employee and retiree medical benefits. On February 28, 2005, we terminated our Voluntary Employees' Beneficiary Association ("VEBA") used to fund self-insured employee healthcare costs which included medical, dental, and short-term disability claims. In 2006, we began paying those claims directly from the general assets of the Company. At February 24, 2006 and February 25, 2005, the estimate for incurred but not reported employee medical, dental, and short-term disability claims was $2.1 and $3.5, respectively.

Product Warranty

We offer a lifetime warranty on most Steelcase and Turnstone brand products delivered in the United States and Canada, subject to certain exceptions. For products delivered in the rest of the world, we offer a 15-year warranty for most Steelcase brand products and a 10-year warranty for most Turnstone brand products, subject to certain exceptions. These warranties provide for the free repair or replacement of any covered product, part or component that fails during normal use because of a defect in materials or workmanship. For all other brands, warranties range from one year to lifetime. The accrued liability for warranty costs is based on an estimated amount needed to cover future warranty obligations incurred as of the balance sheet date determined by historical product data and management's knowledge of current events and actions.

Product Warranty	2006	2005	2004
Balance at beginning of period	$ 20.9	$20.9	$ 26.0
Accruals for warranty charges	11.8	5.9	8.5
Settlements and adjustments	(11.3)	(5.9)	(13.6)
Balance at end of period	$ 21.4	$20.9	$ 20.9

Environmental Matters

Environmental expenditures related to current operations are expensed or capitalized as appropriate. Expenditures related to an existing condition allegedly caused by past operations, that are not associated with current or future revenue generation, are expensed. Liabilities are recorded when material environmental assessments and remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with completion of a feasibility study or our commitment to a formal plan of action. The accrued liability for environmental contingencies included in other accrued expenses in the accompanying Consolidated Balance Sheets was $4.7 as of February 24, 2006 and $4.3 as of February 25, 2005. Based on our ongoing evaluation of these matters, we believe we have accrued sufficient reserves to absorb the costs of all known environmental assessments and the remediation costs of all known sites.

Product Related Expenses

Research and development expenses, which are expensed as incurred, were $47.4 for 2006, $41.1 for 2005 and $46.9 for 2004.

Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse.

The Company has net operating loss carryforwards available in certain jurisdictions to reduce future taxable income. Future tax benefits for net operating loss carryforwards are recognized to the extent that realization of these benefits is considered more likely than not. This determination is based on the expectation that related operations will be sufficiently profitable or various tax, business and other planning strategies will enable us to utilize the operating loss carryforwards. We cannot be assured that we will be able to realize these future tax benefits or that future valuation allowances will not be required. To the extent that available evidence raises doubt about the realization of a deferred income tax asset, a valuation allowance is established.

Earnings Per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding during each period. It excludes the dilutive effects of additional common shares that would have been outstanding if the shares under our stock incentive plans had been issued and the dilutive effect of restricted shares to the extent those shares have not vested.

Diluted earnings per share includes the effects of shares and potential shares issued under our stock incentive plans. However, diluted earnings per share does not reflect the effects of 1.3 million options for 2006, 4.5 million options for 2005, and 5.2 million options for 2004 because those shares or potential shares were not dilutive.

Weighted Average Number of Shares of Common Stock Outstanding	2006	2005	2004
Basic	148.3	147.9	147.9
Diluted[(1)]	148.7	148.2	148.0

[(1)] The denominator for basic EPS is used for calculating EPS for 2004 because potentially dilutive shares and diluted EPS are not applicable when a loss from continuing operations is reported.

Stock-Based Compensation

Our stock-based compensation consists of performance shares, performance share units, restricted stock, restricted stock units and non-qualified stock options. In December 2004, the FASB issued SFAS No. 123(R) to expand and clarify SFAS No. 123, *Accounting for Stock-Based Compensation*, in several areas. The Statement requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award and is effective for awards issued beginning in Q1 2007. Our policy is to expense stock-based compensation using the fair-value based method of accounting for all awards granted, modified or settled. Upon adoption, SFAS No. 123(R) will not impact our Consolidated Statements of Income because we currently expense stock-based compensation in accordance with this Statement. Currently, the aggregate market value of restricted shares at the date of issuance is recorded as deferred compensation, a separate component of shareholders' equity, and is amortized over the three-year vesting period of the grants. Upon adoption in Q1 2007, *Deferred compensation—restricted stock* in the Consolidated Balance sheets will be eliminated and amounts will be reclassified to *Class A Common Stock.*

Restricted stock units, performance shares, and performance units are credited to equity as they are expensed over their vesting periods based on the current market value of the shares to be granted. For stock options, fair value is measured on the grant date of the related equity instrument using the Black-Scholes option-pricing model and is recognized as compensation expense over the applicable vesting period. However no stock options were granted in 2006, 2005, or 2004.

Prior to 2004, our stock-based compensation consisted only of stock options, and we accounted for them under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Given the terms of the Company's plans, no stock-based employee compensation cost was recognized, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income (loss) and earnings (loss) per share if we had applied the fair value recognition provisions of SFAS No. 123 *Accounting for Stock-Based Compensation* to all outstanding awards.

SFAS No. 123 Pro Forma Data	2006	2005	2004
Net income (loss), as reported	$48.9	$12.7	$(23.8)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3.0	2.0	0.6
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(3.2)	(5.4)	(6.1)
Pro forma net income (loss)	$48.7	$ 9.3	$(29.3)
Earnings (loss) per share:			
Basic and diluted—as reported	$0.33	$0.09	$(0.16)
Basic and diluted—pro forma	$0.33	$0.06	$(0.20)

Financial Instruments

The carrying amount of our financial instruments, consisting of cash equivalents, short-term investments, accounts and notes receivable, accounts and notes payable, short-term borrowings and certain other liabilities, approximate their fair value due to their relatively short maturities. The carrying amount of our long-term debt approximates fair value since the stated rate of interest approximates a market rate of interest.

We use derivative financial instruments to manage exposures to movements in interest rates and foreign exchange rates. The use of these financial instruments modifies the exposure of these risks with the intention to reduce the risk or cost to the Company. We do not use derivatives for speculative or trading purposes.

We recognize the fair value of all derivative instruments as either assets or liabilities at fair value on our balance sheet. Fair value is based on market quotes because the

instruments that we enter into are actively traded instruments. The accounting for changes in the fair value of a derivative depends on the use of the derivative. We formally document our hedging relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking hedge transactions. On the date that a derivative is entered into, we designate it as one of the following types of hedging instruments, and we account for the derivative as follows:

Cash Flow Hedge

A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is declared as a cash flow hedge. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in *Other Comprehensive Income (Loss)*, net of tax, and reclassified into earnings in the same line as the hedged item in the period or periods during which the hedged transaction affects earnings. Any ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings.

Net Investment Hedge

A hedge of a net investment in a foreign operation is declared as a net investment hedge. A net investment hedge requires that the effective portion of the change in fair value of a derivative instrument be recognized in *Other Comprehensive Income (Loss)*, net of tax, and reclassified into earnings in the period in which the net investment is liquidated. We determine if the hedge is effective if the net investment balance exceeds the notional amount of the forward contracts.

Natural Hedge

A derivative used as a natural hedging instrument whose change in fair value is recognized to act as an economic hedge against changes in the values of the hedged item is declared as a natural hedge. For derivatives designated as natural hedges, changes in fair value are reported in earnings in the Consolidated Statements of Income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures in the consolidated financial statements and accompanying notes. Although these estimates are based on historical data and management's knowledge of current events and actions it may undertake in the future, actual results may differ from these estimates under different assumptions or conditions.

ACCOUNTING CHANGES

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

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

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

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

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

1.53 Examples of accounting principle change disclosures follow.

1.54

TABLE 1-8: ACCOUNTING PRINCIPLE CHANGES

	Number of Companies			
	2006	2005	2004	2003
Stock-based compensation	437	36	16	122
Defined benefit pension and postretirement plans	304	N/C*	N/C*	N/C*
Asset retirement obligation	29	93	9	125
Prior period financial statement misstatements	18	N/C*	N/C*	N/C*
Inventories	8	7	4	3
Goodwill and other intangibles	5	2	1	57
Lease/rental costs	5	N/C*	N/C*	N/C*
Servicing of financial assets	4	N/C*	N/C*	N/C*
Exchange of nonmonetary assets	2	24	N/C*	N/C*
Impairment or disposal of long-lived assets	2	3	4	68
Postretirement prescription drug benefit	1	12	92	N/C*
Consolidation of variable interest entities	—	5	176	N/C*
Other	26	83	107	232

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

Stock-Based Compensation

1.55

CYTEC INDUSTRIES INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Currencies in millions, except per share amounts, unless otherwise indicated)

1 (In Part): Summary of Significant Accounting Policies

M. Stock-Based Compensation

In December, 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and requires companies to recognize compensation cost in an amount equal to the fair value of share-based payments, such as stock options granted to employees.

On January 1, 2006, we adopted SFAS 123R using the modified prospective method. Under this method, we are required to record compensation cost for the unvested portion of previously granted awards that remain outstanding as of January 1, 2006. Results for prior periods have not been restated. We previously accounted for our share-based compensation under the recognition and measurement principle of APB No. 25 and related interpretations. Prior to the SFAS 123R adoption, no share-based compensation cost was reflected in net income for stock options, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant. Also, prior to the SFAS 123R adoption, compensation cost for restricted ("non-vested") stock was recorded based on the market value on the date of grant, and compensation cost for performance stock was recorded based on the market price of our common stock at the end of each period through the date of vesting. Compensation cost for non-vested and performance stocks was charged to unearned compensation in Stockholders' Equity and amortized to expense over the requisite vesting periods. Stock appreciation rights payable in cash ("cash-settled SARS") were accounted for as liabilities under APB 25. Compensation cost for cash-settled SARS was recognized over the vesting period and through the life of the award based on changes in the market price of our common stock over the market price at the grant date.

With the adoption of SFAS 123R, unearned compensation cost of $2.5, net of taxes, for non-vested and performance stocks was credited to additional paid-in capital on January 1, 2006. The compensation cost for performance stock is recorded based on the market value on the original date of grant, and not based on the price of our common stock at the end of each reporting period as formerly was required under APB No. 25. Compensation cost for cash-settled SARS is recognized based on the fair value of the award at the end of each period through the date of vesting, also a change from APB No. 25. Compensation cost for non-vested stock is still based on the market value on the date of grant under SFAS 123R. SFAS 123R requires that we estimate a forfeiture rate for all share-based awards. We monitor share option exercise and employee termination patterns to estimate forfeiture rates within the valuation model. Prior to the SFAS 123R adoption, forfeitures were recorded as they occurred.

5 (In Part): Share-Based Compensation

As described in Note 1, we adopted SFAS 123R on January 1, 2006 and as a result, we recorded additional charges related to stock options and stock appreciation rights that are settled with common shares ("stock-settled SARS") of $10.4 for the year ended December 31, 2006. The effect on net earnings, cash provided by operating activities, and cash provided by financing activities were $6.7, $(10.7), and $10.7, respectively, for the year ended December 31, 2006. The effect on basic and diluted earnings per share was a reduction of $0.14 per share for the year ended December 31, 2006. The adoption of SFAS 123R was recorded as of January 1, 2006 and resulted in a non-cash charge for the cumulative effect of a change in accounting principle of $2.5 ($1.6 after-tax) for cash-settled SARS (as a result of the new requirement to record expense at fair value) and a non-cash credit of $0.6 ($0.4 after-tax) for non-vested and performance stocks (forfeitures estimated now, as well as grant date only market value of the shares under award), for a net after-tax charge of $1.2. The effect on basic and diluted earnings per share for the cumulative effect charge was $0.02 per share.

The following table illustrates the effect on the net earnings and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting

Standards No. 123, "Accounting for Stock-Based Compensation", to all share-based employee compensation for the years ended December 31, 2005 and 2004. Option forfeitures were accounted for as they occurred and no amounts of compensation expense have been capitalized into inventory or other assets, but instead were considered period expenses in the pro forma amounts below:

	2005	2004
Net earnings as reported	$59.1	$121.1
Add: Stock-based compensation expense included in reported net earnings, net of related tax effects	1.6	3.0
Deduct: Total stock-based compensation expense determined under fair-value-based method for all awards, net of relates tax effects	7.3	7.1
Pro forma net earnings	$53.4	$117.0
Net earnings per share:		
Basic, as reported	$1.31	$ 3.06
Basic, pro forma	1.18	2.96
Diluted, as reported	1.27	2.96
Diluted, pro forma	1.15	2.87

For stock options granted before January 1, 2005, the fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model. For stock options and stock-settled SARS granted after January 1, 2005, the fair value of each award is estimated on the date of grant using a binomial-lattice option valuation model. Stock-settled SARS are economically valued the same as stock options. The binomial-lattice model considers characteristics of fair value option pricing that are not available under the Black-Scholes model. Similar to the Black-Scholes model, the binomial-lattice model takes into account variables such as volatility, dividend yield, and risk-free interest rate. However, in addition, the binomial-lattice model considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. For these reasons, we believe that the binomial-lattice model provides a fair value that is more representative of actual experience and future expected experience than the value calculated in previous years using Black-Scholes. The weighted average assumptions for the years ended December 31, 2006, 2005 and 2004 are noted in the following table:

	2006	2005	2004
Expected life (years)	5.7	5.8	5.7
Expected volatility	37.6%	38.5%	46.6%
Expected dividend yield	0.81%	0.84%	1.0%
Range of risk-free interest rate	4.4%–4.7%	2.1%–4.2%	3.4%
Weighted-average fair value per option	$19.01	$17.78	$16.21

The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the combination of implied market volatility and our long-term historical volatility. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. SFAS 123R specifies that initial accruals be based on the estimated number of instruments for which the requisite service is expected to be rendered. Therefore, we are required to incorporate the probability of pre-vesting forfeiture in determining the number of expected vested options. The forfeiture rate is based on the historical forfeiture experience and prospective actuarial analysis.

Stock Award and Incentive Plan (In Part)

Prior to the adoption of SFAS 123R, we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123R requires that the cash flows resulting from tax benefits in excess of the compensation cost recognized for those options (excess tax benefits) be classified as financing cash flows. Total tax benefit realized from stock options exercised was $10.8, $5.4 and $11.6, for the years ended December 31, 2006, 2005 and 2004, respectively. Cash received from stock options exercised was $45.0, $17.7, and $24.6 for the years ended December 31, 2006, 2005, and 2004, respectively. As mentioned previously, our 1993 Plan also provides for the granting of cash-settled SARS, which were granted during 2004 and 2005. Cash-settled SARS are liability-classified awards under the provisions of SFAS 123R. Intrinsic value and cash used to settle cash-settled SARS was $0.4 and $0.1 for the years ended December 31, 2006, and 2005, respectively. There were no cash-settled SARS exercised during 2004 as they are exercisable in installments of one-third per year commencing one year after the date of grant and annually thereafter, with contract lives of 10 years from the date of grant. The total amount of before-tax expense recognized for cash-settled SARS was $3.6 (including cumulative effect of SFAS 123R), $0.1, and $1.0 for the years ended December 31, 2006, 2005 and 2004, respectively. The liability related to our cash-settled SARS was $4.3 at December 31, 2006.

In November 2005, the FASB issued FASB Staff Position 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-based Payment Awards" ("FSP 123R-3"). FSP 123R-3 provides an elective alternative transition method of calculating the additional paid-in capital pool ("APIC Pool") of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R to the method otherwise required by paragraph 81 of SFAS 123R. After evaluating the alternative methods, we elected the alternative transition method described in FSP 123R-3 and used this method to estimate our APIC Pool upon adoption of SFAS 123R. Upon adoption of SFAS 123R, we calculated our APIC Pool to be $41.4. Exercises of stock options for the year ended December 31, 2006 increased the APIC Pool to $52.0.

1.56

YAHOO! INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	2004	2005	2006
Common stock			
Balance, beginning of year	$ 1,354	$ 1,416	$ 1,470
Common stock issued	62	54	23
Balance, end of year	1,416	1,470	1,493
Additional paid-in capital			
Balance, beginning of year	4,340,514	5,682,884	6,417,858
Common stock and stock-based awards issued and assumed	667,212	1,010,012	318,160
Stock-based compensation expense	—	—	451,467
Adoption of SFAS 123R	—	—	(235,394)
Change in deferred income tax asset valuation allowance	335,740	(423,147)	236,044
Gain in connection with business contribution	—	—	29,944
Tax benefits from stock-based awards	408,976	759,530	630,541
Structured stock repurchases, net	(69,558)	(611,421)	767,295
Balance, end of year	5,682,884	6,417,858	8,615,915
Deferred stock-based compensation			
Balance, beginning of year	(52,374)	(28,541)	(235,394)
Common stock and stock-based awards issued and assumed	(8,457)	(259,324)	—
Stock-based compensation expense	32,290	52,471	—
Adoption of SFAS 123R	—	—	235,394
Balance, end of year	(28,541)	(235,394)	—
Treasury stock			
Balance, beginning of year	(159,988)	(159,988)	(547,723)
Repurchases of common stock	—	(387,735)	(2,777,140)
Balance, end of year	(159,988)	(547,723)	(3,324,863)
Retained earnings			
Balance, beginning of year	230,386	1,069,939	2,966,169
Net income	839,553	1,896,230	751,391
Balance, end of year	1,069,939	2,966,169	3,717,560
Accumulated other comprehensive income (loss)			
Balance, beginning of year	3,598	535,736	(35,965)
Net change in unrealized gains/losses on available-for-sale securities, net of tax	471,425	(491,532)	38,018
Foreign currency translation adjustment, net of tax	60,713	(80,169)	148,452
Balance, end of year	535,736	(35,965)	150,505
Total stockholders' equity	$7,101,446	$8,566,415	$ 9,160,610

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123" ("SFAS 148"). Under the intrinsic value method, the recorded stock-based compensation expense was related to the amortization of the intrinsic value of Yahoo! stock options and other stock-based awards issued by the Company and assumed in connection with business combinations. Options granted with exercise prices equal to the grant date fair value of the Company's stock have no intrinsic value and therefore no expense was recorded for these options under APB 25. For stock options whose exercise price was below the grant date fair value of the Company's stock (principally options assumed in business combinations), the difference between the exercise price and the grant date fair value of the Company's stock was expensed over the service period (generally the vesting period) using an accelerated amortization approach in acordance with the Financial Accounting Standards Board ("FASB") Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans." Other stock-based awards for which stock-based compensation expense was recorded were generally grants of restricted stock awards which were measured at fair value on the date of grant, based on the number of shares granted and the quoted price of the Company's common stock. Such value was recognized as an expense over the corresponding service period.

Effective January 1, 2006, the Company adopted SFAS 123R using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. Under SFAS 123R, stock-based awards granted prior to its adoption are expensed over the remaining portion of their service period. These awards are expensed under an accelerated amortization approach using the same fair value measurements which were used in calculating pro forma stock-based compensation expense under SFAS 123. For stock-based awards granted on or after January 1, 2006, the Company records stock-based compensation expense on a straight-line basis over the requisite service period, generally one to four years. SFAS 123R required that the deferred stock-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital. As of December 31, 2005, there was a balance of $235 million of deferred stock-based compensation that was netted against additional paid-in capital on January 1, 2006.

The Company has elected to use the "with and without" approach as described in EITF Topic No. D-32 in determining the order in which tax attributes are utilized. As a result, the Company will only recognize a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. In addition, the Company has elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credit, through the income statement.

Note 10 (In Part): Income Taxes

In 2006, gross deferred income tax assets decreased by approximately $1.0 billion primarily due to a change in presentation as a result of the adoption of SFAS 123R. The reduction primarily relates to deferred income tax assets pertaining to net operating loss and tax credit carryforwards resulting from the exercise of employee stock options in prior years and represents tax benefits in excess of stock-based compensation expense as! determined under APB 25. In prior years, such excess tax benefits, with an offsetting valuation allowance, were recorded in the Company's consolidated balance sheet. As the excess tax benefits were realized, the valuation allowance was released and additional paid-in capital was increased. SFAS 123R prohibits recognition of a deferred income tax asset for excess tax benefits due to stock option exercises that have not yet been realized through a reduction in income taxes payable. Accordingly, in 2006 the Company reversed the deferred tax asset and related valuation allowance relating to excess tax benefits for stock option exercises. Such unrecognized deferred tax benefits totaled $1.1 billion as of December 31, 2006 and will be accounted for as a credit to additional paid-in capital, if and when realized through a reduction in income taxes payable. In addition to the decrease in the valuation allowance described above, the Company released $236 million of the valuation allowance to additional paid-in capital and $95 million to goodwill.

Note 12 (In Part): Employee Benefits

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with APB 25 and SFAS No. 123, as amended by SFAS No. 148. Effective January 1, 2006, the Company adopted SFAS 123R using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS 123R.

For the year ended December 31, 2006, the Company recorded stock-based compensation expense of $425 million. This amount was reduced by a $13 million ($8 million, net of tax) stock-based compensation expense reversal during the year to correct stock-based compensation expense related to 2003 and 2004. For the year ended December 31, 2006, as a result of adopting SFAS 123R, the Company's gross profit was reduced by $7 million, income

from operations was lower by $324 million, and net income was lower by $222 million, than if the Company had continued to account for stock-based compensation under APB 25. Basic and diluted net income per share for the year ended December 31, 2006 was $0.16 and $0.15 lower, respectively, than if the Company had continued to account for stock-based compensation under APB 25. For the year ended December 31, 2005, the Company recognized $52 million of stock-based compensation expense under the intrinsic value method. SFAS 123R required that the deferred stock-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital. As of December 31, 2005, there was a balance of $235 million of deferred stock-based compensation that was netted against additional paid-in capital on January 1, 2006.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense was recorded net of estimated forfeitures for the year ended December 31, 2006 such that expense was recorded only for those stock-based awards that are expected to vest. Previously under APB 25 to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture. Upon the adoption of SFAS 123R, the Company recorded a cumulative adjustment to account for the expected forfeitures of stock-based awards granted prior to January 1, 2006 for which the Company previously recorded an expense. This adjustment was not material and was recorded as a reduction to stock-based compensation expense in 2006.

In addition, upon the adoption of SFAS 123R, the Company included as part of cash flows from financing activities the gross benefit of tax deductions related to stock-based awards in excess of the grant date fair value of the related stock-based awards for the options exercised during the year ended December 31, 2006 and certain options exercised in prior periods. This amount is shown as a reduction to cash flows from operating activities and an increase to cash flows from financing activities. Net cash flows remain unchanged from what would have been reported prior to the adoption of SFAS 123R.

Stock Plans (In Part)

If the fair value based method under SFAS 123 had been applied in measuring stock-based compensation expense, the pro forma effect on net income and net income per share for the years ended December 31, 2004 and 2005 would have been as follows (in thousands, except per share amounts):

	2004(*)	2005(*)
Net income:		
As reported	$ 839,553	$1,896,230
Add: Stock compensation expense included in reported net income, net of tax	19,374	31,557
Less: Stock compensation expense determined under fair value based method for all awards, net of tax	(235,728)	(239,408)
Pro forma net income	$ 623,199	$1,688,379
Net income per share:		
As reported—basic	$ 0.62	$ 1.35
As reported—diluted	0.58	1.28
Pro forma—basic	0.46	1.21
Pro forma—diluted	0.43	1.13

(*) Up to September 30, 2005, the Company used an equally weighted average of trailing volatility and market based implied volatility for the computation. Since October 1, 2005, the Company began exclusively using market based implied volatility for the computation.

Defined Benefit Pension and Postretirement Plans

1.57

ALCOA INC. (DEC)

Statement of Shareholders' Equity

(In millions, except per-share amounts)	Comprehensive Income	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at end of 2005		$55	$925	$5,720	$ 9,345	$(1,899)	$ (773)	$13,373
Comprehensive income:								
Net income	$2,248				$ 2,248			$ 2,248
Other comprehensive (loss) income:								
Change in minimum pension liability, net of tax and minority interests of $104	184							
Currency translation adjustments	659							
Unrealized gains on avaliable-for-sale securities, net of $53 tax expense	98							
Unrecognized losses on derivatives, net of tax and minority interests of $152:								
Net change from periodic revaluations	(473)							
Net amount reclassified to income	(51)							
Net unrecognized losses on derivatives	(524)							
Comprehensive income	$2,665						417	417
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.60 per share					(522)			(522)
Stock-based compensation				72				72
Common stock issued:								
compensation plans				(13)		190		177
Repurchase of common stock						(290)		(290)
Cumulative effect adjustment due to the adoption of SFAS 158, net of tax and minority interests							(877)	(877)
Cumulative effect adjustment due to the adoption of EITF 04-6					(3)			(3)
Other				38				38
Balance at end of 2006		$55	$925	$5,817	$11,066	$(1,999)	$(1,233)	$14,631

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

A (In Part): Summary of Significant Accounting Policies

Recently Adopted Accounting Standards

Alcoa adopted Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)," (SFAS 158), effective December 31, 2006. The adoption of SFAS 158 resulted in the following impacts: a reduction of $119 in existing prepaid pension costs and intangible assets, the recognition of $1,234 in accrued pension and postretirement liabilities, and a charge of $1,353 ($877 after-tax) to accumulated other comprehansive loss. See Note W for additional information.

W (In Part): Pension Plans and Other Postretirement Benefits

Alcoa adopted SFAS 158 effective December 31, 2006. SFAS 158 requires an employer to recognize the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its statement of financial position with an offsetting amount in accumulated other comprehensive income, and to recognize changes in that funded status in the year in which changes occur through comprehensive income. Following the adoption of SFAS 158, additional minimum pension liabilities (AML) and related intangible assets are no longer recognized. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented are not restated. The adoption of SFAS 158 resulted in the following impacts: a reduction of $119 in existing prepaid pension costs and intangible assets, the recognition of $1,234 in accrued pension and postretirement liabilities, and a charge of $1,353 ($877 after-tax) to accumulated other comprehensive loss. See the table labeled "Change due to the AML and adoption of SFAS 158 at December 31, 2006" for details of these impacts.

Additionally, SFAS 158 requires an employer to measure the funded status of each of its plans as of the date of its year-end statement of financial position. This provision becomes effective for Alcoa for its December 31, 2008 year-end. The funded status of the majority of Alcoa's pension and other postretirement benefit plans are currently measured as of December 31.

Obligations and Funded Status

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Amounts recognized in the consolidated balance sheet consist of:				
Before the adoption of SFAS 158				
Prepaid benefit	$ 157	$ 144	$ —	$ —
Accrued benefit liability	(1,233)	(1,654)	(2,438)	(2,455)
Intangible asset	52	31	—	—
Accumulated other comprehensive loss	1,430	1,718	—	—
Net amount recognized	$ 406	$ 239	$(2,438)	$(2,455)
After the adoption of SFAS 158				
Noncurrent assets	$ 90	$ —	$ —	$ —
Current liabilities	(28)	—	(354)	—
Noncurrent liabilities	(1,567)	—	(2,956)	—
Net amount recognized	$(1,505)	$ —	$(3,310)	$ —

	Balance Prior to AML & SFAS 158 Adjustments	AML Adjustments	Balance Prior to SFAS 158 Adjustments	SFAS 158 Adjustments	Balance After AML & SFAS 158 Adjustments
Change due to the AML and adoption of SFAS 158 at December 31, 2006					
Pension benefits					
Prepaid pension costs*	$ 157	$ —	$ 157	$ (67)	$ 90
Intangible assets*	54	(2)	52	(52)	—
Accrued compensation and retirement costs	(219)	—	(219)	191	(28)
Accrued pension benefits	(1,168)	154	(1,014)	(553)	(1,567)
Accumulated other comprehensive loss (before tax and minority interests)	$ 1,582	$(152)	$ 1,430	$ 481	$ 1,911
Deferred tax assets*	549	(55)	494	159	653
Minority interests	—	—	—	12	12
Accumulated other comprehensive loss (after-tax and minority interests)	$ 1,033	$ (97)	$ 936	$ 310	$ 1,246
Postretirement benefits					
Other current liabilities	$ (354)	$ —	$ (354)	$ —	$ (354)
Accrued postretirement benefits	(2,084)	—	(2,084)	(872)	(2,956)
Accumulated other comprehensive loss (before tax and minority interests)	$ —	$ —	$ —	$ 872	$ 872
Deferred tax assets*	—	—	—	305	305
Accumulated other comprehensive loss (after-tax and minority interests)	$ —	$ —	$ —	$ 567	$ 567

* Included in Other assets on the Consolidated Balance Sheet

For pension benefits, a decrease in the minimum pension liability resulted in a credit to shareholders' equity of $184 in 2006, $97 of which is due to the remeasurement at December 31, 2006. The adoption of SFAS 158 resulted in a charge to shareholders' equity of $310. The charge to shareholders' equity at December 31, 2006 as a result of the decrease in the minimum pension liability and the adoption of SFAS 158 is $213. The net charge to shareholders' equity in 2006 is $126. An increase in the liability in 2005 resulted in $148 charge in 2005. For postretirement benefits, the adoption of SFAS 158 resulted in a charge to shareholders' equity of $567 in 2006.

1.58

MEADWESTVACO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

New Accounting Standards (In Part)

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106, and 132(R).* SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan in its balance sheet and to recognize the changes in the plan's funded status in comprehensive income in the year in which the change occurs. These provisions of the Statement are effective as of the end of the first fiscal year ending after December 15, 2006. Pursuant to the Statement's adoption, the net after-tax charge to accumulated other comprehensive loss in the fourth quarter of 2006 was $57 million, which principally represents the impact of recognizing previously unrecognized prior service costs and actuarial losses. This Statement will not affect the company's ERISA funding obligations and the company does not currently foresee a need for company contributions to the qualified plans. Funding obligations for non-qualified and non-U.S. plans are discussed in Note K.

K (In Part): Employee Retirement, Postretirement and Postemployment Benefits

Retirement Plans (In Part)

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statement Nos. 87, 88, 106, and 132(R).* SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit and postretirement plan in its balance sheet and to recognize the changes in the plan's funded status in comprehensive income in the year in which the change occurs. These provisions of the Statement are effective as of the end of the first fiscal year ending after December 15, 2006. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its fiscal year end, which is consistent with the Company's measurement date. The impact of adopting SFAS No. 158 as of December 31, 2006 was a net increase to accumulated other comprehensive loss in the amount of $57 million, net of tax.

Impact of Adoption of SFAS No. 158

The adoption of SFAS No. 158 as of December 31, 2006 required the recognition of previously unrecognized prior service cost and net actuarial losses.

(In millions)	Pre-SFAS 158	SFAS 158 Adoption Adjustments	Post SFAS 158
Prepaid pension asset	$1,040	$(120)	$ 920
Intangible pension asset	1	(1)	—
Accrued pension liability	(123)	(18)	(141)
Accrued postretirement liability	(179)	48	(131)
Accumulated other comprehensive loss, net of tax	17	57	74
Deferred tax asset	11	34	45

Asset Retirement Obligation

1.59

AIRGAS, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

i) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period when the asset is placed in service. The fair value of the liability is estimated using discounted cash flows. In subsequent periods, the retirement obligation is accreted to its future value or the estimate of the obligation at the asset retirement date. A corresponding retirement asset equal to the fair value of the retirement obligation is also recorded as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. Also see Note 2.

Note 2 (In Part): Accounting and Disclosure Changes

FASB Financial Interpretation No. 47

Effective March 31, 2006, the Company adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*, ("FIN 47"). FIN 47 clarifies that the term *conditional asset retirement obligation* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists around the timing or method of settlement. FIN 47 also provides guidance on estimating an asset retirement obligation's fair value, as required under SFAS 143, and clarifies when an entity has sufficient information to reasonably estimate the fair value of an asset retirement obligation.

In accordance with the adoption of FIN 47 at March 31, 2006, the Company recognized a $6 million non-current liability for asset retirement obligations and $1.9 million in capitalizable costs net of accumulated depreciation. A charge of $2.5 million, net of a net deferred tax benefit of $1.6 million, was also recorded as the cumulative effect of a change in accounting principle. The Company's asset retirement obligations are primarily associated with requirements to remove bulk gas storage tanks from customer locations upon the termination of gas supply contracts and from leased facilities upon the termination of lease agreements. The ongoing expense on an annual basis resulting from the adoption of FIN 47 is not anticipated to be material.

Prior Period Financial Statement Misstatements

1.60

MERRIMAC INDUSTRIES, INC. (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Loan to Officer-Stockholder	Total
	Shares	Amount				Shares	Amount		
Balance, December 31, 2005	3,228,715	$32,287	$18,823,353	$8,441,278	$1,367,416	82,100	$(573,866)	$(400,000)	$27,690,468
Cumulative effect at January 1, 2006, of change in method of quantifying errors (note 16)				384,000					384,000
Net loss				(2,225,461)					(2,225,461)
Share-based compensation			188,914						188,914
Exercise of stock options	4,200	42	28,758						28,800
Stock Purchase Plan sales	32,723	327	196,105						196,432
Repayment of loan to officer-stockholder						42,105	(399,998)	400,000	2
Foreign currency translation					21,622				21,622
Balance, December 30, 2006	3,265,638	$32,656	$19,237,130	$6,599,817	$1,389,038	124,205	$(973,864)	$ —	$26,284,777

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Recent Accounting Pronouncements (In Part)

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108") to provide guidance on Quantifying Financial Statement Misstatements. SAB 108 addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB 108 requires registrants to quantify misstatements using both the balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB 108 does not change the SEC staff's guidance in SAB 99 on evaluating the materiality of misstatements.

When the effect of initial adoption of SAB 108 is determined to be material, SAB 108 allows registrants to record that effect as a cumulative effect adjustment to beginning-of-year retained earnings. SAB 108 is effective for the first fiscal year ending after November 15, 2006. During 2006 the Company adopted the provisions of SAB 108 and recorded a cumulative credit adjustment of $384,000 to beginning retained earnings related to inventory reserves and year-end audit, tax and annual report costs (see note 16).

16. SAB 108 Cumulative Effect Adjustment

In September 2006, the SEC issued SAB 108 in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. Traditionally there have been two widely recognized methods for quantifying the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior-year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. Prior to the adoption of SAB 108, the Company used the roll-over method for quantifying financial statement misstatements. SAB No. 108 requires analysis of misstatements using both an income statement (roll-over) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the Company's fiscal year 2006 annual financial statements.

SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the "dual approach" as adjustments to carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings.

The Company identified the following errors through the application of its internal controls over financial reporting and had concluded that the individual errors were immaterial under the rollover method for the periods indicated. However, when applying the dual approach, and after considering all relevant quantitative and qualitative information, the Company concluded that these misstatements are material to the 2006 financial statements when considering the aggregate impact. The Company corrected the errors through the

recording of cumulative effect adjustments to retained earnings as of January 1, 2006:

Inventory reserve[1]	$ 63,000
Accrued liabilities[2]	321,000
Impact retained earnings[3]	$384,000

[1] The Company recorded a non-specific inventory reserve for book-to-physical adjustments of $63,000. Upon adoption of SAB 108, the Company recorded a $63,000 increase in inventory with a corresponding increase in retained earnings to correct this misstatement.

[2] The Company had accrued its unbilled year-end audit, income tax preparation and annual report costs at the end of 2005. Under FASB Concepts Statement No. 6, "Elements of Financial Statements" and AICPA Technical Practice Aid 5290, these costs are to be expensed when incurred and not accrued. The Company recorded a $321,000 reduction of accrued liabilities with a corresponding increase in retained earnings to correct these misstatements.

[3] Represents the net understatement of retained earnings for 2005 recorded as of January 1, 2006 for the initial application of SAB 108. Due to the Company's net operating loss carryforwards, no provision for income taxes has been recorded.

Inventories

1.61

EASTMAN KODAK COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Change in Accounting Methodology

On January 1, 2006, the Company elected to change its method of costing its U.S. inventories to the average cost method, which approximates "first-in, first out" (FIFO), whereas in all prior years most of Kodak's inventory in the U.S. was costed using the "last-in, first-out" (LIFO) method. The new method of accounting for inventory in the U.S. is deemed preferable as the average cost method provides better matching of revenue and expenses given the rapid technological change in the Company's products. The average cost method also better reflects the cost of inventory on the Company's Statement of Financial Position. Prior periods have been restated for comparative purposes in order to reflect the impact of this change in methodology from LIFO to average cost. See Note 3, "Inventories, Net" for further details.

Note 3. Inventories, Net

(In millions)	2006	2005
Finished goods	$ 745	$ 893
Work in process	213	243
Raw materials	244	319
Total	$1,202	$1,455

On January 1, 2006, the Company elected to change its method of costing its U.S. inventories to the average cost method, which approximates FIFO, whereas in all prior years most of the Company's inventory in the U.S. was costed using the LIFO method. As a result of this change, the cost of all of the Company's inventories is determined by either the FIFO or average cost method. The new method of accounting for inventory in the U.S. is deemed preferable as the average cost method provides better matching of revenue and expenses given the rapid technological change in the Company's products. The average cost method also better reflects more current costs of inventory on the Company's Statement of Financial Position. As prescribed in SFAS No. 154, "Accounting Changes and Error Corrections," retrospective application of the change in accounting method is disclosed below.

The effects of the change in methodology of costing U.S. inventories from LIFO to average cost on inventory and cost of goods sold for prior periods presented are as follows (in millions):

	2005		2004	
	LIFO Method	Average Cost Method	LIFO Method	Average Cost Method
Inventory	$ 1,140	$ 1,455	$1,158	$1,506
Cost of goods sold	$10,617	$10,650	$9,582	$9,601

Components of the Company's Consolidated Statement of Operations affected by the change in costing methodology as originally reported under the LIFO method and as adjusted for the change in inventory costing methodology from the LIFO method to the average cost method are as follows (in millions, except per share data):

	2005		
	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments[1]	As Adjusted
Cost of goods sold	$10,617	$ 33	$10,650
Gross profit	3,651	(33)	3,618
Loss from continuing operations before Interest, other income (charges), net and income taxes	(599)	(33)	(632)
Loss from continuing operations before income taxes	(766)	(33)	(799)
Provision (benefit) for income taxes	689	(134)	555
(Loss) earnings from continuing operations	(1,455)	101	(1,354)
Net (loss) earnings	$ (1,362)	$101	$ (1,261)
Basic and diluted net (loss) earnings per share:	$ (4.73)	$ .35	$ (4.38)
Continuing operations	$ (5.05)	$ .35	$ (4.70)

[1] The impact on the provision (benefit) for income taxes for the year ended December 31, 2005 is primarily the result of the reduction in the U.S. net deferred tax assets for which a valuation allowance was previously recognized in the third quarter of 2005, as disclosed in Note 15.

	2004		
	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments	As Adjusted
Cost of goods sold	$9,582	$ 19	$9,601
Gross profit	3,935	(19)	3,916
Loss from continuing operations before interest, other income (charges), net and income taxes	(87)	(19)	(106)
Loss from continuing operations before income taxes	(94)	(19)	(113)
Benefit for income taxes	(175)	(7)	(182)
Earnings (loss) from continuing operations	81	(12)	69
Net earnings (loss)	$ 556	$ (12)	$ 544
Basic and diluted net earnings (loss) per share:	$ 1.94	$(.04)	$ 1.90
Continuing operations	$ .28	$(.04)	$ .24

Components of the Company's Consolidated Statement of Financial Position affected by the change in costing methodology as of December 31, 2005, as originally reported under the LIFO method and as adjusted for the change in inventory costing methodology from the LIFO method to the average cost method are as follows (in millions):

	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments	As Adjusted
Assets			
Current assets			
Inventories, net	$ 1,140	$315	$ 1,455
Total current assets	5,781	315	6,096
Total assets	$14,921	$315	$15,236
Shareholder' equity			
Retained earnings	$ 6,402	$315	$ 6,717
Total shareholders' equity	1,967	315	2,282
Total liabilities & shareholders' equity	$14,921	$315	$15,236

Components of the Company's Consolidated Statement of Cash Flows affected by the change in costing methodology for the year ended December 31, 2005 as originally reported under the LIFO method and as adjusted for the change in inventory valuation methodology from the LIFO method to the average cost method are as follows (in millions):

	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments[1]	As Adjusted
Cash flows relating to operating activities:			
Net (loss) earnings	$(1,362)	$ 101	$(1,261)
Adjustments to reconcile to net cash provided by operating activities:			
Provision (benefit) for deferred taxes	476	(133)	343
Decrease in inventories	274	32	306
Net cash provided by operating activities	$ 1,208	$ —	$ 1,208

[1] Refer to footnote (1) on Page 78.

Components of the Company's Consolidated Statement of Cash Flows affected by the change in costing methodology for the year ended December 31, 2004 as originally reported under the LIFO method and as adjusted for the change in inventory valuation methodology from the LIFO method to the average cost method are as follows (in millions):

	As Previously Reported	LIFO to Average Cost Change in Costing Methodology Adjustments	As Adjusted
Cash flows relating to operating activities:			
Net earnings (loss)	$ 556	$(12)	$ 544
Adjustments to reconcile to net cash provided by operating activities:			
Benefit for deferred taxes	(37)	(7)	(44)
Decrease in inventories	83	19	102
Net cash provided by operating activities	$1,168	$ —	$1,168

CONSOLIDATION POLICIES

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

> 1. The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions. There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.
>
> 5. Consolidated statements should disclose the consolidation policy which is being followed. In most cases, this can be made apparent by the headings or other information in the statements, but in other cases a footnote is required.

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

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

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

1.66 Examples of consolidation practice disclosures follow.

1.67

TABLE 1-9: NONHOMOGENOUS OPERATIONS—CONSOLIDATED

	Number of Companies			
	2006	2005	2004	2003
Credit	62	59	67	56
Insurance	15	19	16	12
Leasing	8	9	14	14
Real estate	7	11	13	7
Banks	4	2	3	1

1.68

GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

a. (In Part): Basis of Presentation and Nature of Operations

The consolidated financial statements of GenCorp Inc. (GenCorp or the Company) include the accounts of the parent company and its wholly owned and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to financial information for prior years to conform to the current year's presentation.

The Company is a technology-based manufacturer of aerospace and defense products and systems with a real estate business segment that includes activities related to the entitlement, sale, and leasing of the Company's excess real estate assets. The Company's continuing operations are organized into two segments:

Aerospace and Defense includes the operations of Aerojet-General Corporation, or Aerojet, which develops and manufactures propulsion systems for defense and space applications, armament systems for precision tactical weapon systems, and munitions applications. The Company is one of the largest providers of propulsion systems in the United States (U.S.) and the only company that provides both solid and liquid propellant based systems. Primary customers served include major prime contractors to the United States government, the Department of Defense (DoD), and the National Aeronautics and Space Administration (NASA).

Real Estate includes activities related to the re-zoning, entitlement, sale, and leasing of our real estate assets. The Company owns approximately 12,600 acres of land adjacent to U.S. Highway 50 between Rancho Cordova and Folsom, California east of Sacramento (Sacramento Land). The Company is currently in the process of seeking zoning changes and other governmental approvals on a portion of the Sacramento Land to optimize its value. The Company has filed applications with and submitted information to governmental and regulatory authorities for approvals necessary to re-zone over 6,400 acres of the Sacramento Land.

1.69

GENERAL MOTORS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations

GM is primarily engaged in the worldwide production and marketing of cars and trucks. GM develops, manufactures, and markets vehicles world-wide through its four regions. GM's four automotive regions consist of GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM), and GM Asia Pacific (GMAP). Also, GM's finance and insurance operations are primarily conducted through GMAC LLC, the successor to General Motors Acceptance Corporation (together with GMAC LLC, GMAC), a wholly-owned subsidiary through November 2006. On November 30, 2006, GM sold a 51% controlling ownership interest in GMAC to a consortium of investors. After the sale, GM has accounted for its 49% ownership interest in GMAC using the equity method. GMAC provides a broad range of financial services, including consumer vehicle financing, automotive dealership and other commercial financing, residential mortgage services, automobile service contracts, personal automobile insurance coverage and selected commercial insurance coverage.

Note 3 (In Part): Significant Accounting Policies

Principles of Consolidation and Financial Statement Presentation

The consolidated financial statements include the accounts of General Motors Corporation and its subsidiaries that are more than 50% owned. In addition, in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46(R), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" (FIN 46(R)), GM consolidates variable interest entities (VIEs) for which it is deemed to be the primary beneficiary. GM's share of earnings or losses of investees is included in the consolidated operating results using the equity method of accounting, when GM is able to exercise significant influence over the operating and financial decisions of the investee. If GM is not able to exercise significant influence over the operating and financial decisions of the investee, the cost method of accounting is used. All intercompany balances and transactions have been eliminated in consolidation.

Transactions between segments have been eliminated. These transactions consist principally of borrowings and other financial services provided by our FIO business to our Automotive business. A master intercompany agreement was in effect until November 30, 2006 which governed the nature of these transactions to ensure that they were done in accordance with commercially reasonable standards.

Note 9 (In Part): Variable Interest Entities

GM is providing the information below concerning VIEs that: (1) are consolidated since GM is deemed to be the primary beneficiary and (2) those entities that GM does not consolidate because, although GM has significant interests in such VIEs, GM is not the primary beneficiary. Those VIEs listed below that related to the Financing and Insurance Operations were consolidated in 2004, 2005 and the period January 1, 2006 to November 30, 2006.

Synthetic Leases

GM leases real estate and equipment from various SPEs that have been established to facilitate the financing of those assets for GM by nationally prominent, creditworthy lessors. These assets consist principally of office buildings, warehouses, and machinery and equipment. The use of SPEs allows the parties providing the financing to isolate particular assets in a single entity and thereby syndicate the financing to multiple third parties. This is a conventional financing technique used to lower the cost of borrowing and, thus, the lease cost to a lessee such as GM. There is a well-established market in which institutions participate in the financing of such property through their purchase of interests in these SPEs. Certain of these SPEs were determined to be VIEs under FIN 46(R). GM consolidates any entities with leases where GM provides a residual value guarantee of the leased property, and is considered the primary beneficiary under FIN 46(R). As of December 31, 2006, the carrying amount of assets and liabilities consolidated under FIN 46(R) amounted to $636 million and $797 million, respectively, compared to $780 million and $1 billion as of December 31, 2005. Assets consolidated are reflected in property-net in GM's consolidated financial statements. GM's maximum exposure to loss related to the consolidated VIEs amounted to $695 million at December 31, 2006. For other such lease arrangements involving VIEs, GM holds significant variable interests but is not considered the primary beneficiary under FIN 46(R). GM's maximum exposure to loss related to these VIEs where GM has a significant variable interest, but does not consolidate the entity, amounted to $624 million at December 31, 2006.

Financing and Insurance Operations (In Part)

Mortgage Warehouse Funding

GMAC's Mortgage operations transfer commercial and residential mortgage loans, lending receivables, home equity loans, and lines of credit pending permanent sale or securitization through various structured finance arrangements in order to provide funds for the origination and purchase of future loans. These structured finance arrangements include transfers to warehouse funding entities, including GMAC and bank-sponsored commercial paper conduits. Transfers of assets from GMAC into each facility are accounted for as either sales (off-balance sheet) or secured financings (on-balance sheet) based on the provisions of SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS No. 140). However, in either

case, creditors of these facilities have no legal recourse to the general credit of GMAC. Some of these warehouse funding entities represent variable interest entities under FIN 46(R).

Management has determined that for certain mortgage warehouse funding facilities, GMAC is the primary beneficiary and, as such, consolidates the entities in accordance with FIN 46(R). The assets of these residential mortgage warehouse entities totaled $7.2 billion at December 31, 2005, the majority of which are included in loans held for sale and finance receivables, net, in the Consolidated Balance Sheet.

Construction and Real Estate Lending

GMAC uses an SPE to finance construction lending receivables. The SPE purchases and holds the receivables and funds the majority of the purchases through financing obtained from third-party asset-backed commercial paper conduits. GMAC is the primary beneficiary, and as such, consolidates the entity in accordance with FIN 46(R). The assets in this entity totaled $1.6 billion at December 31, 2005, which are included in finance receivables, net, in the Consolidated Balance Sheet. The beneficial interest holders of this variable interest entity do not have legal recourse to the general credit of GMAC.

GMAC has subordinated real estate lending arrangements with certain entities. These entities are created to develop land and construct residential homes. Management has determined that GMAC does not have the majority of the expected losses or returns, and as such, consolidation is not appropriate under FIN 46(R). Total assets in these entities were $496 million at December 31, 2005.

Warehouse Lending

GMAC has a facility in which it transfers mortgage warehouse lending receivables to a 100% owned SPE which then sells a senior participation interest in the receivables to an unconsolidated qualifying special purpose entity (QSPE). The QSPE funds the purchase of the participation interest from the SPE through financing obtained from third-party asset-backed commercial paper conduits. The SPE funds the purchase of the receivables from GMAC with cash obtained from the QSPE, as well as a subordinated loan and/or an equity contribution from GMAC. The senior participation interest sold to the QSPE, and the commercial paper issued are not included in the assets or liabilities of GMAC. Once the receivables have been sold, they may not be purchased by GMAC except in very limited circumstances, such as a breach in representations or warranties. Management has determined that GMAC is the primary beneficiary of the SPE, and as such, consolidates the entity in accordance with FIN 46(R). The assets in this entity totaled $3.5 billion at December 31, 2005, which are included in finance receivables, net of unearned income, in the Consolidated Balance Sheet.

Collateralized Debt Obligations (CDOs)

GMAC's Mortgage operations sponsor and serve as collateral manager for CDOs. Under CDO transactions, a trust is established that purchases a portfolio of securities and issues debt and equity certificates, representing interests in the portfolio of assets. In addition to receiving variable compensation for managing the portfolio, GMAC sometimes retains equity investments in the CDOs. The majority of the CDOs sponsored by GMAC were initially structured or have been restructured (with approval by the senior beneficial interest holders) as QSPEs, and are therefore exempt from FIN 46(R).

In the event that an asset is credit impaired, a call option is triggered whereby GMAC, as collateral manager, may buy the asset out of the pool and sell it to a third party. The call is triggered only by events that are outside GMAC's control, such as the downgrade by a rating agency of an asset in the pool or in the event more than a specified percentage of mortgage loans underlying a security are greater than 60 days delinquent (or have been liquidated). In the event the conditions under which GMAC can exercise the call option are met, GMAC recognizes these assets. In accordance with these provisions, GMAC did not recognize any assets as of December 31, 2005.

Management has determined that for certain CDO entities, GMAC is the primary beneficiary, and as such, consolidates the entities in accordance with FIN 46(R). The assets in these entities totaled $569 million at December 31, 2005, the majority of which are included in marketable securities in the Consolidated Balance Sheet.

Interests in Real Estate Partnerships

GMAC's Commercial Mortgage operations syndicate investments in real estate partnerships to unaffiliated investors, and in certain partnerships, have guaranteed the timely payments of a specified return to those investors. The investor returns are principally generated from each partnership's share of affordable housing tax credits and tax losses derived from the partnership's investments in entities which develop, own and operate affordable housing properties throughout the United States. These entities are considered VIE's under FIN 46(R). The determination of whether GMAC is the primary beneficiary of a given tax credit fund depends on many factors, including the number of limited partners and the rights and obligations of the general and limited partners in that fund.

GMAC has variable interests in the underlying operating partnerships (primarily in the form of limited partnership interests). The results of the variable interest analysis indicated that GMAC is not the primary beneficiary of some of these partnerships and, as a result, is not required to consolidate these entities under FIN 46(R). Assets outstanding in these underlying operating partnerships approximated $6.5 billion at December 31, 2005. GMAC's maximum exposure to loss related to these partnerships is $682 million. In addition, management has determined that for certain partnerships, GMAC is the primary beneficiary, and as such, consolidates the partnerships in accordance with FIN 46(R). The impact of consolidation results in an increase to our assets totaling $452 million at December 31, 2005, which are included in the Corporation's Consolidated Balance Sheet. This consolidation did not impact reported net income. Real estate assets held as collateral for these entities totaled $252 million at December 31, 2005.

GMAC holds variable interests in syndicated affordable housing partnerships where it provides unaffiliated investors with a guaranteed yield on their investment. These partnerships were reflected as held for sale in GM's Consolidated Balance Sheet at December 31, 2005 under the financing method in accordance with Statement of Financial Accounting Standards No 66, "Accounting for Sales of Real Estate" (SFAS No. 66). GMAC's exposure to loss at December 31, 2005 was $1.4 billion representing the $1.0 billion financing liability reflected in the Consolidated Balance Sheet (i.e., real estate syndication proceeds) as well as $0.4 billion in

additional unpaid equity installments. The maximum exposure amount represents the amount payable to investors, as unaffiliated investors place additional guaranteed commitments with GMAC, and decreases as tax benefits are delivered to the investors. Considering such amounts, GMAC exposure to loss in future periods is not expected to exceed $1.9 billion.

New Markets Tax Credit Funds

GMAC syndicates and manages investments in partnerships that make investments, typically mortgage loans that, in turn, qualify the partnerships to earn New Markets Tax Credits. New Markets Tax Credits permit taxpayers to receive a federal income tax credit for making qualified equity investments in community development entities. For one particular tax credit fund management has determined that GMAC does not have the majority of the expected losses or returns and, as such, consolidation is not appropriate under FIN 46(R). The assets in these investments totaled $62 million at December 31, 2005, of which $41 million represents GMAC's maximum exposure to loss. In addition to this entity, management has determined that for other tax credit funds, GMAC is a primary beneficiary and as such, consolidates these entities in accordance with FIN 46(R). The impact of consolidation results in an increase to our assets classified as held for sale in the Consolidated Balance Sheet totaling $206 million at December 31, 2005.

1.70

KB HOME (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Operations

KB Home (the "Company") is a builder of single-family homes with operations in the United States and France. Domestically, the Company operates in Arizona, California, Colorado, Florida, Georgia, Illinois, Indiana, Louisiana, Maryland, Nevada, New Mexico, North Carolina, South Carolina, Texas and Virginia. In France, the Company operates through KBSA, a publicly traded subsidiary, which also develops commercial and high density residential projects, such as condominium complexes. The Company also offers mortgage services through Countrywide KB Home Loans, a joint venture with Countrywide. Countrywide KB Home Loans, which is accounted for as an unconsolidated joint venture within the Company's financial services reporting segment, began offering loans to the Company's domestic homebuyers on September 1, 2005. Through its financial services subsidiary, KBHMC, the Company provides title, insurance and escrow coordination services to its domestic homebuyers. The Company previously offered mortgage banking services directly through KBHMC until September 1, 2005 when substantially all of KBHMC's mortgage banking assets were sold to Countrywide.

Basis of Presentation.

The consolidated financial statements include the accounts of the Company and all significant subsidiaries and joint ventures in which a controlling interest is held. All intercompany transactions have been eliminated. Investments in unconsolidated joint ventures in which the Company has less than a controlling interest are accounted for using the equity method.

Financial Services Operations

Revenues are generated primarily from the following sources: interest income; title services; insurance commissions; and escrow coordination fees. Interest income is accrued as earned. Title services revenue and escrow coordination fees are recognized at the time the home is closed; insurance commissions are recognized when policies are issued.

Prior to September 1, 2005, the Company also directly generated revenues from loan originations and sales of mortgage loans and servicing rights. Since September 1, 2005, these mortgage banking activities have been performed by Countrywide KB Home Loans, an unconsolidated joint venture.

First mortgages and mortgage-backed securities consist of securities held for long-term investment and are valued at amortized cost. First mortgages held under commitments of sale not designated as hedged items are valued at the lower of cost or market. Market is principally based on public market quotations or outstanding commitments obtained from investors to purchase first mortgages receivable. There are no first mortgages held under commitments of sale that are designated as hedged items.

Insurance

The Company has, and requires the majority of its subcontractors to have, general liability insurance (including construction defect coverage) and workers compensation insurance. These insurance policies protect the Company against a portion of its risk of loss from claims, subject to certain self-insured retentions, deductibles and other coverage limits. The Company records expenses and liabilities for self-insured and deductible amounts, based on an analysis of its historical claims, which includes an estimate of claims incurred but not yet reported. The Company self-insures a portion of its overall risk, partially through a captive insurance subsidiary.

Note 3. Financial Services

Financial information related to the Company's financial services segment is as follows (in thousands):

	2006	2005	2004
Revenues:			
Interest income	$ 230	$ 8,167	$11,544
Title services	7,205	6,053	3,243
Insurance commissions	9,410	8,256	7,103
Escrow coordination fees	3,395	3,037	2,653
Mortgage and servicing rights income	—	5,855	19,874
Total revenues	20,240	31,368	44,417
Expenses:			
Interest	(49)	(5,164)	(4,511)
General and administrative	(5,874)	(22,077)	(31,218)
Other, net	—	6,841	—
Operating income	14,317	10,968	8,688
Equity in pretax income of unconsolidated joint venture	19,219	230	—
Pretax income	$33,536	$11,198	$ 8,688

	2006	2005
Assets		
Cash and cash equivalents	$15,417	$ 9,207
First mortgages held under commitments of sale and other	2,911	3,338
Investment in unconsolidated joint venture	25,296	15,230
Other assets	$ 400	$ 2,158
Total assets	$44,024	$ 29,933
Liabilities		
Accounts payable and accrued expenses	$26,276	$ 54,543
Collateralized mortgage obligations secured by mortgage-backed securities	—	588
Total liabilities	$26,276	$ 55,131

On September 1, 2005, the Company completed the sale of substantially all the mortgage banking assets of KBHMC to Countrywide and concurrently established a joint venture, Countrywide KB Home Loans. In the first transaction, the Company received $42.4 million of cash as full consideration for the assets sold. The Company recognized a gain of $26.6 million on the sale, which represented the cash received over the sum of the book value of the assets sold and certain nominal costs associated with the disposal. The gain is included in other financial services expenses of $6.8 million along with $19.8 million of expenses accrued for various regulatory and other contingencies.

In the second transaction, the Company contributed $15.0 million of cash for a 50% interest in the Countrywide KB Home Loans joint venture. The Countrywide KB Home Loans joint venture replaces the mortgage banking operations of KBHMC. Countrywide KB Home Loans makes loans to many of the Company's homebuyers. The Company and Countrywide each have a 50% ownership interest in the joint venture with Countrywide providing management oversight of the joint venture's operations. The presentation of the financial services segment in the financial statements changed in 2005 to reflect the wind-down of KBHMC's mortgage banking operations, which are consolidated in the Company's financial statements, and the commencement of operations of the Countrywide KB Home Loans joint venture, which is accounted for as an unconsolidated joint venture.

The financial services segment provides title, insurance and escrow coordination services to the Company's domestic homebuyers in various markets.

First mortgages held under commitments of sale and other receivables consisted of first mortgages held under commitments of sale of $.2 million and other receivables of $2.7 million at November 30, 2006 and first mortgages held under commitments of sale of $.1 million and other receivables of $3.2 million at November 30, 2005. KBHMC has established valuation allowances for loans held for investment and first mortgages held under commitments of sale. These valuation allowances totaled $.3 million as of both November 30, 2006 and 2005. KBHMC may be required to repurchase an individual loan sold to an investor if it breaches the representations or warranties that it made in connection with the sale of the loan, in the event of an early payment default, or if the loan does not comply with the underwriting standards or other requirements of the ultimate investor.

1.71

KIMBERLY-CLARK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Basis of Presentation (In Part)

The consolidated financial statements include the accounts of Kimberly-Clark Corporation and all subsidiaries in which it has a controlling financial interest (the "Corporation"). All significant intercompany transactions and accounts are eliminated in consolidation.

Note 6. Preferred Securities of Subsidiary

In February 2001, the Corporation formed a Luxembourg-based financing subsidiary. The subsidiary issued 1 million shares of voting-preferred securities (the "Securities") with an aggregate par value of $520 million to a nonaffiliated beneficial interest holder for cash proceeds of $516.5 million. The Securities are entitled to a 98 percent vote and pay no dividend but accrue a fixed annual rate of return of 4.56 percent. Prior to September 2003, the Securities accrued a variable rate of return. The Securities are in substance perpetual and are callable by the subsidiary, in November 2008 and each 20-year anniversary thereafter, at par value plus any accrued but unpaid return on the Securities. The subsidiary also issued voting-preferred and common securities to the Corporation for total cash proceeds of $500 million. These securities are entitled to a combined two percent vote, and the common securities are entitled to all of the residual equity after satisfaction of the preferred interests. Approximately 97 percent of the above cash proceeds were loaned to the Corporation. These long-term loans bear fixed annual interest rates. The remaining funds are invested in other financial assets. Prior to September 2003, the loans accrued interest at a variable rate. The Corporation is the primary beneficiary of

the subsidiary and, accordingly, consolidates the subsidiary in the accompanying financial statements. The preferred and common securities of the subsidiary held by the Corporation and the intercompany loans have been eliminated in the consolidated financial statements. The return on the Securities is included in minority owners' share of subsidiaries' net income in the Corporation's Consolidated Income Statement. The Securities are shown as preferred securities of subsidiary on the Consolidated Balance Sheet.

In June 2004, the nonaffiliated beneficial interest holder invested an additional $125 million, thereby increasing the aggregate par value of the Securities that it held. In conjunction with this transaction, the fixed annual rate of return on the Securities was increased from 4.47 to 4.56 percent. The subsidiary loaned these funds to the Corporation, which used them to reduce its outstanding commercial paper.

The nonaffiliated beneficial interest holder does not have recourse to the general credit of the Corporation.

Note 11 (In Part): Variable Interest Entities

The Corporation has interests in the following financing and real estate entities and synthetic fuel partnerships described in Note 14, all of which are subject to the requirements of FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities—an Interpretation of ARB 51* ("FIN 46R").

Real Estate Entities (In Part)

The Corporation participates in the U.S. affordable housing and historic renovation real estate markets. Investments in these markets are encouraged by laws enacted by the United States Congress and related federal income tax rules and regulations. Accordingly, these investments generate income tax credits and tax losses that are used to reduce the Corporation's income tax liabilities. The Corporation invested in these markets through (i) partnership arrangements as a limited partner, (ii) limited liability companies as a nonmanaging member and (iii) investments in various funds in which the Corporation is one of many noncontrolling investors. These entities borrow money from third parties generally on a nonrecourse basis and invest in and own various real estate projects.

FASB Interpretation No. 46, *Consolidation of Variable Interest Entities—an Interpretation of ARB 51*, requires the Corporation to consolidate certain real estate entities because it is the primary beneficiary of them. At December 31, 2006, the carrying amount of assets of these entities, aggregating $4.9 million, serves as collateral for $3.7 million of obligations of these ventures. The assets are classified as property, plant and equipment on the Consolidated Balance Sheet. Neither the creditors nor the other beneficial interest holders of these consolidated ventures have recourse to the general credit of the Corporation.

BUSINESS COMBINATIONS

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

1.73 During 2006, 334 survey companies used the purchase method to account for a business combination.

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

1.75

TABLE 1-10: BUSINESS COMBINATION DISCLOSURES

	2006	2005	2004	2003
Method of payment:				
Cash only	251	228	194	164
Cash and stock	33	23	31	31
Stock only	9	9	13	13
Other—described	6	12	12	21
Intangible assets not subject to amortization	250	223	184	156
Intangible assets subject to amortization	200	173	145	105
Preliminary allocation of acquisition cost	159	124	99	63
Supplemental pro forma information	76	86	78	43
Contingent payments	48	50	51	31
Purchased research and development costs	39	28	27	25

Purchase Method

1.76

AVNET, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions, Divestitures and Investments

On July 5, 2005, the Company acquired Memec Group Holdings Limited ("Memec"), a global distributor that marketed and sold a portfolio of semiconductor devices from industry-leading suppliers in addition to providing customers with engineering expertise and design services. Memec, with sales of $2.28 billion (unaudited, see *Unaudited Pro forma results* in this Note 2) for the twelve months ended July 4, 2005, has been fully integrated into the Electronics Marketing group ("EM") of Avnet as of the end of fiscal 2006.

Purchase Price

The consideration for the Memec acquisition consisted of stock and cash valued at approximately $506,882,000, including transaction costs, plus the assumption of $239,960,000 of Memec's net debt (debt less cash acquired). All but $27,343,000 of this acquired net debt was repaid upon the closing of the acquisition. Under the terms of the purchase, Memec investors received 24,011,000 shares of Avnet common stock plus $63,957,000 of cash. The shares of Avnet common stock were valued at $17.42 per share, which represents the five-day average stock price beginning

two days before the acquisition announcement on April 26, 2005.

Allocation of Purchase Price

The Memec acquisition is accounted for as a purchase business combination. Assets acquired and liabilities assumed are recorded in the accompanying consolidated balance sheet at their estimated fair values as of July 5, 2005. A final allocation of purchase price to the assets acquired and liabilities assumed at the date of acquisition is presented in the below table. This allocation is based upon valuations using management's estimates and assumptions. Adjustments to record the acquired assets and liabilities at fair value include: (1) write-offs or write-downs in the value of certain Memec information technology assets, including financial information systems, that were made redundant in the combined Memec and Avnet business through the continued use of Avnet's existing systems; (2) the write-down of certain Memec inventory lines to estimated net realizable value as of the acquisition date based on anticipated demand, supplier return and stock rotation privileges, age analysis, and other known factors that existed as of the acquisition date; (3) write-downs in fair value of Memec owned facilities, the fair value of which was based upon management's estimates of the current market values and possible selling price, net of selling costs for the facilities; and (4) recognition of other contractual obligations that will not provide any on-going benefit to the combined business. In addition, Memec historically placed valuation allowances on certain of its otherwise realizable deferred tax assets. Following the acquisition, Avnet analyzed these assets based upon the evaluation of relevant factors, assessed the likelihood of recoverability of these deferred tax assets and established, through purchase accounting, appropriate adjustments to these valuation allowances.

In addition to the items discussed above, the assets and liabilities in the following table include liabilities recorded for actions taken as a result of plans to integrate the acquired operations into Avnet's existing operations. Purchase accounting adjustments for such activities include: (1) severance costs for Memec workforce reductions; (2) lease commitments for leased Memec facilities that will no longer be used; (3) write-offs or write-downs in value of certain fixed assets and leasehold improvements that will have limited or no use in the combined business as a result of the facilities being exited; and (4) commitments related to other contractual obligations (see *Acquisition-related exit activity accounted for in purchase accounting* included in this Note 2).

During the third quarter of fiscal 2006, the Company completed its valuation of identifiable intangible assets that resulted from the Memec acquisition. The Company allocated $22,600,000 of purchase price to intangible assets relating to customer relationships, which management estimates have a life of ten years, and $3,800,000 to intangible assets associated with the Memec tradename, which management estimates have a life of two years. In addition, the Company recorded $4,160,000 of amortization ($2,260,000 for customer relationships and $1,900,000 for tradename) during fiscal 2006. Amortization expense for the next five years is estimated to be $4,160,000 in fiscal 2007, and $2,260,000 in each of fiscal 2008 through 2011. These identifiable intangible assets other than goodwill are included in other long-term assets in the accompanying consolidated balance sheet at July 1, 2006.

Approximately $155,467,000 of goodwill associated with the Memec acquisition is deductible for tax purposes.

(Thousands)	July 5, 2005
Current assets	$ 702,649
Property, plant and equipment	19,917
Identifiable intangible assets other than goodwill	26,400
Goodwill	398,927
Other assets	98,831
Total assets acquired	1,246,724
Current liabilities, excluding current portion of long-term debt	434,799
Long-term liabilities	12,700
Total debt	27,343
Total liabilities assumed	474,842
Net assets acquired	$ 771,882
Cash acquired	(52,383)
Debt assumed	27,343
Purchase price and debt assumed, net of cash acquired	$ 746,842

The acquisition of Memec expanded EM's operations in each of the three major economic regions in the world. The combination of Memec's Asian operations with Avnet's Asia region has strengthened Avnet's position in this key growth region. Memec's already established position in Japan—the only U.S.-based distributor with such a presence in the Japanese market—also represents an opportunity by providing entry into this major electronic component marketplace. Because Memec's operations and business model was similar to Avnet's, management has been able to achieve significant operating expense synergies through the integration efforts which have been completed as of the end of fiscal 2006. The combination of these factors are the drivers behind the excess of purchase price paid over the value of assets and liabilities acquired.

Acquisition-Related Exit Activity Accounted for in Purchase Accounting

As a result of the acquisition, the Company established and approved plans to integrate the acquired operations into all three regions of the Company's EM operations, for which the Company recorded $73,380,000 in exit-related purchase accounting adjustments during fiscal 2006. These purchase accounting adjustments consist of severance for Memec workforce reductions, non-cancelable lease commitments and lease termination charges for leased facilities, and other contract termination costs associated with the exit activities.

The following table summarizes the reserves related to exit activities that have been established through purchase

accounting and the related activity that has occurred during fiscal 2006:

(Thousands)	Severance Reserves	Facility Exit Reserves/ Write-downs	Other	Total
Purchase accounting adjustments	$ 32,535	$ 36,243	$ 4,602	$ 73,380
Amounts utilized	(30,945)	(17,713)	(2,166)	(50,824)
Other, principally foreign currency translation	20	75	21	116
Balance at July 1, 2006	$ 1,610	$ 18,605	$ 2,457	$ 22,672

Total amounts utilized for exit-related activities during fiscal 2006 consisted of $43,067,000 in cash payments and $7,757,000 in non-cash asset write-downs.

The purchase accounting reserves established for severance are for reductions of workforce acquired from Memec relating to over 700 personnel primarily in the Americas and EMEA regions, including reductions in senior management, administrative, finance and certain operational functions. These reductions are based on management's assessment of redundant Memec positions compared with existing Avnet positions and are driven primarily by the consolidation of Memec facilities into Avnet facilities.

The costs associated with the consolidation of over 60 Memec facilities are presented in Facility Exit Reserves/ Write-downs in the table above and include estimated future payments for non-cancelable leases, early lease termination costs, and write-downs or write-offs of Memec owned assets in these facilities, including capitalized equipment and leasehold improvements. These actions relate primarily to facilities located in the Americas and EMEA. These reserves have been established through purchase accounting based on actual costs incurred and, for reserves remaining at the end of fiscal 2006, are based on management's best estimates of cost to be incurred.

The other reserves in the table above relate primarily to remaining commitments and termination charges related to other contractual commitments of Memec that will no longer be of use in the combined business.

Cash payments for severance are expected to be substantially paid out by the end of fiscal 2008, whereas reserves for other contractual commitments, particularly for certain lease commitments, will extend into fiscal 2013.

Unaudited Pro Forma Results

Unaudited pro forma financial information is presented below as if the acquisition of Memec occurred at the beginning of fiscal 2005. The pro forma information presented below does not purport to present what the actual results would have been had the acquisition in fact occurred at the beginning of fiscal 2005, nor does the information project results for any future period. Pro forma financial information is not presented for fiscal 2006 because the acquisition occurred on July 5, 2005, which was three days after the beginning of the Company's fiscal year 2006. As a result, the accompanying consolidated statement of operations for fiscal 2006 effectively includes Memec's results of operations for comparative purposes.

(Thousands, except per share data)	Pro Forma Results Year Ended July 2, 2005
Pro forma sales	$13,350,482
Pro forma operating income	369,008
Pro forma net income	161,984
Pro forma diluted earnings per share	$ 1.11

Combined results for Avnet and Memec for the twelve months ended July 2, 2005 were adjusted for the following in order to create the unaudited pro forma results in the table above:

- $47,957,000 pre-tax, $31,156,000 after-tax, or $0.20 per diluted share, for the twelve months ended July 2, 2005 for interest expense relating to Memec's shareholder loans that were retired at acquisition through the issuance of Avnet common stock;
- $12,038,000 pre-tax, $7,870,000 after-tax or $0.05 per diluted share for the twelve months ended July 2, 2005 for capitalized costs written off relating to Memec's cancelled initial public offering and restructuring charges incurred by Memec.
- $1,899,000 pre-tax, $1,236,000 after-tax, or $0.01 per diluted share, for the twelve months ended July 2, 2005 for amortization relating to intangible assets and deferred financing costs for the shareholder loans that were retired at acquisition; and
- the impact on pro forma diluted earnings per share of the 24,011,000 shares of Avnet's common stock issued as part of the consideration.

Unaudited pro forma results above exclude any benefits that may result from the acquisition due to synergies that were derived from the elimination of any duplicative costs. In addition, the pro forma results have not been adjusted to remove the following Memec costs, which management considers to be non-recurring:

- $20,243,000 pre-tax, $13,141,000 after-tax, or $0.08 per diluted share, for the twelve months ended July 2, 2005, for interest expense relating to Memec's loan secured by receivables and term loans that were paid immediately upon the close of the acquisition; and
- $11,537,000 pre-tax, $7,595,000 after-tax, or $0.05 per diluted share, for the twelve months ended July 2, 2005, for selling, general and administrative costs relating to Memec's non-recurring consulting and other project costs and annual management fee that will no longer be incurred following the acquisition and other severance-related costs.

1.77

GOOGLE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Acquisitions

In November 2006, we acquired all of the voting interests of YouTube, a consumer media company for people to watch

and share original videos through a web experience, in a stock-for stock transaction. This transaction was accounted for as a business combination. The purchase price was $1.194 billion and consisted of cash payments of $21.2 million, including a payment made to a content provider of $15.3 million and direct transaction costs of $4.8 million, the net issuance of 2,427,708 shares of our Class A common stock and 30,171 fully vested options to purchase our Class A common shares valued at $1.173 billion. In addition, we issued unvested options, restricted stock units and warrants to purchase 1,189,524 shares of Class A common stock valued at $564.5 million which will be recognized as stock-based compensation as the awards vest over the related vesting periods of 20 to 41 months. These unvested awards are earned primarily contingent upon each individual's continued employment with us. Also, under the terms of the agreement, twelve and one-half percent (12.5%) of the equity issued and issuable will be subject to escrow for one year to secure indemnification claims.

The following table summarizes the allocation of the purchase price for YouTube (in thousands):

Goodwill	$1,134,687
Patents and developed technology	24,000
Tradename, customer contracts and other	153,000
Net liabilities assumed	(45,027)
Deferred tax liabilities	(72,240)
Purchased in-process research and development	—
Total	$1,194,420

Goodwill is not deductible for tax purposes. The developed technology, customer contracts and other intangible assets have a weighted-average useful life of 4.5 years from the date of acquisition. The amortization of these intangibles is not deductible for tax purposes.

Supplemental information on an unaudited pro forma basis, as if the YouTube acquisition were consummated at the beginning of the years 2005 and 2006, is as follows (in thousands, except per share amounts):

(Unaudited)	2005	2006
Revenues	$6,138,575	$10,617,810
Net income	1,194,814	2,801,942
Net income per share of Class A and Class B common stock—diluted	4.04	8.96

The unaudited pro forma supplemental information is based on estimates and assumption, which we believe are reasonable; it is not necessarily indicative of the consolidated financial position or results of income in future periods or the results that actually would have been realized had we been a combined company during 2005 and 2006. The unaudited pro forma supplemental information includes incremental stock-based compensation and intangible asset amortization charges as a result of the acquisition, net of the related tax effects.

In February 2006, we acquired all of the voting interests of dMarc Broadcasting, Inc. (dMarc), a digital solutions provider for the radio broadcast industry. This transaction was accounted for as a business combination. The initial purchase price was $97.6 million and was paid in cash as of December 31, 2006. In addition, we are contingently obligated to make additional cash payments of up to $1.136 billion. Specifically, we are contingently obligated to make an additional cash payment of $25.0 million upon the achievement of a product launch milestone, and additional cash payments of up to $390.0 million in respect of 2007 and up to $721.0 million in respect of 2008 if certain net revenue and advertising inventory targets are met in each of those years. The product launch milestone payment will become payable after the launch of a generally available audio ads product that meets certain feature and integration requirements. Net revenue targets are generally calculated based on revenue recognized primarily from the distribution of radio advertisements, less the inventory acquisition costs associated with such revenue. Advertising inventory targets are calculated by reference to the average quarter hour listener counts of advertising spots available in our system during each quarterly period. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower. In accordance with EITF 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, substantially all of these contingent payments will be accounted for as goodwill, and the remaining amounts will be expensed, when and if earned.

During the year ended December 31, 2006, we also acquired all of the voting interests of eight other companies. Four of these transactions were accounted for as business combinations. Because the remaining four transactions were with companies considered to be development stage enterprises, they were accounted for as asset purchases in accordance with EITF Issue No. 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*. The total initial purchase price of these business combinations and asset purchases was $181.7 million primarily paid in cash. In addition, with respect to these acquisitions, we are obligated to make additional cash payments of up to $18.2 million if certain performance targets are met through March 2010. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower. Substantially all of these contingent payments will be accounted for as goodwill, and the remaining amounts will be expensed, when and if earned.

In addition, during the year ended December 31, 2006, we acquired certain other intangible assets for $51.0 million paid, or to be paid, in cash.

The following table summarizes the allocation of the initial purchase price for dMarc and the other acquisitions (in thousands):

Goodwill	$215,532
Patents and developed technology	102,725
Tradenames, customer contracts and other	59,259
Net liabilities assumed	(11,897)
Deferred tax liabilities	(33,734)
Purchased in-process research and development	10,800
Total	$342,685

Goodwill is not deductible for tax purposes. The developed technology, customer contracts and other intangible assets have a weighted-average useful life of 3.2 years from the date of acquisition. The amortization of these intangibles is not deductible for tax purposes.

Purchased in-process research and development of $10.8 million in the year ended December 31, 2006 was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. This amount is included in research and development expenses on the accompanying Consolidated Statements of Income and is not deductible for tax purposes.

Formation of Jointly Owned Companies

1.78

INTEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Venture

During January 2006, Micron and Intel formed IMFT, a company that manufactures NAND flash memory products for Micron and Intel. Initial production from IMFT began in early 2006.

As part of the initial capital contribution to IMFT, Intel paid $615 million in cash and issued $581 million in non-interest-bearing notes in exchange for a 49% interest. During 2006, Intel paid the entire balance of $581 million toward the non-interest-bearing notes, which has been reflected as a financing activity on the consolidated statement of cash flows. At inception, in exchange for a 51% interest, Micron contributed assets valued at $995 million and $250 million in cash. Intel is currently committed to purchasing 49% of IMFT's production output and production-related services. During 2006, the purchased products and services from IMFT were approximately $300 million and the related payable as of December 30, 2006 was not significant.

IMFT is governed by a Board of Managers, with Intel and Micron initially appointing an equal number of managers to the Board of Managers. The number of managers appointed by each party adjusts depending on the parties' ownership interests in IMFT. IMFT will operate until 2015, but is subject to prior termination under certain terms and conditions.

Subject to certain conditions, Intel and Micron each agreed to contribute an additional $1.4 billion in the three years following the initial capital contributions, of which Intel had contributed $128 million as of December 30, 2006. In January 2007, Intel made an additional capital contribution to IMFT of $258 million.

IMFT is a variable interest entity as defined by FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51" (FIN 46(R)), because all positive and negative variances in IMFT's cost structure are passed on to Intel and Micron through their purchase agreement with IMFT. Micron and Intel are considered related parties under the provisions of FIN 46(R), and Intel has determined that Intel is not the primary beneficiary of IMFT. Intel accounts for its interest in IMFT using the equity method of accounting. Intel's proportionate share of income or losses from its investment in IMFT is recorded in interest and other, net. Intel's maximum exposure to loss as a result of its involvement with IMFT is $1.3 billion as of December 30, 2006, which represents Intel's investment. Intel's investment in IMFT is classified within other long-term assets on the consolidated balance sheet.

Concurrent with the formation of IMFT, Intel paid Micron $270 million for product designs developed by Micron as well as certain other intellectual property. Intel owns the rights with respect to all product designs and licensed the designs to Micron. Micron paid Intel $40 million to license these initial product designs and will pay additional royalties on new product designs. Intel recorded its net investment in this technology of $230 million as an identified intangible asset, which is included in the intellectual property asset classification. The identified intangible asset will be amortized into cost of sales over its expected five-year life. Costs incurred by Intel and Micron for product and process development related to IMFT are generally split evenly between Intel and Micron and are classified as research and development on the consolidated statements of income.

Intel has entered into a long-term supply agreement with Apple Inc. to supply a portion of the NAND flash memory output that Intel will purchase from IMFT through December 31, 2010. In January 2006, Apple pre-paid a refundable $250 million to Intel that will be applied to purchases of NAND flash memory by Apple beginning in 2008. Intel has classified the $250 million as other long-term liabilities on the consolidated balance sheet.

CONTINGENCIES

1.79 SFAS No. 5, *Accounting for Contingencies*, defines a contingency as "an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." Paragraphs 8–16 of *SFAS No. 5* set forth standards of financial accounting and reporting for loss contingencies. Paragraph 17 of *SFAS No. 5* states the accounting and reporting standards for gain contingencies. During 2006, 398 survey companies presented a caption for contingencies in the balance sheet. Table 1-11 lists the loss and gain contingencies disclosed in the annual reports of the survey companies.

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

1.81

TABLE 1-11: CONTINGENCIES

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Loss Contingencies				
Litigation	476	521	511	506
Environmental	263	254	213	245
Insurance	152	154	112	122
Government investigations	138	127	99	94
Possible tax assessments	117	134	112	76
Other—described	70	80	38	49
Gain Contingencies				
Operating loss carryforward	496	487	438	416
Tax credits and other tax credit carryforwards	265	246	215	178
Capital loss carryforward	85	76	78	66
Alternative minimum tax carryforward	57	50	71	69
Plaintiff litigation	40	40	33	37
Asset sale receivable	11	8	4	10
Investment credit carryforward	6	13	15	18
Charitable contribution carryforward	6	11	4	—
Potential tax refund	5	7	4	1
Other—described	5	7	6	9

LOSS CONTINGENCIES

Litigation

1.82

THE DIRECTV GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20 (In Part): Commitments and Contingencies

Contingencies (In Part)

Litigation

Litigation is subject to uncertainties and the outcome of individual litigated matters is not predictable with assurance. Various legal actions, claims and proceedings are pending against us arising in the ordinary course of business. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. Some of the matters may involve compensatory, punitive, or treble damage claims, or demands that, if granted, could require us to pay damages or make other expenditures in amounts that could not be estimated at December 31, 2006. After discussion with counsel representing us in those actions, it is the opinion of management that such litigation is not expected to have a material adverse effect on our consolidated results of operations or financial position.

Darlene Investments LLC

On October 18, 2004, Darlene filed suit in the circuit court for Miami-Dade County, Florida, against The DIRECTV Group and certain of our subsidiaries, News Corporation, and others, which we refer to collectively as the Defendants. The suit alleged fraud and violation of fiduciary, contractual and other duties owed to Darlene and to DLA LLC by one or more of the Defendants. Darlene sought injunctive relief to preclude DLA LLC from consummating the Sky Transactions, $1 billion in damages and other relief. On November 3, 2005, the state court judge dismissed certain charges, including fraud claims, for improper venue and entered an order essentially staying the balance of the proceedings, including those related to fiduciary and other duties and those brought against News Corporation, pending the arbitration between Darlene, DIRECTV and DLA LLC.

In June 2005, we filed suit against Darlene in the United States District Court for the Southern District of New York seeking specific performance and declaratory relief with respect to the release agreement and covenant not to sue executed by Darlene in February 2004 in connection with the DLA LLC reorganization and related transactions. On September 27, 2006, the District Court granted our motion for summary judgment and found Darlene liable for breach of contract.

On January 30, 2007, we acquired Darlene's 14% equity interest in DLA LLC for $325.0 million. All pending litigation related to Darlene against us and the other parties described above has been dismissed.

Finisar Corporation

On April 4, 2005, Finisar Corporation filed a patent infringement action in the United States District Court for the Eastern District of Texas (Beaumont) alleging that The DIRECTV Group, DIRECTV Holdings, DIRECTV Enterprises, LLC, DIRECTV Operations, LLC, DIRECTV, Inc., and DTV Network Systems, Inc. infringed U.S. Patent No. 5,404,505. On June 23, 2006, the jury determined that we willfully infringed this patent and awarded approximately $78.9 million in damages. On July 7, 2006, the Court entered its final written judgment which denied Finisar's request for an injunction and instead granted us a compulsory license. Under the license we would be obligated to pay Finisar $1.60 per new set-top box manufactured for use with the DIRECTV system beginning June 17, 2006 and continuing until the patent expires in 2012 or is otherwise found to be invalid. The Court also increased the damages award by $25.0 million because of the jury finding of willful infringement and awarded pre-judgment interest of $13.4 million to Finisar. Post-judgment interest accrues on the total judgment.

We filed a notice of appeal to the Court of Appeals for the Federal Circuit on October 5, 2006 and Finisar also filed a notice of appeal on October 18, 2006. A bond was submitted to the District Court in the amount of $126.7 million as required security for the damages awarded but not yet paid pending appeal plus interest for the anticipated duration of the appeal. We were successful in obtaining an order that post-judgment royalties pursuant to the compulsory license shall be held in escrow pending outcome of the appeal, and the initial quarterly payment has been made. Through December 31, 2006, the amount of the compulsory license fee amounted to $12.1 million, which was paid into escrow.

Based on our review of the record in this case, including discussion with and analysis by counsel of the bases for our appeal, we have determined that we have a number of strong arguments available on appeal and, although there can be no assurance as to the ultimate outcome, we are confident that the judgment against us will ultimately be reversed, or remanded for a new trial in which we believe we would prevail.

As a result, we have concluded that it is not probable that Finisar will ultimately prevail in this matter; therefore, we have not recorded any liability for this judgment nor are we recording any expense for the compulsory license.

1.83

IDEARC INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Contingencies

Litigation

The Company is subject to various lawsuits and other claims in the normal course of business. In addition, from time to time, we receive communications from government or regulatory agencies concerning investigations or allegations of noncompliance with laws or regulations in jurisdictions in which we operate.

We establish reserves for specific liabilities in connection with regulatory and legal actions that we deem to be probable and estimable. No material amounts have been accrued in our financial statements with respect to any matters. In other instances, including the matters described below, we are not able to make a reasonable estimate of any liability because of the uncertainties related to the outcome and/or the amount or range of loss. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the matters described below will have a material effect on our financial condition or results of operations.

We are currently subject to a class action lawsuit and a purported class action lawsuit from current and former sales representatives located in California, New York, Pennsylvania and New Jersey. The plaintiffs in these cases claim that we reduced their incentive pay through offsets for cancellations, non-renewals and credits on customer accounts and shifted a general business risk of loss to our sales representatives through the assignment of accounts which we allegedly knew would not renew their purchases, or would renew them at a lower level. The plaintiffs seek amounts that they allege were unlawfully deducted from their wages, civil penalties, interest, attorneys' fees and costs. Some of the plaintiffs also seek amounts for overtime they allege they worked for which they were not paid. These cases are at varying stages of defense and the ultimate outcome is not determinable.

We are subject to an alleged patent infringement action that was filed on November 15, 2006, with the U.S. District Court for the Eastern District of Texas. The plaintiff, an English Wales corporation, filed its complaint alleging that it is the owner of U.S. Patent No. 5,930,474 entitled "Internet Organizer for Accessing Geographically and Topically Based Information." Plaintiff claims that the defendants' Superpages.com site utilizes technology that infringes its patent and that the defendants, through their agents and employees have induced the infringement or contributory infringement of the patent. Plaintiff seeks an order from the court that finds that the defendants infringed the patent, injunctive relief, and monetary damages. Defendants' filed a responsive pleading to the complaint on February 9, 2007. The ultimate outcome of this case is not determinable.

Environmental Matters

1.84

SPX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2) (In Part): Use of Estimates

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

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

Environmental Remediation Costs

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

14) (In Part): Commitments and Contingent Liabilities

General

Numerous claims, complaints and proceedings arising in the ordinary course of business, including but not limited to those relating to litigation matters (e.g., class actions, derivative lawsuits, and contract, intellectual property, competitive claims, etc.), environmental matters, and risk management matters (e.g., product and general liability, automobile, workers' compensation, etc.), have been filed or are pending against us and certain of our subsidiaries. Additionally, we may become subject to significant claims of which we are currently unaware or the claims of which we are aware may result in our incurring a significantly greater liability than we anticipate. This may also be true in connection with past or future acquisitions. While we maintain property, cargo, auto, product, general liability, and directors' and officers' liability

insurance and have acquired rights under similar policies in connection with these acquisitions that we believe cover a portion of these claims, this insurance may be insufficient or unavailable to protect us against potential loss exposures. In addition, we have increased our self-insurance limits over the past several years. While we believe we are entitled to indemnification from third parties for some of these claims, these rights may be insufficient or unavailable to protect us against potential loss exposures. However, we believe that our accruals related to these items are sufficient and that these items and our rights to available insurance and indemnity will be resolved without material adverse effect, individually or in the aggregate, on our financial position, results of operations, and cash flows. These accruals totaled $364.4 (including $260.3 for risk management matters) and $374.5 (including $271.8 for risk management matters) at December 31, 2006 and 2005, respectively. Of these amounts, $262.8 and $277.8 are included in "Other long-term liabilities" within our consolidated balance sheets at December 31, 2006 and 2005, respectively, with the remainder included in "Accrued expenses."

Environmental Matters

Our operations and properties are subject to federal, state, local and foreign regulatory requirements relating to environmental protection. It is our policy to comply fully with all applicable requirements. As part of our effort to comply, we have a comprehensive environmental compliance program that includes environmental audits conducted by internal and external independent professionals, as well as regular communications with our operating units regarding environmental compliance requirements and anticipated regulations. Based on current information, we believe that our operations are in substantial compliance with applicable environmental laws and regulations, and we are not aware of any violation that could have a material adverse effect on our business, financial condition, results of operations or cash flows. We have liabilities for site investigation and/or remediation at 67 sites that we own or control. In addition, while we believe that we maintain adequate accruals to cover the costs of site investigation and/or remediation, there can be no assurance that currently unknown matters, new laws and regulations, or stricter interpretations of existing laws and regulations will not materially affect our business or operations in the future.

Our environmental accruals cover anticipated costs, including investigation, remediation, and operation and maintenance of clean-up sites. Our estimates are based primarily on investigations and remediation plans established by independent consultants, regulatory agencies and potentially responsible third parties. Accordingly, our estimates may change based on future developments, including new or changes in existing environmental laws or policies, differences in costs required to complete anticipated actions from estimates provided, future findings of investigation or remediation actions, or alteration to the expected remediation plans. It is our policy to realize a change in estimate once it becomes probable and can be reasonably estimated. We do not discount our environmental accruals and do not reduce them by anticipated insurance recoveries. We do take into account third-party indemnification from financially viable parties in determining our accruals where there is no dispute regarding the right to indemnification.

In the case of contamination at offsite, third party disposal sites, we have been notified that we are potentially responsible and have received other notices of potential liability pursuant to various environmental laws at 26 sites at which the liability has not been settled, and only 14 of which have been active in the past few years. These laws may impose liability on certain persons that are considered jointly and severally liable for the costs of investigation and remediation of hazardous substances present at these sites, regardless of fault or legality of the original disposal. These persons include the present or former owners or operators of the site and companies that generated, disposed of or arranged for the disposal of hazardous substances at the site. We are considered a "*de minimis*" potentially responsible party at most of the sites, and we estimate the aggregate probable remaining liability at these sites is immaterial.

We conduct extensive environmental due diligence with respect to potential acquisitions, including environmental site assessments and such further testing as we may deem warranted. If an environmental problem is identified we estimate the cost and either establish a reserve, purchase insurance or obtain an indemnity from a financially sound seller. However, in connection with our acquisitions or dispositions, we may assume or retain significant environmental liabilities, some of which we may be unaware. The potential costs related to these environmental matters and the possible impact on future operations are uncertain due in part to the complexity of government laws and regulations and their interpretations, the varying costs and effectiveness of various clean-up technologies, the uncertain level of insurance or other types of recovery, and the questionable level of our responsibility. We account for these assumed liabilities in accordance with SFAS No. 5 "Accounting for Contingencies" and, therefore, record the liability when it is both probable and the amount can be reasonably estimated. Due to the uncertainties previously described, we are unable to reasonably estimate the amount of possible additional losses associated with the resolution of these matters beyond what has been previously recorded.

In our opinion, after considering accruals established for such purposes, remedial actions for compliance with the present laws and regulations governing the protection of the environment are not expected to have a material adverse impact on our business, financial condition, results of operations or cash flows.

1.85

VALERO ENERGY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Environmental Matters

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Other than for assessments, the timing and magnitude of these accruals generally are based on the completion of investigations or other studies or a commitment to a formal plan of action. Environmental liabilities are based on best estimates of probable undiscounted future costs over a 20-year time

period using currently available technology and applying current regulations, as well as our own internal environmental policies. Amounts recorded for environmental liabilities have not been reduced by possible recoveries from third parties.

24. Environmental Matters

Remediation Liabilities

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Other than for assessments, the timing and magnitude of these accruals generally are based on the completion of investigations or other studies or a commitment to a formal plan of action. Environmental liabilities are based on best estimates of probable undiscounted future costs using currently available technology and applying current regulations, as well as our own internal environmental policies.

The balance of and changes in the accruals for environmental matters, which are principally included in "other long-term liabilities", were as follows (in millions):

	2006	2005	2004
Balance as of beginning of year	$294	$205	$222
Premcor Acquisition	7	108	—
St. Charles Acquisition	—	—	(9)
Sale of Denver Refinery	—	(7)	—
Adjustments to estimate, net	53	19	23
Payments, net of third-party recoveries	(56)	(32)	(33)
Foreign currency translation	—	1	2
Balance as of end of year	$298	$294	$205

The balance of accruals for environmental matters is included in the consolidated balance sheet as follows (in millions):

	2006	2005
Accrued expenses	$ 44	$ 39
Other long-term liabilities	254	255
Accruals for environmental matters	$298	$294

In connection with our various acquisitions, we assumed certain environmental liabilities including, but not limited to, certain remediation obligations, site restoration costs, and certain liabilities relating to soil and groundwater remediation.

We believe that we have adequately provided for our environmental exposures with the accruals referred to above. These liabilities have not been reduced by potential future recoveries from third parties. Environmental liabilities are difficult to assess and estimate due to unknown factors such as the timing and extent of remediation, the determination of our obligation in proportion to other parties, improvements in remediation technologies, and the extent to which environmental laws and regulations may change in the future.

Insurance Coverage/Self-Insurance

1.86

AIRGAS, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount of the claim, assessment or damages can be reasonably estimated.

The Company maintains business insurance programs with self-insured retention, which covers workers' compensation, business automobile and general liability claims. The Company accrues estimated losses using actuarial models and assumptions based on historical loss experience. The actuarial calculations used to estimate business insurance reserves are based on numerous assumptions, some of which are subjective. The Company will adjust its business insurance reserves, if necessary, in the event future loss experience differs from historical loss patterns.

The Company maintains a self-insured health benefits plan, which provides medical benefits to employees electing coverage under the plan. The Company maintains a reserve for incurred but not reported medical claims and claim development. The reserve is an estimate based on historical experience and other assumptions, some of which are subjective. The Company will adjust its self-insured medical benefits reserve as the Company's loss experience changes due to medical inflation, changes in the number of plan participants and an aging employee base.

Note 22 (In Part): Commitments and Contingencies

b) Insurance Coverage

The Company has established insurance programs to cover workers' compensation, business automobile and general liability claims. For fiscal years 2006 and 2005, these programs had self-insured retention of $500 thousand per occurrence and an additional annual aggregate retention for the next $2.2 million ($1.7 million in fiscal 2005) for claims in excess of $500 thousand. For fiscal year 2007, the self-insured retention has been raised to $1 million per occurrence with no additional aggregate retention. The Company's exposure to loss under the fiscal 2006 and fiscal 2007 programs are actuarially equivalent. The Company believes its insurance reserves are adequate. The Company accrues estimated losses using actuarial models and assumptions based on historical loss experience. The nature of the Company's business may subject it to product and general liability lawsuits. To the extent that the Company is subject to claims that exceed its liability insurance coverage, such suits could have a material adverse effect on the Company's financial position, results of operations or liquidity.

The Company maintains a self-insured health benefits plan, which provides medical benefits to employees electing coverage under the plan. The Company maintains a reserve for incurred but not reported medical claims and claim development. The reserve is an estimate based on historical experience and other assumptions, some of which are subjective. The Company will adjust its self-insured medical

benefits reserve as the Company's loss experience changes due to medical inflation, changes in the number of plan participants and an aging employee base.

Governmental Investigations

1.87

PRIDE INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Commitments and Contingencies

FCPA Investigation

During the course of an internal audit and investigation relating to certain of our Latin American operations, our management and internal audit department received allegations of improper payments to foreign government officials. In February 2006, shortly after and as a result of certain statements that were made by an employee during the investigation, the Audit Committee of our Board of Directors assumed direct responsibility over the investigation and retained independent outside counsel to investigate the allegations, as well as corresponding accounting entries and internal control issues, and to advise the Audit Committee.

The investigation, which is continuing, has found evidence suggesting that payments, which may violate the U.S. Foreign Corrupt Practices Act, were made to government officials in Latin America aggregating less than $1 million. The evidence to date regarding these payments suggests that payments were made beginning in early 2003 through 2005 (a) to vendors with the intent that they would be transferred to government officials for the purpose of extending drilling contracts for two jackup rigs and one semisubmersible rig operating offshore Venezuela; and (b) to one or more government officials, or to vendors with the intent that they would be transferred to government officials, for the purpose of collecting payment for work completed in connection with offshore drilling contracts in Venezuela. In addition, the evidence suggests that other payments were made beginning in 2003 through early 2006 (a) to one or more government officials in Mexico in connection with the clearing of a jackup rig and equipment through customs or the movement of personnel through immigration; and (b) with respect to the potentially improper entertainment of government officials in Mexico.

The Audit Committee, through independent outside counsel, has undertaken a review of our compliance with the FCPA in certain of our other international operations. This review has found evidence suggesting that in 2004 and 2005 payments may have been made to government officials in Saudi Arabia and Kazakhstan, aggregating less than $175,000, in connection with clearing rigs or equipment through customs or resolving outstanding customs issues in those countries. The investigation of the matters related to Saudi Arabia and Kazakhstan and the Audit Committee's compliance review are ongoing. Accordingly, there can be no assurances that evidence of additional potential FCPA violations may not be uncovered in Saudi Arabia, Kazakhstan or other countries.

Our management and the Audit Committee of our Board of Directors believe it likely that members of our senior operations management either were aware, or should have been aware, that improper payments to foreign government officials were made or proposed to be made. Our former Chief Operating Officer resigned as Chief Operating Officer effective on May 31, 2006 and has elected to retire from the company, although he will remain an employee, but not an officer, during the pendency of the investigation to assist us with the investigation and to be available for consultation and to answer questions relating to our business. His retirement benefits will be subject to the determination by our Audit Committee or our Board of Directors that it does not have cause (as defined in his retirement agreement with us) to terminate his employment. On December 1, 2006, our Vice President—Western Hemisphere Operations resigned. On December 2, 2006, our former Country Manager in Venezuela and Mexico was terminated. We have placed another member of our senior operations management on administrative leave pending the outcome of the investigation.

We voluntarily disclosed information relating to the initial allegations and other information found in the investigation and compliance review to the U.S. Department of Justice and the Securities and Exchange Commission and are cooperating with these authorities as the investigation and compliance reviews continue and as they review the matter. If violations of the FCPA occurred, we could be subject to fines, civil and criminal penalties, equitable remedies, including profit disgorgement, and injunctive relief. Civil penalties under the antibribery provisions of the FCPA could range up to $10,000 per violation, with a criminal fine up to the greater of $2 million per violation or twice the gross pecuniary gain to us or twice the gross pecuniary loss to others, if larger. Civil penalties under the accounting provisions of the FCPA can range up to $500,000 and a company that knowingly commits a violation can be fined up to $25 million. In addition, both the SEC and the DOJ could assert that conduct extending over a period of time may constitute multiple violations for purposes of assessing the penalty amounts. Often, dispositions for these types of matters result in modifications to business practices and compliance programs and possibly a monitor being appointed to review future business and practices with the goal of ensuring compliance with the FCPA.

We could also face fines, sanctions and other penalties from authorities in the relevant foreign jurisdictions, including prohibition of our participating in or curtailment of business operations in those jurisdictions. Our customers in those jurisdictions could seek to impose penalties or take other actions adverse to our interests. In addition, disclosure of the subject matter of the investigation could adversely affect our reputation and our ability to obtain new business or retain existing business from our current clients and potential clients, to attract and retain employees and to access the capital markets. No amounts have been accrued related to any potential fines, sanctions or other penalties.

We cannot currently predict what, if any, actions may be taken by the DOJ, the SEC, the applicable government or other authorities or our customers or the effect the actions may have on our results of operations, financial condition or cash flows, on our consolidated financial statements or on our business in the countries at issue and other jurisdictions.

For the years ended December 31, 2006, 2005 and 2004, our operations in Venezuela provided revenues of approximately $156.9 million, $172.6 million, and $167.1 million, or approximately 6.3%, 8.5% and 9.8% of our total consolidated revenues, respectively. Our Venezuela operations provided earnings (loss) from operations of approximately $6.9 million, $16.8 million, and $(6.7) million or approximately

1.3%, 5.2% and (2.7)% of our total consolidated earnings from operations for 2006, 2005 and 2004, respectively. As of December 31, 2006 and 2005, we had accounts receivable from Petróleos de Venezuela, S.A. totaling $27.6 million and $33.4 million, respectively.

Possible Tax Assessments

1.88

THE BOEING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Income Taxes

Provisions for federal, state and non-U.S. income taxes are calculated on reported Earnings before income taxes based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes rather than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for income tax when, despite the belief that our tax positions are fully supportable, we believe that it is probable that our positions will be challenged and possibly disallowed by various authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Note 6 (In Part): Income Taxes

Contingencies

We are subject to income taxes in the U.S. and numerous non-U.S. jurisdictions.

Amounts accrued for potential tax assessments recorded in current tax liabilities total $960 and $900 at December 31, 2006 and 2005. Accruals relate to tax issues for U.S. federal, U.S. state, and taxation of non-U.S. earnings as follows:

- The accruals associated with U.S. federal tax issues such as the tax benefits from the Foreign Sales Corporation/Extraterritorial Income (FSC/ETI) tax rules, the amount of research and development tax credits claimed, U.S. taxation of non-U.S. earnings, and valuation issues regarding charitable contributions claimed were $841 at December 31, 2006, and $771 at December 31, 2005. IRS examinations have been completed through 2001. We have filed an appeal with the IRS for 1998–2001. During 2006, we settled the McDonnell Douglas Corporation appeal for 1993–1997 which had the effect of decreasing federal income tax expense by $46.
- The accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions and the amount of state tax credits claimed were $88 at December 31, 2006 and $98 at December 31, 2005, net of federal benefit.
- The accruals associated with taxation of non-U.S. earnings were $31 at December 31, 2006 and 2005.

We believe adequate provisions for all outstanding issues have been made for all jurisdictions and all open years.

1.89

THE DUN & BRADSTREET CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Legal and Tax Contingencies

We are involved in tax and legal proceedings, claims and litigation arising in the ordinary course of business. We periodically assess our liabilities and contingencies in connection with these matters, based upon the latest information available. For those matters where it is probable that we have incurred a loss and the loss, or range of loss, can be reasonably estimated, we have recorded reserves in the consolidated financial statements. In other instances, because of the uncertainties related to the probable outcome and/or amount or range of loss, we are unable to make a reasonable estimate of a liability, if any. As additional information becomes available, we adjust our assessment and estimates of such liabilities accordingly.

Note 13 (In Part): Contingencies

We are involved in tax and legal proceedings, claims and litigation arising in the ordinary course of business. We periodically assess our liabilities and contingencies in connection with these matters based upon the latest information available. For those matters where it is probable that we have incurred a loss and the loss, or range of loss, can be reasonably estimated, we have recorded reserves in our consolidated financial statements. In other instances, we are unable to make a reasonable estimate of any liability because of the uncertainties related to the probability of the outcome and/or amount or range of loss. As additional information becomes available, we adjust our assessment and estimates of such liabilities accordingly. It is possible that the ultimate resolution of our liabilities and contingencies could be at amounts that are different from our currently recorded reserves and that such differences could be material.

Based on our review of the latest information available, we believe our ultimate liability in connection with pending tax and legal proceedings, claims and litigation will not have a material effect on our results of operations, cash flows or financial position, with the possible exception of the matters described below.

Tax Matters

Moody's/D&B2 and its predecessors entered into global tax-planning initiatives in the normal course of business, principally through tax-free restructurings of both their foreign and domestic operations. As further described below, we

undertook contractual obligations to be financially responsible for a portion of certain liabilities arising from certain historical tax-planning initiatives ("Legacy Tax Matters").

As of the end of 2005, settlement agreements have been executed with the IRS with respect to the Legacy Tax Matters previously referred to in our SEC filings as "Utilization of Capital Losses" and "Royalty Expense Deductions." With respect to the Utilization of Capital Losses matter, the settlement agreement resolved the matter in its entirety. For the Royalty Expense Deductions matter, the settlement covered tax years 1995 and 1996, which represented approximately 90% of the total potential liability to the IRS, including penalties. We believe we are adequately reserved for the remaining exposure. In addition, with respect to these two settlement agreements, we believe that IMS and NMR did not pay their allocable share to the IRS under applicable agreements. Under our agreement with Donnelley/D&B1, we and Moody's were each required to cover the shortfall, and each of us paid to the IRS approximately $12.8 million in excess of our respective allocable shares. We were unable to resolve our dispute with IMS and NMR through the negotiation process contemplated by our agreements, and so we commenced arbitration to enforce our rights and collect amounts owed by IMS and NMR with respect to the Utilization of Capital Losses matter. We may also commence arbitration against IMS and NMR with respect to amounts owed by them with respect to the Royalty Expense Deductions matter. We believe that the resolution of the remaining exposure to the IRS under the Royalty Expense Deductions matter and the foregoing disputes with IMS and NMR will not have a material adverse impact on D&B's financial position, results of operations or cash flows.

Our remaining Legacy Tax Matter is referred to as "*Amortization and Royalty Expense Deductions/Royalty Income—1997–2006*"

Beginning in the fourth quarter of 2003, we received several notices from the IRS asserting that:

- certain amortization expense deductions related to a 1997 partnership transaction and claimed by Donnelley/D&B1, Moody's/D&B2 and D&B3 on tax returns for 1997–2002 should be disallowed;
- deductions claimed for 1997–2002 for royalties paid to the partnership should be disallowed; and
- the entire amount of royalties so received by the partnership should be included in the royalty income of Donnelley/D&B1, Moody's/D&B2 and D&B3, including the portions of the royalties that had been allocated to third-party partners in the partnership and thus included in their taxable incomes.

We protested the proposed adjustments described above to the IRS on a timely basis.

The IRS also asserted, in the alternative, that, if the proposed adjustments described above are not sustained, certain business expenses incurred by Moody's/D&B2 and D&B3 during 1999–2002 should be capitalized and amortized over a 15-year period.

We estimate that the net impact to cash flow as a result of the disallowance of the 1997–2002 amortization expense deductions and the disallowance of such deductions claimed from 2003 to date could be up to $77.6 million (tax, interest and penalties, net of tax benefits but not taking into account the Moody's/D&B2 repayment to us of $28.4 million described below). This transaction is scheduled to expire in 2012 and, unless terminated by us, the net impact to cash flow, based on current interest rates and tax rates, would increase at a rate of approximately $2.0 million per quarter (including potential penalties) as future amortization expenses are deducted. On March 3, 2006, we made a deposit to the IRS of $39.8 million in order to stop the accrual of statutory interest on additional taxes allegedly due for the 1997–2002 tax years.

We believe that the IRS' positions with respect to the treatment of the royalty expense and royalty income are mutually inconsistent. If the IRS prevails on one of the positions, we believe it is unlikely that it will prevail on the other. We therefore estimate that the possible disallowance of deductions for royalty expenses paid to the partnership and the reallocation of royalty income from the partnership, after taking into account certain other tax benefits resulting from the IRS' position, will not likely have a net impact to cash flow. In the unlikely event the IRS were to prevail on both positions with respect to the royalty expense and royalty income, we estimate that the net impact to cash flow as a result of the disallowance of the 1997–2002 royalty expense deductions, and the inclusion of the reallocated royalty income for all relevant years, could be up to $154.2 million (tax, interest and penalties, net of tax benefits). This $154.2 million would be in addition to the $77.6 million noted above.

At the time of the 2000 Distribution, we paid Moody's/D&B2 approximately $55.0 million, but should the 1997 partnership transaction be terminated, Moody's/D&B2 would be required to repay us an amount equal to the discounted value of its 50% share of the related future tax benefits. For example, if the transaction was terminated at December 31, 2006, the amount of such repayment from Moody's/D&B2 to us would have been approximately $28.4 million. The amount of such repayment will decrease by approximately $4.0 million to $5.0 million per year.

As a result of recent procedural developments, we believe there are technical infirmities in the IRS' ability to assess and collect tax with respect to the 1997–2002 tax periods. We expect the IRS will challenge this position by issuing a notice asserting additional taxes are owed. We have not adjusted amounts we have accrued with respect to this matter.

If the IRS were to issue a notice asserting additional taxes are owed, we could contest the assessment in one of several venues. If we were to contest the assessments in U.S. District Court or the U.S. Court of Federal Claims, rather than in U.S. Tax Court, the disputed amounts, as discussed above, would need to be paid in advance for the court to have jurisdiction over the case. The payment might be satisfied, in part, by a conversion of the $39.8 million deposit described above.

We have considered the foregoing Legacy Tax Matters and the merits of the legal defenses and the various contractual obligations in our overall assessment of potential tax liabilities. As of December 31, 2006, we have $72.6 million of net reserves recorded in the consolidated financial statements, made up of the following components: $1.0 million in Accrued Income Tax and $71.6 million in Other Non-Current Liabilities. We believe that these reserves are adequate for our share of the liabilities in these Legacy Tax Matters. Any payments that would be made for these exposures could be significant to our cashflow from operations in the period a cash payment takes place, including any payments for the purpose of obtaining jurisdiction in U.S. District Court or the U.S. Court of Federal Claims to challenge any of the IRS' positions.

Copyright Fees

1.90

LEXMARK INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Commitments and Contingencies

Contingencies (In Part)

In accordance with SFAS No. 5, *Accounting for Contingencies*, Lexmark records a provision for a loss contingency when management believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company believes it has adequate provisions for any such matters.

Copyright Fees

Certain countries (primarily in Europe) and/or collecting societies representing copyright owners' interests have taken action to impose fees on devices (such as scanners, printers and multifunction devices) alleging the copyright owners are entitled to compensation because these devices enable reproducing copyrighted content. Other countries are also considering imposing fees on certain devices. The amount of fees, if imposed, would depend on the number of products sold and the amounts of the fee on each product, which will vary by product and by country. The Company has accrued amounts that it believes are adequate to address the risks related to the copyright fee issues currently pending. The financial impact on the Company, which will depend in large part upon the outcome of local legislative processes, the Company's and other industry participants' outcome in contesting the fees and the Company's ability to mitigate that impact by increasing prices, which ability will depend upon competitive market conditions, remains uncertain. As of December 31, 2006 and 2005, the Company had accrued approximately $98 million and $76 million, respectively, for the pending copyright fee issues, including litigation proceedings, local legislative initiatives and/or negotiations with the parties involved. These accruals are included in *Accrued liabilities* on the Consolidated Statements of Financial Position.

GAIN CONTINGENCIES

Plaintiff Litigation

1.91

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Legal Proceedings

Patent Litigation (In Part)

Peritoneal Dialysis Litigation

On October 16, 2006, Baxter Healthcare Corporation and Deka Products Limited Partnership filed a patent infringement lawsuit in the U.S.D.C. for the Eastern District of Texas against Fresenius Medical Care Holdings, Inc. and Fresenius USA, Inc. The complaint alleges that Fresenius's sale of the Liberty Cycler peritoneal dialysis systems and related disposable items and equipment infringes U.S. Patent No. 5,421,823, as to which Deka has granted Baxter an exclusive license in the peritoneal dialysis field. The case has been transferred to the U.S.D.C. for the Northern District of California.

1.92

THE BRINK'S COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22 (In Part): Other Commitments and Contingencies

Gain Contingency—Insurance Claims

The Company filed insurance claims of $2.4 million in 2006 (which were collected in early 2007) and anticipates filing additional insurance claims of $2.6 million to $3.9 million in 2007 related to property damage and business interruption insurance coverage for losses sustained by Brink's and BHS from Hurricane Katrina. As of December 31, 2006, the Company has recorded a receivable of $1.8 million covering property damage, of which approximately $1 million related to the $2.4 million claim collected in the first quarter of 2007. Because the Company's property damage insurance coverage provides for replacement value, the Company expects to record proceeds in excess of realized losses when the claims are ultimately settled. In addition, payment for lost revenues under business interruption coverage will be recognized as operating income when the claims are settled. As a result, the Company expects to recognize gains of between $3 million and $5 million in 2007 for amounts collected in excess of previously recorded receivables.

Contingent Receivables

1.93

AMERON INTERNATIONAL CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Discontinued Operations

On August 1, 2006, the Company completed the sale of its Performance Coatings & Finishes business (the "Coatings Business") to PPG Industries, Inc. ("PPG") for $115,000,000 in cash upon the closing, plus a post-closing adjustment. As part of the post-closing adjustment PPG has paid $11,308,000, which includes interest through the payment date, and is disputing $3,423,000. The Company believes it is entitled to the disputed amount under the terms of the Purchase Agreement (the "Agreement"). The Company and PPG are in active negotiations to resolve the dispute. If the parties are unable to resolve the dispute the Agreement provides a

process for resolution. Certain assets were excluded from the sale, including cash and cash equivalents and certain real properties that were used in the Coatings Business. The Company intends to sell the retained properties in the next 12 to 18 months and expects to generate additional proceeds of approximately $15,000,000 based on current estimates of market values. The gain or loss on such sales is not expected to be material. The retained properties are included in other assets.

Pursuant to the Agreement, PPG assumed certain liabilities related to the Coatings Business, including, without limitation, (i) warranty and guaranty obligations and liabilities for products sold or manufactured by the Company, (ii) all environmental liabilities associated with the real properties that PPG acquired and (iii) general tort liability. PPG also agreed to a cost-sharing arrangement with respect to any product liability claims relating to the Company's operation of the Coatings Business prior to the closing of the transaction.

Pursuant to the Agreement, PPG did not assume certain other liabilities related to the Company's operations of the Coatings Business prior to the closing of the transaction, including, without limitation, (i) any liability of the Coatings Business arising out of asbestos, silica or lead and (ii) any pre-closing environmental liabilities related to the real properties that the Company retained. Additionally, PPG will not be assuming any liabilities related to the Company's lawsuits with Dominion Exploration and Production, Inc. and Pioneer Natural Resources USA, Inc. and with Sable Offshore Energy, Inc.

RISKS AND UNCERTAINTIES

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

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

Nature of Operations

1.96

ACUITY BRANDS, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Description of Business and Basis of Presentation

Acuity Brands, Inc. ("Acuity Brands" or the "Company") is a holding company that owns and manages two businesses that serve distinctive markets—lighting equipment and specialty products. The lighting equipment segment designs, produces, and distributes a broad array of indoor and outdoor lighting fixtures for commercial and institutional, industrial, infrastructure, and residential applications for various markets throughout North America and select international markets. The specialty products segment formulates, produces, and distributes specialty chemical products including cleaners, deodorizers, sanitizers, and pesticides for industrial and institutional, commercial, and residential applications, primarily for various markets throughout North America and Europe.

1.97

GENERAL CABLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

General Cable Corporation and Subsidiaries (General Cable) is a leading global developer, designer, manufacturer, marketer and distributor in the wire and cable industry. The Company sells copper, aluminum and fiber optic wire and cable products worldwide. The Company's operations are divided into eight main reportable segments: North American Electric Utility, International Electric Utility, North American Portable Power and Control, North American Electrical Infrastructure, International Electrical Infrastructure, Transportation and Industrial Harnesses, Telecommunications and Networking. As of December 31, 2006, General Cable operated 29 manufacturing facilities in eleven countries with regional distribution centers around the world in addition to the corporate headquarters in Highland Heights, Kentucky.

1.98

LONGS DRUG STORES CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): The Company and Significant Accounting Policies

The Company

Longs Drug Stores Corporation ("Longs" or the "Company"), through its wholly owned subsidiary, Longs Drug Stores California, Inc., operates retail drug stores on the West Coast of the United States and in Hawaii, primarily under the names Longs, Longs Drugs, Longs Drug Stores and Longs Pharmacy. In addition to prescription drugs, the Company's core front-end merchandise categories include over-the-counter medications, health and beauty products, cosmetics, photo and photo processing, convenience food and beverage items and greeting cards. The Company also sells merchandise in non-core categories such as housewares, automotive and sporting goods. The Company also operates a mail order pharmacy business.

Longs Drug Stores California, Inc. also provides pharmacy benefit services through its wholly owned subsidiary, RxAmerica L.L.C. The pharmacy benefit services segment provides a range of pharmacy benefit management services, including plan design and implementation, claims administration and formulary management, to third-party health plans and other organizations. In addition, effective January 1, 2006, the pharmacy benefit services segment began offering prescription drug plan benefits under Medicare Part D as established by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The Company provides prescription drug benefits to Medicare participants in all 50 states and the District of Columbia as of January 1, 2007.

Use of Estimates

1.99

ALBERTO-CULVER COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) (In Part): Description of Business and Basis of Presentation

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of Alberto-Culver Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain amounts for prior periods have been reclassified to conform to the current year's presentation.

During the second quarter of fiscal year 2006, the company determined that certain of the Beauty Supply Distribution business' warehousing and distribution costs previously classified in the consolidated statements of earnings as components of advertising, marketing, selling and administrative expenses should be classified as cost of products sold to be consistent with the company's policy of capitalizing these costs in inventory. As a result, the company reclassified expenses related to purchasing costs, freight from distribution centers to the stores and handling costs in the distribution centers for all periods presented. These costs amounted to $92.5 million, $86.6 million and $76.8 million for fiscal years 2006, 2005 and 2004, respectively. The reclassifications had no effect on earnings.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Actual results may differ from those estimates. Management believes these estimates and assumptions are reasonable.

1.100

THE J. M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates in these consolidated financial statements include: restructuring costs, allowances for doubtful trade receivables, estimates of future cash flows associated with assets, asset impairments, useful lives for depreciation and amortization, loss contingencies, net realizable value of inventories, accruals for trade marketing and merchandising programs, income taxes, and the determination of discount and other rate assumptions for defined benefit pension and other postretirement benefit expenses. Actual results could differ from these estimates.

Significant Estimates

1.101

MCDERMOTT INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Use of Estimates

We use estimates and assumptions to prepare our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts we report in our financial statements and accompanying notes. Our actual results could differ from those estimates. Variances could result in a material effect on our results of operations and financial position in future periods.

Contracts and Revenue Recognition

We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the product or activity involved. Some of our contracts contain a risk-and-reward element, whereby a portion of total compensation is tied to the overall performance of several companies working under alliance arrangements. We include revenues and related costs so recorded, plus accumulated contract costs that exceed amounts invoiced to customers under the terms of the contracts, in contracts in progress. We include in advance billings on contracts billings that exceed accumulated contract costs and revenues and costs recognized under the percentage-of-completion method. Most long-term contracts contain provisions for progress payments. We expect to invoice customers

for all unbilled revenues. We review contract price and cost estimates periodically as the work progresses and reflect adjustments proportionate to the percentage-of-completion in income in the period when those estimates are revised. For all contracts, if a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined.

For contracts as to which we are unable to estimate the final profitability except to assure that no loss will ultimately be incurred, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these deferred profit recognition contracts, we recognize revenue and cost equally and only recognize gross margin when probable and reasonably estimable, which we generally determined to be when the contract is approximately 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical except to assure that no loss will be incurred, as deferred profit recognition contracts.

Our policy is to account for fixed-price contracts under the completed-contract method if we believe we are unable to reasonably forecast cost to complete at start-up. Under the completed-contract method, income is recognized only when a contract is completed or substantially complete.

Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. We include claims for extra work or changes in scope of work to the extent of costs incurred in contract revenues when we believe collection is probable.

Note 12. Risks and Uncertainties

As of December 31, 2006, in accordance with the percentage-of-completion method of accounting, we have provided for our estimated costs to complete all of our ongoing contracts. However, it is possible that current estimates could change due to unforeseen events, which could result in adjustments to overall contract costs. The risk on fixed-priced contracts is that revenue from the customer does not rise to cover increases in our costs. It is possible that current estimates could materially change for various reasons, including, but not limited to, fluctuations in forecasted labor productivity, pipeline lay rates or steel and other raw material prices. Increases in costs on our fixed-price contracts could have a material adverse impact on our consolidated results of operations, financial condition and cash flows. Alternatively, reductions in overall contract costs at completion could materially improve our consolidated results of operations, financial condition and cash flows.

At December 31, 2006, JRM had approximately $28 million in accounts and notes receivable due from its former joint venture in Mexico. A note receivable is attributable to the sale of JRM's DB17 vessel during the quarter ended September 30, 2004. This joint venture has experienced liquidity problems. Recognition of a gain of approximately $5.4 million on the sale of the DB17 is currently being deferred. On October 17, 2006, JRM reached an agreement with its partner and terminated JRM's interest in this joint venture. The financial impact of this transaction is included in our consolidated results of operations. JRM expects to collect all net accounts and notes receivable currently owed from this joint venture. In the year ended December 31, 2006, JRM recorded an impairment loss totaling approximately $16.4 million attributable to currency translation losses recorded in accumulated other comprehensive loss.

In June 2006, B&W was awarded separate contracts to supply eight supercritical, coal-fired boilers and selective catalytic reduction ("SCR") systems as part of TXU Corp.'s solid-fuel power generation program in Texas. The expected revenues from these awards exceeded $1 billion. B&W's backlog at June 30, 2006 and September 30, 2006 reflected all the TXU awards. B&W has received notice from TXU to suspend activity on five of the eight boilers and SCR systems. The notifications did not specify the length of the suspensions. The notifications obligate B&W to suspend performance on these five units. The suspension provisions allow B&W reimbursement of suspension cost and equitable adjustment to the price, schedule and other relevant terms of the contract. Additionally, on February 26, 2007, TXU issued a press release and conducted an investor conference call relating to a proposed buyout transaction involving TXU announced on that date. In the investor conference call, representatives of TXU indicated that it is reducing planned coal-fueled generation units in Texas from eleven to three and that the permitting process for the eight units to be provided by B&W will be suspended. Because we have received no cancellation notices from TXU, we have continued to work on the three remaining units which were not suspended; however, we have excluded the TXU award for the eight units from our ending backlog at December 31, 2006.

The reorganization of the MI and JRMH U.S. tax groups, which was completed on December 31, 2006, resulted in a material, favorable impact on our consolidated financial results for the year ended December 31, 2006. Although we believe that the tax result of the reorganization as reported in our consolidated financial statements is accurate, the tax results derived will likely be subject to audit, or other challenge, by the IRS. Should the IRS' interpretation of the tax law in this regard differ from our interpretation and that of our outside tax advisors, such that adjustments are proposed or sustained by the IRS, there could be a material adverse effect on our consolidated financial results as reported and our expected future cash flows.

1.102

SEARS HOLDINGS CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. The estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances.

Adjustments to estimates and assumptions are made when facts and circumstances dictate. As future events and their effects cannot be determined with absolute certainty, actual results may differ from the estimates used in preparing the accompanying consolidated financial statements. Significant estimates and assumptions are required as part of determining inventory valuation, estimating depreciation, amortization and recoverability of long-lived assets, establishing self-insurance, warranty, legal and other reserves, establishing valuation allowances on deferred income tax assets and reserves for tax examination exposures, and calculating retirement benefits.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on historical experience and on a specific identification basis. Allowances for doubtful accounts on accounts receivable balances were $29 million and $35 million as of February 3, 2007 and January 28, 2006, respectively. The Company's accounts receivable balance is comprised of various vendor-related and customer-related accounts receivable, including receivables related to the Company's pharmacy operations.

Merchandise Inventories (In Part)

Merchandise inventories are valued at the lower of cost or market. For Kmart and Sears Domestic, cost is primarily determined using the retail inventory method ("RIM"). Kmart merchandise inventories are valued under the RIM using primarily a first-in, first-out (FIFO) cost flow assumption. Sears Domestic merchandise inventories are valued under the RIM using primarily a last-in, first-out (LIFO) cost flow assumption. For Sears Canada, cost is determined using the average cost method, based on individual items.

Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, merchandise markons, markups, markdowns and shrinkage, which significantly impact the ending inventory valuation at cost as well as resulting gross margins. The methodologies utilized by the Company in its application of the RIM are consistent for all periods presented. Such methodologies include the development of the cost-to-retail ratios, the groupings of homogenous classes of merchandise, the development of shrinkage and obsolescence reserves, the accounting for price changes and the computations inherent in the LIFO adjustment (where applicable). Management believes that the Company's RIM provides an inventory valuation that reasonably approximates cost and results in carrying inventory at the lower of cost or market.

Approximately 55% of consolidated merchandise inventories are valued using LIFO. To estimate the effects of inflation on inventories, the Company utilizes external price indices determined by an outside source, the Bureau of Labor Statistics. If the FIFO method of inventory valuation had been used instead of the LIFO method, merchandise inventories would have been $29 million higher at February 3, 2007 and $4 million higher at January 28, 2006.

Property and Equipment (In Part)

Depreciation expense, which includes depreciation on assets under capital leases, is recorded over the estimated useful lives of the respective assets using the straight-line method for financial statement purposes, and accelerated methods for tax purposes. The range of lives are generally 20 to 50 years for buildings, 3 to 10 years for furniture, fixtures and equipment, and 3 to 5 years for computer systems and computer equipment. Leasehold improvements are depreciated over the shorter of the associated lease term or the estimated useful life of the asset.

Impairment of Long-Lived Assets and Costs Associated with Exit Activities

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "*Accounting for the Impairment or Disposal of Long-lived Assets*," the carrying value of long-lived assets, including property and equipment, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Factors that could result in an impairment review include, but are not limited to, a current period cash flow loss combined with a history of cash flow losses or a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the assets or significant changes in business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques.

A liability is recognized for costs associated with location closings, primarily future lease costs (net of estimated sublease income), and is charged to income when the Company ceases to use the location.

Goodwill, Tradenames and Other Intangible Assets (In Part)

Tradenames acquired as part of the Merger account for the majority of the Company's intangible assets recognized in the consolidated balance sheet. The majority of these tradename assets, such as Kenmore, Craftsman and Lands' End, are expected to generate cash flows indefinitely, do not have estimable or finite useful lives and, therefore, are accounted for as indefinite-lived assets not subject to amortization. Certain intangible assets, including favorable lease rights, contractual arrangements and customer lists, have estimable, finite useful lives, which are used as the basis for their amortization. The estimated useful lives of such assets are determined using a number of factors, including the demand for the asset, competition and the level of expenditure required to maintain the cash flows associated with the asset.

In accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets*," goodwill is not amortized but requires testing for potential impairment, at a minimum on an annual basis, or when indications of potential impairment exist. The impairment test for goodwill utilizes a fair value approach. The impairment test for identifiable intangible assets not subject to amortization is also performed annually or when impairment indications exist, and consists of a comparison of the fair value of the intangible asset with its carrying amount. Identifiable intangible assets that are subject to amortization

are evaluated for impairment using a process similar to that used to evaluate other long-lived assets.

Self-Insurance Reserves

The Company is self-insured for certain costs related to health, workers' compensation, asbestos and environmental, automobile, warranty, product and general liability claims. The Company obtains third-party insurance coverage to limit its exposure to certain of these self-insured risks. A portion of these self-insured risks is managed through a wholly-owned insurance subsidiary. The Company's liability reflected on the consolidated balance sheet, classified within other liabilities (current and long-term), represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. In estimating this liability, the Company utilizes loss development factors based on Company-specific data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claims settlements and reported claims. The liabilities for self-insured risks are discounted to their net present values.

Loss Contingencies

The Company accounts for contingent losses in accordance with SFAS No. 5, "*Accounting for Contingencies*." Under SFAS No. 5, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period, as additional information is known.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109. Accordingly, the Company provides deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax laws of multiple jurisdictions. Income tax expense also reflects the Company's best estimates and assumptions regarding, among other things, the level of future taxable income, interpretation of the tax laws, and tax planning. Future changes in tax laws, changes in projected levels of taxable income, tax planning, and the adoption/implementation of FIN 48 in fiscal 2007, could affect the effective tax rate and tax balances recorded by the Company.

Note 10 (In Part): Benefit Plans

The Finance Committee of the Company's Board of Directors has appointed a non-affiliated third party professional to advise the Committee with respect to the domestic pension plan assets. The plan's overall investment objective is to provide a long-term return that, along with Company contributions, is expected to meet future benefit payment requirements. A long-term horizon has been adopted in establishing investment policy such that the likelihood and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The plan's investment policy requires investments to be diversified across individual securities, industries, market capitalization and valuation characteristics. In addition, various techniques are utilized to monitor, measure and manage risk.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. At December 31, 2006, the plan's target asset allocation was 43% equity, 50% fixed income, and 7% other, which is comprised of alternative investments that incorporate absolute return investment strategies. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Note 12 (In Part): Shareholders' Equity

Stock-Based Compensation (In Part)

The fair value of each stock option is estimated as of the grant date using the Black-Scholes option-pricing model, with the following assumptions being utilized for each of the periods presented during which shares were granted:

	2005	2004
Dividend yield	0%	0%
Expected volatility	40%	46%
Risk-free interest rate	4.22%	3.18%
Expected life of options	5 years	5 years

Given the Company's limited history, the expected volatility factors were determined based on average volatilities calculated in relation to similar entities, including historical Kmart and Sears.

Vulnerability Due to Certain Concentrations

1.103

AK STEEL HOLDING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Concentrations of Credit Risk

The Company operates in a single business segment and is primarily a producer of carbon, stainless and electrical steels and steel products, which are sold to a number of markets, including automotive, industrial machinery and equipment, construction, power distribution and appliances. The following presents net sales by product line:

	2006	2005	2004
Stainless and electrical	$2,476.5	$1,968.5	$1,793.5
Carbon	3,356.9	3,434.7	3,163.4
Tubular	235.6	240.8	249.5
Other, primarily conversion services	—	3.4	10.9
Total	$6,069.0	$5,647.4	$5,217.3

The following sets forth the percentage of the Company's net sales attributable to various markets:

	2006	2005	2004
Automotive	41%	45%	48%
Appliance, industrial machinery and equipment, and construction	29%	25%	20%
Distributors, service centers and converters	30%	30%	32%

Net sales to General Motors Corporation, the Company's largest customer, accounted for approximately 9%, 13% and 15% of the total net sales in 2006, 2005 and 2004, respectively. No customer accounted for more than 10% of net sales of the Company during 2006, and no customer other than General Motors Corporation accounted for more than 10% of net sales of the Company during 2005 or 2004. The Company sells domestically to customers primarily in the Midwestern and Eastern United States and to foreign customers, primarily in Canada, Mexico and Western Europe. Net sales to customers located outside the United States totaled $689.3, $647.3 and $533.7 for 2006, 2005 and 2004, respectively. Approximately 28% and 42% of trade receivables outstanding at December 31, 2006 and 2005, respectively, are due from businesses associated with the U.S. automotive industry. Except in a few situations where the risk warrants it, collateral is not required on trade receivables. While the Company believes its recorded trade receivables will be collected, in the event of default the Company would follow normal collection procedures.

Union Contracts

At December 31, 2006, the Company's operations included approximately 7,000 employees, of which approximately 5,300 are represented by labor unions under various contracts that either have expired or will expire in the years 2007 through 2012. This number includes the employees of the Middletown Works represented by AEIF-IAM Local 1943 who have been locked out since March 1, 2006 when the parties were unable to reach agreement on a new labor contract and excludes the temporary replacement workers who currently are working in the Middletown Works. The labor contract for approximately 380 hourly employees represented by United Auto Workers ("UAW") Local 3642 at the Coshocton Works was scheduled to expire on April 1, 2007. In February 2007 the members of that union ratified a new approximately three-year labor agreement which expires on March 31, 2010. The labor contract for approximately 300 hourly employees represented by UAW Local 169 at the Mansfield Works was scheduled to expire on February 10, 2007. In November 2006, the members of that union ratified a new six-year labor agreement which expires on March 31, 2011. The labor contract for approximately 1,400 hourly employees represented by UAW Local 3303 at the Butler Works was scheduled to expire on September 30, 2006. In July 2006 the members of that union ratified a new six-year agreement which expires on September 30, 2012. The labor contract for approximately 200 hourly employees represented by UAW Local 401 at the Zanesville Works was scheduled to expire on May 20, 2006. On May 9, 2006 the members of that union ratified a new six-year agreement which expires on May 20, 2012. The labor contract for approximately 150 hourly workers represented by United Steelworkers of America ("USW") Local 1915 at the Walbridge, OH facility of the Company's wholly-owned subsidiary, AK Tube LLC, was scheduled to expire on January 29, 2006. In January 2006 the members of that union ratified a new three-year contract which expires on January 25, 2009. The labor contract for approximately 750 hourly employees represented by USW Local 1865 at the Ashland Works was scheduled to expire on September 1, 2005. In September 2005 the members of that union ratified a new five-year labor agreement which expires on September 1, 2010.

In addition, the labor agreements to which the Company is a party at the Company's Middletown Works and Rockport Works either already are being re-negotiated or will be re-negotiated in 2007. The UAW represents workers at Rockport Works. The labor agreement at Rockport Works is set to expire September 30, 2007. There is the potential of a work stoppage at Rockport Works if the Company and the union cannot reach a timely agreement in contract negotiations. The Company expects to operate the facility in the event of a labor dispute, but there is a risk that such a labor dispute could result in a work stoppage and that, particularly if there were to be a work stoppage, the dispute could have a material impact on the Company's operations and financial results. The Middletown Works labor agreement expired on February 28, 2006 and the parties were unable to reach a new agreement prior to its expiration. Effective March 1, 2006, the Company elected to exercise its right to prevent the represented employees at the Middletown Works from continuing to work without a labor agreement and implemented a contingency plan to operate that facility with salaried employees and temporary workers. Collectively, these two agreements cover approximately 2,020 employees. While management is seeking to reach a new agreement with the union at the Rockport Works facility without a work stoppage, the Company cannot predict the outcome of the contract negotiations. The Company continues to bargain in good faith to reach a competitive labor agreement as soon as possible at its Middletown Works, but cannot predict when such an agreement will be reached.

1.104

ANALOG DEVICES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

m. Concentration of Other Risks

The semiconductor industry is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. The Company's financial results are affected by a wide variety of factors, including general economic conditions worldwide, economic conditions specific to the semiconductor industry, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in a rapidly evolving market and reliance on assembly and test subcontractors, third-party wafer fabricators and independent distributors. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times.

The Company is exposed to the risk of obsolescence of its inventory depending on the mix of future business. Additionally, the Company utilizes third-party wafer fabricators as sole-source suppliers, primarily Taiwan Semiconductor Manufacturing Company for certain products. As a result, the Company may experience significant period-to-period fluctuations in future operating results due to the factors mentioned above or other factors.

1.105

IOMEGA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) (In Part): Significant Accounting Policies

Sources of Supply

Although we have outsourced all of our product manufacturing, we are still responsible for the supply of certain components for the manufacture of our Zip and REV products. Certain components incorporated in, or used in, the manufacture of Zip and REV products are currently available only from single source suppliers. We purchase a portion of our single and limited source components pursuant to purchase orders that do not include guaranteed supply arrangements. We purchase all of the products we resell directly from other suppliers. Supply shortages resulting from a change in a supplier or resulting from unavailability from a particular supplier could cause a delay in product availability and a possible loss of sales, which would have a material adverse effect on our operating results.

Manufacturing Relationships

We use independent parties to manufacture our products or components. Not all of our manufacturing relationships are covered by binding contracts and certain of the relationships are subject to unilateral termination by our manufacturing partner. Shortages resulting from a change in a manufacturing arrangement could cause a delay in product availability and a possible loss of sales, which would have a material adverse effect on our operating results. We also have certain minimum volume purchase agreements, in particular with our Zip and REV product manufacturers, which if not met, may result in certain assessments against us.

1.106

LONGS DRUG STORES CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Concentrations

Over 90% of the Company's pharmacy sales are covered by third-party health plans. Medicare and Medicaid together represented approximately 20% of fiscal 2007 pharmacy sales.

The Company purchases over 90% of its pharmaceuticals from a single supplier, AmerisourceBergen Drug Corporation ("AmerisourceBergen"), with whom the Company has a long-term supply contract.

The prescription drug plans offered by the Company's pharmacy benefit services segment are subject to annual bidding and regulatory approval.

The Company's stores, mail order pharmacy operations, distribution centers and corporate offices are located in the western United States, primarily in California.

COMMITMENTS

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

1.108 Examples of commitment disclosures follow.

1.109

TABLE 1-12: COMMITMENTS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Debt covenant restrictions	401	384	408	406
Purchase agreements	250	239	240	218
Capital expenditures	80	71	68	62
Additional payments related to acquisitions	50	49	59	38
Sales agreements	48	33	27	24
Licensing agreements	45	41	40	23
Employment contracts	45	37	35	31
Financing/support agreements	41	43	N/C*	N/C*
Other—described	31	46	80	66

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

Debt Covenant Restrictions

1.110

COOPER TIRE & RUBBER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands)

Note 10 (In Part): Debt

On June 30, 2004, the Company restated and amended its revolving credit facility with a consortium of ten banks ("the Agreement"). The Agreement contains two primary covenants. An interest coverage ratio (consolidated earnings before interest, taxes, depreciation and amortization divided by consolidated net interest expense) is required to be

maintained at a minimum of 3.0 times by the Company. A ratio of consolidated net indebtedness to consolidated capitalization below 55 percent is also required. Consolidated net indebtedness is indebtedness measured in accordance with generally accepted accounting principles in the United States reduced by cash and eligible short-term investments in excess of $30 million. At December 31, 2006, the Company was in compliance with the financial covenants contained in its credit agreements. At that date, the ratio of consolidated net indebtedness to consolidated capitalization was 41.2 percent and the interest coverage ratio was adequate. The Agreement, as amended, provides up to $175,000 in credit facilities until August 31, 2008. In addition, the terms of the Agreement permit the Company to request bid rate loans from banks participating in the Agreement. Borrowings under the Agreement bear a margin linked to the Company's long-term credit ratings from Moody's and Standard & Poor's. There are no compensating balances required and the facility fees are not material. The credit facility also supports issuance of commercial paper and letters of credit. There were no borrowings under the revolving credit facility and no commercial paper was outstanding at December 31, 2005 or 2006.

The Company's revolving credit facility also contains a covenant which prevents the disposition of a substantial portion of its assets. A waiver of this covenant was granted by the bank group in December 2004 to permit the disposition of Cooper-Standard Automotive.

The Company's revolving credit facility requires it to maintain, among other things, certain financial ratios. Retained earnings at December 31, 2006 are available for the payment of cash dividends and purchases of the Company's common shares and are limited by the above ratios.

1.111

NEWMARKET CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Long-Term Debt

Senior Notes (In Part)

The indenture governing the 7.125% senior notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness;
- create liens;
- pay dividends or repurchase capital stock;
- make certain investments;
- sell assets or consolidate or merge with or into other companies; and
- engage in transactions with affiliates.

We were in compliance with the covenants in the indenture governing the 7.125% senior notes as of December 31, 2006 and those in the indenture governing the 8.875% senior notes as of December 31, 2006.

Senior Credit Facility (In Part)

The credit agreement contains covenants, representations, and events of default that management considers typical of a credit agreement of this nature. The financial covenants include:

- minimum consolidated net worth;
- a minimum fixed charge coverage ratio;
- a maximum leverage ratio; and
- restrictions on the payment of dividends or repurchases of capital stock.

We were in compliance with these covenants at December 31, 2006.

1.112

SPECTRUM BRANDS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7) (In Part): Debt

The Senior Credit Facilities contain financial covenants with respect to borrowings, which include maintaining minimum interest coverage and maximum leverage ratios. In accordance with the Senior Credit Facilities, the limits imposed by such ratios become more restrictive over time. In addition, the Senior Credit Facilities restrict the Company's ability to, among other things, incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and enter into a merger or acquisition or sell assets. Indebtedness under these facilities (i) is secured by substantially all of the Company's assets, and (ii) is guaranteed by certain of the Company's subsidiaries.

The terms of both the $350 million $8\frac{1}{2}$% and $700 million $7\frac{3}{8}$% Senior Subordinated Notes permit the holders to require us to repurchase all or a portion of the notes in the event of a change of control. In addition, the terms of the notes restrict or limit the Company's ability to, among other things: (i) pay dividends or make other restricted payments; (ii) incur additional indebtedness and issue preferred stock; (iii) create liens; (iv) enter into mergers, consolidations, or sales of all or substantially all of the Company assets; (v) make asset sales; (vi) enter into transactions with affiliates; and (vii) issue or sell capital stock of the Company's wholly owned subsidiaries. Payment obligations of the notes are fully and unconditionally guaranteed on a joint and several basis by all of the Company's domestic subsidiaries.

On December 12, 2005, the Company reached agreement with its creditors to amend its leverage and interest charge covenants associated with the Senior Credit Facilities for subsequent periods. In connection with this amendment, interest costs on the Company's existing U.S. Dollar and Canadian Dollar term loans increased by 25 basis points as the spread between the base rate and the rate paid by the Company increased from 2.00% to 2.25%. In connection with the amendment, the Company incurred approximately $2,100 of fees which are being amortized over the remaining term of the Senior Credit Facilities.

On May 9, 2006, the Company reached agreement with its senior lenders to amend the consolidated leverage ratio and consolidated interest coverage ratio covenants effective for the period ended April 2, 2006 and subsequent periods. Under the amendment, the limits imposed by such ratios become more restrictive over time. As a result of this amendment, interest costs on the Company's existing Euro term loan increased by 25 basis points as the spread between the market rate and the Company's rate increased from 2.75% to 3.00%. Interest costs on the Company's existing U.S. Dollar, Canadian Dollar and Euro Tranche B term loans increased by 50 basis points as the spread between the market rate and the Company's rate increased from 2.50% to 3.00%. Interest costs on the Company's existing Revolver increased by 75 basis points as the spread between the market rate and the Company's rate increased from 2.25% to 3.00%. In connection with the amendment, the Company incurred $3,494 of fees which are being amortized over the remaining term of the Senior Credit Facilities.

The Company was in compliance with all covenants associated with its Senior Credit Facilities, as amended, and Senior Subordinated Notes, with the exception of the Fixed Charge Coverage Ratio relating to the Senior Subordinated Notes, that were in effect as of and during the period ended September 30, 2006. Due to significant Restructuring Charges and reduced business performance, the Company is not in compliance with the minimum requirement of 2:1 for the Fixed Charge Coverage Ratio under the indentures governing the Company's Subordinated Notes. Until the Company returns to compliance with the ratio, the Company is limited in its ability to make significant acquisitions or incur significant additional senior debt beyond its existing Senior Credit Facilities. The Company does not expect this to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of its existing business, although no assurance can be given in this regard.

On December 12, 2006, the Company reached agreement with its Senior Lenders to amend the maximum consolidated leverage ratio and the minimum consolidated interest coverage ratio covenants associated with its Senior Credit Facilities effective for the periods ended December 31, 2006 and April 1, 2007. The amendment raises the interest rate on all of the Company's debt under its Senior Credit Facilities by 0.25% per annum until the Company prepays at least $500,000 in principal amount of its term loans with proceeds from the sale of certain of its assets. The Company's ability to comply with future debt covenants beyond the first quarter of fiscal 2007, ending December 31, 2006, will depend on its ability to consummate the disposal of certain assets on favorable contractual terms. In connection with the amendment, the Company incurred approximately $1,285 of fees which are being amortized over the remaining term of its Senior Credit Facilities. Failure to comply with the financial covenants and other provisions could materially and adversely affect the Company's ability to finance its future operations or capital needs and could create a default under such instrument and cause all amounts borrowed to become due and payable immediately. In the event of default under the Senior Credit Facilities, the amounts outstanding under its Senior Subordinated Notes would also be subject to acceleration.

1.113

UNISYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Debt

The company has a three-year, secured revolving credit facility which expires in 2009 that provides for loans and letters of credit up to an aggregate of $275 million. Borrowings under the facility bear interest based on short-term rates and the company's credit rating. The credit agreement contains customary representations and warranties, including no material adverse change in the company's business, results of operations or financial condition. It also contains financial covenants requiring the company to maintain certain interest coverage, leverage and asset coverage ratios and a minimum amount of liquidity, which could reduce the amount the company is able to borrow. The credit facility also includes covenants limiting liens, mergers, asset sales, dividends and the incurrence of debt. Events of default include non-payment, failure to perform covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least $25 million. If an event of default were to occur under the credit agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the credit agreement could also cause the acceleration of obligations under certain other agreements and the termination of the company's U.S. trade accounts receivable facility. Also, the credit facility may be terminated if the 7 7/8% senior notes due 2008 have not been repaid, refinanced or defeased by payment of amounts due to an escrow agent on or prior to January 1, 2008. The credit facility is secured by the company's assets, except that the collateral does not include accounts receivable that are subject to the receivable facility, U.S. real estate or the stock or indebtedness of the company's U.S. operating subsidiaries. As of December 31, 2006, there were letters of credit of approximately $50.9 million issued under the facility and there were no cash borrowings. In addition, the company and certain international subsidiaries have access to uncommitted lines of credit from various banks.

Purchase Agreements

1.114

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note S (In Part): Commitments and Contingencies

Other Long-Term Commitments

Cabot has entered into long-term purchase agreements for various key raw materials in the Carbon Black, Metal Oxides and Supermetals Businesses. The purchase commitments for the Supermetals Business covered by these agreements are with suppliers and are estimated to aggregate approximately $112 million for the periods 2007 through 2011 and

thereafter. Purchases under these agreements are expected to be approximately $46 million, $45 million, $15 million, $2 million, $2 million and $2 million for 2007, 2008, 2009, 2010 and 2011 and thereafter, respectively. Raw materials purchased under these agreements were $37 million in 2006 and $76 million in 2005 and 2004, respectively.

On February 8, 2006, the Company and the Sons of Gwalia settled their dispute over the price to be paid by Cabot for tantalum ore under an existing supply agreement. As part of the settlement, the companies terminated their existing agreement and entered into a new three-year tantalum ore supply agreement that incorporates a significantly reduced annual volume commitment. Cabot made a lump sum payment of $27 million to terminate the then existing supply agreement and other related agreements. Under the new agreement, which is denominated in Australian dollars, Cabot will pay higher prices for ore than under the prior agreement. The $27 million lump sum payment has been recorded as an expense during fiscal 2006 and has been included as a component of cost of goods sold in the accompanying Consolidated Statements of Operations. The purchase commitments under the new contract have been included in the amounts discussed above for the Company's Supermetals Business.

The purchase commitments for the Carbon Black Business covered by these agreements are with various suppliers and are estimated to aggregate approximately $1.3 billion for the periods 2007 through 2011 and thereafter. Purchases under these agreements are expected to be approximately $172 million, $188 million, $115 million, $91 million, $89 million and $623 million for 2007, 2008, 2009, 2010 and 2011 and thereafter, respectively. Raw materials purchased under these agreements were $146 million, $63 million and $26 million in 2006, 2005 and 2004, respectively. The increase in purchase commitments for the Carbon Black Business is a result of raw material supply agreements the Company secured for its newly constructed Carbon Black facility located in Tianjin, China.

The purchase commitments for the Metal Oxides Business covered by these agreements are with various suppliers and are estimated to aggregate approximately $94 million for the periods 2007 through 2011 and thereafter. Purchases under these agreements are expected to be $9 million, $2 million, $2 million, $3 million, $3 million and $75 million for 2007, 2008, 2009, 2010 and 2011 and thereafter, respectively. Raw materials purchased under these agreements were $8 million, $12 million and $109 million in 2006, 2005 and 2004, respectively.

1.115

SEABOARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments and Contingencies

Commitments (In Part)

As of December 31, 2006 Seaboard had various firm noncancelable purchase commitments and commitments under other agreements, arrangements and operating leases as described in the table below.

PURCHASE COMMITMENTS

(Thousands of dollars)	2007	2008	2009	2010	2011	Thereafter
Hog procurement contracts	$108,092	$ 82,608	$32,564	$33,526	$ —	$ —
Grain and feed ingredients	50,112	695	—	—	—	—
Grain purchase contracts for resale	162,262	—	—	—	—	—
Fuel purchase contract	13,175	—	—	—	—	—
Equipment purchases and facility improvements	57,852	—	—	—	—	—
Other purchase commitments	7,720	—	—	—	—	—
Total firm purchase commitments	399,213	83,303	32,564	33,526	—	—
Vessel time-charter arrangements	68,089	13,312	—	—	—	—
Contract grower finishing agreements	11,948	11,909	11,873	11,870	11,098	61,356
Other operating lease payments	10,252	7,655	3,350	2,505	1,912	4,335
Total unrecognized firm commitments	$489,502	$116,179	$47,787	$47,901	$13,010	$65,691

Seaboard has contracted with third parties for the purchase of live hogs to process at its pork processing plant and has entered into grain and feed ingredient purchase contracts to support its live hog operations. The commitment amounts included in the table are based on projected market prices as of December 31, 2006. During 2006, 2005 and 2004, this segment paid $114,921,000, $155,406,000 and $177,107,000, respectively for live hogs purchased under committed contracts.

The Commodity Trading and Milling segment enters into grain purchase contracts and ocean freight contracts, primarily to support firm sales commitments. These contracts are valued based on projected commodity prices as of

December 31, 2006. This segment also has short-term freight contracts in place for delivery of future grain sales.

The Power segment has entered into a contract for the supply of substantially all fuel required through June 2007 at market-based prices. The fuel commitment shown above reflects the average price per barrel at December 31, 2006 for the minimum number of barrels specified in the agreement.

The Marine segment enters into contracts to time-charter vessels for use in its operations. These contracts range from short-term time-charter for a few months and long-term commitments ranging from one to three years. In addition to its long-term lease agreements, the short-term time-charter contracts of $112,000 for 2007 are included above in vessel time-charter arrangements. This segments charter hire expenses during 2006, 2005 and 2004 totaled $91,747,000, $76,668,000 and $51,064,000, respectively.

To support the operations of the Pork segment, Seaboard has contract grower finishing agreements in place with farmers to raise a portion of Seaboard's hogs according to Seaboard's specifications under long-term service agreements. Under the terms of the agreements, additional payments would be required if the grower achieves certain performance standards. The contract grower finishing obligations shown above do not reflect these incentive payments which, given current operating performance, total approximately $1,500,000 per year. In the event the farmer is unable to perform at an acceptable level, Seaboard has the right to terminate the contract. During the years ended 2006, 2005 and 2004, Seaboard paid $13,646,000, $12,970,000 and $10,099,000, respectively, under contract grower finishing agreements.

Capital Expenditures

1.116

CLEAR CHANNEL COMMUNICATIONS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Commitments and Contingencies

The Company has minimum franchise payments associated with non-cancelable contracts that enable it to display advertising on such media as buses, taxis, trains, bus shelters and terminals, as well as other similar type surfaces. The majority of these contracts contain rent provisions that are calculated as either the greater of a percentage of the relevant advertising revenue or a specified guaranteed minimum annual payment. The Company has various contracts in its radio broadcasting operations related to program rights and music license fees. In addition, the Company has commitments relating to required purchases of property, plant, and equipment under certain street furniture contracts, as well as construction commitments for facilities.

As of December 31, 2006, the Company's future minimum rental commitments under non-cancelable operating lease agreements with terms in excess of one year, minimum payments under non-cancelable contracts in excess of one year, and capital expenditure commitments consist of the following:

(In thousands)	Non-Cancelable Operating Leases	Non-Cancelable Contracts	Capital Expenditures
2007	$ 318,652	$ 673,672	$ 95,032
2008	296,239	544,580	49,990
2009	262,776	434,129	15,252
2010	220,667	260,566	8,853
2011	181,769	210,903	4,612
Thereafter	948,873	690,243	7,730
Total	$2,228,976	$2,814,093	$181,469

Additional Payments Related to Acquisitions

1.117

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Acquisitions

On August 29, 2006, the Company acquired certain assets, properties and operations of Sweater.com, Inc. ("Sweater.com"), a designer and marketer of high quality women's knitwear, tops and related products sold to leading specialty stores under its One Girl Who . . . brand and directly through its Sweater.com website.

The purchase price for Sweater.com as of the acquisition date was $12.4 million. Additional cash purchase consideration is due if Sweater.com achieves certain specified financial performance targets over a five-year period commencing December 1, 2006. This additional contingent cash purchase consideration is calculated based on a formula applied to operating results. A minimum level of performance, as defined in the purchase agreement, must be achieved during any of the annual periods in order for the additional cash consideration to be paid. At the minimum level of performance (annualized operating earnings, as defined in the purchase agreement, of at least $2.0 million), additional annual consideration of $.5 million would be paid over the five year period commencing December 1, 2006. The amount of consideration increases with increased level of earnings and there is no maximum amount of incremental purchase price.

On October 31, 2005, the Company acquired certain assets, properties and operations of Simply Blue, Inc. and Seymour Blue, LLC (together "Simply Blue"), a designer and marketer of upscale women's denim products sold through leading specialty and department stores. The purchase price for Simply Blue as of the acquisition date was $21 million. Additional cash purchase consideration is due if Simply Blue achieves certain specified financial performance targets over a five-year period commencing December 1, 2005. This additional contingent cash purchase consideration is calculated based on a formula applied to operating results. A minimum level of performance, as defined in the purchase agreement,

must be achieved during any of the periods in order for the additional consideration to be paid. At the minimum level of performance (annualized operating earnings, as defined, of at least $6.7 million), additional annual consideration of $1.3 million, less deductions as defined, would be paid over the five year period commencing December 1, 2005. The amount of consideration increases with increased levels of earnings and there is no maximum amount of incremental purchase price. The additional consideration for fiscal 2006 of approximately $1.7 million was included in Other Accrued Expenses at November 30, 2006 and is payable during the first quarter of fiscal 2007.

On July 20, 2004, the Company acquired certain assets, properties and operations of Exclusively Misook, Inc. ("Misook"), a designer and marketer of upscale women's knit products sold through leading specialty and department stores. The purchase price for Misook as of the acquisition date was $32.6 million. Additional cash purchase consideration is due if Misook achieves certain specified financial performance targets over a five-year period commencing August 1, 2004. This additional contingent cash purchase consideration is calculated based on a formula applied to operating results. A minimum level of performance, as defined in the purchase agreement, must be achieved during any of the periods in order for additional consideration to be paid. The additional consideration applicable to the fiscal year ending November 30, 2006 of approximately $4.7 million was included in Other Accrued Expenses at November 30, 2006 and is payable during the first quarter of fiscal 2007. The additional consideration applicable to fiscal 2005 and paid in the first quarter of fiscal 2006 was approximately $3.8 million. At the minimum level of performance (annualized operating earnings, as defined, of at least $12 million), additional annual consideration of $3.6 million would be paid over the five year period following the acquisition. The amount of consideration increases with increased levels of earnings and there is no maximum amount of incremental purchase price. If the Misook business is sold within five years of the acquisition date ("Sale Transaction"), the purchase agreement provides, at the option of the seller, for a lump sum payment covering the remaining earnout period based on the average annual contingent consideration earned prior to the date of the Sale Transaction.

Marketing Agreement

1.118

SABRE HOLDINGS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Significant Transactions and Events

Long-Term Full Content Agreements

Sabre Travel Network has signed new long-term full content agreements with the following large U.S. airlines: American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines and US Airways, which had full content contracts up for renewal, and AirTran Airways, Alaska Airlines, and JetBlue Airways, which did not previously have long-term full content contracts. The US Airways agreement also includes America West, which did not previously have a long-term full content contract. The new agreements are for five to seven years and, like the original DCA 3-year agreements, require participating airlines to provide all *Sabre* GDS users long-term, broad access to schedules, seat availability and published fares, including Web fares and other promotional fares. These agreements also generally require participating airlines to furnish to passengers booked through the *Sabre* GDS the same customer perquisites and amenities as those afforded to passengers booked through other GDSs and websites.

AOL Agreement

In 1999, we entered into an agreement with America Online, Inc. ("AOL") that provided, among other things, that Travelocity would be the exclusive reservations engine for AOL. On January 21, 2004, we revised the terms of and extended our agreement with AOL through March 2006. In March 2006, we again extended the terms and now have an agreement through March 2009, which includes an option to exit the contract in March 2008. Under the terms of the extension, Travelocity will have lower fixed payment obligations. We also maintained terms that reduce the fixed payment if AOL does not meet certain revenue targets. This variable payment is currently estimated to be $12 million over the 3-year term of the agreement plus a fixed financial commitment of $6 million also to be paid over the term of the agreement. Travelocity continues to be the exclusive reservations engine for AOL's Internet properties under the revised agreement. The revised terms also allow AOL to continue to expand in the travel search arena through its sites and partners. At December 31, 2005, we had remaining $6 million of unamortized fixed payments paid under the original contract, which was extended through March 2006, which was recognized in the first quarter of 2006. We recognized $4 million in 2006 for the extension of the contract through March 2009.

Licensing Agreement

1.119

ELECTRONIC ARTS INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7) Royalties and Licenses

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers and (3) co-publishing and/or distribution affiliates. License royalties consist of payments made to celebrities, professional sports organizations, movie studios and other organizations for our use of their trademarks, copyrights, personal publicity rights, content and/or other intellectual property. Royalty payments to independent software developers are payments for the development of intellectual property related to our games. Co-publishing and distribution royalties are payments made to third parties for delivery of product.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and

subsequently paid. These royalty-based obligations are generally expensed to cost of goods sold generally at the greater of the contractual rate or an effective royalty rate based on expected net product sales. Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally in connection with the development of a particular product and, therefore, we are generally subject to development risk prior to the release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed as research and development as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of goods sold generally at the greater of the contractual rate or an effective royalty rate based on expected net product sales.

Our contracts with some licensors include minimum guaranteed royalty payments which are initially recorded as an asset and as a liability at the contractual amount when no significant performance remains with the licensor. When significant performance remains with the licensor, we record royalty payments as an asset when actually paid and as a liability when incurred, rather than upon execution of the contract. Minimum royalty payment obligations are classified as current liabilities to the extent such royalty payments are contractually due within the next twelve months. As of March 31, 2006 and 2005, approximately $9 million and $51 million, respectively, of minimum guaranteed royalty obligations had been recognized and are included in the royalty-related assets and accrual tables below.

Each quarter, we also evaluate the future realization of our royalty-based assets as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments determined before the launch of a product are charged to research and development expense. Impairments determined post-launch are charged to cost of goods sold. In either case, we rely on estimated revenue to evaluate the future realization of prepaid royalties and commitments. If actual sales or revised revenue estimates fall below the initial revenue estimate, then the actual charge taken may be greater in any given quarter than anticipated. During fiscal 2006, 2005 and 2004, we recorded impairment charges of $16 million, $8 million and $2 million, respectively.

The current and long-term portions of prepaid royalties and minimum guaranteed royalty-related assets, included in other current assets and other assets, consisted of (in millions):

	2006	2005
Other current assets	$ 76	$ 59
Other assets	55	76
Royalty-related assets	$131	$135

At any given time, depending on the timing of our payments to our co-publishing and/or distribution affiliates, content licensors and/or independent software developers, we recognize unpaid royalty amounts due to these parties as either accounts payable or accrued liabilities. The current and long-term portions of accrued royalties, included in accrued and other current liabilities as well as other liabilities, consisted of (in millions):

	2006	2005
Accrued and other current liabilities	$82	$ 88
Other liabilities	7	33
Royalty-related liabilities	$89	$121

In addition, as of March 31, 2006, we were committed to pay approximately $1,557 million to co-publishing and/or distribution affiliates and content licensors, but significant performance remained with the counterparty (i.e., delivery of the product or content or other factors) and such commitments were therefore not recorded in our Consolidated Financial Statements. See Note 9 of the Notes to Consolidated Financial Statements.

9) (In Part): Commitments and Contingencies

Development, Celebrity, League and Content Licenses: Payments and Commitments

The products we produce in our studios are designed and created by our employee designers, artists, software programmers and by non-employee software developers ("independent artists" or "third-party developers"). We typically advance development funds to the independent artists and third-party developers during development of our games, usually in installment payments made upon the completion of specified development milestones. Contractually, these payments are generally considered advances against subsequent royalties on the sales of the products. These terms are set forth in written agreements entered into with the independent artists and third-party developers.

In addition, we have certain celebrity, league and content license contracts that contain minimum guarantee payments and marketing commitments that are not dependent on any deliverables. Celebrities and organizations with whom we have contracts include: FIFA, FIFPRO Foundation and UEFA (professional soccer); NASCAR and ISC (stock car racing); National Basketball Association (professional basketball); PGA TOUR, Tiger Woods and Pebble Beach (professional golf); National Hockey League and NHL Players' Association (professional hockey); Warner Bros. (Harry Potter, Batman and Superman); New Line Productions and Saul Zaentz Company (The Lord of the Rings); Marvel Enterprises (fighting); National Football League Properties, Arena Football League and PLAYERS Inc. (professional football); Collegiate Licensing Company (collegiate football, basketball and baseball); Simcoh (Def Jam); Viacom Consumer Products (The Godfather); Valve Corporation (Half-Life); ESPN (content in EA SPORTS™ games); Twentieth Century Fox Licensing and Merchandising (The Simpsons); Lamborghini, McLaren and Porsche (car licenses for *Need for Speed*); and mobile game rights with PopCap Games and The Tetris Company, These developer and content license commitments represent the sum of (1) the cash payments due under non-royalty-bearing licenses and services agreements and (2) the minimum guaranteed payments and advances against royalties due under royalty-bearing licenses and services agreements, the majority of which are conditional upon performance by the counterparty. These minimum guarantee payments and any related marketing commitments are included in the table below.

The following table summarizes our minimum contractual obligations and commercial commitments as of March 31, 2006 (in millions):

	Contractual Obligations				Commercial Commitments	
	Leases	Developer/ Licensor Commitments[1]	Marketing	Other Purchase Obligations	Letter of Credit, Bank and Other Guarantees	Total
2007	$ 36	$ 155	$ 45	$7	$4	$ 247
2008	28	144	30	—	—	202
2009	24	152	31	—	—	207
2010	18	140	31	—	—	189
2011	14	275	31	—	—	320
Thereafter	30	700	186	—	—	916
Total	$150	$1,566	$354	$7	$4	$2,081

[1] Developer/licensor commitments include $9 million of commitments to developers or licensors that have been recorded in current and long-term liabilities and a corresponding amount in current and long-term assets in our Consolidated Balance Sheet as of March 31, 2006 because payment is not contingent upon performance by the developer or licensor.

Employment Contracts

1.120

LAS VEGAS SANDS CORP. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments and Contingencies

Other Ventures and Commitments

The Company has entered into employment agreements with seven of the Company's senior executives, with remaining terms of one to three years. As of December 31, 2006, the Company was obligated to make future payments as follows (in thousands):

2007	$ 8,380
2008	8,123
2009	7,437
Total minimum payments	$23,940

Financing/Support Agreement

1.121

LOCKHEED MARTIN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Acquisitions and Divestitures

United Launch Alliance

On December 1, 2006, we completed a transaction with The Boeing Company (Boeing) that resulted in the formation of United Launch Alliance, LLC (ULA), a joint venture which combines the production, engineering, test and launch operations associated with U.S. Government launches of our Atlas launch vehicles and Boeing's Delta launch vehicles. Under the terms of the joint venture master agreement, Atlas and Delta expendable launch vehicles will continue to be available as alternatives on individual launch missions. The joint venture is a limited liability company in which we and Boeing each own 50%. We are accounting for our investment in ULA under the equity method of accounting. We contributed assets to ULA, and ULA assumed liabilities of our Atlas business in exchange for our 50% ownership interest. The net book value of the assets contributed and liabilities assumed was approximately $200 million at December 1, 2006, the date of closing.

We accounted for the transfer at net book value, with no gain or loss recognized. If our proportionate share of ULA's net assets exceeds the book value of our investment, we would recognize the difference ratably over the next 10 years in other income and expenses. We currently anticipate that our 50% ownership share of ULA's net assets will exceed the book value of our investment in ULA, but that amount remains subject to adjustment based on the final working capital and value of other assets which we and Boeing contributed to form ULA. In addition, under our agreement with Boeing, we could be required to make an additional cash contribution to ULA based on changes in the working capital of the business and other assets we contributed. Any additional capital contribution would have the effect of increasing our investment and decreasing the difference between our investment and our share of ULA's net assets. This would decrease the amount that we would amortize and recognize in other income and expenses in the future. We currently estimate that the amount by which our share of ULA's net assets will exceed our investment will be between $200 million and $300 million. Both we and Boeing also have agreed to provide approximately $225 million in additional funding to ULA. As of December 31, 2006, we had provided $3 million of additional funding to ULA (see Note 14). The formation of ULA did not have a material impact on our consolidated results of operations or financial position for 2006.

As required by the joint venture master agreement, following closing of the ULA transaction, we and Boeing filed a joint stipulation for dismissal of all claims against each other in the pending civil litigation related to a previous competition for launches under the U.S. Air Force EELV program, and to permanently close the case. On December 13, 2006, the U.S. District Court issued an order of dismissal with prejudice, dismissing all claims and counterclaims in the case.

Note 14 (In Part): Legal Proceedings, Commitments and Contingencies

Letters of Credit and Other Matters (In Part)

In connection with the formation of ULA (see Note 2), both we and Boeing have each committed to providing up to $25 million in additional capital contributions and $200 million in other financial support to ULA, as required. The non-capital financial support will be made in the form of a revolving credit facility between us and ULA or guarantees of ULA financing with third parties, in either case, to the extent necessary for ULA to meet its working capital needs. We have agreed to provide this support for at least five years, and would expect to fund our requirements with cash on hand. To satisfy our non-capital financial support commitment, we and Boeing put into place at closing a revolving credit agreement with ULA. At December 31, 2006, we had made $3 million in payments under our capital contribution commitment, and no amounts had been drawn on the revolving credit agreement. In addition, both we and Boeing have cross-indemnified ULA related to certain financial support arrangements (e.g., letters of credit, surety bonds or foreign exchange contracts provided by either party) and guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations and that it will not be necessary to make payments under the cross-indemnities.

FINANCIAL INSTRUMENTS

1.122 The Financial Accounting Standards Board (FASB) has issued several statements concerning financial instruments. SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires reporting entities to disclose the fair value of financial instruments, and as amended by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, includes the disclosure requirements of credit risk concentrations from SFAS No. 105, *Disclosure of Information About Financial Instruments With Off-Balance-Sheet Risk and Financial Instruments With Concentrations of Credit Risk. SFAS No. 133* establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The Statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which amended *SFAS No. 133*, addresses implementation issues for certain derivative instruments and hedging activities. SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, requires that an issuer classify certain financial instruments with characteristics of both liabilities and equity as liabilities. Prior to *SFAS No. 150*, many of these freestanding financial instruments were classified as equity. Effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments,* amends *SFAS No. 133. SFAS No. 155* simplifies the accounting for certain hybrid financial instruments by permitting fair value remeasurement of any hybrid financial instrument that contains an embedded derivative that would require bifurcation, including beneficial interests in securitized financial assets.

1.123 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged, SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While *SFAS No. 157* does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as *SFAS No. 107, 133, 150, and 155. SFAS No. 157* clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. *SFAS No. 157* emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, *SFAS No. 157* specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs. For assets and liabilities measured at fair value on a recurring basis, *SFAS No. 157* expands the required disclosures concerning the inputs used to measure fair value, and encourages the combination of fair value information disclosed under the standard with those disclosed under other pronouncements, such as *SFAS No. 107.*

1.124 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with conditioned earlier application allowed, SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Further, under *SFAS No. 159* a business entity shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, and applied to the entire instrument, not just a portion of it. *SFAS No. 159* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. *SFAS No. 159* does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included in pronouncements, such as *SFAS Nos. 107 and 157.*

1.125 Table 1-13 lists the frequencies of the various types of financial instruments of the survey companies. 281 survey companies entered into interest rate swaps. 313 survey companies entered into forward foreign currency contracts, options, or foreign exchange contracts. Swaps, futures, forward

contracts, collars, and options were common types of commodity contracts reported by the survey companies. 122 survey companies entered into these types of contracts. The most frequent bases used by the survey companies to estimate fair value were broker quotes or market quotes.

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

1.127

TABLE 1-13: FINANCIAL INSTRUMENTS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Foreign currency contracts	330	326	309	312
Interest rate contracts	297	309	331	335
Commodity contracts	128	107	112	112
Guarantees/indemnifications:				
Debt	238	233	232	227
Lease payments	102	100	91	75
Contract performance	94	90	65	58
Environmental	61	44	45	66
Employee related	49	38	36	N/C*
Product/service related	49	10	20	N/C*
Intellectual property related	39	35	60	N/C*
Tax	39	23	46	34
Other	56	34	33	97
Letters of credit	353	343	326	304
Sale of receivables with recourse	26	30	33	20

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

DERIVATIVE FINANCIAL INSTRUMENTS

1.128

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Principal Accounting Policies and Related Financial Information

Foregin Currency Translation (In Part)

The value of the U.S. dollar and other currencies in which we operate continually fluctuate. Results of operations and financial position for all the years presented have been affected by such fluctuations. We enter into certain foreign exchange contracts to mitigate the financial risk associated with this fluctuation as discussed in Note 17. These contracts typically qualify for hedge accounting. See "Derivative financial instruments" below and Note 17.

Derivative Financial Instruments

We mitigate certain financial exposures, including currency risk, interest rate risk, and energy purchase exposures, through a controlled program of risk management that includes the use of derivative financial instruments. We enter into foreign exchange contracts, including forward and purchased option contracts, to reduce the effects of fluctuating foreign currency exchange rates.

We recognize all derivatives on the balance sheet at fair value. On the date the derivative instrument is entered into, we generally designate the derivative as either a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge). We record in accumulated other comprehensive income or loss changes in the fair value of derivatives that are designated as and meet all the required criteria for a cash flow hedge. We then reclassify these amounts into earnings as the underlying hedged item affects earnings. We record immediately in earnings changes in the fair value of derivatives that are not designated as hedges.

We formally document all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes relating derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If we determine that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, we discontinue hedge accounting with respect to that derivative prospectively. We had no ineffective gains or losses related to our hedges for 2006. We recorded a net gain for the ineffective portion of our hedges of $2.9 million in 2005 and $1.0 million in 2004.

Note 17 (In Part): Financial Instruments and Risk Management

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, trade receivables, other current assets, accounts payable, and amounts included in investments and accruals meeting the definition of financial instruments. These financial instruments are stated at their carrying value, which is a reasonable estimate of fair value.

Financial Instrument	Valuation Method
Foreign Exchange Forward Contracts	Estimated amounts that would be received or paid to terminate the contracts at the reporting date based on current market prices for applicable currencies.
Energy Forward Contracts	Estimated amounts that would be received or paid to terminate the contracts at the reporting date based on quoted market prices for applicable commodities.
Debt	Our estimates and information obtained from independent third parties using market data, such as bid/ask spreads for the last business day of the year.

The following table of the estimated fair value of financial instruments is based on estimated fair-value amounts that have been determined using available market information and appropriate valuation methods. Accordingly, the estimates

presented may not be indicative of the amounts that we would realize in a current market exchange and do not represent potential gains or losses on these agreements.

	2006		2005	
(In millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets (liabilities)				
Foreign Exchange Forward Contracts	$ 0.9	$ 0.9	$ 3.1	$ 3.1
Energy Forward Contracts	(25.7)	(25.7)	20.1	20.1
Debt	(629.7)	(646.5)	(720.2)	(732.2)

Use of Derivative Financial Instruments to Manage Risk

We record foreign currency and energy contracts at fair value as assets or liabilities and the related gains or losses are deferred in stockholders' equity as a component of accumulated other comprehensive income or loss. At December 31, 2006 the net deferred hedging loss in accumulated other comprehensive income was $15.7 million. At December 31, 2005 the net deferred hedging gain in accumulated other comprehensive income was $18.0 million. We expect approximately $15.4 million of the 2006 losses to be realized in earnings over the twelve months ending December 31, 2007, as the underlying hedging transactions are realized. At various times, subsequent to December 31, 2007 we expect losses from cash flow hedge transactions to total, in the aggregate, approximately, $0.3 million. We recognize derivative gains and losses in the "Costs of sales or services" line in the consolidated statements of income.

Foreign Currency Exchange Risk Management

We conduct business in many foreign countries, exposing earnings, cash flows, and our financial position to foreign currency risks. The majority of these risks arise as a result of foreign currency transactions. Our policy is to minimize exposure to adverse changes in currency exchange rates. This is accomplished through a controlled program of risk management that includes the use of foreign currency debt and forward foreign exchange contracts. We also use forward foreign exchange contracts to hedge firm and highly anticipated foreign currency cash flows, with an objective of balancing currency risk to provide adequate protection from significant fluctuations in the currency markets.

The primary currency movements for which we have exchange-rate exposure are the U.S. dollar versus the euro, the euro versus the Norwegian krone, the U.S. dollar versus the Japanese yen, and the U.S. dollar versus the Brazilian real.

Hedge ineffectiveness and the portion of derivative gains or losses excluded from assessments of hedge effectiveness, related to our outstanding cash flow hedges and which were recorded to earnings during the years ended December 31, 2006, 2005 and 2004 were immaterial.

We hold certain forward contracts that have not been designated as hedging instruments. Contracts used to hedge the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities are not designated as hedging instruments, and changes in the fair value of these items are recorded in earnings. The net gains recorded in earnings for contracts not designated as hedging instruments in 2006, 2005 and 2004 were $0.3 million, $1.4 million and $3.8 million, respectively.

Commodity Price Risk

We are exposed to risks in energy costs due to fluctuations in energy prices, particularly natural gas, which we attempt to mitigate by hedging the cost of natural gas with futures contracts.

Hedge ineffectiveness and the portion of derivative gains or losses excluded from assessments of hedge effectiveness, related to our outstanding cash flow hedges recorded to earnings for the years ended December 31, 2005 and 2004 were $2.9 million and $1.0 million, respectively. We had no ineffective gains or losses related to our hedges for the year ended December 31, 2006.

Interest Rate Risk

We manage interest rate exposure by using interest rate swap agreements to achieve a targeted mix of fixed- and variable-rate debt. In the agreements, we exchange, at specified intervals, the difference between fixed- and variable-interest amounts calculated on an agreed-upon notional principal amount. In 2003, we entered into interest rate swaps with an aggregate notional principal amount of $100.0 million. These swaps, in which we exchange net amounts based on making payments derived from a floating-rate index and receiving payments on a fixed-rate basis, were used to hedge the 10.25 percent senior secured notes due 2009. In 2005, we terminated these swaps at a net cost of $2.7 million and redeemed the underlying debt.

1.129

NOBLE ENERGY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value of Financial Instruments (In Part)

The following methods and assumptions were used to estimate the fair values for each class of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between two willing parties.

Derivative Instruments

The fair value estimates for commodity fixed price swaps, basis swaps and costless collars use market quotes and discount rates to determine discounted expected future cash flows as of the date of the estimate. See Note 12—Derivative Instruments and Hedging Activities.

Note 12 Derivative Instruments and Hedging Activities

Cash Flow Hedges

We use various derivative instruments in connection with anticipated crude oil and natural gas sales to minimize the impact of product price fluctuations. We account for derivative instruments and hedging activities in accordance with SFAS 133 and have elected to designate the majority of our derivative instruments as cash flow hedges.

Effects of cash flow hedges on oil and gas sales were as follows:

(In thousands)	2006	2005	2004
Reduction of crude oil sales	$190,730	$140,486	$50,736
Reduction of natural gas sales	41,698	97,206	10,556
Total	$232,428	$237,692	$61,292

We recognized net ineffectiveness losses of $10 million in 2006 and $1 million in 2005. The net ineffectiveness loss in 2004 was de minimis.

If it becomes probable that the hedging instrument is no longer highly effective, the hedging instrument loses hedge accounting treatment. All current mark-to-market gains and losses are recorded in earnings and all accumulated gains or losses recorded in AOCL related to the hedging instrument are also reclassified to earnings. As a result of the impacts of Hurricanes Katrina and Rita on the timing of forecasted production during the fourth quarter of 2005, derivative instruments hedging approximately 6,000 barrels per day of crude oil and 40,000 MMBtu per day of natural gas no longer qualified for hedge accounting. Accordingly, beginning October 1, 2005 the changes in fair value of these derivative contracts were recognized in our results of operations, causing a mark-to-market gain of $20 million in 2005. In addition, the delay in the timing of production resulted in a loss of $52 million in fourth quarter 2005 related to amounts previously recorded in AOCL. In first quarter 2006, the changes in fair value of these derivative contracts caused a mark-to-market gain of $39 million, and the delay in the timing of our production resulted in a loss of $25 million related to amounts previously recorded in AOCL. These gains and losses are included in loss on derivative instruments in the consolidated statements of operations. These derivative instruments were redesignated as cash flow hedges in February 2006.

We have hedging instruments that were designated as cash flow hedges of production from our Gulf of Mexico shelf properties. We sold these shelf properties during the third quarter 2006. During the second quarter 2006, when it became probable that forecasted production would not occur due to the pending sale, we determined that deferral of losses in AOCL related to this forecasted production was no longer appropriate under SFAS 133. As a result, we reclassified a pretax charge of $399 million related to the cash flow hedges from AOCL to earnings. This amount is included in loss on derivative instruments in the consolidated statements of operations. We redesignated the majority of these instruments as cash flow hedges for other North America production. Future earnings will reflect only those changes in derivative fair value that occur after the date of redesignation and are deferred in AOCL until the forecasted production occurs. In addition, a mark-to-market gain of $3 million relating to a hedging instrument that was not redesignated is included in loss on derivative instruments during 2006.

No gains or losses were reclassified from AOCL into earnings as a result of the discontinuance of hedge accounting treatment during 2004.

At December 31, 2006, we had entered into future costless collar transactions related to crude oil and natural gas production as follows:

	Natural Gas			Crude Oil		
		Average Price per MMBtu			Average Price per Bbl	
Production Period	MMBtupd	Floor	Ceiling	Bopd	Floor	Ceiling
2007 (NYMEX)	—	—	—	2,700	$60.00	$74.30
2007 (CIG)[1]	12,000	$6.50	$9.50	—	—	—
2007 (Brent)	—	—	—	6,748	45.00	70.63
2008 (NYMEX)	—	—	—	3,100	60.00	72.40
2008 (CIG)	14,000	6.75	8.70	—	—	—
2008 (Brent)	—	—	—	4,074	45.00	66.52
2009 (NYMEX)	—	—	—	3,700	60.00	70.00
2009 (CIG)	15,000	6.00	9.90	—	—	—
2009 (Brent)	—	—	—	3,074	45.00	63.05
2010 (NYMEX)	—	—	—	3,500	55.00	73.80
2010 (CIG)	15,000	6.25	8.10	—	—	—

(1) Colorado Interstate Gas

At December 31, 2006, we had entered into future fixed price swap transactions related to crude oil and natural gas production as follows:

	Natural Gas		Crude Oil	
Production Period	MMBtupd	Average Price per MMBtu	Bopd	Average Price per Bbl
2007 (NYMEX)	170,000[(1)]	$6.04	17,100	$39.19
2008 (NYMEX)	170,000[(1)]	5.67	16,500	38.23

(1) Includes fixed price swaps of 140,000 MMBtupd of natural gas for 2007 and 150,000 MMBtupd of natural gas for 2008 for which cash flow hedge accounting was discontinued at June 30, 2006 due to the pending sale of Gulf of Mexico shelf properties. These swaps (with associated basis swaps) were redesignated as cash flow hedges in the second quarter 2006.

At December 31, 2006, we had entered into basis swap transactions related to natural gas production. These basis swaps have been combined with NYMEX commodity swaps and designated as cash flow hedges. The basis swaps are as follows:

	Natural Gas	
Production Period	MMBtupd	Average Differential per MMBtu
2007 (CIG vs. NYMEX)	100,000	$2.02
2007 (ANR[(1)] vs. NYMEX)	30,000	1.17
2007 (PEPL[(2)] vs. NYMEX)	10,000	1.11
2008 (CIG vs. NYMEX)	100,000	1.66
2008 (ANR vs. NYMEX)	40,000	1.01
2008 (PEPL vs. NYMEX)	10,000	0.98

(1) ANR Pipeline
(2) Panhandle Eastern Pipe Line

The costless collar, fixed price swap and basis swap contracts entitle us (floating price payor) to receive settlement from the counterparty (fixed price payor) for each calculation period in amounts, if any, by which the settlement price for the scheduled trading days applicable for each calculation period is less than the fixed price or floor price. We would pay the counterparty if the settlement price for the scheduled trading day applicable for each calculation period is more than the fixed price or ceiling price. The amount payable by us, if the floating price is above the fixed or ceiling price, is the product of the notional quantity per calculation period and the excess, if any, of the floating price over the fixed or ceiling price in respect of each calculation period. The amount payable by the counterparty, if the floating price is below the fixed or floor price, is the product of the notional quantity per calculation period and the excess, if any, of the fixed or floor price over the floating price in respect of each calculation period.

Accumulated Other Comprehensive Loss

As of December 31, 2006 and 2005, the balance in AOCL included net deferred losses of $104 million and $764 million, respectively, related to the fair value of crude oil and natural gas derivative instruments accounted for as cash flow hedges. The net deferred losses are net of deferred income tax benefit of $63 million and $411 million, respectively.

If commodity prices were to stay the same as they were at December 31, 2006, approximately $21 million of deferred losses, net of tax, related to the fair values of crude oil and natural gas derivative instruments included in AOCL at December 31, 2006 would be reclassified to earnings during the next twelve months as the forecasted transactions occur, and would be recorded as a reduction in oil and gas sales of approximately $34 million before tax. Any actual increase or decrease in revenues will depend upon market conditions over the period during which the forecasted transactions occur. All current crude oil and natural gas derivative instruments, except those described in the following paragraph, are designated as cash flow hedges. All forecasted transactions currently being hedged are expected to occur by December 2010.

Other Derivative Instruments

In addition to the derivative instruments described above, NEMI, from time to time, employs derivative instruments in connection with purchases and sales of production in order to establish a fixed margin and mitigate the risk of price volatility. Most of the purchases are on an index basis; however, purchasers in the markets in which NEMI sells often require fixed or NYMEX-related pricing. NEMI may use a derivative instrument to convert the fixed or NYMEX sale to an index basis thereby determining the margin and minimizing the risk of price volatility.

Derivative instruments used in connection with purchases and sales of third-party production are reflected at fair value as either assets or liabilities in the consolidated balance sheets. We record gains and losses on derivative instruments using mark-to-market accounting. Under this accounting method, the changes in the market value of outstanding derivative instruments are recognized as gains or losses in the period of change. Gains and losses related to changes in fair value are included in gathering, marketing and processing revenues. We recorded a net gain of $1 million during 2006 and a net loss of $2 million during 2005 related to derivative instruments. Net gains and losses for 2004 were de minimis.

Receivables/Payables Related to Crude Oil and Natural Gas Derivative Instruments

The fair values of derivative instruments included in the consolidated balance sheets are as follows:

(In thousands)	2006	2005
Derivative instruments (current asset)	$ 35,242	$ 29,258
Derivative instruments (long-term asset)	2,862	17,259
Derivative instruments (current liability)	(254,625)	(445,939)
Derivative instruments (long-term liability)	(328,875)	(757,509)

Interest Rate Lock

We occasionally enter into forward contracts or swap agreements to hedge exposure to interest rate risk. Changes in fair value of interest rate swaps or interest rate "locks" used as cash flow hedges are reported in AOCL, to the extent the hedge is effective, until the forecasted transaction occurs, at which time they are recorded as adjustments to interest expense over the term of the related notes. At December 31, 2006, AOCL included a deferred loss of $3 million, net of tax, related to an interest rate swap which was settled in 2004. This amount is being reclassified into earnings as adjustments to interest expense over the term of the 5¼% senior notes due 2014. At December 31, 2005, the amount of deferred loss included in AOCL was $4 million, net of tax. The amounts amortized to interest expense were $0.8 million, $0.8 million and $0.5 million for the years ending December 31, 2006, 2005 and 2004, respectively.

1.130

ROCKWELL AUTOMATION, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Derivative Financial Instruments

We use derivative financial instruments in the form of foreign currency forward exchange contracts and interest rate swap contracts to manage foreign currency and interest rate risks. We use foreign currency forward exchange contracts to offset changes in the amount of future cash flows associated with intercompany transactions expected to occur within the next three years (cash flow hedges) and changes in the fair value of certain assets and liabilities resulting from intercompany loans and other transactions with third parties denominated in foreign currencies. We sometimes use interest rate swap contracts to manage the balance of fixed and floating rate debt. Our accounting method for derivative financial instruments is based upon the designation of such instruments as hedges under accounting principles generally accepted in the United States. It is our policy to execute such instruments with creditworthy banks and not to enter into derivative financial instruments for speculative purposes. All foreign currency forward exchange contracts are denominated in currencies of major industrial countries.

6 (In Part): Long-term Debt

In September 2002, we entered into an interest rate swap contract (the Swap) that effectively converted our $350.0 million aggregate principal amount of 6.15% notes, payable in 2008, to floating rate debt based on six-month LIBOR. The floating rate was 8.02 percent at September 30, 2006 and 6.23 percent at September 30, 2005. As permitted by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended, we have designated the Swap as a fair value hedge. Accordingly, the fair value of the Swap was recorded in other liabilities on the Consolidated Balance Sheet with a corresponding adjustment to the carrying value of the underlying debt at September 30, 2006 and 2005. The fair value of the Swap, based upon quoted market prices for contracts with similar maturities, was a liability of $6.8 million at September 30, 2006 and a liability of $6.3 million at September 30, 2005.

9. Financial Instruments

Our financial instruments include long-term debt, foreign currency forward exchange contracts and an interest rate swap. The following is a summary of the carrying value and fair value of our financial instruments (in millions):

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$(748.2)	$(803.7)	$(748.2)	$(826.2)
Foreign currency forward exchange contracts	(6.6)	(6.6)	18.2	18.2
Interest rate swap	(6.8)	(6.8)	(6.3)	(6.3)

We base the fair value of long-term debt upon quoted market prices for the same or similar issues. We base the fair value of foreign currency forward exchange contracts on quoted market prices for contracts with similar maturities.

Foreign currency forward exchange contracts provide for the purchase or sale of foreign currencies at specified future dates at specified exchange rates. At September 30, 2006 and 2005, we had outstanding foreign currency forward exchange contracts primarily consisting of contracts relating to the euro, British pound sterling, South Korean won and Swiss franc. The foreign currency forward exchange contracts are recorded in other current assets in the amounts of $1.9 million as of September 30, 2006 and $22.2 million as of September 30, 2005 and other current liabilities in the amounts of $8.5 million as of September 30, 2006 and $4.0 million as of September 30, 2005. We do not anticipate any material adverse effect on our results of operations or financial position relating to these foreign currency forward exchange contracts. We have designated certain foreign currency forward exchange contracts related to forecasted intercompany transactions as cash flow hedges. The amount recognized in earnings as a result of the ineffectiveness of cash flow hedges was not significant.

We also hold financial instruments consisting of cash, accounts receivable, accounts payable and short-term debt. The carrying value of these assets and liabilities as reported in our Consolidated Balance Sheet approximate fair value.

1.131

SMITHFIELD FOODS, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial Instruments and Hedging Activities

In accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS 133), all commodity derivatives are reflected at their fair value and are recorded in current assets and current liabilities in the

consolidated balance sheets as of April 30, 2006 and May 1, 2005. Commodity derivative instruments consist primarily of exchange-traded futures contracts; however, the Company enters into exchange-traded option contracts, as well. In addition to commodity derivatives, the Company also enters into treasury derivatives. Treasury derivatives, which consist of interest rate and foreign exchange instruments, are also recorded at fair value with the resultant asset or liability recorded as a current asset or liability with the offset adjusting the carrying value of the underlying treasury instrument, other comprehensive income (loss) or net income, as appropriate.

The accounting for changes in the fair value of a derivative depends upon whether it has been designated in a hedging relationship and on the type of hedging relationship. To qualify for designation in a hedging relationship, specific criteria must be met and the appropriate documentation maintained. Hedging relationships are established pursuant to the Company's risk management policies and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. If a derivative ceases to be a highly effective hedge, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative are recognized in earnings each period. Changes in the fair values of derivatives not designated in a hedging relationship are recognized in earings each period.

For derivatives designated as a hedge of a recognized asset or liability or an unrecognized firm commitment (fair value hedges), the changes in the fair value of the derivative as well as changes in the fair value of the hedged item attributable to the hedged risk are recognized each period in earnings. If a firm commitment designated as the hedged item in a fair value hedge is terminated or otherwise no longer qualifies as the hedged item, any asset or liability previously recorded as part of the hedged item is recognized currently in earnings.

For derivatives designated as a hedge of a forecasted transaction or of the variability of cash flows related to a recognized asset or liability (cash flow hedges), the effective portion of the change in fair value of the derivative is reported in other comprehensive income (loss) and reclassified into earnings in the period in which the hedged item affects earnings. Amounts excluded from the effectiveness calculation and any ineffective portion of the change in fair value of the derivative are recognized currently in earnings. Forecasted transactions designated as the hedged item in a cash flow hedge are regularly evaluated to assess whether they continue to be probable of occurring. If the forecasted transaction is no longer probable of occurring, any gain or loss deferred in accumulated other comprehensive income (loss) is recognized in earnings currently.

Note 8. Derivative Financial Instruments

The Company's meat processing and hog production operations use various raw materials, primarily live hogs, live cattle, corn and soybean meal, which are actively traded on commodity exchanges. The Company hedges these commodities when management determines conditions are appropriate to mitigate these price risks. While this hedging may limit the Company's ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. The Company attempts to closely match the commodity contract terms with the hedged item. The Company also enters into interest rate swaps to hedge exposure to changes in interest rates on certain financial instruments and foreign exchange forward contracts to hedge certain of its foreign currency exposure.

Cash Flow Hedges

The Company utilizes derivatives (primarily futures contracts) to manage its exposure to the variability in expected future cash flows attributable to commodity price risk associated with the forecasted purchase and sale of live hogs and the forecasted purchase of live cattle, corn and soybean meal. These derivatives have been designated as cash flow hedges.

Derivative gains or losses from these cash flow hedges are deferred in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged forecasted purchases or sales affect earnings. To match the underlying transaction being hedged, derivative gains or losses associated with anticipated purchases are recognized in cost of sales and amounts associated with anticipated sales are recognized in sales in the consolidated statement of income. Ineffectiveness related to the Company's cash flow hedges was not material in fiscal 2006, 2005 or 2004. There were no derivative gains or losses excluded from the assessment of hedge effectiveness and no hedges were discontinued during fiscal 2006, 2005 or 2004 as a result of it becoming probable that the forecasted transaction would not occur.

Fair Value Hedges

The Company's commodity price risk management strategy also includes derivative transactions (primarily futures contracts) that are designated as fair value hedges. These derivatives are designated as hedges of firm commitments to buy live hogs, live cattle, corn and soybean meal and hedges of live hog inventory. Derivative gains and losses from these fair value hedges are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. Gains and losses related to hedges of firm commitments and live hog inventory are recognized in cost of sales in the consolidated statement of income. Ineffectiveness related to the Company's fair value hedges was not material in fiscal 2006, 2005 or 2004. There were no derivative gains or losses excluded from the assessment of hedge effectiveness during fiscal 2006, 2005 or 2004.

Foreign Currency and Interest Rate Derivatives

In accordance with the Company's risk management policy, certain foreign currency and interest rate derivatives were executed in fiscal 2006, 2005 and 2004. These derivative instruments were primarily recorded as cash flow hedges or fair value hedges, as appropriate, and were not material to the results of operations.

The following table provides the fair value gain or (loss) of the Company's open derivative financial instruments as of April 30, 2006 and May 1, 2005.

(In millions)	2006	2005
Livestock	$ 2.7	$(1.6)
Grains	2.7	(3.2)
Interest rates	(7.5)	(5.2)
Foreign currency	(3.3)	(2.0)

As of April 30, 2006, 123 commodity futures contracts exceeded 12 months. As of April 30, 2006, the weighted average maturity of the Company's interest rate and foreign currency financial instruments is 20 months, with maximum maturities of 41 and 11 months, respectively. The Company believes the risk of default or nonperformance on contracts with counterparties is not significant.

The Company determines the fair value of public debt using quoted market prices and values all other debt using discounted cash flow techniques at estimated market prices for similar issues. As of April 30, 2006 and May 1, 2005, the fair value of long-term debt, based on the market value of debt with similar maturities and covenants, was approximately $2,525.7 million and $2,359.6 million, respectively.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Financial Guarantees/Indemnifications

1.132

ANALOGIC CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Commitments and Guarantees

The Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. Also, to the extent permitted by Massachusetts law, the Company's Articles of Organization require the Company to indemnify directors of the Company and the Company's by-laws require the Company to indemnify the present or former directors and officers of the Company and also permit indemnification of other employees and agents of the Company for whom the Board of Directors from time to time authorizes indemnification. In no instance, however, will indemnification be granted to a director otherwise entitled thereto who is determined to have (a) committed a breach of loyalty to the Company or its stockholders, (b) committed acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of the law, or (c) derived any improper personal benefit in connection with a particular transaction. Because no claim for indemnification has been made by any person covered by said agreements, and/or the relevant provisions of the Company's Articles of Organization or By-laws, the Company believes that its estimated exposure for these indemnification obligations is currently minimal. Accordingly, the Company has no liabilities recorded for these indemnity agreements and requirements as of July 31, 2006.

In November 2002, the FASB issued FIN No. 45 "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*" ("FIN 45").

FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. The following is a summary of agreements that the Company determined are within the scope of FIN 45.

The Company's standard original equipment manufacturing and supply agreements entered in the ordinary course of business typically contain an indemnification provision pursuant to which the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with any United States patent, or any copyright or other intellectual property infringement claim by any third party with respect to the Company's products. Such provisions generally survive termination or expiration of the agreements. The potential amount of future payments the Company could be required to make under these indemnification provisions is, in some instances, unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes that its estimated exposure on these agreements is currently minimal. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2006.

1.133

CHEVRON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars)

Note 23 (In Part): Other Contingencies and Commitments

Guarantees

At December 31, 2006, the company and its subsidiaries provided guarantees, either directly or indirectly, of $296 for notes and other contractual obligations of affiliated companies and $131 for third parties, as described by major category below. There are no amounts being carried as liabilities for the company's obligations under these guarantees.

The $296 in guarantees provided to affiliates related to borrowings for capital projects. These guarantees were undertaken to achieve lower interest rates and generally cover the construction periods of the capital projects. Included in these amounts are the company's guarantees of $214 associated with a construction completion guarantee for the debt financing of the company's equity interest in the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline project. Substantially all of the $296 guaranteed will expire between 2007 and 2011, with the remaining expiring by the end of 2015. Under the terms of the guarantees, the company would be required to fulfill the guarantee should an affiliate be in default of its loan terms, generally for the full amounts disclosed.

The $131 in guarantees provided on behalf of third parties related to construction loans to governments of certain of the company's international upstream operations. Substantially all of the $131 in guarantees expire by 2011, with the remainder expiring by 2015. The company would be required to perform under the terms of the guarantees should an entity be in default of its loan or contract terms, generally for the full amounts disclosed.

At December 31, 2006, Chevron also had outstanding guarantees for about $120 of Equilon debt and leases. Following the February 2002 disposition of its interest in Equilon, the company received an indemnification from Shell for any claims arising from the guarantees. The company has not recorded a liability for these guarantees. Approximately 50 percent of the amounts guaranteed will expire within the 2007 through 2011 period, with the guarantees of the remaining amounts expiring by 2019.

Indemnifications

The company provided certain indemnities of contingent liabilities of Equilon and Motiva to Shell and Saudi Refining, Inc., in connection with the February 2002 sale of the company's interests in those investments. The company would be required to perform if the indemnified liabilities become actual losses. Were that to occur, the company could be required to make future payments up to $300. Through the end of 2006, the company paid approximately $48 under these indemnities and continues to be obligated for possible additional indemnification payments in the future.

The company has also provided indemnities relating to contingent environmental liabilities related to assets originally contributed by Texaco to the Equilon and Motiva joint ventures and environmental conditions that existed prior to the formation of Equilon and Motiva or that occurred during the period of Texaco's ownership interest in the joint ventures. In general, the environmental conditions or events that are subject to these indemnities must have arisen prior to December 2001. Claims relating to Equilon indemnities must be asserted either as early as February 2007, or no later than February 2009, and claims relating to Motiva indemnities must be asserted either as early as February 2007, or no later than February 2012. Under the terms of these indemnities, there is no maximum limit on the amount of potential future payments. The company has not recorded any liabilities for possible claims under these indemnities. The company posts no assets as collateral and has made no payments under the indemnities.

The amounts payable for the indemnities described above are to be net of amounts recovered from insurance carriers and others and net of liabilities recorded by Equilon or Motiva prior to September 30, 2001, for any applicable incident.

In the acquisition of Unocal, the company assumed certain indemnities relating to contingent environmental liabilities associated with assets that were sold in 1997. Under the indemnification agreement, the company's liability is unlimited until April 2022, when the liability expires. The acquirer shares in certain environmental remediation costs up to a maximum obligation of $200, which had not been reached as of December 31, 2006.

1.134

EMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M (In Part): Commitments and Contingencies

Guarantees and Indemnification Obligations

EMC's subsidiaries have entered into arrangements with financial institutions for such institutions to provide guarantees for rent, taxes, insurance, leases, performance bonds, bid bonds and customs duties aggregating $57.7 million as of December 31, 2006. The guarantees vary in length of time. In connection with these arrangements, we have agreed to guarantee substantially all of the guarantees provided by these financial institutions.

We enter into agreements in the ordinary course of business with, among others, customers, resellers, OEMs, systems integrators and distributors. Most of these agreements require us to indemnify the other party against third-party claims alleging that an EMC product infringes a patent and/or copyright. Most of these agreements in which we license our trademarks to another party require us to indemnify the other party against third-party claims alleging that an EMC product infringes a trademark. Certain of these agreements require us to indemnify the other party against certain claims relating to property damage, personal injury or the acts or omissions of EMC, its employees, agents or representatives. In addition, from time to time we have made certain guarantees regarding the performance of our systems to our customers.

We have agreements with certain vendors, financial institutions, lessors and service providers pursuant to which we have agreed to indemnify the other party for specified matters, such as acts and omissions of EMC, its employees, agents or representatives.

We have procurement or license agreements with respect to technology that is used in our products and agreements in which we obtain rights to a product from an OEM. Under some of these agreements, we have agreed to indemnify the supplier for certain claims that may be brought against such party with respect to our acts or omissions relating to the supplied products or technologies.

We have agreed to indemnify the directors and executive officers of EMC and our subsidiaries, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or executive officer.

In connection with certain acquisitions, we have agreed to indemnify the current and former directors, officers and employees of the acquired company in accordance with the acquired company's by-laws and charter in effect immediately prior to the acquisition or in accordance with indemnification or similar agreements entered into by the acquired company and such persons. In a substantial majority of instances, we have maintained the acquired company's directors' and officers' insurance, which should enable us to recover a portion of any future amounts paid. These indemnities vary in length of time.

Based upon our historical experience and information known as of December 31, 2006, we believe our liability on the above guarantees and indemnities at December 31, 2006 is immaterial.

1.135

HILTON HOTELS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Commitments and Contingencies

We have established franchise financing programs with third party lenders to support the growth of our brands. As of December 31, 2006, we have provided guarantees of $16 million on loans outstanding under these programs. In addition, we have guaranteed $27 million of debt and other obligations of unconsolidated affiliates and third parties, bringing our total guarantees to approximately $43 million. Our outstanding guarantees have terms ranging from one to 14 years. We also have commitments under letters of credit totaling $110 million as of December 31, 2006. We believe it is unlikely that material payments will be required under these guarantees or letters of credit.

In addition, we remain a guarantor on 12 operating leases sold as part of the sale of the Red Lion hotel chain in 2001. We have entered into an indemnification and reimbursement agreement with Red Lion Hotels Corporation ("RLH"), which requires RLH to reimburse us for any costs and expenses incurred in connection with the guarantee. The minimum lease commitment under these 12 operating leases totals approximately $5 million annually through 2020.

We have also provided performance guarantees to certain owners of hotels we operate under management contracts. Most of these guarantees allow us to terminate the contract rather than fund shortfalls if specified performance levels are not achieved. In limited cases, we are obligated to fund performance shortfalls. At December 31, 2006, we have six contracts containing performance guarantees with possible cash outlays totaling approximately $523 million through 2020. Funding under these performance guarantees totaled approximately $2 million in 2006 and is expected to total approximately $3 million in 2007. Funding under these guarantees in future periods is dependent upon the operating performance levels of these hotels over the remaining term of the performance guarantees. In 2006 we increased the reserve for the performance guarantee at a managed hotel by approximately $12 million based on our estimate of the guarantee payment that will be required at the end of the contract term in 2012. The charge is included in other operating expenses in the accompanying consolidated statements of income. Although we anticipate that the future operating performance levels of these hotels will be largely achieved, there can be no assurance that this will be the case. In addition, we do not anticipate losing a significant number of management contracts in 2007 pursuant to these guarantees.

Our consolidated financial statements at December 31, 2005 and 2006 include liabilities of approximately $6 million and $18 million, respectively, for potential obligations under our outstanding guarantees. Under certain circumstances, we may be obligated to provide additional guarantees or letters of credit totaling $74 million at December 31, 2006.

Letters of Credit

1.136

IKON OFFICE SOLUTIONS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Notes Payable and Long-Term Debt

Credit Facility (In Part)

We entered into an amended and restated $200,000 secured credit facility with a group of lenders effective June 28, 2006 (the "Credit Facility"). The Credit Facility, which matures on June 28, 2011, provides the availability of revolving loans, with certain sub-limits, and provides support for letters of credit. The amount of credit available under the Credit Facility is reduced by open letters of credit. The amount available under the Credit Facility for borrowings was $170,080 at September 30, 2006. The amount available under the Credit Facility for additional letters of credit was $70,080 at September 30, 2006. The Credit Facility is secured by our domestic accounts receivable and domestic inventory, the stock of our first-tier domestic subsidiaries, 65% of the stock of our first-tier foreign subsidiaries and all of our intangible assets. Under the terms of the Credit Facility we are permitted to repurchase shares in an aggregate amount not to exceed (a) $100,000 over the remaining term of the Credit Facility, plus (b) 50% of net income (as defined in the Credit Facility) and (c) an additional aggregate amount of $75,000, as long as we maintain a proforma Leverage Ratio (as defined in the Credit Facility) of no greater than two times at the end of any fiscal quarter.

Lines of Credit

We have certain committed and uncommitted lines of credit, some of which are net of standby letters of credit. As of September 30, 2006, we had $210,074 available under lines of credit, including $170,080 available under the Credit Facility. We also had open standby letters of credit totaling $29,920. The letters of credit are supported by the Credit Facility. All letters of credit expire within one year.

Sale of Receivables With Recourse

1.137

CATERPILLAR INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

E. Securitized Receivables

We periodically sell finance receivables in securitization transactions. When finance receivables are securitized, we retain interests in the receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinated certificates. The retained interests are recorded in "Other assets" at fair value. We estimate fair value based on the present value of future expected cash flows using key

assumptions for credit losses, prepayment speeds and discount rates. See Note 8 for more information.

Prior to June 2005, we securitized trade receivables. We retained interests in the receivables in the form of certificates. The fair value of the certificated retained interests approximated carrying value due to their short-term nature. See Note 6 for more information.

6. Sales and Servicing of Trade Receivables

Our Machinery and Engines operations generate trade receivables from the sale of inventory to dealers and customers. Certain of these receivables are sold to Cat Financial.

A.

Prior to June 2005, Cat Financial periodically securitized a portion of the dealer receivables using a revolving securitization structure. We used a trust which issued a collateralized trust obligation (CTO) certificate to third party purchasers for their portion of these receivables. The trust also issued a transferor certificate (certificated retained interests) to Cat Financial for the protion not represented by the CTO.

Through August of 2004, the trust was a qualifying special purpose entity (QSPE) and thus, in accordance with Statement of Financial Accounting Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement 125," was not consolidated. The outstanding principal balance of the CTO was not included in our Consolidated Financial Position during these periods.

From September 2004 through May 2005, because of a significant increase in Machinery and Engines' sales and subsequent sale of the receivables to Cat Financial, our certificated retained interests in the trust exceeded 90% of the fair value of trust assets. Thus, during this period, the trust did not qualify as a QSPE as defined by SFAS 140. We therefore consolidated the trust in accordance with FIN 46R, "Consolidation of Variable Interest Entities (revised December 2003), an interpretation of ARB No. 51" as it represents a variable interest entity for which Cat Financial is the primary beneficiary. As of December 31, 2004, assets of the trust of $2,587 million were included in "Receivables—trade and other" in Statement 2 and the CTO of $240 million was included in "Short-term Borrowings."

Cat Financial serviced the dealer receivables and received an annual servicing fee of approximately 0.5% of the average outstanding principal balance of the securitized trade receivables transferred to third party purchasers. Consolidated expenses of $7 million related to the securitized receivables were recognized during 2004 and are included in "Other income (expense)" in Statement of Results of Operations. Expected credit losses were assumed to be 0% because dealer receivables have historically had no losses and none were expected. The carrying value of the certificated retained interests approximated fair value due to their short-term nature. Other than the certificated retained interests (assets of the trust when consolidated), the investors and the securitization facilities had no recourse to Cat Financial's assets for failure of debtors to pay when due.

(Millions of dollars)	2004
Cash flow from securitizations:	
Proceeds from collections reinvested in revolving securitization(1)	$ 663
Servicing fees received(1)	2
Characteristics of securitized receivables:	
Average balance for the year ended December 31(1):	
Certificated retained interests	$1,936
Collateralized trust obligation	240

(1) For 2004, proceeds, servicing fees and average balances include only the periods the trust was a QSPE.

In June 2005, Cat Financial terminated the trade receivable securitization trust and no longer securitizes trade receivables. Upon termination, receivables held by the trust were transferred back to Cat Financial.

B.

In June 2005, Cat Financial transferred an undivided interest of $240 million in trade receivables to third party purchasers. In accordancce with SFAS 140, the transfer to third party purchasers is accounted for as a sale. Cat Financial services the transferred trade receivables and receives an annual servicing fee of approximately 0.5% of the average outstanding principal balance. Consolidated expenses of $15 million and $8 million related to the sale of trade receivables were recognized during 2006 and 2005, respectively, and are included in "Other income (expense)" in Statement of Results of Operations. As of December 31, 2006 and 2005, the outstanding principal balance of the sold trade receivables was $240 million.

The remaining interest as of December 31, 2006 and 2005 of $2,718 million and $3,028 million, respectively, are included in "Receivables—trade and other" in Statement of Financial Position. The cash collections from these receivables held by Cat Financial, including those attributable to the third party purchasers, are first applied to satisfy any obligations of Cat Financial to those purchasers. The third party purchasers have no recourse to Cat Financial's assets, other than the remaining interest, for failure of debtors to pay when due. For Cat Financial's remaining interest in trade receivables, carrying amount approximated fair value due to the short-term nature of these receivables.

8. Finance Receivables

Finance receivables are receivables of Cat Financial, which generally can be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables reported in Statement of Financial Position are net of an allowance for credit losses.

During 2006, 2005 and 2004, Cat Financial securitized retail installment sale contracts and finance leases into public asset backed securitization facilities. The securitization facilities are qualifying special purpose entities and thus, in accordance with SFAS 140, are not consolidated. These finance receivables, which are being held in securitization trusts, are secured by new and used equipment. Cat Financial retained servicing responsibilities and subordinated interests related to these securitizations. For 2006, subordinated interests

included subordinated certificates with an initial fair value of $4 million, an interest in certain future cash flow (excess) with an initial fair value of $3 million and a reserve account with an initial fair value of $10 million. For 2005, subordinated interests included subordinated certificates with an initial fair value of $8 million, an interest in certain future cash flow (excess) with an initial fair value of $1 million and a reserve account with an initial fair value of $12 million. For 2004, subordinated interests included subordinated certificates with an initial fair value of $8 million, an interest in certain future cash flow (excess) with an initial fair value of $2 million and a reserve account with an initial fair value of $10 million. The company's retained interests generally are subordinate to the investors' interests. Net gains of $7 million, $12 million and $13 million were recognized on these transactions in 2006, 2005 and 2004, respectively.

Significant assumptions used to estimate the fair value of the retained interests and subordinated certificates at the time of the transaction were:

	2006	2005	2004
Discount rate	11.2%	10.8%	10.7%
Weighted-average prepayment rate	14.0%	14.0%	14.0%
Expected credit losses	1.0%	1.0%	1.0%

These assumptions are based on our historical experience, market trends and anticipated performance relative to the particular assets securitized.

The company receives annual servicing fees of approximately 1% of the unpaid note value.

As of December 31, 2006, 2005 and 2004, the subordinated retained interests in the public securitizations totaled $68 million, $72 million and $73 million, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2006	2005	2004
Cash flow discount rates on retained interests and subordinated tranches	7.33%	10.7%	10.7%
Weighted-average maturity	31 months	30 months	28 months
Average prepayment rate	14.0%	14.0%	14.0%
Expected credit losses	1.0%	1.0%	1.0%

The investors and the securitization trusts have no recourse to Cat Financial's other assets for failure of debtors to pay when due.

We estimated the impact of individual 10% and 20% changes to the key economic assumptions used to determine the fair value of residual cash flow in retained interests on our income. An independent, adverse change to each key assumption had an immaterial impact on the fair value of residual cash flow.

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans or finance leases are recorded against the receivable and then to any unrecognized income. Investment in loans/finance leases on nonaccrual status were $190 million, $175 million and $176 million and past due over 90 days and still accruing were $18 million, $31 million and $11 million as of December 31, 2006, 2005 and 2004, respectively.

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other things, the customer's credit history, financial strength and intended use of equipment. Cat Financial typically maintains a security interest in retail financed equipment and requires physical damage insurance coverage on financed equipment.

1.138

PACTIV CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Accounting Policies

Accounts and Notes Receivable

Trade accounts receivable are classified as current assets and are reported net of allowances for doubtful accounts. We record such allowances based on a number of factors, including historical trends and specific customer liquidity.

On a recurring basis, we sell an undivided interest in a pool of trade receivables meeting certain criteria to a third party as an alternative to debt financing. Such sales, which represent a form of off-balance-sheet financing, are recorded as a reduction of accounts and notes receivable in the Statement of Financial Position. The related proceeds are included in cash provided by operating activities in the Statement of Cash Flows. No receivables were sold at December 31, 2006, or December 31, 2005.

Discounts and fees related to these sales were not material in 2006, were $2 million in 2005, and were not material in 2004. These expenses are included in other expense in the Statement of Income. In the event that either Pactiv or the third-party purchaser of the trade receivables were to discontinue this program, our debt would increase, or our cash balance would decrease, by an amount corresponding to the level of sold receivables at such time.

DISCLOSURES OF FAIR VALUE

1.139

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars)

1 (In Part): Major Accounting Policies

Financial Instruments

The company addresses certain financial exposures through a controlled program of risk management that includes the

use of derivative financial instruments. The types of derivative financial instruments permitted for such risk management programs are specified in policies set by management. The company currently enters into foreign exchange contracts, including forward, option combination, and purchased option contracts, to reduce the effects of fluctuating foreign currency exchange rates. The company currently enters into interest rate swap contracts to reduce interest rate risks and to modify the interest rate characteristics of its outstanding debt. The company is also currently party to cross currency interest rate swap agreements. The company has entered into a limited number of commodity swap contracts in order to reduce the cash flow exposure to changes in the price of natural gas relative to certain oil-based feedstocks. Major financial institutions are counterparties to these contracts. The company has established counterparty credit guidelines and only enters into transactions with financial institutions of investment grade or better. Management believes the risk of incurring losses related to credit risk is remote, and any losses would be immaterial to the consolidated financial results, financial condition, or liquidity.

The company recognizes derivatives on the balance sheet at fair value. On the date the derivative instrument is entered into, the company generally designates the derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) a hedge of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated as and meets all the required criteria for a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

Changes in the fair value of a derrivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged item affects earnings.

Changes in the fair value of a derivative or foreign currency debt that is designated as and meets all the required criteria for a hedge of a net investment are recorded as translation adjustments in accumulated other comprehensive income.

Changes in the fair value of a derivative that is not designated as a hedge are recorded immediately in earnings.

The company formally documents the relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes relating derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the company will discontinue hedge accounting with respect to that derivative prospectively.

6 (In Part): Financial Instruments

Fair Value of Financial Instruments

Summarized below are the carrying values and fair values of the company's financial instruments as of 30 September 2006 and 2005:

	2006 Carrying Value	2006 Fair Value	2005 Carrying Value	2005 Fair Value
Assets				
Other investments	$ 95.2	$ 95.2	$ 97.9	$ 97.9
Currency option contracts	.1	.1	.4	.4
Commodity swap contracts	.3	.3	—	—
Interest rate swap agreements	—	—	15.5	15.5
Liabilities				
Interest rate swap agreements	$ 1.8	$ 1.8	$ —	$ —
Cross currency interest rate swap contracts	16.4	16.4	11.6	11.6
Forward exchange contracts	19.9	19.9	9.6	9.6
Commodity swap contracts	—	—	2.9	2.9
Long-term debt, including current portion	2,432.3	2,495.3	2,184.1	2,251.2

The carrying amounts reported in the balance sheet for cash and cash items, accounts receivable, payables and accrued liabilities, accrued income taxes, and short-term borrowings approximate fair value due to the short-term nature of these instruments. Accordingly, these items have been excluded from the above table. The fair value of other investments is based principally on quoted market prices.

The fair values of the company's debt, interest rate swap agreements, and foreign exchange contracts are based on estimates using standard pricing models that take into account the present value of future cash flows as of the balance sheet date. The computation of the fair values of these instruments is generally performed by the company. The fair value of commodity swaps is based on current market price, as provided by the financial institutions with whom the commodity swaps have been executed.

The fair value of other investments is reported within other noncurrent assets on the balance sheet. The fair value of foreign exchange contracts, cross currency interest rate swaps, interest rate swaps, and commodity swaps is reported in the balance sheet in the following line items: other receivables and current assets, other noncurrent assets, payables and accrued liabilities, and deferred income and other noncurrent liabilities.

Changes in the fair value of foreign exchange and commodity swap contracts designated as hedges are recorded or reclassified into earnings and are reflected in the income statement classification of the corresponding hedged item, e.g., hedges of purchases recorded to cost of sales, hedges of sales transactions recorded to sales. The changes in fair value of foreign exchange contracts not designated as hedging instruments are reported in the income statement as other (income) expense, offsetting the fair value changes of foreign

currency denominated monetary assets and liabilities also recorded to other (income) expense. Fair value changes of interest rate swaps are recorded to interest expense, offsetting changes in the fair value of associated debt instruments, which are also recorded to interest expense.

The cash flows related to all derivative contracts are reported in the operating activities section of the cash flow statement.

1.140

AVNET, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investments

Investments in joint ventures and entities in which the Company has an ownership interest greater than 50% and exercises control over the venture are consolidated in the accompanying consolidated financial statements. Minority interests in the years presented, which amounts are not material, are included in the caption "accrued expenses and other" in the accompanying consolidated balance sheets. Investments in joint ventures and entities in which the Company exercises significant influence but not control are accounted for using the equity method. The Company invests from time to time in ventures in which the Company's ownership interest is less than 20% and over which the Company does not exercise significant influence. Such investments are accounted for under the cost method. The fair values for investments not traded on a quoted exchange are estimated based upon the historical performance of the ventures, the ventures' forecasted financial performance and management's evaluation of the ventures' viability and business models. To the extent the book value of an investment exceeds its assessed fair value, the Company will record an appropriate impairment charge. Thus, the carrying value of the Company's investments approximates fair value.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, receivables and accounts payable approximate their fair values at July 1, 2006 due to the short-term nature of these instruments. See Note 7 for further discussion of the fair value of the Company's fixed rate long-term debt instruments and see *Investments* in this Note 1 for further discussion of the fair value of the Company's investments in unconsolidated entities.

Accounts Receivable Securitization

The Company has an accounts receivable securitization program whereby the Company may sell receivables in securitization transactions and retain a subordinated interest and servicing rights to those receivables. The Company accounts for the program under the FASB's Statement of Financial Accounting Standards No. 140 ("SFAS 140"), *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.* The gain or loss on sales of receivables is determined at the date of transfer based upon the relative fair value of the assets sold and the interests retained. The Company estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, including collection period and discount rates. In August 2005, the Company amended the program agreement and, as a result, the program is accounted for as an on-balance sheet financing through the securitization of accounts receivable (see Note 3).

Derivative Financial Instruments (In Part)

The Company accounts for derivative financial instruments in accordance with the FASB's Statement of Financial Accounting Standards No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities* and Statement of Financial Accounting Standards No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.*

Many of the Company's subsidiaries, on occasion, purchase and sell products in currencies other than their functional currencies. This subjects the Company to the risks associated with the fluctuations of foreign currency exchange rates. The Company reduces this risk by utilizing natural hedging (offsetting receivables and payables) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign exchange contracts with maturities of less than sixty days. The Company adjusts all foreign denominated balances and any outstanding foreign exchange contracts to fair market value through the consolidated statements of operations. Therefore, the market risk related to the foreign exchange contracts is offset by the changes in valuation of the underlying items being hedged. The asset or liability representing the fair value of foreign exchange contracts is classified in the captions "other current assets" or "accrued expenses and other," as applicable, in the accompanying consolidated balance sheets.

The Company has also entered into hedge transactions that convert certain fixed rate debt to variable rate debt, effectively hedging the change in fair value of the fixed rate debt resulting from fluctuations in interest rates. Those fair value hedges and the hedged debt are adjusted to current market values through interest expense in accordance with SFAS 133, as amended (see Note 7).

3 (In Part): Accounts Receivable Securitization

Losses on sales of receivables and discount on retained interest, net of related servicing revenues, were recorded in interest expense while the other costs associated with the Program were recorded in selling, general and administrative expenses in the accompanying consolidated statements of operations. To the extent there have been drawings under the Program, the Company has historically measured the fair value of its retained interests at the time of a securitization using a present value model incorporating two key assumptions: (1) a weighted average life of trade accounts receivable of 45 days and (2) a discount rate of 6.75% per annum.

7 (In Part): External Financing

Long-term debt consists of the following:

(Thousands)	2006	2005
8.00% Notes due November 15, 2006	$ —	$ 400,000
9¾% Notes due February 15, 2008	361,360	475,000
6% Notes due September 1, 2015	250,000	—
2% Convertible Senior Debentures due March 15, 2034	300,000	300,000
Other long-term debt	14,931	7,285
Subtotal	926,291	1,182,285
Fair value adjustment for hedged 9¾% and 8% Notes	(7,481)	910
Long-term debt	$918,810	$1,183,195

The hedged fixed rate debt and the interest rate swaps are adjusted to current market values through interest expense in the accompanying consolidated statements of operations. The Company accounts for the hedges using the shortcut method as defined under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities.* Due to the effectiveness of the hedges since inception, the market value adjustments for the hedged debt and the interest rate swaps directly offset one another. The fair value of the interest rate swaps at July 1, 2006 was a liability of $7,481,000 which is included in other long-term liabilities and a corresponding fair value adjustment of the hedged debt decreased long-term debt by the same amount. The fair value of the interest rate swaps at July 2, 2005 was an asset of $910,000, which is included in other long-term assets in the accompanying consolidated balance sheet and a corresponding fair value adjustment of the hedged debt increased long-term debt by the same amount.

At July 1, 2006, the fair value, generally based upon quoted market prices, of the 2% Convertible Senior Debentures due March 15, 2034 is $279,000,000, the fair value of the 6% Notes due 2015 is $233,185,000, and the fair value of the 8% Notes due November 2006 is $144,731,000. Additionally, the $161,360,000 of the 9¾% Notes that are not covered by the fair value hedges discussed above had a fair value of $170,800,000 at July 1, 2006.

1.141

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Cash and Cash Equivalents

Cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are high-quality, short-term money market instruments with an original maturity of three months or less and consist of time deposits with a number of U.S. and non-U.S. commercial banks and money market fund investments.

Investments in Debt and Equity Securities

Debt and equity securities that have a readily determinable fair value and that we do not intend to hold to maturity are classified as available-for-sale and carried at fair value. Unrealized holding gains and losses, net of applicable taxes, are recorded as a separate component of shareholders' equity, net of deferred taxes. Realized gains and losses from the sale of available-for-sale securities are calculated on a specific identification basis. Declines in the fair values of investments below their cost basis that are judged to be other-than-temporary are recorded in other expense, net. In determining whether an other-than-temporary decline in market value has occurred, we consider various factors, including the duration and the extent to which market value is below cost.

Financial Instruments

We use derivative financial instruments, including interest rate swaps, forward foreign currency contracts and options, to manage interest rate and foreign currency exposures. We record all derivative instruments at their fair values on the Consolidated Balance Sheets as either assets or liabilities. See Note 7, Financial Instruments and Risk Management.

Note 7 (In Part): Financial Instruments and Risk Management

Accounting Policies (In Part)

Derivatives are recognized on the balance sheet at their fair values. When we become a party to a derivative instrument, we designate the instrument as either a fair value hedge, a cash flow hedge, a net investment hedge, or a non-hedge. The accounting for changes in fair value (gains or losses) of a derivative instrument depends on whether it has been designated by Avon and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The methods and assumptions used to estimate fair value are as follows:

Fixed-income securities—The fair values of these investments were based on the quoted market prices for issues listed on securities exchanges.

Debt maturing within one year and long-term debt—The fair values of all debt and other financing were determined based on quoted market prices.

Foreign exchange forward and option contracts—The fair values of forward and option contracts were determined based on quoted market prices from banks.

Interest rate swap and treasury lock agreements—The fair values of interest rate swap and treasury lock agreements were estimated based on quotes from market makers of these instruments and represent the estimated amounts

that we would expect to receive or pay to terminate the agreements.

The asset (liability) amount recorded in the balance sheet (carrying amount) and the estimated fair values of financial instrumens at December 31 consisted of the following:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,198.9	$ 1,198.9	$1,058.7	$1,058.7
Fixed-income securities	18.0	18.0	17.1	17.1
Grantor trust cash and cash equivalents	25.2	25.2	34.4	34.4
Debt maturing within one year	(615.6)	(615.6)	(882.5)	(882.5)
Long-term debt net of related discount or premium	(1,170.4)	(1,165.4)	(766.1)	(776.1)
Foreign exchange forward and option contracts	7.9	7.9	2.5	2.5
Interest rate swap and treasury lock agreements	(10.1)	(10.1)	2.7	2.7

CONCENTRATIONS OF CREDIT RISK

1.142

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note T (In Part): Risk Management

Concentration of Credit

Credit risk represents the loss that would be recognized if counterparties failed to completely perform as contracted. Financial instruments that subject Cabot to credit risk consist principally of trade receivables. Furthermore, concentrations of credit risk exist for groups of customers when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

During fiscal years 2006, 2005 and 2004, Goodyear Tire and Rubber Company accounted for approximately 14%, 12% and 11%, respectively, of Cabot's annual consolidated net sales. No other customer individually represented more than 10% of net sales for any period presented. Cabot's loss of this or other customers that may account for a significant portion of the Company's sales, or any decrease in sales to any of these customers, could have a material adverse effect on Cabot's business, financial condition or results of operations.

Tire manufacturers in the Carbon Black Business and customers of the Supermetals Business comprise significant portions of Cabot's trade receivable balance. The accounts receivable balance for these significant customers are as follows:

(Dollars in millions)	2006	2005
Tire manufacturers	$168	$173
Supermetals customers	$ 50	$ 63

Cabot has not experienced significant losses in the past from these customers. Cabot monitors its exposure to customers to minimize potential credit losses.

1.143

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Concentrations of Credit Risk

Financial instruments that potentially subject HP to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable from trade customers and from contract manufacturers, financing receivables and derivatives.

HP maintains cash and cash equivalents, short and long-term investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographical regions and HP's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, HP performs periodic evaluations of the relative credit standing of the financial institutions. HP has not sustained material credit losses from instruments held at financial institutions. HP utilizes forward contracts and other derivative contracts to protect against the effects of foreign currency fluctuations. Such contracts involve the risk of nonperformance by the counterparty, which could result in a material loss.

HP sells a significant portion of its products through third-party distributors and resellers and, as a result, maintains individually significant receivable balances with these parties. If the financial condition or operations of these distributors and resellers deteriorate substantially, HP's operating results could be adversely affected. The ten largest distributor and reseller receivable balances collectively, which were concentrated primarily in North America, represented

approximately 21% of gross accounts receivable at October 31, 2006 and 22% at October 31, 2005. No single customer accounts for more than 10% of accounts receivable. Credit risk with respect to other accounts receivable and financing receivables is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographical regions. HP performs ongoing credit evaluations of the financial condition of its third-party distributors, resellers and other customers and requires collateral, such as letters of credit and bank guarantees, in certain circumstances. HP generally has experienced longer accounts receivable collection cycles in its emerging markets, in particular Asia Pacific and Latin America, compared to its United States and European markets. In the event that accounts receivable collection cycles in emerging markets significantly deteriorate or one or more of HP's larger resellers in these regions fail, HP's operating results could be adversely affected.

1.144

PEROT SYSTEMS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash equivalents, short-term investments, and accounts receivable. Our cash equivalents consist primarily of short-term money market deposits, which are deposited with reputable financial institutions. Our short-term investments consist of VRDNs, which are tax-exempt instruments of high credit quality. We believe the risk of loss associated with both our cash equivalents and short-term investments to be remote. We have accounts receivable from customers engaged in various industries including banking, insurance, healthcare, manufacturing, telecommunications, travel and energy, as well as government customers in defense and other governmental agencies, and our accounts receivable are not concentrated in any specific geographic region. These specific industries may be affected by economic factors, which may impact accounts receivable. Generally, we do not require collateral from our customers. We do not believe that any single customer, industry or geographic area represents significant credit risk.

No customer accounted for 10% or more of our total accounts receivable (including accounts receivable recorded in both accounts receivable, net, and long-term accrued revenue) at December 31, 2006 or at December 31, 2005.

SUBSEQUENT EVENTS

1.145 Events or transactions which occur subsequent to the balance sheet date but prior to the issuance of the financial statements and which have a material effect on the financial statements should be either recorded or disclosed in the financial statements. SAS. No. 1, section 560, *Subsequent Events*, sets forth criteria for the proper treatment of subsequent events. Table 1-14 lists the subsequent events disclosed in the financial statements of the survey companies.

1.146 Examples of subsequent event disclosures follow.

1.147

TABLE 1-14: SUBSEQUENT EVENTS

	Number of Companies			
	2006	2005	2004	2003
Business combinations pending or effected	94	99	75	83
Debt incurred, reduced or refinanced	63	62	68	64
Discontinued operations or asset disposals	60	38	50	59
Litigation	42	33	36	29
Restructuring/bankruptcy	28	26	1	8
Capital stock issued or purchased	27	39	24	27
Stock splits or dividends	18	20	14	11
Employee benefits	12	14	10	11
Other—described	63	50	46	63

Business Combinations

1.148

BEST BUY CO., INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

13. Subsequent Event

Effective March 7, 2006, we acquired all of the common stock of Pacific Sales Kitchen and Bath Centers, Inc. (Pacific Sales) for $411, or $408, net of cash acquired, including transaction costs. We acquired Pacific Sales, a high-end home-improvement and appliance retailer, to further our expansion plans and increase shareholder value. The acquisition will be accounted for in the first quarter of fiscal 2007 using the purchase method in accordance with SFAS No. 141, *Business Combinations*. Accordingly, the net assets will be recorded at their estimated fair values, and operating results will be included in our financial statements from the date of acquisition. The purchase price will be allocated on a preliminary basis using information currently available. Goodwill is projected to be approximately $390. The allocation of the purchase price to the assets and liabilities acquired will be finalized no later than the first quarter of fiscal 2008, as we obtain more information regarding asset valuations, liabilities assumed and revisions of preliminary estimates of fair values made at the date of purchase.

1.149

CONSTELLATION BRANDS, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Subsequent Event

On April 2, 2006, the Company entered into an arrangement agreement (the "Arrangement Agreement") with Vincor International Inc. ("Vincor") pursuant to which, subject to satisfaction of certain conditions, the Company will acquire all of the issued and outstanding common shares of Vincor. Vincor is the world's eighth largest producer and distributor of wine and related products by revenue based in Mississauga, Ontario, Canada, and is Canada's largest producer and marketer of wine. Vincor is also one of the largest wine importers, marketers and distributors in the U.K. The pending acquisition of Vincor supports the Company's strategy of strengthening the breadth of its portfolio across price segments and geographic markets to capitalize on the overall growth in the wine industry.

The Arrangement Agreement provides for Vincor shareholders to receive in cash Cdn$36.50 per common share. Total consideration to be paid in cash to the Vincor shareholders is expected to be approximately Cdn$1.2 billion. In addition, the Company expects to pay certain obligations of Vincor, including indebtedness outstanding under its bank facility and secured notes. In April 2006, the Company entered into a foreign currency forward contract in connection with the pending acquisition of Vincor to fix the U.S. dollar cost of the acquisition and the payment of certain outstanding indebtedness. The foreign currency forward contract is for the purchase of Cdn$1.4 billion at a rate of Cdn$1.149 to U.S.$1.00. The consideration to be paid to the shareholders and the amount needed to repay outstanding indebtedness of Vincor is expected to be financed with borrowings under an amended and restated senior credit facility. The Company currently expects to complete the acquisition of Vincor in early June 2006.

In accordance with the purchase method of accounting, the acquired net assets will be recorded at fair value as of the date of the acquisition. The results of operations of Vincor will be reported in the Constellation Wines segment and will be included in the Consolidated Statements of Income beginning on the date of acquisition.

Debt Incurred, Reduced, or Refinanced

1.150

ALCOA INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Z. Subsequent Events

In January 2007, Alcoa completed a public debt offering under its existing shelf registration statement for $2,000 in new senior notes. The $2,000 is comprised of $750 of 5.55% Notes due 2017, $625 of 5.9% Notes due 2027, and $625 of 5.95% Notes due 2037 (collectively, the "Senior Notes"). A portion of the net proceeds from the Senior Notes was used by Alcoa to repay $1,132 of its commercial paper outstanding as of December 31, 2006 in January 2007. Additionally, Alcoa used a portion of the net proceeds to pay $338 related to its recently announced tender offer (see below). The $1,132 was reflected as long-term on the December 31, 2006 Consolidated Balance Sheet due to the fact that this amount was refinanced with new long-term debt instruments. The remaining net proceeds were used to repay new commercial paper that was borrowed in January 2007 prior to the issuance of the Senior Notes and for general corporate purposes. The financing costs paid associated with the issuance of the Senior Notes will be deferred and amortized to interest expense using the effective interest method over the terms of the Senior Notes, along with the original issue discounts.

Also in January 2007, Alcoa commenced a tender offer (the "Offer") to purchase for cash any and all of its 4.25% Notes due 2007 (the "2007 Notes"). The Offer expired at the close of business on January 30, 2007, and $333 of the aggregate outstanding principal amount of the 2007 Notes was validly tendered and accepted. At December 31, 2006, the 2007 Notes had an outstanding balance of $792 and an original maturity of August 15, 2007. The $333 was reflected as long-term on the December 31, 2006 Consolidated Balance Sheet due to the fact that this amount was refinanced with new long-term debt instruments. Alcoa paid a total of $338 to the holders of the tendered notes which includes accrued and unpaid interest through February 1, 2007. An immaterial gain was recognized for the early retirement of the $333 principal amount.

Lastly, in January 2007, Alcoa announced that it has commenced offers to exchange up to $500 of each of its outstanding 7.375% Notes due 2010, 6.5% Notes due 2011 and 6% Notes due 2012 (collectively, the "old notes") for up to $1,500 of new Notes due 2019 and 2022 (collectively, the "new notes"). At December 31, 2006, each of the old notes had an outstanding balance of $1,000. Consummation of the exchange offers is subject to a number of conditions, including the absence of certain adverse legal and market developments and the issuance of at least $500 principal amount of each series of new notes. For each $1,000 (in whole dollars) principal amount of old notes validly tendered and accepted, Alcoa will exchange $1,000 (in whole dollars) principal amount of new notes of a series plus a cash amount equal to the total exchange price, which will be based on a fixed-spread pricing formula that will be calculated on February 15,2007. The exchange offers included an early participation payment provision, which expired on February 5, 2007, and $483 of 7.375% Notes due 2010, $417 of 6.5% Notes due 2011 and $479 of 6% Notes due 2012 were validly tendered and accepted under this provision and may no longer be withdrawn. The exchange offers will expire at midnight, Eastern Standard Time, on February 20, 2007, unless extended or earlier terminated. The new notes will bear interest at a fixed annual rate determined two business days prior to the expiration of the exchange offers. The new notes will not be registered under the Securities Act of 1933. Alcoa will enter into a registration rights agreement pursuant to which Alcoa will agree to file a registration statement with the Securities and Exchange Commission with respect to the new notes.

1.151

MASCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

K (In Part): Debt

Subsequent Event

On January 20, 2007, holders of $1.8 billion (94 percent) principal amount at maturity of the Zero Coupon Convertible Senior Notes ("Notes") required the Company to repurchase their Notes at a cash value of $825 million. As a result of this repurchase, a $93 million deferred income tax liability will be payable in June 2007. Subsequent to the repurchase, there were outstanding $108 million principal amount at maturity of such Notes, with an accreted value of $51 million, which has been included in long-term debt at December 31, 2006, as the next put option date is July 20, 2011. The Company may, at any time on or after January 25, 2007, redeem all or part of the Notes at their accreted value.

Discontinued Operations or Asset Disposals

1.152

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Subsequent Event

On January 18, 2007, Abbott announced that it had agreed to sell it's core laboratory diagnostics business, including Abbott Point of Care, to GE for $8.13 billion in cash. In the last decade, the laboratory diagnostics market has changed considerably. Innovation in this business will be increasingly driven by automation, system integration and a host of skills that Abbott believes GE can better offer. The sale is expected to close in the first half of 2007 and is subject to customary closing conditions, including regulatory approvals. Net sales for these businesses were approximately $2.7 billion in 2006. The carrying amount of the assets and liabilities included in the sale is estimated to be approximately $2.6 billion, comprised of trade receivables of approximately $750 million, inventories of approximately $650 million, other current assets of approximately $100 million, net property, plant and equipment of approximately $1.3 billion, intangible assets and goodwill of approximately $500 million, current liabilities of approximately $550 million and long-term liabilities of approximately $150 million. Abbott estimates tax expense of approximately $2.0 billion will be recorded on the gain.

1.153

THE WALT DISNEY COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Subsequent Events

On October 2, 2006, the Company sold its 50 percent stake in Us Weekly for $300 million, which resulted in a pre-tax gain of approximately $270 million ($170 million after-tax), which will be recorded in the first quarter of fiscal 2007.

On November 21, 2006, in connection with the execution of new long-term agreements for the provision of programming to cable service provider Comcast Corporation (Comcast), the Company sold its 39.5% interest in E! Entertainment Television (E!) to Comcast (which owned the remainder of the interests in E!) for $1.2 billion, which resulted in a pre-tax gain of approximately $0.8 billion ($0.5 billion after-tax), which will be recorded in the first quarter of fiscal 2007.

Litigation

1.154

OSI RESTAURANT PARTNERS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 (In Part): Subsequent Events

On January 30, 2007, a stockholder complaint was filed individually and as a purported class action on behalf of the injured stockholders of the Company against the Company, each of the Company's directors, Timothy Gannon, Bain Capital Partners LLC, Catterton Management Company, LLC, Paul E. Avery, Joseph J. Kadow and Dirk A. Montgomery in the Court of Chancery of the State of Delaware in and for New Castle County. The complaint is captioned Robert Mann v. Chris T. Sullivan, Robert D. Basham, A. William Allen III, Debbi Fields, Thomas A. James, John A. Brabson, Jr., General (Ret) Tommy Franks, Lee Roy Selmon, Toby S. Wilt, Timothy Gannon, Bain Capital Partners, LLC, Catterton Management Company, LLC, Paul E. Avery, Joseph J. Kadow, Dirk A. Montgomery and OSI Restaurant Partners, Inc. The complaint alleges, among other things, that the directors of the Company and Mr. Avery, Mr. Kadow and Mr. Montgomery breached their fiduciary duties in connection with the proposed transaction by failing to maximize stockholder value and by approving a transaction that purportedly benefits the Company's founders and certain members of its management who are expected to invest in Kangaroo Holdings, Inc. at the expense of the Company's public stockholders. Bain Capital and Catterton are alleged to have aided and abetted the individual defendants in breaching their fiduciary duties. Among other things, the complaint seeks to enjoin the Company, its directors and the other defendants from proceeding with or consummating the merger. Based on the facts known to date, the defendants believe that the claim asserted is without merit and intend to defend this suit vigorously. The absence of an injunction prohibiting the consummation of the merger is a condition to the closing of the merger.

Restructuring/Bankruptcy

1.155

THE DUN & BRADSTREET CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Subsequent Events

Financial Flexibility Program

On January 9, 2007, we announced our 2007 Financial Flexibility Program. Our 2007 Financial Flexibility Program is designed to significantly reduce the complexity of our business. This Program will create financial flexibility through several initiatives, including the following:

- *Organizational Design*: this initiative is intended to improve the efficiency of how we are organized and how we operate as a business by addressing spans of control, organizational layers and the effectiveness of leadership processes;
- *Product and Technology Complexity*: this initiative is intended to simplify our product and technology environment by reducing product complexity and proliferation as well as eliminating and consolidating systems and technology infrastructure;
- *Sales Force Effectiveness*: this initiative is intended to improve our sales force tools, reduce the non-selling time of our sales force and enhance our new customer acquisition activities; and
- *Other Efficiency Measures*: this initiative is intended to improve the operating efficiencies of our facilities, reduce our purchasing costs and simplify our data collection and product delivery.

We expect to complete all actions under the 2007 program by December 2007. On an annualized basis, these actions are expected to create $80 million to $85 million of financial flexibility, of which approximately $60 million to $65 million will be generated in 2007, before any transition costs and restructuring charges and before any reallocation of savings generated by the initiatives. To implement these initiatives, we expect to incur transition costs of approximately $13 million to $15 million. In addition, we expect to incur restructuring charges, totaling $30 million to $35 million pre-tax, of which $27 million to $32 million relate to severance, approximately $1 million relates to lease termination obligations and approximately $2 million relate to other exit costs in 2007. Approximately $42 million to $49 million of these transition costs and restructuring charges are expected to result in cash expenditures. As a result of this re-engineering program, we expect that approximately 400 positions will be eliminated globally.

Capital Stock Issued or Purchased

1.156

WENDY'S INTERNATIONAL, INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Subsequent Event

On February 20, 2007, the Company announced it had entered into an ASR transaction with a broker-dealer to purchase up to $300 million of its common shares. The common shares purchased will be placed into treasury to be used for general corporate purposes. The number of shares that the Company may repurchase pursuant to the ASR will not be known until conclusion of the transaction, which is expected to occur during the Company's first quarter; however, the Company expects to repurchase up to approximately 9 million shares. The price per share to be paid by the Company will be determined by reference to the weighted average price per share actually paid by the broker-dealer to purchase shares during a hedge period expected to be approximately one month, subject to a cap and a floor. The ASR agreement includes the option to settle the contract in cash or shares of the Company's common stock and, accordingly, the contract will be classified in equity.

Stock Splits/Dividends

1.157

SEALED AIR CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 23 (In Part): Subsequent Events

Two-For-One Stock Split

On February 16, 2007, the Company's Board of Directors declared a two-for-one stock split of the Company's common stock, to be effected in the form of a stock dividend. The stock dividend is payable on March 16, 2007 at the rate of one additional share of the Company's common stock for each share of the Company's common stock issued and outstanding to stockholders of record at the close of business on March 2, 2007.

This stock split will result in the issuance of approximately 80.7 million additional shares of common stock and will be accounted for by the transfer of approximately $8.1 million from additional paid-in capital to common stock. In addition, nine million additional shares of common stock will be reserved related to the asbestos settlement and will be accounted for by the transfer of $0.9 from additional paid-in capital to common stock reserved for issuance related to asbestos settlement. Shares reserved for issuance under the Company's 2005 Contingent Stock Plan, the 2002 Directors Stock Plan and for the conversion of the Company's 3% convertible senior notes will also be similarly adjusted.

Pro forma earnings per share amounts on a post-split basis for the years ended December 31, 2006, 2005 and 2004 would be as follows:

	2006	2005	2004
Earnings per common share			
Basic:			
As reported	$3.38	$3.09	$2.56
Post-split	$1.69	$1.54	$1.28
Diluted:			
As reported	$2.93	$2.69	$2.25
Post-split	$1.46	$1.35	$1.12

Information presented in the consolidated financial statements and in the notes to the consolidated financial statements have not been restated to reflect the two-for-one stock split.

Employee Benefits

1.158

DANA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

Note 15 (In Part): Pension and Postretirement Benefit Plans

Subsequent Event

In February 2007, we announced the restructuring of the pension liabilities of our United Kingdom (U.K.) operations. On February 27, 2007, ten of our subsidiaries located in the U.K. and the trustees of four U.K. defined benefit pension plans entered into an Agreement as to Structure of Settlement and Allocation of Debt to compromise and settle the liabilities owed by our U.K. operating subsidiaries to the pension plans. The agreement provides for the trustees of the plans to release the operating subsidiaries from all such liabilities in exchange for an aggregate cash payment of approximately $93 and the transfer of 33% equity interest in our axle manufacturing and driveshaft assembly businesses in the U.K. for the benefit of the pension plan participants. The agreement was necessitated in part by our planned divestitures of several non-core U.K. businesses which, upon completion, would have resulted in unsustainable pension funding demands on the operating subsidiaries under U.K. pension law, in addition to their ongoing funding obligations. We expect to record a settlement charge in the range of $150 to $170 (including a cash charge of $93) in connection with these transactions. Remaining employees in the U.K. operations will receive future pension benefits pursuant to a defined contribution arrangement similar to our intended actions in the U.S.

Functional Currency Change

1.159

HECLA MINING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 (In Part): Subsequent Events

Functional Currency Change for our Venezuelan Operations

Effective January 1, 2007, we will implement a change in the functional currency for our Venezuelan operations from the U.S. dollar to the Bolívar, the local currency in Venezuela. This change will only affect our Venezuelan operations, and the dollar will remain as the functional currency for all of our other operations. We have utilized the dollar as the functional currency for our Venezuelan operations since our acquisition of them in 1999, and FASB Statement No. 52 (SFAS 52) requires that once the functional currency of a foreign operation is determined, that determination shall be used consistently unless significant changes in the economic facts and circumstances affecting the foreign operation indicate that the functional currency has changed. SFAS 52 lists six indicators to consider in identifying the functional currency of a foreign entity: cash flow, sales prices, sales market, expenses, financing, and intercompany transactions and arrangements. We are changing the functional currency because a growing set of circumstances have affected the flow of funds and the relationship between Hecla Limited and Minera Hecla Venezolana, C.A., our wholly-owned subsidiary holding our Venezuelan interests. The following is a summary of how the functional currency indicators listed in SFAS 52 have been affected by recent changes in the economic facts and circumstances influencing our Venezuelan operations:

Cash Flows

Cash out-flows at our Venezuelan operations will primarily be denominated in local currency. An estimated 70% of operating cash out-flows and 50% of capital and exploration cash out-flows for our Venezuelan operations will be denominated in bolívares in 2007. Formerly, the preponderance of cash needs was in dollars, with higher levels of dollar-denominated capital and exploration costs. These costs have declined from $37.5 million in 2004 and $38.3 million in 2005, to $16 million for 2006 and an estimated $13 million in 2007.

In addition, cash flows generated by our Venezuelan operations have become less readily available for remittance, due to increased currency exchange regulation that inhibits movement of currency between Venezuela and other countries.

Sales Markets

We have recently identified an active market in Venezuela for the gold that we produce there. Local sales now account for approximately one third of the total sales for our Venezuelan operations, and we have the ability to increase this portion. Prior to 2006, all of our gold produced in Venezuela was exported and denominated in dollars.

In addition, exchange controls in Venezuela prevent us from denominating our sales in dollars, even though prices are indexed to the dollar.

Expenses

An increased portion of our costs in 2007 will be incurred locally, and therefore denominated in bolívares. This is due, in part, to the completion of significant capital projects at the La Camorra unit, which have involved substantial dollar-denominated costs. A larger portion of our expenses are now related to mine development and operation activities, involving increased local labor, denominated in bolívares, and fewer capital-related expenses that have historically been dollar-denominated.

Financing

Completion of significant capital projects and improved cash flows have reduced the likelihood of significant future financing at our Venezuelan operations.

Intercompany Transactions

It is our expectation that there will be a significant decrease in the volume and dollar amount of intercompany transactions between our parent company and our Venezuelan operations. This is a result of the improved cash flows at our Venezuelan operations, coupled with more stringent currency exchange regulation in Venezuela.

Little has changed regarding the Sales Price indicator included in SFAS 52. Gold prices are driven solely by the international market, which is indexed in dollars. From the viewpoint of the bolívares, prices are highly responsive to short-term changes in exchange rates, and competition is not relevant for gold sales. While we are now able to sell gold produced in Venezuela locally, prices for those sales are still indexed to the dollar.

In accordance with the provisions of SFAS 52 the balance sheet for our Venezuelan operations will be recalculated as of January 1, 2007, so that all assets and liabilities are translated at the current exchange rate of 2,150 Bolívares to $1.00, the current fixed, official exchange rate. We will use the official exchange rate pursuant to guidance from the AICPA's International Practices Task Force. As a result, the dollar value of non-monetary assets, previously remeassured at historical exchange rates, will be significantly reduced, with a translation adjustment recorded to equity as a component of other comprehensive income. We anticipate that the functional currency change will result in a reduction of approximately $7.2 million in net assets upon adoption on January 1, 2007, with a translation adjustment for the same amount recorded to other comprehensive income. If the official exchange rate at January 1, 2007 were higher by 10%, the resulting reduction in net assets would be approximately $12.0 million.

RELATED PARTY TRANSACTIONS

1.160 SFAS No. 57, *Related Party Disclosures*, specifies the nature of information which should be disclosed in financial statements about related party transactions. In 2006, 277 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Sale of Receivables to Subsidiary

1.161

HASBRO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

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

Securitization and Transfer of Financial Instruments

Hasbro has an agreement that allows the Company to sell, on an ongoing basis, an undivided interest in certain of its trade accounts receivable through a revolving securitization arrangement. The Company retains servicing responsibilities for, as well as a subordinate interest in the transferred receivables. Hasbro accounts for the securitization of trade accounts receivable as a sale in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 140"). As a result, the related receivables are removed from the consolidated balance sheet.

5) (In Part): Financing Arrangements

Securitization

As of December 31, 2006, the Company is party to a receivable securitization program whereby the Company sells, on an ongoing basis, substantially all of its U.S. trade accounts receivable to a bankruptcy-remote, special purpose subsidiary, Hasbro Receivables Funding, LLC (HRF), which is wholly owned and consolidated by the Company. HRF will, subject to certain conditions, sell, from time to time on a revolving basis, an undivided fractional ownership interest in up to $250,000 of eligible domestic receivables to various multiparty commercial paper conduits supported by a committed liquidity facility. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously held receivables. The Company expects to service, administer, and collect the receivables on behalf of HRF and the conduits. The net proceeds of sale will be less than the face amount of accounts receivable sold by an amount that approximates the purchaser's financing costs. In December 2006, this agreement was amended. Under the amended agreement, the expiration date is December 1, 2011, subject to an annual renewal process. Also under the amended agreement, the maximum aggregate outstanding purchase limit for interest in receivables which may be sold is raised to $300,000 during the period from fiscal October to fiscal January of each year.

The receivables facility contains certain restrictions on the Company and HRF that are customary for facilities of this type. The commitments under the facility are subject to termination prior to their term upon the occurrence of certain events, including payment defaults, breach of covenants, breach of representations or warranties, bankruptcy, and failure of the receivables to satisfy certain performance criteria.

As of December 31, 2006 and December 25, 2005 the utilization of the receivables facility on both dates was $250,000, which was the maximum available to the Company to sell under this program at December 25, 2005. As of December 31, 2006, the Company had an additional $50,000 available to sell under the facility. The transactions are accounted for as sales under SFAS 140. During 2006 and 2005,

the loss on the sale of the receivables totaled $2,241 and $6,925, respectively, which is recorded in selling, distribution and administration expenses in the accompanying consolidated statements of operations. The discount on interests sold is approximately equal to the interest rate paid by the conduits to the holders of the commercial paper plus other fees. The discount rate as of December 31, 2006 was approximately 5.73%.

Upon sale to the conduits, HRF continues to hold a subordinated retained interest in the receivables. The subordinated interest in receivables is recorded at fair value, which is determined based on the present value of future expected cash flows estimated using management's best estimates of credit losses and discount rates commensurate with the risks involved. Due to the short-term nature of trade receivables, the carrying amount, less allowances, approximates fair value. Variations in the credit and discount assumptions would not significantly impact fair value.

Transaction Between Reporting Entity and Investee

1.162

HESS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Refining Joint Venture

The Corporation has an investment in HOVENSA L.L.C., a 50% joint venture with Petroleos de Venezuela, S.A. (PDVSA), which is accounted for using the equity method. HOVENSA owns and operates a refinery in the U.S. Virgin Islands. Summarized financial information for HOVENSA as of December 31 and for the years then ended follows:

(Millions of dollars)	2006	2005	2004
Summarized balance sheet, at December 31			
Cash and cash equivalents	$ 290	$ 612	$ 518
Short-term investments	—	263	39
Other current assets	943	814	636
Net fixed assets	2,123	1,950	1,843
Other assets	32	39	36
Current liabilities	(1,060)	(996)	(606)
Long-term debt	(252)	(252)	(252)
Deferred liabilities and credits	(108)	(57)	(48)
Partners' equity	$ 1,968	$ 2,373	$ 2,166
Summarized income statement, for the years ended December 31			
Total revenues	$ 11,788	$10,439	$ 7,776
Costs and expenses	(11,377)	(9,682)	(7,282)
Net income	$ 411	$ 757	$ 494
Hess Corporation's share*	$ 203	$ 376	$ 244
Summarized cash flow statement, for the years ended December 31			
Net cash provided by (used in):			
Operating activities	$ 484	$ 1,070	$ 656
Investing activities	(10)	(426)	(167)
Financing activities	(796)	(550)	(312)
Net increase (decrease) in cash and cash equivalents	$ (322)	$ 94	$ 177

* Before Virgin Islands income taxes, which were recorded in the Corporation's income tax provision.

The Corporation received cash distributions from HOVENSA of $400 million, $275 million and $88 million during 2006, 2005 and 2004, respectively. The Corporation's share of HOVENSA's undistributed income aggregated $302 million at December 31, 2006.

The Corporation guarantees the payment of up to 50% of the value of HOVENSA's crude oil purchases from suppliers other than PDVSA. The guarantee amounted to $229 million at December 31, 2006. This amount fluctuates based on the volume of crude oil purchased and the related crude oil prices. In addition, the Corporation has agreed to provide funding up to a current maximum of $15 million to the extent HOVENSA does not have funds to meet its senior debt obligations.

At formation of the joint venture, PDVSA V.I., a wholly-owned subsidiary of PDVSA, purchased a 50% interest in the fixed assets of the Corporation's Virgin Islands refinery for $62.5 million in cash and a 10-year note from PDVSA V.I. for $562.5 million bearing interest at 8.46% per annum and requiring principal payments over its term. The principal balance of the note was $137 million and $212 million at December 31, 2006 and 2005, respectively, which is due to be fully repaid by February 2009.

18. Related Party Transactions

Related party transactions for the year-ended December 31:

(Millions of dollars)	2006	2005
Purchases of petroleum products:		
HOVENSA*	$4,694	$3,991
Sales of petroleum products and crude oil:		
WilcoHess	1,664	1,244
HOVENSA	179	98

* The Corporation has agreed to purchase 50% of HOVENSA's production of refined products at market prices, after sales by HOVENSA to unaffiliated parties.

Transaction Between Reporting Entity and Major Stockholder

1.163

OXFORD INDUSTRIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Related Party Transactions

SunTrust Banks, Inc. and its subsidiaries ("SunTrust") holds shares of our common stock in various fiduciary and agency capacities and as such is a principal shareholder of our common stock. Mr. J. Hicks Lanier, our Chief Executive Officer, is on the board of directors of SunTrust and its Audit Committee. Mr. E. Jenner Wood III, a Board member of Oxford Industries, Inc. was Chairman, President and Chief Executive Officer of SunTrust Bank, Central Group, during fiscal 2006.

We maintain a syndicated credit facility under which subsidiaries of SunTrust served as agent and lender. In fiscal 2006, 2005 and 2004, the services provided and interest and fees paid to SunTrust in connection with such services are set forth below:

Service	Fiscal 2006	Fiscal 2005	Fiscal 2004
Interest and agent fees for our credit facility	$1,307,000	$2,999,000	$4,749,000
Cash management and senior notes related services	$ 106,000	$ 133,000	$ 82,000
Trustee for deferred compensation plan	$ 8,000	$ 8,000	$ 8,000
Stock transfer agent	$ 26,000	$ 10,000	$ 10,000

Our aggregate payments to SunTrust and its subsidiaries for these services, together with all of the other services described above in this section, did not exceed 1% of our gross revenues during fiscal 2006, 2005 and 2004 or 1% of SunTrust's gross revenues during its fiscal years ended December 31, 2006, 2005 and 2004.

Transaction Between Reporting Entity and Officer/Director

1.164

HARLEY-DAVIDSON, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Related Party Transactions

The Company has the following material related party transactions. A director of the Company is Chairman and Chief Executive Officer and an equity owner of Fred Deeley Imports Ltd. (Deeley Imports), the exclusive distributor of the Company's motorcycles in Canada. During 2006, 2005 and 2004, the Company recorded revenue and financial services income from Deeley Imports of $187.7 million, $145.1 million and $137.6 million, respectively, and had accounts receivables balances due from Deeley Imports of $21.0 million and $14.8 million at December 31, 2006 and 2005, respectively. All such products were provided in the ordinary course of business at prices and on terms and conditions that the Company believes are the same as those that would result from arm's-length negotiations between unrelated parties.

Transaction Between Reporting Entity and Variable Interest Entity

1.165

CUMMINS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Variable Interest Entities

We consolidate certain VIEs if we are deemed to be the primary beneficiary, defined in FIN 46R as the entity that absorbs a majority of the VIEs' expected losses, receives a majority of the VIEs' expected residual returns, or both. We adopted FIN 46R as of December 31, 2003, for entities previously considered to be special purpose entities (SPEs) under GAAP and for new entities created on or after February 1, 2003. In addition, we have variable interests in other businesses including businesses accounted for under the equity method of accounting and certain North American distributors that are deemed VIEs and are subject to the provisions of FIN 46R. We adopted FIN 46R for these entities as of our first quarter ended March 28, 2004.

During 2001, we entered into a sale-leaseback transaction with a financial institution with regard to certain heavy-duty engine manufacturing equipment. The accounting for the original sale-leaseback transaction is discussed in Note 20. The financial institution created a grantor trust to act as the lessor in the arrangement. The financial institution owns 100 percent of the equity in the trust. The grantor trust has no assets other than the equipment and its rights to the lease agreement with us. On the initial sale, we received $125 million from the financial institution which was financed with $99 million of non-recourse debt and $26 million of equity. Our obligations to the grantor trust consist of the payments

due under the lease and a $9 million guarantee of the residual value of the equipment. In addition, we have a fixed price purchase option that is exercisable on January 14, 2009, for approximately $35 million. We have determined that the grantor trust is a VIE under FIN 46R and due primarily to the existence of the residual value guarantee, we determined that we are the primary beneficiary of the VIE. As a result, we began consolidating the grantor trust as of December 31, 2003, even though we own none of its equity. As of December 31, 2006, the non-recourse debt had an outstanding balance of $60 million, the assets serving as collateral on this debt had a carrying amount of $49 million and the related minority interest in the VIE was $32 million.

In June 2001, Cummins Capital Trust I (the "Trust"), a Delaware business trust and our wholly-owned subsidiary, issued 6 million shares of 7 percent convertible quarterly income preferred securities ("preferred securities"). The total proceeds from the issuance of the preferred securities by the Trust were invested in $309 million aggregate principal amount of 7 percent convertible subordinated debentures (the "debentures") that we issued. The debentures were the sole assets of the Trust. The Trust qualified as a VIE under FIN 46R. We were not the primary beneficiary of the Trust and thus reported the debentures rather than the preferred securities as an obligation. On May 8, 2006, the Board of Directors approved our plan to redeem all of the 7% convertible quarterly income preferred securities. As of December 31, 2005, the debentures were included in "Long-term Debt" in our *Consolidated Balance Sheet.*

Consolidated Diesel Corporation (CDC) and Cummins Komatsu Engine Corporation (CKEC), are engine manufacturing entities jointly owned and operated by us and our equity partners. We were deemed the primary beneficiary of these VIEs due to the pricing arrangements of purchases and the substantial volume of purchases we made from these VIEs. Our arrangements with CDC are more fully described in Note 3. As of December 31, 2006, CDC has approximately $45 million of debt which is collateralized by substantially all of its inventory and fixed assets with a current book value of $46 million and $153 million, respectively. CKEC has no unsecured debt as of December 31, 2006. Creditors of these entities have no recourse to the general credit of Cummins.

AVK/SEG is a German holding company that directly owned shares of AVK and SEG and was jointly owned by Cummins (50 percent) and other equity partners. AVK manufactures alternators and SEG manufactures power electronic components. We were deemed the primary beneficiary of this VIE due to the existence of a call/guarantee arrangement on an additional 13 percent ownership interest in the entity and our guarantee on portions of the entity's subordinated debt. During the second quarter of 2004, AVK/SEG was liquidated and its shares in AVK and SEG were distributed directly to Cummins and the other equity partners. As a result of the liquidation, Cummins owned 100 percent of AVK, 25 percent of SEG and our call/guarantee arrangement to obtain an additional ownership interest in SEG increased from 13 percent to 19 percent. This transaction was accounted for as an acquisition of a minority interest in AVK (via a nonmonetary exchange of shares) and was recorded at fair value, resulting in a nominal gain (less than $1 million after-tax). During 2005, Cummins exercised its call option to purchase an additional 19 percent ownership in SEG. In addition, SEG failed to timely repay certain intercompany loans due to Cummins which increased our ownership percentage by an additional 7 percent. As a result of these transactions, Cummins owned 51 percent of SEG. During the fourth quarter of 2006, we sold our interest in SEG, therefore they are no longer consolidated in our *Consolidated Financial Statements.* The sale resulted in a pre-tax gain of approximately $9 million. Total assets of SEG were approximately $42 million at the date of the transaction and $39 million at December 31, 2005, which is less than 1 percent of our total assets at those dates. Total sales of SEG were approximately $51 million and $72 million, for the ten months ended October 31, 2006 and for the year ended December 31, 2005, respectively, which is less than 1 percent of our total net sales for these periods.

In April 2004, Cummins Eastern Canada (CEC), a distributor previously accounted for under the equity method, acquired another Cummins distributor in Canada. The acquisition price of the distributor was $19 million ($18 million, net of cash acquired), which was funded by the addition of $15 million of debt and an additional $4 million equity investment by Cummins. The additional equity contributed by Cummins increased our ownership percentage in CEC to 67 percent (50 percent prior to the acquisition.) At the same time, we reached an agreement to sell a 16 percent ownership interest in CEC to another equity holder. This sale was completed during the third quarter of 2004. As a result of this sale, our ownership percentage in CEC was reduced from 67 percent to 51 percent. We agreed to accept a note from the equity holder for its purchase of the 16 percent ownership interest. The note was to be repaid from distributions of future CEC earnings. Immediately upon repayment of the loan, the equity holder has an option agreement to purchase an additional 1 percent ownership share from Cummins. We also agreed with the other shareholders to maintain our voting interest at 50 percent. We do not have management or voting control over CEC. In accordance with FIN 46R, CEC is consolidated in our *Consolidated Financial Statements* due to our current 51 percent economic interest and deemed interest of 16 percent resulting from our financing of the other equity holder's purchase. As of December 31, 2006, CEC has approximately $23 million of debt which is collateralized by various current and fixed assets with a current book value of $62 million. Creditors of CEC have no recourse to the general credit of Cummins. On January 3, 2007, the equity holder repaid the balance due on the outstanding note of $3.3 million and exercised the purchase option on the additional 1 percent share for $0.3 million. The repayment of the loan and the exercise of the purchase option triggered a reassessment under FIN 46R, resulting in the deconsolidation of CEC. The results of CEC will no longer be consolidated in our *Consolidated Financial Statements* beginning with the results of the first quarter of 2007.

Results of these entities for the year ended December 31, 2006, are consolidated in our *Consolidated Statements of Earnings* and a significant amount of their sales are eliminated in consolidation. The table below shows the increase in our assets and liabilities from consolidating these entities, after eliminating intercompany items, as of December 31, 2006, as follows:

(Millions)	Increase
Current assets	$134
Long-term assets	133
Current liabilities (including short-term debt of $38)	166
Long-term debt	29

We also have variable interests in three North American distributors that were deemed to be VIEs in accordance with FIN 46R, but we were not deemed to be the primary beneficiary since we do not absorb a majority of the entity's expected losses. Our ownership percentage in these entities ranges from zero percent to 50 percent. For all three of the entities, our equity ownership represents our only variable interest in the entity and thus we would not be deemed the primary beneficiary.

The principal business of the distributors is to sell Cummins engines and related service parts as well as provide repair and maintenance services on engines, including warranty repairs. Our maximum potential loss related to these three distributors as of December 31, 2006, consisted of our ownership interest totaling $14 million. Our involvement with these distributors as equity holders began in 2005, 2003 and 2002. Selected financial information for these distributors as of and for the year ended December 31, 2006, is as follows:

(Millions)	
Total assets	$259
Total liabilities (including total debt of $63)	170
Revenues	663
Net earnings	51

Note 3 (In Part): Investments in Equity Investees and Related Party Transactions

Related Party Transactions

In accordance with the provisions of various joint venture agreements, we may purchase products and components from the joint ventures, sell products and components to the joint ventures and the joint ventures may sell products and components to unrelated parties. Joint venture transfer prices to us may differ from normal selling prices. Certain joint venture agreements transfer product to us at cost, some transfer product to us on a cost-plus basis, and others transfer product to us at market value.

We purchase significant quantities of midrange diesel and natural gas engines, components and service parts from CDC, a general partnership and a VIE (see Note 2) that we began to consolidate on March 28, 2004. The partnership was formed in 1980 with J. I. Case (Case) to jointly fund engine development and manufacturing capacity. Cummins and Case (now CNH Global N.V.) are general partners and each partner shares 50 percent ownership in CDC. Under the terms of the agreement, CDC is obligated to make its entire production of diesel engines and related products available solely to the partners. Each partner is entitled to purchase up to one-half of CDC's actual production; a partner may purchase in excess of one-half of actual production to the extent productive capacity is available beyond the other partner's purchase requirement. The partners are each obligated, unconditionally and severally, to purchase annually at least one engine or engine kit produced by CDC, provided a minimum of one engine or kit is produced. The transfer price of CDC's engines to the partners must be sufficient to cover its manufacturing cost in such annual accounting period, including interest and financing expenses, and excluding depreciation expense (other than Scheduled Depreciation Expense as defined in the agreement). In addition, each partner is obligated to contribute one-half of the capital investment required to maintain plant capacity and each partner has the right to invest unilaterally in plant capacity, which additional capacity can be utilized by the other partner for a fee. To date, neither partner has made a unilateral investment in plant capacity at CDC.

We are not a guarantor of any of CDC's obligations or commitments; however, we are required to provide up to 50 percent of CDC's base working capital as defined by the agreement. The amount of base working capital is calculated each quarter and if supplemental funding greater than the base working capital amount is required, the amount is funded through third-party financing arranged by CDC, or we may elect to fund the requirement although we are under no obligation to do so. To date, when supplemental funding is required above the base working capital amount, we have elected to provide that funding to CDC. If the amount of supplemental funding required is less than the base working capital amount, it is funded equally by the partners. Excess cash generated by CDC is remitted to Cummins until CDC's working capital amount is reduced to the base working capital amount. Any further cash remittances from CDC to the partners are shared equally by the partners.

All marketing, selling, warranty and research and development expenses related to CDC products are the responsibility of the partners and CDC does not incur any of these expenses. Cummins also provides purchasing and administrative procurement services to CDC for an annual fee shared by the partners.

All of our engine purchases from CDC are shipped directly from CDC to our customers. Prior to March 28, 2004, purchases were recorded as "Cost of sales" in our *Consolidated Statements of Earnings* as CDC was accounted for under the equity method of accounting. Subsequent to March 28, 2004, all engine purchases from CDC were eliminated in consolidation. Our engine purchases from CDC are recorded at CDC's transfer price which is based upon total production costs of products shipped and an allocation of all other costs incurred during the reporting period, resulting in break-even operating results for CDC.

The following table summarizes our related party purchases included in "Cost of sales" in our *Consolidated Statements of Earnings*:

(Millions)	2006	2005	2004
Engines, parts and components—CDC	$ —	$ —	$107
Engines, parts and components—other JVs	272	190	151
Total	$272	$190	$258

The *Consolidated Statements of Cash Flows* include the investee equity earnings as reported above as well as other non-cash adjustments. The most significant adjustment included in the statement of cash flows is depreciation recorded by CDC, which prior to FIN 46R was allocated to the joint venture partners based on the amount of their purchases. We classified depreciation and other non-cash expenses related to CDC as "Cost of sales" and "Other (income) expense," respectively, in the *Consolidated Statements of Earnings.* The adjustments relating to CDC were $3 million in 2004.

Distributors

We have an extensive worldwide distributor and dealer network through which we sell and distribute our products and services. Generally, our distributors are divided by geographic region. Some of our distributors are wholly-owned by Cummins, some partially-owned and the majority are independently owned. We consolidate all wholly-owned distributors and partially-owned distributors where we are the primary beneficiary and account for other partially-owned distributors using the equity method of accounting.

We are contractually obligated to repurchase new engines, parts and components and signage from our North American distributors following an ownership transfer or termination of the distributor. In addition, in certain cases where we own a partial interest in a distributor, we are obligated to purchase the other equity holders' interests if certain events occur (such as the death of the distributor prinipal or a change in control of Cummins Inc.). The purchase price of the equity interests is determined based on the fair value of the distributor's assets. Outside of North America, repurchase obligations and practices vary by region. All distributors that are partially-owned are considered to be related parties in our *Consolidated Financial Statements.*

Note 20 (In Part): Leases

Sale and Leaseback Transactions

In 2001, we entered into a sale-leaseback agreement whereby we sold and leased back certain heavy-duty engine manufacturing equipment from a grantor trust wholly-owned by a financial institution. The lease was classified as an operating lease with a lease term of 11.5 years, expiring June 28, 2013, and includes an early buyout purchase option on January 14, 2009. The early buyout option can be exercised for approximately $35 million, or 28 percent of the equipment's fair market value at the inception of the lease. If we do not exercise the option, we are obligated to purchase insurance that insures the equipment's residual value. At the end of the lease term, we are obligated to pay the difference, if any, between the equipment's guaranteed residual value and its fair market value.

The lease agreement includes certain default provisions requiring us to make timely rent payments, maintain, service, repair and insure the equipment, procure residual value insurance and maintain minimum debt ratings for our long-term senior unsecured debt obligations.

In December 2003, the grantor trust which acts as the lessor in the sale and leaseback transaction described above was consolidated due to the adoption of FIN 46R. A description of the entity consolidated and the impact of adopting FIN 46R are described in Note 2. As a result of the consolidation, the manufacturing equipment and the trust's obligations under its non-recourse debt arrangement are included in our *Consolidated Balance Sheets* as property, plant and equipment and long-term debt, respectively. The non-recourse debt arrangement is more fully discussed in Note 11. In addition, our *Consolidated Statements of Earnings* includes interest expense on the lessor's debt obligations and depreciation expense on the manufacturing equipment rather than rent expense under the lease agreement. The amount of interest expense in 2006, 2005 and 2004 was $5 million, $6 million and $7 million, respectively. The amount of depreciation expense in 2006, 2005 and 2004 was $17 million, $14 million and $11 million, respectively.

1.166

ROHM AND HAAS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation

Our Consolidated Financial Statements include the accounts of our company and subsidiaries. We consolidate all entities in which we have a controlling ownership interest. All of our significant entities are consolidated. We have no significant contractual requirements to fund losses of unconsolidated entities. Also in accordance with FIN 46R, "*Consolidation of Variable Interest Entities*," we consolidate variable interest entities in which we bear a majority of the risk to the potential losses or gains from a majority of the expected returns.

We are the primary beneficiary of a joint venture deemed to be a variable interest entity. Each joint venture partner holds several equivalent variable interests, with the exception of a royalty agreement held exclusively between the joint venture and us. In addition, the entire output of the joint venture is sold to us for resale to third party customers. As the primary beneficiary, we consolidated the joint venture's assets, liabilities, and results of operations in our Consolidated Financial Statements initially for the fiscal year ended December 31, 2004. As we previously accounted for this entity as an equity method investment, the cumulative impact of consolidation was not material to our net income. We did not consider this a variable interest entity at the initial adoption date of FIN 46R. However, based on our subsequent evaluation, we concluded this entity should be consolidated under FIN 46R. Accordingly, the Consolidated Financial Statements for the years ended December 31, 2006, 2005 and 2004 properly reflect the consolidated results of this variable interest entity.

We hold a variable interest in another joint venture, which we account for under the equity method of accounting. The variable interest relates to a cost-plus arrangement between the joint venture and each joint venture partner. We have determined that Rohm and Haas is not the primary beneficiary and therefore have not consolidated the entity's assets, liabilities, and results of operations in our Consolidated Financial Statements. The entity provides manufacturing services to us and the other joint venture partner, and has been in existence since 1999. As of December 31, 2006, our investment in the joint venture was approximately $44 million, representing our maximum exposure to loss.

Consolidated Tax Return

1.167

THE HOME DEPOT, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes (In Part)

The Company and its eligible subsidiaries file a consolidated U.S. federal income tax return. Non-U.S. subsidiaries and certain U.S. subsidiaries, which are consolidated for financial reporting purposes, are not eligible to be included in the Company's consolidated U.S. federal income tax return. Separate provisions for income taxes have been determined for these entities. The Company intends to reinvest the unremitted earnings of its non-U.S. subsidiaries and postpone their remittance indefinitely. Accordingly, no provision for U.S. income taxes for non-U.S. subsidiaries was recorded in the accompanying Consolidated Statements of Earnings.

Tax Sharing Agreement

1.168

THE PEPSI BOTTLING GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (In Part): Related Party Transactions

PepsiCo is considered a related party due to the nature of our franchise relationship and its ownership interest in our Company. The most significant agreements that govern our relationship with PepsiCo consist of:

- 1) Master Bottling Agreement for cola beverages bearing the Pepsi-Cola and Pepsi trademarks in the United States; bottling agreements and distribution agreements for non-cola beverages; and a master fountain syrup agreement in the United States;
- 2) Agreements similar to the master bottling agreement and the non-cola agreement for each country in which we operate, as well as a fountain syrup agreement for Canada;
- 3) A shared services agreement where we obtain various services from PepsiCo and provide services to PepsiCo; and
- 4) Transition agreements that provide certain indemnities to the parties, and provide for the allocation of tax and other assets, liabilities and obligations arising from periods prior to the initial public offering.

Income Tax Benefit (In Part)

Under our tax separation agreement with PepsiCo, PepsiCo maintains full control and absolute discretion for any combined or consolidated tax filings for tax periods ended on or before our initial public offering that occurred in March 1999. However, PepsiCo may not settle any issue without our written consent, which consent cannot be unreasonably withheld. PepsiCo has contractually agreed to act in good faith with respect to all tax examination matters affecting us. In accordance with the tax separation agreement, we will bear our allocable share of any risk or benefit resulting from the settlement of tax matters affecting us for these periods. Total settlements are recorded in income tax expense in our Consolidated Statements of Operations.

In accordance with our tax separation agreement with PepsiCo, in 2006 PBG reimbursed PepsiCo $5 million for our obligations with respect to certain IRS matters relating to the tax years 1998 through March 1999.

INFLATION ACCOUNTING

1.169 SFAS No. 89, *Financial Reporting and Changing Prices*, states that companies previously required to disclose current cost information are no longer required to disclose such information.

1.170 Many of the survey companies include comments about inflation in Management's Discussion and Analysis of Financial Condition and Results of Operations. An example follows.

1.171

W.W. GRAINGER, INC. (DEC)

INFLATION AND CHANGING PRICES

Inflation during the last three years has not had a significant effect on operations. The predominant use of the last-in, first-out (LIFO) method of accounting for inventories and accelerated depreciation methods for financial reporting and income tax purposes result in a substantial recognition of the effects of inflation in the financial statements.

The major impact of inflation is on buildings and improvements, where the gap between historic cost and replacement cost continues for these long-lived assets. The related depreciation expense associated with these assets increases if adjustments were to be made for the cumulative effect of inflation.

Grainger believes the most positive means to combat inflation and advance the interests of investors lies in the continued application of basic business principles, which include improving productivity, increasing working capital turnover and offering products and services which can command appropriate prices in the marketplace.

Section 2: Balance Sheet

BALANCE SHEET TITLE

2.01 Table 2-1 summarizes the titles used to describe the statement of assets, liabilities and stockholders' equity.

2.02

TABLE 2-1: BALANCE SHEET TITLE

	2006	2005	2004	2003
Balance Sheet	578	577	576	574
Statement of Financial Position	21	22	23	24
Statement of Financial Condition	1	1	1	2
Total Companies	**600**	**600**	**600**	**600**

BALANCE SHEET FORMAT

2.03 Table 2-2 summarizes the different balance sheet formats used by the survey companies. Balance sheet formats include the account form, the report form, and the financial position form. The account form shows total assets on the left-hand side equal to the sum of liabilities and stockholders' equity on the right-hand side. The report form shows a downward sequence of either total assets minus total liabilities equal to stockholders' equity or total assets equal to total liabilities plus stockholders' equity. The financial position form, a variation of the report form, shows noncurrent assets added to and noncurrent liabilities deducted from working capital to arrive at a balance equal to stockholders' equity.

2.04 Statement of Financial Accounting Standards (SFAS) No. 94, *Consolidation of All Majority-Owned Subsidiaries*, requires that companies consolidate subsidiaries having nonhomogeneous operations. This requirement resulted in certain survey companies presenting an unclassified balance sheet (17 companies in 2006) or a balance sheet classified as to industrial operations but showing assets and liabilities of nonhomogeneous operations as segregated amounts (five companies in 2006).

2.05 Occasionally, the survey companies disclose reclassifications of balance sheet amounts. Examples of a reclassification follow.

2.06

TABLE 2-2: BALANCE SHEET FORMAT

	2006	2005	2004	2003
Report form	524	506	504	506
Account form	76	94	96	94
Financial position form	—	—	—	—
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

2.07

CONAGRA FOODS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year classifications. The Company has reclassified the fair value of certain derivative contracts for which it does not have the legal right of offset, which had previously been presented on a net basis, to a gross presentation within prepaid expenses and other current assets and other accrued liabilities. This change in presentation resulted in an increase to both prepaid expenses and other current assets and other accrued liabilities of $251.1 million at May 29, 2005.

2.08

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Revisions to Financial Statement Presentation

We revised the classification of a portion of our pension liability from long term compensation and benefits to current compensation and benefits in our Consolidated Balance Sheet at December 31, 2005. The revision reflects amounts that should have been classified as current due to expected pension funding requirements for the next 12 months from December 31, 2005. Current compensation and benefits and long term compensation and benefits at December 31, 2005 as reported in our 2005 Annual Report on Form 10-K, were $1,121 million and $4,480 million, respectively.

In addition, certain other items previously reported in specific financial statement captions have been reclassified to conform to the 2006 presentation.

CASH AND CASH EQUIVALENTS

2.09 Cash is commonly considered to consist of currency and demand deposits. SFAS No. 95, *Statement of Cash Flows*, defines cash equivalents as "short-term, highly liquid investments" that will mature within three months or less after being acquired by the holder. 490 survey companies

stated explicitly that the carrying amount of cash and cash equivalents approximated fair value.

2.10 Table 2-3 lists the balance sheet captions used by the survey companies to describe cash and cash equivalents. As indicated in Table 2-3, the most frequently used caption is cash and cash equivalents. Examples of cash and cash equivalents presentations and disclosures follow.

2.11

TABLE 2-3: CASH AND CASH EQUIVALENTS—BALANCE SHEET CAPTIONS

	2006	2005	2004	2003
Cash	19	22	29	36
Cash and cash equivalents	536	528	515	505
Cash and equivalents	33	34	37	34
Cash includes certificates of deposit or time deposits	1	2	2	1
Cash combined with marketable securities	11	13	14	21
No amount for cash	—	1	3	3
Total Companies	**600**	**600**	**600**	**600**

2.12

AVON PRODUCTS, INC. (DEC)

(In millions)	2006	2005
Current assets		
Cash, including cash equivalents of $825.1 and $721.6	$1,198.9	$1,058.7
Accounts receivable (less allowances of $119.1 and $110.1)	700.4	634.1
Inventories	900.3	801.7
Prepaid expenses and other	534.8	424.5
Total current assets	$3,334.4	$2,919.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

Cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are high-quality, short-term money market instruments with an original maturity of three months or less and consist of time deposits with a number of U.S. and non-U.S. commercial banks and money market fund investments.

2.13

TECUMSEH PRODUCTS COMPANY (DEC)

(Dollars in millions)	2006	2005
Current assets		
Cash and cash equivalents	$ 81.9	$116.6
Accounts receivable, trade, less allowance for doubtful accounts of $10.1 million in 2006 and $11.3 million in 2005	219.5	211.1
Inventories	353.4	346.8
Deferred and recoverable income taxes	40.6	43.4
Other current assets	38.0	89.2
Total current assets	$733.4	$807.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Financial Instruments

The following table presents the carrying amounts and the estimated fair values of financial instruments at December 31, 2006 and 2005:

	2006		2005	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 81.9	$ 81.9	$116.6	$116.6
Short-term borrowings	163.2	163.2	82.5	82.5
Long-term debt	217.3	217.3	283.0	283.0
Foreign currency contracts	5.5	5.5	13.0	13.0
Commodity contracts	—	(1.1)	—	25.1

The carrying amount of cash equivalents approximates fair value due to their liquidity and short-term maturities. The fair value of our fixed interest rate debt reflects the difference between the contract rate and the prevailing rates as of the balance sheet date. The carrying value of our variable interest rate debt approximates fair value. The fair values of foreign currency and commodity contracts reflect the differences between the contract prices and the forward prices available at the balance sheet date.

MARKETABLE SECURITIES

2.14 SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, is the authoritative pronouncement on accounting for and reporting investments in equity securities that have readily determinable fair value and all investments in debt securities. Paragraphs 19–22 of *SFAS No. 115*, as amended by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, state the disclosure requirements for such investments.

2.15 By definition, investments in debt and equity securities are financial instruments. For investments subject to *SFAS No. 115* requirements, SFAS No. 107, *Disclosure About Fair Value of Financial Instruments*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for

estimating the fair value of marketable securities unless it is not practicable to estimate that value. During 2006, 253 survey companies made 258 fair value disclosures. 118 of those disclosures used market or broker quotes of the investments in debt and equity securities to determine fair value. Ten of those disclosures estimated fair value using other valuation methods. 161 disclosures presented carrying amounts which approximated fair value of marketable securities. In addition there were 77 disclosures in which carrying value was compared to fair value in an exposition or a table.

2.16 *SFAS No. 115* requires that certain debt and equity securities be classified into one of three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost in the statement of financial position. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities and reported at fair value. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value. 180 survey companies identified their marketable securities as available-for-sale.

2.17 Statement of Financial Accounting Concepts (SFAC) No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions. Reporting certain marketable securities at fair value under *SFAS No. 115* is an example of a fresh-start measurement.

2.18 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.19 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged, SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While *SFAS No. 157* does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as *SFAS Nos. 107, 115, and 133. SFAS No. 157* clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. *SFAS No. 157* emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, *SFAS No. 157* specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs. For assets and liabilities measured at fair value on a recurring basis, *SFAS No. 157* expands the required disclosures concerning the inputs used to measure fair value, and encourages the combination of fair value information disclosed under the standard with those disclosed under other pronouncements, such as *SFAS No. 107.*

2.20 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with conditioned earlier application allowed, SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Further, under *SFAS No. 159* a business entity shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, and applied to the entire instrument, not just a portion of it. *SFAS No. 159* includes an amendment to *SFAS No. 115* that relates to the accounting for and disclosure of the unrealized gains and losses of available-for-sale and held-to-maturity securities for which the fair value option is elected. *SFAS No. 159* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. *SFAS No. 159* does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included in pronouncements, such as *SFAS Nos. 107 and 157.*

2.21 The FASB's Emerging Issues Task Force (EITF) Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, should be used to determine when certain investments are considered impaired, whether that impairment is other than temporary, and the measurement and recognition of an impairment loss. *EITF Issue No. 03-1* also provides guidance on accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

2.22 Table 2-4 lists the balance sheet carrying bases for investments in debt and equity securities presented as current assets. Examples of presentations and disclosures for such investments follow.

2.23

TABLE 2-4: MARKETABLE SECURITIES—BASES

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Market/fair value	211	212	190	175
Cost	39	54	52	48
Lower of cost or market	—	—	—	—

Available-for-Sale Securities

2.24

MICRON TECHNOLOGY, INC. (AUG)

(Dollars in millions)	2006	2005
Cash and equivalents	$1,431	$ 524
Short-term investments	1,648	766
Receivables	956	794
Inventories	963	771
Prepaid expenses	77	39
Deferred income taxes	26	32
Total current assets	$5,101	$2,926

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Financial Instruments

Cash equivalents include highly liquid short-term investments with original maturities of three months or less, readily convertible to known amounts of cash. Investments with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Investments with remaining maturities greater than one year are classified as other noncurrent assets. Securities classified as available-for-sale are stated at market value. The carrying value of investment securities sold is determined using the specific identification method.

The amounts reported as cash and equivalents, short-term investments, receivables, other assets, accounts payable and accrued expenses and equipment purchase contracts approximate their fair values. The estimated fair value of the Company's debt was $627 million and $1,213 million as of August 31, 2006 and September 1, 2005, respectively. The fair value estimates presented herein were based on market interest rates and other market information available to management as of each balance sheet date presented. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts. The approximate fair values do not take into consideration expenses that could be incurred in an actual settlement.

Supplemental Balance Sheet Information

Investment Securities	2006	2005
Available-for-sale securities:		
Commercial paper	$ 1,272	$ 485
U.S. government and agencies	668	396
Certificates of deposit	486	47
Corporate notes and bonds	232	66
Repurchase agreements	67	48
Other	21	3
	2,746	1,045
Less cash equivalents	(1,077)	(276)
Less noncurrent investments	(21)	(3)
Short-term investments	$ 1,648	$ 766

2.25

NOVELL, INC. (OCT)

(Amounts in thousands)	2006	2005
Current assets		
Cash and cash equivalents	$ 675,787	$ 811,238
Short-term investments	790,500	843,666
Receivables (net of allowances of $5,574 and $16,638 at October 31, 2006 and 2005, respectively)	233,986	293,627
Prepaid expenses	32,328	30,777
Other current assets	28,524	29,745
Total current assets	$1,761,125	$2,009,053

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Summary of Significant Accounting Policies

Cash, Cash Equivalents and Short-Term Investments

We consider all investments with an initial term to maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments are diversified, primarily consisting of investment grade securities that either mature within the next 12 months or have other characteristics of short-term investments, such as auction dates within at least six months of the prior auction date or being available to be used for current operations even if some maturities may extend beyond one year. All auction rate securities are classified as short-term investments.

All marketable debt and equity securities that are included in cash and short-term investments are considered available-for-sale and are carried at fair value. The unrealized gains and losses related to these securities are included in accumulated other comprehensive income. Fair values are based on quoted market prices where available. If quoted market prices are not available, we use third-party pricing services to assist in determining fair value. In many instances, these services examine the pricing of similar instruments to estimate fair value. When securities are sold, their cost is determined based on the first-in first-out method. The realized gains and losses related to these securities are included in investment income in the consolidated statements of operations.

F. Cash and Short-Term Investments

The following is a summary of our short-term available-for-sale investments at fiscal year ended October 31, 2006 and 2005:

(In thousands)	Cost at October 31, 2006	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at October 31, 2006
Short-term investments:				
Auction market securities	$ 86,577	$ 26	$ —	$ 86,603
U.S. government and agency securities	335,761	424	(2,709)	333,476
Corporate notes and bonds	262,706	176	(1,533)	261,349
Asset and mortgage-backed securities	102,718	113	(575)	102,256
Equity securities	6,305	511	—	6,816
Total short-term investments	$794,067	$1,250	$(4,817)	$790,500

(In thousands)	Cost at October 31, 2005	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at October 31, 2005
Short-term investments:				
Auction market securities	$117,702	$ —	$ —	$117,702
U.S. government and agency securities	405,934	1	(4,604)	401,331
Corporate notes and bonds	237,872	15	(2,631)	235,256
Asset and mortgage-backed securities	84,398	3	(829)	83,572
Equity securities	5,380	425	—	5,805
Total short-term investments	$851,286	$444	$(8,064)	$843,666

At October 31, 2006, approximately $6.8 million of our equity securities are designated for deferred compensation payments, which are paid out as requested by the participants of the plan.

At October 31, 2006, contractual maturities of our short-term investments were:

(In thousands)	Cost	Fair Market Value
Less than one year	$199,846	$198,310
Due in one to two years	230,696	228,279
Due in two to three years	103,315	103,114
Due in more than three years	168,832	168,908
No contractual maturity	91,378	91,889
Total short-term investments	$794,067	$790,500

We had net unrealized losses related to short term investments of $3.6 million and $7.6 million at October 31, 2006 and 2005, respectively. We realized gains on the sales of securities of $0.7 million, $0.8 million, and $2.0 million, in fiscal years 2006, 2005, and 2004, respectively, while realizing losses on sales of securities of $2.1 million, $1.6 million, and $0.6 million, during those same periods, respectively. At October 31, 2006, $324.6 million of the investments with gross unrealized losses of $3.7 million (out of the total gross unrealized losses of $4.8 million) had been in a continuous unrealized loss position for more than 12 months and $187.9 million of the investments with gross unrealized losses of $1.1 million had been in a continuous unrealized loss position for less than 12 months. The unrealized losses on our investments were caused primarily by interest rate increases and not the credit quality of the issuers. The unrealized losses generally represent only 1% of the cost basis of the related investments and are not considered to be severe. We have the ability and intent to hold these investments until a recovery of fair value, which may be at maturity. We therefore do not consider these investments to be other-than-temporarily impaired at October 31, 2006.

Held-to-Maturity Securities

2.26

CIRCUIT CITY STORES, INC. (FEB)

(Amounts in thousands)	2006	2005
Current assets		
Cash and cash equivalents	$ 315,970	$ 879,660
Short-term investments	521,992	125,325
Accounts receivable, net of allowance for doubtful accounts	220,869	230,605
Merchandise inventory	1,698,026	1,455,170
Deferred income taxes	29,598	31,194
Income tax receivable	5,571	—
Prepaid expenses and other current assets	41,315	23,203
Total current assets	$2,833,341	$2,745,157

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The carrying values of the company's cash equivalents, short-term investments, accounts receivable, accounts payable and long-term debt approximate fair value.

Short-Term Investments

As part of its cash management program, the company maintains a portfolio of marketable investment securities. The securities primarily include variable rate demand notes that are classified as available-for-sale securities and commercial paper and treasury notes that are classified as held-to-maturity securities. The variable rate demand notes are long-term instruments maturing through 2045; however, the interest rates are reset approximately every seven days, at which time the securities can be sold. Accordingly, the securities are classified as current assets on the consolidated balance sheets. The commercial paper and treasury notes have an investment grade and a term to earliest maturity of three to 12 months. The marketable investment securities are carried at cost, which approximates fair value.

6. Short-Term Investments

The company's marketable investment securities primarily include variable rate demand notes, commercial paper and treasury notes. These securities are carried at cost which approximates fair value due to their highly liquid nature.

The following table presents the estimated fair value of the company's investment securities.

(Amounts in millions)	2006	2005
Available-for-sale securities:		
Variable rate demand notes	$400.3	$ —
Held-to-maturity securities:		
Commercial paper	121.1	25.0
Treasury notes	—	99.8
Trading securities	0.6	0.5
Total	$522.0	$125.3

2.27

COSTCO WHOLESALE CORPORATION (AUG)

(Dollars in thousands)	2006	2005
Current assets		
Cash and cash equivalents	$1,510,939	$2,062,585
Short-term investments	1,322,181	1,397,272
Receivables, net	565,373	529,150
Merchandise inventories	4,568,723	4,014,699
Deferred income taxes and other current assets	264,866	234,295
Total current assets	$8,232,082	$8,238,001

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Short-Term Investments

In general, short-term investments have a maturity of three months to five years at the date of purchase. Investments with maturities beyond five years may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. Short-term investments classified as available-for-sale are recorded at market value using the specific identification method with the unrealized gains and losses reflected in accumulated other comprehensive income until realized. The estimate of fair value is based on publicly available market information or other estimates determined by management. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, receivables and accounts payable approximate fair value due to their short-term nature or variable interest rates. Short-term investments classified as available-for-sale are recorded at market value with unrealized gains or losses reflected in accumulated other comprehensive income. Short-term investments designated as "hold-to-maturity" securities are recorded at cost and approximated market value at September 3, 2006 and August 28, 2005. The fair value of fixed rate debt at September 3, 2006 and August 28, 2005 was $574,426 and $841,399, respectively, including the senior debt for which the Company entered into "fixed-to-floating" interest rate swap agreements. The carrying value of fixed rate debt at September 3, 2006 and August 28, 2005 was $523,892 and $713,900, respectively.

Note 2 (In Part): Short-Term Investments

Short-term investments, which consist entirely of debt securities, at September 3, 2006 and August 28, 2005, were as follows:

	2006			
	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
Available-for-sale securities				
Money market mutual funds	$ 38,366	$ —	$ —	$ 38,366
U.S. government and agency securities	651,984	396	(5,630)	646,750
Corporate notes and bonds	505,739	605	(2,785)	503,559
Asset and mortgage backed securities	71,801	121	(484)	71,438
Total available-for-sale securities	1,267,890	1,122	(8,899)	1,260,113
Held-to-maturity				
Certificates of deposit	55,185	—	—	55,185
Money market mutual funds	6,883	—	—	6,883
Total held-to-maturity securities	62,068	—	—	62,068
Total short-term investments	$1,329,958	$1,122	$(8,899)	$1,322,181

	2005			
	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
Available-for-sale securities				
Money market mutual funds	$ 49,372	$ —	$ —	$ 49,372
U.S. government and agency securities	562,370	25	(4,630)	557,765
Corporate notes and bonds	480,742	66	(2,289)	478,519
Asset and mortgage backed securities	52,782	21	(431)	52,372
Total available-for-sale securities	1,145,266	112	(7,350)	1,138,028
Held-to-maturity				
Certificates of deposit	36,940	—	—	36,940
Money market mutual funds	6,779	—	—	6,779
Corporate notes and bonds	215,525	—	—	215,525
Total held-to-maturity securities	259,244	—	—	259,244
Total short-term investments	$1,404,510	$ 112	$(7,350)	$1,397,272

The maturities of available-for-sale and held-to-maturity debt securities at September 3, 2006 are as follows:

	Available-For-Sale		Held-To-Maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	$ 554,455	$ 552,003	$62,068	$62,068
Due after one year through five years	705,401	699,990	—	—
Due after five years	8,034	8,120	—	—
Total	$1,267,890	$1,260,113	$62,068	$62,068

Trading Securities

2.28

STARBUCKS CORPORATION (SEP)

(In thousands)	2006	2005
Current assets		
Cash and cash equivalents	$ 312,606	$ 173,809
Short-term investments—available-for-sale securities	87,542	95,379
Short-term investments—trading securities	53,496	37,848
Accounts receivable, net of allowances of $3,827 and $3,079, respectively	224,271	190,762
Inventories	636,222	546,299
Prepaid expenses and other current assets	126,874	94,429
Deferred income taxes, net	88,777	70,808
Total current assets	$1,529,788	$1,209,334

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Short-Term and Long-Term Investments

The Company's short-term and long-term investments consist primarily of investment-grade marketable debt securities as well as bond and equity mutual funds, all of which are classified as trading or available-for-sale. Trading securities are recorded at fair value with unrealized holding gains and losses included in net earnings. Available-for-sale securities are recorded at fair value, and unrealized holding gains and losses are recorded, net of tax, as a separate component of accumulated other comprehensive income. Available-for-sale securities with remaining maturities of less than one year and those identified by management at time of purchase for funding operations in less than one year are classified as short-term, and all other available-for-sale securities are classified as long-term. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary. Management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the impact of changing interest rates in the short and long term, the financial condition and near term prospects of the issuer and the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. Realized gains and losses are accounted for on the specific identification method. Purchases and sales are recorded on a trade date basis.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents approximates fair value because of the short-term maturity of those instruments. The fair value of the Company's investments in marketable debt and equity securities, as well as bond and equity mutual funds, is based upon the quoted market price on the last business day of the fiscal year. For equity securities of companies that are privately held, or where an observable quoted market price does not exist, the Company estimates fair value using a variety of valuation methodologies. Such methodologies include comparing the security with securities of publicly traded companies in similar lines of business, applying revenue multiples to estimated future operating results for the private company and estimating discounted cash flows for that company. Declines in fair value below the Company's carrying value deemed to be other than temporary are charged against net earnings. The carrying value of short-term and long-term debt approximates fair value.

Note 4 (In Part): Short-Term and Long-Term Investments

The Company's short-term and long-term investments consist of the following *(in thousands)*:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
2006				
Short-term investments—available-for-sale securities:				
State and local government obligations	$ 75,379	$ 9	$(332)	$ 75,056
U.S. government agency obligations	10,000	—	—	10,000
Corporate debt securities	2,488	—	(2)	2,486
Total	87,867	$ 9	$(334)	87,542
Short-term investments—trading securities	55,265			53,496
Total short-term investments	$143,132			$141,038
Long-term investments—available-for-sale securities:				
State and local government obligations	$ 5,893	$—	$ (82)	$ 5,811
2005				
Short-term investments—available-for-sale securities:				
State and local government obligations	$ 47,960	$ 1	$(179)	$ 47,782
Mutual funds	25,000	34	—	25,034
U.S. government agency obligations	11,327	—	(21)	11,306
Corporate debt securities	4,000	—	—	4,000
Asset-backed securities	7,373	—	(116)	7,257
Total	95,660	$35	$(316)	95,379
Short-term investments—trading securities	35,376			37,848
Total short-term investments	$131,036			$133,227
Long-term investments—available-for-sale securities:				
State and local government obligations	$ 61,236	$ 7	$(768)	$ 60,475

Trading securities are comprised mainly of marketable equity mutual funds that approximate a portion of the Company's liability under the Management Deferred Compensation Plan, a defined contribution plan. The corresponding deferred compensation liability of $64.6 million in fiscal 2006 and $47.3 million in fiscal 2005 is included in "Accrued compensation and related costs" on the consolidated balance sheets. In fiscal years 2006 and 2005, the changes in net unrealized holding gains/losses in the trading portfolio included in earnings were a net loss of $4.2 million and a net gain of $2.4 million, respectively.

CURRENT RECEIVABLES

2.29 As stated in paragraph 13 of *SFAS No. 107*, as amended by *SFAS No. 133*, fair value disclosure is not required for trade receivables when the carrying amount of the trade receivable approximates its fair value. 366 survey companies made 370 fair value disclosures. 360 disclosures presented carrying amounts which approximated fair value of trade receivables.

2.30 Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, issued by Accounting Standards Division of the American Institute of Certified Public Accountants (AICPA) requires that loans or trade receivables may be presented on the balance sheet as aggregate amounts. However, such receivables held for sale should be a separate balance-sheet category. Major categories of loans or trade receivables should be presented separately either in the balance sheet or in the notes to the financial statements. The allowance for credit losses, the allowance for doubtful accounts, and, as applicable, any unearned income, any unamortized premium and discounts, and any net unamortized deferred fees and costs, should be disclosed in the financial statements.

2.31 Table 2-5 summarizes both the descriptive titles used in the balance sheet to describe trade receivables, and the types of receivables, other than trade receivables, which the survey companies most frequently presented as current assets. Examples of presentations and disclosures for current receivables follow.

2.32

TABLE 2-5: CURRENT RECEIVABLES

	2006	2005	2004	2003
Trade Receivable Captions:				
Accounts receivable	303	289	297	283
Receivables	126	130	122	137
Trade accounts receivable	106	98	104	112
Accounts and notes receivable	49	61	56	52
No caption for current receivables	16	22	21	16
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Receivables Other Than Trade Receivables:				
Tax refund claims	63	50	61	67
Investees/affiliates	47	42	45	41
Contracts	42	39	39	36
Finance	28	25	30	24
Insurance claims	27	16	12	15
Retained interest in sold receivables	16	19	24	25
Vendors/suppliers	11	4	6	4
Asset disposals	4	8	11	3
Employees	4	5	5	2

RECEIVABLES OTHER THAN TRADE RECEIVABLES

Tax Refund Claims

2.33

BOYD GAMING CORPORATION (DEC)

(In thousands)	2006	2005
Current assets		
Cash and cash equivalents	$169,397	$188,406
Restricted cash	12,604	8,412
Accounts receivable, net	26,275	24,707
Insurance receivable	—	4,313
Inventories	11,037	11,705
Prepaid expenses and other current assets	42,417	36,408
Assets held for sale, net of cash	102,977	531,933
Income taxes receivable	8,286	7,002
Deferred income taxes	1,685	2,683
Total current assets	$374,678	$815,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Income Taxes

While we are not under any current Internal Revenue Service examination, our tax returns filed for 2003 and later years may be selected for examination. Additionally, although tax years 2001 and 2002 are closed by statute, the tax returns filed in those years are subject to adjustment to the extent of the net operating losses carried back for refund in these years. Our acquired subsidiary, Coast Casinos, Inc., is currently under examination for the years ended December 31, 2003 and

2002 and the six month period ended July 1, 2004, the date of our acquisition. We do not believe that the resolution of these examinations will have a material impact on our consolidated financial statements.

Receivables From Affiliates

2.34

THE PEPSI BOTTLING GROUP, INC. (DEC)

(In millions)	2006	2005
Current assets		
Cash and cash equivalents	$ 629	$ 502
Accounts receivable, less allowance of $50 in 2006 and $51 in 2005	1,332	1,186
Inventories	533	458
Prepaid expenses and other current assets	255	266
Total current assets	$2,749	$2,412

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollars in millions)

Note 7. Accounts Receivable

	2006	2005
Trade accounts receivable	$1,163	$1,018
Allowance for doubtful accounts	(50)	(51)
Accounts receivable from PepsiCo	168	143
Other receivables	51	76
	$1,332	$1,186

Note 17 (In Part): Related Party Transactions

PepsiCo is considered a related party due to the nature of our franchise relationship and its ownership interest in our Company. The most significant agreements that govern our relationship with PepsiCo consist of:

(1) Master Bottling Agreement for cola beverages bearing the Pepsi-Cola and Pepsi trademarks in the United States; bottling agreements and distribution agreements for non-cola beverages; and a master fountain syrup agreement in the United States;

(2) Agreements similar to the master bottling agreement and the non-cola agreement for each country in which we operate, as well as a fountain syrup agreement for Canada;

(3) A shared services agreement where we obtain various services from PepsiCo and provide services to PepsiCo; and

(4) Transition agreements that provide certain indemnities to the parties, and provide for the allocation of tax and other assets, liabilities and obligations arising from periods prior to the initial public offering.

As of December 30, 2006 and December 31, 2005, the receivables from PepsiCo and its affiliates were $168 million and $143 million, respectively. Our receivables from PepsiCo are shown as part of accounts receivable in our Consolidated Financial Statements. The payables to PepsiCo and its affiliates were $234 million and $176 million, respectively. Our payables to PepsiCo are shown as part of accounts payable and other current liabilities in our Consolidated Financial Statements.

Contracts

2.35

EMCOR GROUP, INC. (DEC)

(In thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 273,735	$ 103,785
Accounts receivable, less allowance for doubtful accounts of $25,021 and $29,973, respectively	1,184,418	1,046,380
Costs and estimated earnings in excess of billings on uncompleted contracts	147,848	185,634
Inventories	18,015	10,175
Prepaid expenses and other	38,397	43,829
Total current assets	$1,662,413	$1,389,803

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Costs and Estimated Earnings on Uncompleted Contracts (In Part)

Costs and estimated earnings in excess of billings on uncompleted contracts arise in the consolidated balance sheets when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Also included in costs and estimated earnings on uncompleted contracts are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to scope and price or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Such amounts are recorded at estimated net realizable value when realization is probable and can be reasonably estimated. No profit is recognized on construction costs incurred in connection with claim amounts. Claims and unapproved change orders made by us involve negotiation and, in certain cases, litigation. In the event litigation costs are incurred by us in connection with claims or unapproved change orders, such litigation costs are expensed as incurred, although we may seek to recover these costs. We believe that we have established legal bases for pursuing recovery of our recorded unapproved change orders and claims, and it is management's intention to pursue and litigate such claims, if necessary, until a decision or settlement is reached. Unapproved change orders and claims also involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded claims and unapproved change orders may be made in the near term. If we do not successfully resolve these

matters, a net expense (recorded as a reduction in revenues) may be required, in addition to amounts that have been previously provided for. Claims against us are recognized when a loss is considered probable and amounts are reasonably determinable.

As of December 31, 2006 and 2005, costs and estimated earnings in excess of billings on uncompleted contracts included unbilled revenues for unapproved change orders of approximately $48.2 million and $56.3 million, respectively, and for claims of approximately $22.4 million and $36.6 million, respectively. In addition, accounts receivable as of December 31, 2006 and 2005 includes claims of approximately $6.7 million and $4.7 million, respectively, plus unapproved change orders and contractually billed amounts related to such contracts of $76.9 million and $76.2 million, respectively. Generally, contractually billed amounts will not be paid by the customer to us until final resolution of related claims. Included in the claims amount is approximately $8.2 million and $18.2 million as of December 31, 2006 and 2005, respectively, related to projects of our Poole & Kent subsidiary, which projects had commenced prior to our acquisition of Poole & Kent in 1999. The Poole & Kent claims amount principally relate to a civil action in which Poole & Kent is a participant.

Classification of Contract Amounts

In accordance with industry practice, we classify as current all assets and liabilities related to the performance of long-term contracts. The contracting cycle for certain long-term contracts may extend beyond one year, and, accordingly, collection or payment of amounts related to these contracts may extend beyond one year. Accounts receivable at December 31, 2006 and 2005 included $216.1 million and $209.5 million, respectively, of retainage billed under terms of these contracts. We estimate that approximately 86% of retainage recorded at December 31, 2006 will be collected during 2007. Accounts payable at December 31, 2006 and 2005 included $43.7 million and $43.1 million, respectively, of retainage withheld under terms of the contracts. We estimate that approximately 89% of retainage withheld at December 31, 2006 will be paid during 2007. Specific accounts receivable are evaluated when we believe a customer may not be able to meet its financial obligations. The allowance for doubtful accounts requirements are re-evaluated and adjusted on a regular basis and as additional information is received.

Finance Receivables

2.36

EMC CORPORATION (DEC)

(In thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$1,828,106	$2,322,370
Short-term investments	1,521,925	1,615,495
Accounts and notes receivable, less allowance for doubtful accounts of $39,509 and $38,126	1,692,214	1,405,564
Inventories	834,800	724,751
Deferred income taxes	418,146	326,318
Other current assets	225,396	179,478
Total current assets	$6,520,587	$6,573,976

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Revenue Recognition (In Part)

Leases

Revenue from sales-type leases is recognized at the net present value of future lease payments. Revenue from operating leases is recognized over the lease period.

F (In Part): Fair Value of Financial Instruments

Fair Value (In Part)

The carrying amounts reflected in our consolidated balance sheets for cash and cash equivalents, accounts and notes receivable, current portion of long-term debt and accounts and notes payable approximate fair value due to the short maturities of these instruments.

H. Notes Receivable

Notes receivable are primarily from sales-type leases of our products. The payment schedule for such notes at December 31, 2006 is as follows (table in thousands):

2007	$ 59,063
2008	46,414
2009	56,295
Face value	161,772
Less amounts representing interest	(13,295)
Present value	148,477
Current portion (included in accounts and notes receivable)	54,532
Long-term portion (included in other assets, net)	$ 93,945

Actual cash collections may differ from amounts shown on the table due to early customer buyouts, trade-ins or refinancings. We typically sell without recourse our notes receivable and underlying equipment associated with our sales-type leases to third parties.

We maintain an allowance for doubtful accounts for the estimated probable losses on uncollected notes receivable. This allowance is part of our allowance for bad debts.

Insurance Claims

2.37

AMPCO-PITTSBURGH CORPORATION (DEC)

(In thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 56,084	$ 7,914
Short-term marketable securities	—	31,550
Receivables, less allowance for doubtful accounts of $282 in 2006 and $681 in 2005	54,870	47,338
Inventories	55,912	48,536
Insurance receivable—asbestos	11,700	—
Other current assets	8,414	6,252
Total current assets	186,980	141,590
Property, plant and equipment, net	68,593	66,645
Insurance receivable—asbestos	102,848	—
Deferred income tax assets	10,848	—
Prepaid pensions	3,050	26,419
Goodwill	2,694	2,694
Other noncurrent assets	6,198	4,521
Total assets	$381,211	$241,869

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note 17 (In Part): Litigation

Asbestos Litigation

Claims have been asserted alleging personal injury from exposure to asbestos-containing components historically used in some products of certain of the Corporation's operating subsidiaries ("Asbestos Liability") and of an inactive subsidiary of the Corporation. Those subsidiaries, and in some cases the Corporation, are defendants (among a number of defendants, typically over 50) in cases filed in various state and federal courts.

Asbestos Insurance

Certain of the Corporation's subsidiaries and the Corporation have an arrangement (the "Coverage Arrangement") with insurers responsible for historical primary and some umbrella insurance coverage for Asbestos Liability (the "Paying Insurers"). Under the Coverage Arrangement, the Paying Insurers accept financial responsibility, subject to the limits of the policies and based on fixed defense percentages and specified indemnity allocation formulas, for a substantial majority of the pending claims for Asbestos Liability.

The Coverage Arrangement includes an acknowledgement that Howden Buffalo, Inc. ("Howden"), is entitled to coverage under policies covering Asbestos Liability, for claims arising out of the historical products manufactured or distributed by Buffalo Forge, a former subsidiary of the Corporation (the "Products"). The Coverage Arrangement does not provide for any prioritization on access to the applicable policies or monetary cap other than the limits of the policies, and, accordingly, Howden may access the policies at any time for any covered claim arising out of a Product. In general, access by Howden to the policies covering the Products will erode the coverage under the policies available to the Corporation and the relevant subsidiaries for Asbestos Liability alleged to arise out of not only the Products but also other historical products of the Corporation and its subsidiaries covered by the applicable policies. The Corporation has been advised that to date Howden claims have been resolved at de minimis levels and Howden defense costs are currently approximating annually less than 10% of those being incurred by the Corporation.

Asbestos Valuations (In Part)

The Corporation has recorded a receivable of $114,548 for insurance recoveries attributable to the claims for which the Corporation's Asbestos Liability reserve has been established, including the portion of incurred defense costs covered by the Coverage Arrangement, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims. The insurance receivable recorded by the Corporation does not assume any recovery from insolvent carriers, and substantially all of the insurance recoveries deemed probable are from insurance companies rated A − (excellent) or better by A.M. Best Corporation. There can be no assurance, however, that there will not be further insolvencies among the relevant insurance carriers, or that the assumed percentage recoveries for certain carriers will prove correct. The $25,467 difference between insurance recoveries and projected costs is not due to exhaustion of the total product liability insurance for Asbestos Liability. The Corporation and the subsidiaries have substantial additional insurance coverage which the Corporation expects to be available for Asbestos Liability claims and defense costs the subsidiaries and it may incur after 2013. However, this insurance coverage also can be expected to have gaps creating significant shortfalls of insurance recoveries as against claims expense, which could be material in future years.

The amounts recorded by the Corporation for Asbestos Liabilities and insurance receivables rely on assumptions that are based on currently known facts and strategy. The Corporation's actual expenses or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Corporation's, HR&A's or The Claro Group's calculations vary significantly from actual results. Key variables in these assumptions are identified above and include the number and type of new claims to be filed each year, the average cost of disposing of each such new claim, average annual defense costs, the resolution of coverage issues with insurance carriers, and the solvency risk with respect to the relevant insurance carriers. Other factors that may affect the Corporation's Asbestos Liability and ability to recover under its insurance policies include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms that may be made by state and federal courts, and the passage of state or federal tort reform legislation.

The Corporation intends to evaluate its estimated Asbestos Liability and related insurance receivables as well as the underlying assumptions on a periodic basis to determine whether any adjustments to the estimates are required. Due to the uncertainties surrounding asbestos litigation and insurance, these periodic reviews may result in the Corporation incurring future charges; however, the Corporation is currently unable to estimate such future charges. Adjustments, if any, to the Corporation's estimate of its recorded Asbestos Liability and/or insurance receivables could be material to operating results for the periods in which the adjustments to the

liability or receivable is recorded, and to the Corporation's liquidity and consolidated financial position.

Retained Interest in Sold Receivables

2.38

SMURFIT-STONE CONTAINER CORPORATION (DEC)

(In millions)	2006	2005
Current assets		
Cash and cash equivalents	$ 9	$ 5
Receivables, less allowances of $7 in 2006 and $10 in 2005	166	224
Retained interest in receivables sold	179	139
Inventories		
Work-in-process and finished goods	155	234
Materials and supplies	383	500
	538	734
Prepaid expenses and other current assets	34	82
Total current assets	$926	$1,184

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in millions)

1 (In Part): Significant Accounting Policies

Transfers of Financial Assets

Certain financial assets are transferred to qualifying special-purpose entities and variable interest entities where the Company is not the primary beneficiary. The assets and liabilities of such entities are not reflected in the consolidated financial statements of the Company. Gains or losses on sale of financial assets depend in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Quoted market prices are not available for retained interests, so the Company estimates fair value based on the present value of expected cash flows estimated by using management's best estimates of key assumptions (See Note 8).

8 (In Part): Transfers of Financial Assets

Receivables Securitization Program

In November 2004, in connection with the Merger, the Company replaced its former $265 million off-balance sheet accounts receivable securitization program with a new $475 million accounts receivable securitization program whereby the Company sells, without recourse, on an ongoing basis, certain of its accounts receivable to Stone Receivables Corporation ("SRC"), a wholly-owned non-consolidated subsidiary of the Company.

SRC transfers the receivables to a non-consolidated subsidiary, a limited liability company which has issued notes to third-party investors. The Company has retained servicing responsibilities and a subordinated interest in the limited liability company. The Company receives annual servicing fees of 1% of the unpaid balance of the receivables and rights to future cash flows arising after the investors in the securitization limited liability company have received the return for which they have contracted.

SRC is a qualified special-purpose entity under the provisions of SFAS No. 140. "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Accordingly, accounts receivable sold to SRC, for which the Company does not retain an interest, are not included in the Company's consolidated balance sheets.

In September 2006, $137 million of containerboard customer accounts receivables, net of related allowance for doubtful accounts, were sold into the SRC accounts receivable securitization program, of which $78 million were retained by the Company as a subordinated interest and recorded in retained interest in receivables sold in the consolidated balance sheet. The Company used the initial proceeds of $59 million to repay debt.

Accounts receivable of the Consumer Packaging division previously sold under the accounts receivable securitization program were substantially collected during 2006 and were used to reduce the related off-balance sheet debt.

At December 31, 2006 and 2005, $522 million and $521 million, respectively, of accounts receivable had been sold to SRC, of which $164 million and $118 million, respectively, were retained by the Company as a subordinated interest. The Company's retained interest is carried at fair value and is included in retained interest in receivables sold in the accompanying consolidated balance sheets. The Company recognized a loss on sales of receivables to SRC of $23 million and $20 million in 2006 and 2005, respectively, which is included in other, net in the consolidated statements of operations.

Key economic assumptions used in measuring the retained interest are as follows:

	Year Ended December 31, 2006	December 31, 2006	Year Ended December 31, 2005	December 31, 2005
Residual cash flows discounted at	8.00%	8.00%	8.00%	8.00%
Expected loss and dilution rate	1.89%–4.14%	2.77%	1.96%–3.35%	2.54%
Variable return to investors	LIBOR plus 23 to 135 basis points	5.72%	LIBOR plus 23 to 135 basis points	4.77%

At December 31, 2006, the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in the expected loss and dilution rate was $1 million and $3 million, respectively. The effects of the sensitivity analysis on the residual cash flow discount rate and the variable return to investors were insignificant.

The table below summarizes certain cash flows received from SRC:

	2006	2005
Cash proceeds from sales of receivables	$5,795	$5,903
Servicing fees received	6	6
Other cash flows received on retained interest	41	85
Interest income received	2	

Canadian Securitization Program

On March 30, 2004, the Company entered into a $70 million Canadian (approximately $60 million U.S. as of December 31, 2006) accounts receivable securitization program whereby the Company sells, without recourse, on an ongoing basis, certain of its Canadian accounts receivable to a trust in which the Company holds a variable interest, but is not the primary beneficiary. Accordingly, under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," accounts receivable sold to the trust, for which the Company is not the primary beneficiary, are not included in the accompanying consolidated balance sheets. The Company has retained servicing responsibilities and a subordinated interest in future cash flows from the receivables. The Company receives rights to future cash flows arising after the investors in the securitization trust have received the return for which they have contracted.

The amount available to the Company under the receivables program fluctuates based on the amount of eligible receivables available and by the performance of the receivables portfolio. The Company's residual interest in the securitization program is recorded at fair value and is based upon the total outstanding receivables sold, adjusted for dilution and loss reserves of approximately 3.7% and 4.0%, at December 31, 2006 and 2005, respectively, less the amount funded to the Company.

At December 31, 2006 and 2005, $68 million and $71 million, respectively, of accounts receivable had been sold under the program, of which $15 million and $21 million, respectively, were retained by the Company as a subordinated interest. The amount funded to the Company at December 31, 2006 and 2005, was $50 million and $47 million, respectively. The Company's retained interest is included in retained interest in receivables sold in the accompanying consolidated balance sheets. The Company recognized a loss on sales of receivables to the trust of $2 million and $1 million in 2006 and 2005, respectively, which is included in other, net in the consolidated statements of operations.

Sale of Assets

2.39

LEE ENTERPRISES, INCORPORATED (SEP)

(Thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 8,638	$ 7,543
Accounts receivable, less allowance for doubtful accounts: 2006 $11,313; 2005 $9,365	115,353	118,529
Income taxes receivable	—	19,439
Receivable from associated companies	1,563	1,563
Receivable from sales of discontinued operations	20,700	—
Inventories	19,271	21,576
Deferred income taxes	11,079	5,092
Assets of discontinued operations	342	65,506
Other	7,466	6,702
Total current assets	$184,412	$245,950

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Discontinued Operations

In 2006, the Company sold several stand alone publishing and commercial printing operations in Seattle and Spokane, Washington, and Portland, Oregon, a twice weekly newspaper in Oregon (the Pacific Northwest Properties), and the daily newspaper in Rhinelander, Wisconsin. The Company received $33,198,000 in September 2006 and recorded a receivable of $20,700,000, which was collected in October 2006. The transactions resulted in an after tax loss of $5,204,000, which is recorded in discontinued operations.

RECEIVABLES SOLD OR COLLATERALIZED

2.40 Table 2-6 shows that 2006 annual reports of 127 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. Of those 127 survey companies, nine disclosed a factoring agreement and 54 disclosed that the receivables were transferred to a special-purpose entity.

2.41 SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended by *SFAS No. 133* and as replaced by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing, *SFAS No. 140* revises the criteria for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures. The Standard carries over most

of the provisions of *SFAS No. 125* without reconsideration. Additionally, *SFAS No. 140* requires a debtor to:

(a) reclassify financial assets pledged as collateral and report those assets in its statement of financial position separately from other assets not so encumbered if the secured party has the right by contract or custom to sell or repledge the collateral, and

(b) disclose assets pledged as collateral that have not been reclassified and separately reported in the statement of financial position.

Also, *SFAS No. 140* requires a secured party to disclose information about collateral that it has accepted and is permitted by contract or custom to sell or repledge. The required disclosure includes the fair value at the end of the period of that collateral and the portion of that collateral that it has sold or repledged, and information about the sources and uses of that collateral.

2.42 Effective for fiscal years that begin after September 15, 2006, SFAS No. 156, *Accounting for Servicing of Financial Assets*, amends *SFAS No. 140* to require that all separately recognized servicing assets and liabilities be initially measured at fair value. Further, *SFAS No. 156* permits, but does not require, the subsequent measurement of servicing assets and liabilities at fair value. Moreover, *SFAS No. 156* requires additional disclosures and separate balance sheet presentation of the carrying amounts of servicing assets and liabilities that are subsequently measured at fair value.

2.43 Financial statement presentation and reporting of the sale of receivables is set forth in paragraphs 13d and 13e of *SOP 01-6*. In addition to requiring disclosure of the amount of gains or losses on the sale of trade receivables, receivables held for sale should be presented as a separate category either in the balance sheet or in the notes to the financial statements.

2.44 Examples of disclosures made in the reports of the survey companies having sold or collateralized receivables follow.

2.45

TABLE 2-6: RECEIVABLES SOLD OR COLLATERALIZED

	2006	2005	2004	2003
Receivables sold				
With recourse	22	15	20	23
With limited recourse	4	8	10	14
Without recourse	43	31	40	36
Recourse not discussed	47	72	58	65
	116	**126**	**128**	**138**
Receivables used as collateral	11	8	11	17
	127	**134**	**139**	**155**
No reference to receivables sold or collateralized	473	466	461	445
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold With Recourse

2.46

MILACRON INC. (DEC)

(In millions)	2006	2005
Current assets		
Cash and cash equivalents	$ 38.5	$ 45.7
Notes and accounts receivable, less allowances of $7.3 in 2006 and $9.0 in 2005	114.5	117.7
Inventories		
Raw materials	7.6	8.2
Work-in-process and finished parts	88.4	83.6
Finished products	74.7	69.3
Total inventories	170.7	161.1
Other current assets	41.9	44.3
Total current assets	$365.6	$368.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Receivables

During 2005, one of the company's non-U.S. subsidiaries entered into a factoring agreement with a third party financial institution under which it is able to sell without recourse up to €10.0 million ($13.2 million) of accounts receivable. The agreement, which was renewed in 2006, replaced a €5.0 million arrangement with another institution under which sales of receivables were made with recourse. At December 31, 2006 and December 31, 2005, the gross amounts of accounts receivable that had been sold under the current arrangement were $9.0 million and $8.4 million, respectively.

The company also periodically sells with recourse notes receivable arising from customer purchases of plastics processing machinery and, in a limited number of cases, guarantees the repayment of all or a portion of notes payable by its customers to third party lenders. At December 31, 2006 and December 31, 2005, the company's maximum exposure under these arrangements totaled $5.9 million and $6.4 million, respectively. In the event a customer were to fail to repay a note, the company would generally regain title to the machinery for later resale as used equipment. Costs related to sales of notes receivable and guarantees have not been material in the past.

During several preceding years and through March 12, 2004, the company maintained a receivables purchase agreement with a third party financial institution. Under this arrangement, the company sold, on a revolving basis, an undivided percentage ownership interest in designated pools of accounts receivable. As existing receivables were collected, undivided interests in new eligible receivables were sold. Accounts that became 60 days past due were no longer eligible to be sold and the company was at risk for credit losses for which the company maintained a reserve for doubtful accounts sufficient to cover estimated expenses. On March 12, 2004, all amounts sold by the company under the receivables purchase agreement were repurchased using a portion of the proceeds of the refinancing transactions entered into on that date (see Refinancing Transactions). The effect was to increase the use of cash from operating activities in the Consolidated Statement of Cash Flows for the year ended

December 31, 2004 by $33 million. Costs related to the sales were $.2 million in 2004.

2.47

PERKINELMER, INC. (DEC)

(In thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$191,059	$502,264
Accounts receivable, net	268,459	250,844
Inventories, net	183,260	163,150
Other current assets	101,511	71,189
Current assets of discontinued operations	477	11,442
Total current assets	$744,766	$998,889

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Accounts Receivable

Accounts receivable were net of reserves for doubtful accounts of $12.2 million and $11.7 million as of December 31, 2006 and January 1, 2006, respectively.

During 2001, the Company established a wholly owned consolidated subsidiary to maintain a receivables purchase agreement with a third party financial institution. Under this arrangement, the Company sold, on a revolving basis, certain of the Company's accounts receivable balances to the consolidated subsidiary which simultaneously sold an undivided percentage ownership interest in designated pools of receivables to a third party financial institution. As collections reduce the balance of sold accounts receivable, new receivables are sold. The Company's consolidated subsidiary retains the risk of credit loss on the receivables. Accordingly, the full amount of the allowance for doubtful accounts has been provided for on the Company's balance sheet. The amount of receivables sold and outstanding with the third party financial institution may not exceed $65.0 million. Under the terms of this arrangement, the Company retains collection and administrative responsibilities for the balances. The amount of receivables sold to the consolidated subsidiary was $67.8 million as of December 31, 2006 and $91.0 million as of January 1, 2006. At each of December 31, 2006 and January 1, 2006, an undivided interest of $45.0 million in the receivables had been sold to the third party financial institution under this arrangement. The remaining interest in receivables of $22.8 million and $46.0 million that were sold to and held by the consolidated subsidiary were included in accounts receivable in the consolidated financial statements at December 31, 2006 and January 1, 2006, respectively.

The agreement requires the third party financial institution to be paid interest during the period from the date the receivable is sold to its maturity date. At December 31, 2006, the effective interest rate was LIBOR plus approximately 50 basis points. The servicing fees received constitute adequate compensation for services performed. No servicing asset or liability is therefore recorded. The agreement also includes conditions that require the Company to maintain a senior unsecured credit rating of BB or above, as defined by Standard & Poor's Rating Services, and Ba2 or above, as defined by Moody's Investors Service. At December 31, 2006, the Company had a senior unsecured credit rating of BBB- with a stable outlook from Standard & Poor's Rating Services, and of Baa3 with a stable outlook from Moody's Investors Service. In January 2007, the Company's consolidated subsidiary entered into an agreement to extend the term of the accounts receivable securitization facility to January 25, 2008.

Receivables Sold With Limited Recourse

2.48

BAXTER INTERNATIONAL INC. (DEC)

(In millions)	2006	2005
Current assets		
Cash and equivalents	$2,485	$ 841
Accounts and other current receivables	1,838	1,766
Inventories	2,066	1,925
Short-term deferred income taxes	231	260
Prepaid expenses and other	350	324
Total current assets	$6,970	$5,116

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Receivable Securitizations

When the company sells receivables in a securitization arrangement, the historical carrying value of the sold receivables is allocated between the portion sold and the portion retained by Baxter based on their relative fair values. The fair values of the retained interests are estimated based on the present values of expected future cash flows. The difference between the net cash proceeds received and the value of the receivables sold is recognized immediately as a gain or loss. The retained interests are subject to impairment reviews and are classified in current or noncurrent assets, as appropriate.

Note 6 (In Part): Financial Instruments and Risk Management

Receivable Securitizations

Where economical, the company has entered into agreements with various financial institutions in which undivided interests in certain pools of receivables are sold. The securitized receivables principally consist of hardware lease receivables originated in the United States, and trade receivables originated in Europe and Japan. The securitization programs require that the underlying receivables meet certain eligibility criteria, including concentration and aging limits.

The company continues to service the receivables. Servicing assets or liabilities are not recognized because the company receives adequate compensation to service the sold receivables.

The securitization arrangements include limited recourse provisions, which are not material. Neither the buyers of the receivables nor the investors in these transactions have recourse to assets other than the transferred receivables.

A subordinated interest in each securitized portfolio is generally retained by the company. The amount of the retained interests and the costs of certain of the securitization

arrangements vary with the company's credit rating and other factors. Under one of the agreements the company is required to maintain compliance with various covenants, including a maximum net-debt-to-capital ratio and a minimum interest coverage ratio. The company was in compliance with all covenants at December 31, 2006. If Baxter's credit ratings on senior unsecured debt declined to BBB- or Baa3 (i.e., a two-rating or four-rating downgrade, depending upon the rating agency), the company would no longer be able to securitize new receivables under one of its foreign securitization arrangements. This arrangement also requires that the company post cash collateral in the event of a specified unfavorable change in credit rating. The maximum potential cash collateral, which was not required as of December 31, 2006, was de minimis. However, any downgrade of credit ratings would not impact previously securitized receivables.

The fair values of the retained interests are estimated taking into consideration both historical experience and current projections with respect to the transferred assets' future credit losses. The key assumptions used when estimating the fair values of the retained interests include the discount rate (which generally averages approximately 5%), the expected weighted-average life (which averages approximately 1.5 years for lease receivables and 5 to 7 months for trade receivables) and anticipated credit losses (which are expected to be immaterial as a result of meeting the eligibility criteria mentioned above). The subordinated interests retained in the transferred receivables are carried as assets in Baxter's consolidated balance sheets, and totaled $95 million at December 31, 2006 and $85 million at December 31, 2005. An immediate 10% and 20% adverse change in these assumptions would not have a material impact on the fair value of the retained interests at December 31, 2006. These sensitivity analyses are hypothetical and should be used with caution. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in each assumption to the change in fair value may not be linear.

As detailed below, the securitization arrangements resulted in net cash outflows of $123 million, $111 million and $162 million in 2006, 2005 and 2004, respectively. A summary of the securitization activity is as follows.

(In millions)	2006	2005	2004
Sold receivables at beginning of year	$ 451	$ 594	$ 742
Proceeds from sales of receivables	1,405	1,418	1,395
Cash collections (remitted to the owners of the receivables)	(1,528)	(1,529)	(1,557)
Foreign exchange	20	(32)	14
Sold receivables at end of year	$ 348	$ 451	$ 594

Credit losses, net of recoveries, relating to the retained interests, and the net gains and losses relating to the sales of receivables were immaterial for each year.

Receivables Sold Without Recourse

2.49

PENTAIR, INC. (DEC)

(In thousands)	2006	2005
Current assets		
Cash and cash equivalents	$ 54,820	$ 48,500
Accounts and notes receivable, net of allowance of $34,254 and $31,053, respectively	422,134	423,847
Inventories	398,857	349,312
Deferred tax assets	50,578	48,971
Prepaid expenses and other current assets	31,239	24,394
Total current assets	$957,628	$895,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Trade Receivables and Concentration of Credit Risk

We record an allowance for doubtful accounts, reducing our receivables balance to an amount we estimate is collectible from our customers. Estimates used in determining the allowance for doubtful accounts are based on historical collection experience, current trends, aging of accounts receivable, and periodic credit evaluations of our customers' financial condition. We generally do not require collateral. No customer receivable balances exceeded 10% of total net receivable balances as of December 31, 2006 and 2005, respectively.

In December 2006, we entered into a one-year Accounts Receivable Purchase Agreement whereby designated customer accounts receivable may be sold without recourse to a third-party financial institution on a revolving basis. These receivables consisted of specific invoices that were assigned and subject to a filed security interest. Providing collections and claims services, we act as the agent for the third-party. Following the initial settlement period, we are required to transfer payments and make adjustments to invoice amounts on the assigned receivables to the third-party on a monthly basis. We are also required to maintain trade credit insurance on the sold receivables. Receivable sales could occur on the settlement date or as the third-party permits, up to a maximum total outstanding amount of $30 million, with the ability to make additional sales as sold receivables are repaid.

As of December 31, 2006, we had sold approximately $30.0 million of accounts receivable to a third-party financial institution to mitigate accounts receivable concentration risk because the customer did not take advantage of the early pay discounts and to provide additional financing capacity. In compliance with Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, ("SFAS 140") sales of accounts receivable are reflected as a reduction of accounts receivable in the Consolidated Balance Sheets and the proceeds are included in the cash flows from operating activities in the Consolidated Statements of Cash Flows. In 2006, a loss in the amount of $0.8 million related to the sale of accounts receivable is included in the line item *Gain on sale of assets, net* in our Consolidated Statements of Income.

In December 2004, we entered into a one-year Accounts Receivable Purchase Agreement whereby designated customer accounts receivable could be sold without recourse to a third-party financial institution on a revolving basis. These receivables consisted of specific invoices that were assigned and subject to a filed security interest. Providing collections and claims services, we acted as the agent for the third-party. Following the initial settlement period, we were required to transfer payments and make adjustments to invoice amounts on the assigned receivables to the third-party on a monthly basis. We were also required to maintain trade credit insurance on the sold receivables. Receivable sales could have occurred on the settlement date or as the third-party permitted, up to a maximum total outstanding amount of $30 million, with the ability to make additional sales as sold receivables were repaid. The Accounts Receivable Purchase Agreement was not renewed in 2005.

As of December 31, 2004, we had sold an approximate $22.0 million interest in our pool of accounts receivable to a third-party financial institution to mitigate the credit risk associated with the receivable balance of a large customer because we did not offer early pay discounts. In compliance with SFAS 140, sales of accounts receivable are reflected as a reduction of accounts receivable in our Consolidated Balance Sheets and the proceeds are included in the cash flows from operating activities in our Consolidated Statement of Cash Flows. As the estimated present value of the receivables sold approximated the carrying amount, no gain or loss was recorded in 2004.

2.50

VALERO ENERGY CORPORATION (DEC)

(Millions of dollars)	2006	2005
Current assets:		
Cash and temporary cash investments	$ 1,590	$ 436
Restricted cash	31	30
Receivables, net	4,389	3,564
Inventories	4,430	4,039
Income taxes receivable	32	70
Deferred income taxes	143	142
Prepaid expenses and other	145	65
Total current assets	$10,760	$8,346

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Receivables

Receivables consisted of the following (in millions):

	2006	2005
Accounts receivable	$4,390	$3,572
Notes receivable and other	32	23
	4,422	3,595
Allowance for doubtful accounts	(33)	(31)
Receivables, net	$4,389	$3,564

The changes in the allowance for doubtful accounts consisted of the following (in millions):

	2006	2005	2004
Balance as of beginning of year	$ 31	$ 27	$ 25
Increase in allowance charged to expense	16	15	13
Accounts charged against the allowance, net of recoveries	(14)	(12)	(12)
Foreign currency translation	—	1	1
Balance as of end of year	$ 33	$ 31	$ 27

We have an accounts receivable sales facility with a group of third-party financial institutions to sell on a revolving basis up to $1 billion of eligible trade receivables, which matures in August 2008. Under this program, one of our wholly owned subsidiaries sells an undivided percentage ownership interest in the eligible receivables, without recourse, to third-party financial institutions. We remain responsible for servicing the transferred receivables and pay certain fees related to our sale of receivables under the program. Under the facility, we retain the residual interest in the designated pool of receivables. This retained interest, which is included in "receivables, net" in the consolidated balance sheets, is recorded at fair value. Due to (i) a short average collection cycle for such receivables, (ii) our collection experience history, and (iii) the composition of the designated pool of trade accounts receivable that are part of this program, the fair value of our retained interest approximates the total amount of the designated pool of accounts receivable reduced by the amount of accounts receivables sold to the third-party financial institutions under the program.

The costs we incurred related to this facility, which were included in "other income (expense), net" in the consolidated statements of income, were $55 million, $30 million, and $12 million for the years ended December 31, 2006, 2005, and 2004, respectively. Proceeds from collections under this facility of $31.2 billion, $24.1 billion, and $17.6 billion for the years ended December 31, 2006, 2005, and 2004, respectively, were reinvested in the program by the third-party financial institutions. However, the third-party financial institutions' interests in our accounts receivable were never in excess of the sales facility limits at any time under this program. No accounts receivable included in this program were written off during 2006, 2005, or 2004.

As of both December 31, 2006 and 2005, $2.6 billion of our accounts receivable composed the designated pool of accounts receivable included in the program. Of these amounts, we sold $1 billion to the third-party financial institutions and retained the remaining amount.

Receivables Used as Collateral

2.51

STEEL DYNAMICS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Long-Term Debt

$350 Million Senior Secured Revolver (In Part)

The company has a 5-year $350 million senior secured revolving credit facility, which includes a provision to increase the facility by as much as $100 million, under certain circumstances. The proceeds from the revolver are available for working capital and other general corporate purposes, including merger and acquisition activity. At December 31, 2006, there were $80 million in outstanding borrowings under this revolving credit facility. No borrowings were outstanding at December 31, 2005.

The senior secured revolving credit facility is secured by substantially all of the company's and its wholly-owned subsidiary's receivables and inventories and by pledges of all shares of capital stock and inter-company debt held by the company and each wholly-owned subsidiary. The senior secured credit agreement contains financial covenants and other covenants that limit or restrict the company's ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. The company's ability to borrow funds within the terms of the revolver is dependent upon its continued compliance with the financial covenants and other covenants contained in the senior secured credit agreement. The company was in compliance with these covenants at December 31, 2006, and expects to remain in compliance during the next twelve months.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

2.52 Table 2-7 summarizes the captions used by the survey companies to describe an allowance for doubtful accounts. Accounting Principles Board (APB) Opinion No. 12, *Omnibus Opinion—1967*, states that such allowances should be deducted from the related receivables and appropriately disclosed.

2.53

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	2006	2005	2004	2003
Allowance for doubtful accounts	333	325	317	327
Allowance	132	141	155	154
Allowance for uncollectible accounts	26	25	17	20
Allowance for losses	13	13	16	14
Reserve	12	13	14	11
Reserve for doubtful accounts	5	4	4	2
Other caption titles	10	4	11	10
	531	**525**	**534**	**538**
Receivables shown net	26	23	21	21
No reference to doubtful accounts	43	52	45	41
Total Companies	**600**	**600**	**600**	**600**

INVENTORIES

2.54 Accounting Research Bulletin (ARB) No. 43, Chapter 4, *Inventory Pricing*, states that the "primary basis of accounting for inventories is cost . . ." but "a departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost . . ." Approximately 82% of the survey companies use lower of cost or market, an acceptable basis for pricing inventories when circumstances require a departure from cost, to price all or a portion of their inventories.

2.55 Table 2-8 shows the captions frequently used to identify the nature of inventory items owned by the survey companies. 99 survey companies either had no inventory items or did not disclose details as to the nature of inventory items.

2.56 Table 2-9 summarizes the methods used by the survey companies to determine inventory costs and indicates the portion of inventory cost determined by LIFO. As indicated in Table 2-9, it is not uncommon for a company to use more than one method in determining the total cost of inventory. Methods of inventory cost determination classified as Other in Table 2-9 include specific identification and accumulated costs for contracts in process.

2.57 A number of survey companies made supplemental disclosures concerning inventories, including information about items such as valuation accounts, obsolescence, and the effects of using LIFO. 26 survey companies disclosed that certain LIFO inventory layers were reduced which increased net income due to the matching of older, lower historical costs with current sales dollars. 14 survey companies disclosed the effect of income from using LIFO rather than FIFO or average cost to determine inventory cost.

2.58 Valuation accounts are used to adjust an inventory cost. 233 survey companies disclosed that they have inventory valuation accounts. 156 companies disclosed that a valuation account was used to reduce inventories to a LIFO basis. 65 survey companies disclosed that a valuation account was used for inventory obsolescence.

2.59 Table 2-10 shows, by industry classification, the number of companies using LIFO and the percentage relationship of those companies using LIFO to the total number of companies in a particular industry classification in the current year.

2.60 Each year, companies are selected from the latest Fortune 1000 listing to replace those companies that were deleted from the survey (see the *Appendix of 600 Companies* for a comprehensive listing of the 600 companies as well as those that were added and removed in this edition). Companies are deleted from the survey when they have either been acquired, become privately held (and are, therefore, no longer registered with the SEC), failed to timely issue a report, or ceased operations. Although more of the replacement companies used LIFO than those companies using LIFO that were deleted, the number of survey companies using LIFO decrease was caused for the most part by the six companies that changed from the LIFO method to another method of determining inventory cost.

2.61 Examples of presentations and disclosures for inventories follow.

2.62

TABLE 2-8: INVENTORY CAPTIONS

	Number of Companies			
	2006	2005	2004	2003
Finished goods	345	349	354	348
Finished goods and work in process	29	28	28	27
Work in process	270	272	264	249
Work in process and raw materials	37	43	47	60
Raw materials	206	216	212	216
Raw materials and supplies/parts	100	93	105	113
Supplies and/or materials	97	99	91	83

2.63

TABLE 2-9: INVENTORY COST DETERMINATION

	Number of Companies			
	2006	2005	2004	2003
Methods				
First-in first-out (FIFO)	385	385	386	384
Last-in first-out (LIFO)	228	229	239	251
Average cost	159	155	169	167
Other	30	30	27	31
Use of LIFO				
All inventories	11	16	20	26
50% or more of inventories	109	113	108	120
Less than 50% of inventories	88	76	85	77
Not determinable	20	24	26	28
Companies Using LIFO	**228**	**229**	**239**	**251**

2.64

TABLE 2-10: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	2006		2005	
	No.	%[1]	No.	%[1]
Advertising, marketing	—	—	—	—
Aerospace	5	29	5	29
Apparel	6	46	6	46
Beverages	4	40	4	40
Building materials, glass	5	63	6	75
Chemicals	22	76	22	81
Computer and data services	—	—	—	—
Computer peripherals	—	—	—	—
Computer software	—	—	—	—
Computers, office equipment	1	11	1	9
Diversified outsourcing services	1	8	—	—
Electronics, electrical equipment	12	28	12	28
Engineering, construction	2	15	1	7
Entertainment	—	—	—	—
Food	9	35	11	48
Food and drug stores	11	85	12	71
Food services	—	—	—	—
Forest and paper products	12	80	12	80
Furniture	7	78	8	73
General merchandisers	8	73	6	67
Health care	—	—	—	—
Homebuilders	—	—	—	—
Hotels, casinos, resorts	—	—	—	—
Industrial and farm equipment	23	59	21	58
Mail, package and freight delivery	—	—	—	—
Medical products and equipment	4	33	3	25
Metal products	11	69	13	76
Metals	13	76	12	80
Mining, crude-oil production	2	15	2	17
Miscellaneous	—	—	1	20
Motor vehicles and parts	8	53	8	54
Network communications	—	—	—	—
Packaging, containers	6	75	4	67
Petroleum refining	11	92	12	86
Pharmaceuticals	4	40	4	40
Publishing, printing	10	53	11	52
Rubber and plastic products	4	80	4	67
Scientific, photographic, and control equipment	4	22	4	21
Semiconductors	—	—	—	—
Soaps, cosmetics	4	50	3	43
Specialty retailers	4	24	5	28
Telecommunications	—	—	—	—
Temporary help	—	—	—	—
Textiles	2	50	3	75
Tobacco	3	60	3	60
Toys, sporting goods	—	—	—	—
Transportation equipment	2	50	2	50
Trucking, truck leasing	—	—	—	—
Waste management	—	—	—	—
Wholesalers	8	53	8	53
Total Companies	**228**	**38**	**229**	**38**

[1] This represents the percentage of survey companies that use LIFO in a particular industry classification. For example, 2006 data shows that 5 companies in the Aerospace industry use LIFO. Those 5 companies represent 29% of the total number of Aerospace companies surveyed.

First-In First-Out

2.65

VISHAY INTERTECHNOLOGY, INC. (DEC)

(In thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 671,586	$ 622,577
Short-term investments	—	9,925
Accounts receivable, net of allowances for doubtful accounts of $7,017 and $9,643, respectively	351,656	350,850
Inventories:		
Finished goods	163,576	149,709
Work in process	194,734	181,125
Raw materials	178,543	157,036
Deferred income taxes	38,368	39,115
Prepaid expenses and other current assets	128,784	96,295
Total current assets	$1,727,247	$1,606,632

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market. Inventories are adjusted for estimated obsolescence and written down to net realizable value based upon estimates of future demand, technology developments, and market conditions.

2.66

XILINX, INC. (MAR)

(In thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 783,366	$ 449,388
Short-term investments	201,551	412,170
Investment in United Microelectronics Corporation, current portion	37,285	—
Accounts receivable, net of allowances for doubtful accounts and customer returns of $3,697 and $3,869 in 2006 and 2005, respectively	194,205	213,459
Inventories	201,029	185,722
Deferred tax assets	110,928	125,342
Prepaid expenses and other current assets	119,884	66,476
Total current assets	$1,648,248	$1,452,557

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are stated at the lower of cost (determined using the first-in, first-out method), or market (estimated net realizable value) and are comprised of the following:

(In thousands)	2006	2005
Raw materials	$ 10,390	$ 8,589
Work-in-process	137,939	122,788
Finished goods	52,700	54,345
	$201,029	$185,722

The Company reviews and sets standard costs quarterly to approximate current actual manufacturing costs. The Company's manufacturing overhead standards for product costs are calculated assuming full absorption of forecasted spending over projected volumes, adjusted for excess capacity. Given the cyclicality of the market, the obsolescence of technology and product lifecycles, the Company writes down inventory based on forecasted demand and technological obsolescence. These factors are impacted by market and economic conditions, technology changes, new product introductions and changes in strategic direction and require estimates that may include uncertain elements. Actual demand may differ from forecasted demand and such differences may have a material effect on recorded inventory values.

Last-In First-Out

2.67

AMERICAN BILTRITE INC. (DEC)

(In thousands of dollars)	2006	2005
Current assets:		
Cash and cash equivalents	$ 21,180	$ 29,184
Restricted cash	9,656	11,644
Accounts and notes receivable, less allowances for doubtful accounts and discounts of $3,070 in 2006 and $2,820 in 2005	40,791	41,742
Inventories	80,471	77,127
Assets of discontinued operation	—	3,142
Deferred income taxes	1,818	1,301
Prepaid expenses & other current assets	28,406	24,062
Total current assets	$182,322	$188,202

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for most of the Company's domestic inventories. The use of LIFO results in a better matching of costs and revenues. Cost is determined by the first-in, first-out (FIFO) method for the

Company's foreign inventories. The Company records as a charge to cost of products sold any amounts required to reduce the carrying value of inventories to net realizable value.

Inventory costs include expenses that are directly or indirectly incurred in the acquisition and production of merchandise and manufactured products for sale. Expenses include the cost of materials and supplies used in production, direct labor costs and allocated overhead costs such as depreciation, utilities, insurance, employee benefits, and indirect labor.

2. Inventories

Inventories at December 31 consisted of the following *(in thousands)*:

	2006	2005
Finished goods	$56,374	$50,515
Work-in-process	11,813	10,370
Raw materials and supplies	12,284	16,242
	$80,471	$77,127

At December 31, 2006, domestic inventories determined by the LIFO inventory method amounted to $45.5 million ($44.1 million at December 31, 2005). If the FIFO inventory method, which approximates replacement cost, had been used for these inventories, they would have been $5.4 million and $3.8 million higher at December 31, 2006 and 2005, respectively. During 2006, 2005 and 2004, certain inventory quantities were reduced, which resulted in liquidations of LIFO inventory layers. The liquidations increased cost of sales by $28 thousand and $445 thousand for 2006 and 2005, respectively, and decreased cost of sales by $170 thousand for 2004.

2.68

OLIN CORPORATION (DEC)

(Dollars in millions)	2006	2005
Current assets:		
Cash and cash equivalents	$199.8	$303.7
Short-term investments	76.6	—
Receivables, net:		
Trade	304.0	270.5
Other	34.6	24.5
Inventories	263.3	262.6
Current deferred income taxes	8.9	—
Other current assets	32.0	12.1
Total current assets	$919.2	$873.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Accounting Policies (In Part)

Inventories

Inventories are valued at the lower of cost or market, with cost being determined principally by the dollar value LIFO method of inventory accounting. Cost for other inventories has been determined principally by the average-cost (primarily operating supplies, spare parts and maintenance parts) and first-in, first-out (FIFO) (primarily inventory of foreign subsidiaries) methods. Elements of costs in inventories include raw materials, direct labor and manufacturing overhead.

Inventories

	2006	2005
Supplies	$ 38.2	$ 37.1
Raw materials	293.7	172.0
Work in process	206.3	180.7
Finished goods	151.8	112.5
	690.0	502.3
LIFO reserves	(426.7)	(239.7)
Inventories	$ 263.3	$ 262.6

Inventories valued using the LIFO method comprised 78% and 79% of the total inventories at December 31, 2006 and 2005, respectively. If the FIFO method of inventory accounting had been used, inventories would have been $426.7 and $239.7 higher than that reported at December 31, 2006 and 2005, respectively. Fluctuations in underlying metal values will increase or decrease the FIFO value of the inventories. During 2006, primarily as part of the Metals restructuring actions, which included the closure of the Waterbury and Seymour facilities, the reduction in LIFO inventory quantities resulted in LIFO inventory liquidation gains of $25.9. The Metals restructuring actions are described in the Restructuring Note.

2.69

QUANEX CORPORATION (OCT)

(In thousands)	2006	2005
Current assets:		
Cash and equivalents	$105,708	$ 49,681
Accounts and notes receivable, net of allowance of $4,180 and $7,609	184,311	152,072
Inventories	142,788	133,003
Deferred income taxes	12,218	12,864
Other current assets	5,584	4,669
Current assets of discontinued operations	—	5,504
Total current assets	$450,609	$357,793

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Inventory

The Company records inventory valued at the lower of cost or market value. Inventories are valued using both the first-in first-out (FIFO) and last in, first out (LIFO) methods. The Company adopted the dollar-value link chain LIFO method in fiscal 1973 and the LIFO reserve is calculated on a consolidated basis in a single consolidated pool. Since then, acquisitions were integrated into the Company's operations with some valuing inventories on a LIFO basis and others on a FIFO basis. Inventory quantities are regularly reviewed and

provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

5. Inventories

Inventories consist of the following:

(In thousands)	2006	2005
Raw materials	$ 32,050	$ 32,696
Finished goods and work in process	93,258	86,077
	125,308	118,773
Supplies and other	17,480	14,230
Total	$142,788	$133,003

The values of inventories are based on the following accounting methods:

(In thousands)	2006	2005
LIFO	$ 59,510	$ 62,820
FIFO	83,278	70,183
Total	$142,788	$133,003

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $47.4 million and $34.3 million at October 31, 2006 and 2005, respectively. During fiscal 2006 and fiscal 2004, there were LIFO liquidations that resulted in a reduction of the LIFO reserve of approximately $0.8 million (credit to cost of sales) and $1.4 million, respectively. The LIFO liquidations, which are included in the LIFO reserve amounts ($47.4 million in 2006 and $34.4 million in 2004), reduced the amount of expense recognized in the respective years compared to what would have been recognized had there been no liquidations.

LIFO reserve adjustments are treated as corporate expenses as this matches how management reviews the businesses. The LIFO reserve adjustments are calculated on a consolidated basis in a single consolidated pool using the dollar-value link chain method. Upon completion of the consolidated calculation, the resulting reserve that is recorded to reflect inventories at their LIFO values is not allocated to the segments. Management believes LIFO reserves to be a corporate item and thus performs all reviews of segment operations on a FIFO basis.

Since the adoption of LIFO inventory valuation in 1973, the Company has completed multiple acquisitions. The acquisitions were integrated into the Company's operations with some valuing inventory on a LIFO basis and others on a FIFO basis. The selection of the inventory valuation treatment of each acquisition depends on the facts and circumstances that existed at the time of the acquisition, including expected inventory levels and pricing expected in the foreseeable future; this evaluation is applied on each transaction individually. As discussed above, management reviews all of the businesses on a FIFO basis for comparability, with the LIFO reserve treated as a corporate item.

Average Cost

2.70

LABARGE, INC. (JUN)

(Amounts in thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 947	$ 820
Accounts and other receivables, net	29,759	23,371
Inventories	53,819	41,342
Prepaid expenses	1,743	974
Deferred tax assets, net	1,395	1,387
Total current assets	$87,663	$67,894

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost or market. If actual demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

The Company procures materials and manufactures products to customer requirements. Raw materials are stated at the lower of cost or market as determined by the weighted average cost method.

Work in process consists of actual production costs, including factory overhead and tooling costs, reduced by costs attributable to units for which sales have been recognized. Such costs under contracts are determined by the average cost method based on the estimated average cost of all units expected to be produced under the contract. Inventories relating to long-term contracts are classified as current assets although a portion of the inventory is not expected to be realized within one year.

5. Inventories

Inventories consist of the following:

(Dollars in thousands)	2006	2005
Raw materials	$35,889	$29,324
Work in progress	17,930	12,018
	$53,819	$41,342

In accordance with contractual agreements, the U.S. Government has a security interest in inventories identified with contracts for which progress payments have been received.

For the fiscal years ended July 2, 2006, July 3, 2005 and June 27, 2004, expense for obsolete or slow moving inventory charged to income before income taxes was $0.9 million, $1.0 million and $0.8 million, respectively.

Retail Method

2.71

TARGET CORPORATION (JAN)

(Millions)	2007	2006
Cash and cash equivalents	$ 813	$ 1,648
Accounts receivable, net	6,194	5,666
Inventory	6,254	5,838
Other current assets	1,445	1,253
Total current assets	$14,706	$14,405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Inventory

Substantially all of our inventory and the related cost of sales are accounted for under the retail inventory accounting method (RIM) using the last-in, first-out (LIFO) method. Inventory is stated at the lower of LIFO cost or market. Cost includes purchase price as adjusted for vendor income. Inventory is also reduced for estimated losses related to shrink are markdowns. The LIFO provision is calculated based on inventory levels, markup rates and internally measured retail price indices. At February 3, 2007 and January 28, 2006, our inventories valued at LIFO approximate those inventories as if they were valued at FIFO.

Under RIM, the valuation of inventory at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value inventory. RIM is an averaging method that has been widely used in the retail industry due to its practicality. The use of RIM will result in inventory being valued at the lower of cost or market since permanent markdowns are currently taken as a reduction of the retail value of inventory.

We routinely enter into arrangements with certain vendors whereby we do not purchase or pay for merchandise until the merchandise is ultimately sold to a guest. Revenues under this program are included in sales in the Consolidated Statements of Operations, but the merchandise received under the program is not included in inventory in our Consolidated Statements of Financial Position because of the virtually simultaneous timing of our purchase and sale of this inventory. Sales made under these arrangements totaled $1,178 million, $872 million and $357 million for 2006, 2005 and 2004, respectively.

PREPAID EXPENSES

2.72 Table 2-11 summarizes the number of survey companies disclosing, either on the balance sheet or in the notes to financial statements, an amount for prepaid expenses. Rarely is the nature of prepaid expenses disclosed. Examples of items identified as prepaid expenses follow.

2.73

TABLE 2-11: PREPAID EXPENSES

	Number of Companies			
	2006	2005	2004	2003
Prepaid expenses	94	100	97	104
Prepaid expenses and other current assets	236	223	217	195
Prepaid expenses and deferred taxes	8	11	14	7
Prepaid expenses and other receivables	2	2	3	3
Prepaid expenses and advances	7	10	7	7
Employee benefits	9	5	6	7
Advertising costs	20	18	17	16
Other captions indicating prepaid expenses	12	9	9	19

2.74

HASBRO, INC. (DEC)

(Thousands of dollars)	2006	2005
Current assets		
Cash and cash equivalents	$ 715,400	$ 942,268
Accounts receivable, less allowance for doubtful accounts of $27,700 in 2006 and $29,800 in 2005	556,287	523,232
Inventories	203,337	179,398
Prepaid expenses and other current assets	243,291	185,297
Total current assets	$1,718,315	$1,830,195

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

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

Royalties

The Company enters into license agreements with inventors, designers and others for the use of intellectual properties in its products. These agreements may call for payment in advance or future payment for minimum guaranteed amounts. Amounts paid in advance are recorded as an asset and charged to expense as revenue from the related products is recognized. If all or a portion of the minimum guaranteed amounts appear not to be recoverable through future use of the rights obtained under license, the nonrecoverable portion of the guaranty is charged to expense at that time.

14) (In Part): Commitments and Contingencies

In addition, the Company has $116,792 of prepaid royalties included as a component of prepaid expenses and other current assets in the balance sheet. The long-term portion of advances paid of $64,769 is included in other assets. Advanced royalties paid and guaranteed or minimum royalties to be paid relate to anticipated revenues in the years 2007 through 2018.

2.75

THE READER'S DIGEST ASSOCIATION (JUN)

(In millions)	2006	2005
Current assets		
Cash and cash equivalents	$ 34.7	$ 37.7
Accounts receivable, net	261.9	233.9
Inventories	172.3	162.4
Prepaid and deferred promotion costs	62.3	53.8
Prepaid expenses and other current assets	173.1	144.9
Total current assets	$704.3	$632.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Promotion Costs (In Part)

Promotion expense, which consists of both amortization of promotion costs and costs expensed as incurred, included on the statements of operations totaled $(700.7) in 2006; $(724.7) in 2005, including $(77.1) related to previously deferred magazine promotion costs; and $(678.5) in 2004, including $(27.2) related to our magazine deferred promotion charge. Prepaid and deferred promotion costs included on the balance sheets were $62.3 and $53.8 as of June 30, 2006 and 2005, respectively.

Commissions earned by agents for new magazine subscribers are included in promotion, marketing and administrative expenses on the statements of operations. These costs are deferred and amortized over the related subscription term, typically one to three years. Amounts deferred and included in prepaid expenses and other current assets on the balance sheets were $21.7 and $22.7 as of June 30, 2006 and 2005, respectively. Amounts included in other noncurrent assets on the balance sheets were $25.5 and $25.8 as of June 30, 2006 and 2005, respectively.

OTHER CURRENT ASSETS

2.76 Table 2-12 summarizes the nature of accounts (other than cash, marketable securities, inventories, and prepaid expenses) appearing in the current asset section of the balance sheets of the survey companies. Examples of such other current asset captions follow.

2.77

TABLE 2-12: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Nature of Asset				
Deferred income taxes	434	424	422	387
Property held for sale	120	95	93	67
Derivatives	56	49	41	34
Unbilled costs	21	18	15	13
Advances or deposits	18	22	10	10
Other—identified	37	33	32	50

Deferred Taxes

2.78

FEDEX CORPORATION (MAY)

(In millions)	2006	2005
Current assets		
Cash and cash equivalents	$1,937	$1,039
Receivables, less allowances of $144 and $125	3,516	3,297
Spare parts, supplies and fuel, less allowances of $150 and $142	308	250
Deferred income taxes	539	510
Prepaid expenses and other	164	173
Total current assets	$6,464	$5,269

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The liability method is used to account for income taxes, which requires deferred taxes to be recorded at the statutory rate in effect when the taxes are paid.

We have not recognized deferred taxes for U.S. federal income taxes on foreign subsidiaries' earnings that are deemed to be permanently reinvested and any related taxes associated with such earnings are not material. Pretax earnings of foreign operations were approximately $606 million in 2006, $636 million in 2005 and $430 million in 2004, which represent only a portion of total results associated with international shipments.

Note 12 (In Part): Income Taxes

The significant components of deferred tax assets and liabilities as of May 31 were as follows (in millions):

	2006		2005	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment, leases and intangibles	$ 329	$1,559	$ 301	$1,506
Employee benefits	413	648	397	453
Self-insurance accruals	339	—	311	—
Other	360	78	319	77
Net operating loss/credit carryforwards	64	—	54	—
Valuation allowance	(48)	—	(42)	—
	$1,457	$2,285	$1,340	$2,036

The net deferred tax liabilities as of May 31 have been classified in the balance sheets as follows (in millions):

	2006	2005
Current deferred tax asset	$ 539	$ 510
Non-current deferred tax liability	(1,367)	(1,206)
	$ (828)	$ (696)

The valuation allowance primarily represents amounts reserved for operating loss and tax credit carryforwards, which expire over varying periods starting in 2007. As a result of this and other factors, we believe that a substantial portion of these deferred tax assets may not be realized.

For non-U.S. entities that are not treated as branches for U.S. tax purposes, we do not provide for income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely.

2.79

HUNTSMAN CORPORATION (DEC)

(Dollars in millions)	2006	2005
Current assets:		
Cash and cash equivalents	$ 263.2	$ 142.8
Accounts and notes receivables (net of allowance for doubtful accounts of $39.0 and $33.7, respectively)	1,243.2	1,475.2
Accounts receivable from affiliates	14.1	7.4
Inventories, net	1,520.1	1,309.2
Prepaid expenses	55.7	46.2
Deferred income taxes	64.6	31.2
Other current assets	175.7	84.0
Total current assets	$3,336.6	$3,096.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes. We evaluate deferred tax assets to determine whether it is more likely than not that they will be realized. Valuation allowances have been established against the entire U.S., and a material portion of the non-U.S., deferred tax assets due to an uncertainty of realization. Valuation allowances are reviewed each period on a tax jurisdiction by tax jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax assets.

Subsequent to acquiring Huntsman Advanced Materials in June 2003 and through December 2005, substantially all non-U.S. operations of Huntsman Advanced Materials were treated as our branches for U.S. income tax purposes and were, therefore, subject to both U.S. and non-U.S. income tax. Effective January 1, 2006, Huntsman Advanced Materials foreign operations are no longer being treated as our branches and are not subject to U.S. taxation on their earnings until those earnings are repatriated to the U.S., similar to our other non-U.S. entities.

19 (In Part): Income Taxes

Components of deferred income tax assets and liabilities were as follows (dollars in millions):

	2006	2005
Deferred income tax assets:		
Net operating loss and AMT credit carryforwards	$ 869.3	$ 1,020.6
Pension and other employee compensation	234.4	167.5
Property, plant and equipment	82.3	44.8
Intangible assets	92.3	113.7
Foreign tax credits	50.2	13.2
Other, net	133.1	57.0
Total	1,461.6	1,416.8
Deferred income tax liabilities:		
Property, plant and equipment	(701.1)	(881.1)
Pension and other employee compensation	(14.6)	(39.2)
Other, net	(121.4)	(82.5)
Total	(837.1)	(1,002.8)
Net deferred tax asset before valuation allowance	624.5	414.0
Valuation allowance	(571.5)	(549.3)
Net deferred tax asset (liability)	$ 53.0	$ (135.3)
Current tax asset	$ 64.6	$ 31.2
Current tax liability	(9.4)	(2.4)
Non-current tax asset	190.4	94.2
Non-current tax liability	(192.6)	(258.3)
Total	$ 53.0	$ (135.3)

As of December 31, 2006, we have U.S. federal net operating loss carryforwards ("NOLs") of $743.4 million. The U.S. NOLs begin to expire in 2009 and fully expire in 2025. We also have NOLs of $1,910.0 million in various non-U.S. jurisdictions. While the majority of the non-U.S. NOLs have no expiration date, $493.2 million have a limited life and $26.9 million are scheduled to expire in 2007.

Included in the $1,910 million of non-U.S. NOLs is $1,059.1 million attributable to Huntsman Advanced Materials' Luxembourg entities. As of December 31, 2006, there is a valuation allowance of $307.2 million against these net tax-effected NOLs of $313.8 million. Due to the uncertainty surrounding the realization of the benefits of these losses that may result from future dissolution or restructuring of the Luxembourg entities, we have reduced the related deferred tax asset with a valuation allowance.

We are subject to the "ownership change" rules of Section 382 of the Internal Revenue Code. Under these rules, our use of the NOLs could be limited in tax periods following the date of an ownership change. Based upon the existence of significant tax "built-in income" items, the effect of the ownership change rules on the ability to utilize the NOLs is not anticipated to be material.

We have a valuation allowance against our entire U.S. and a material portion of our non-U.S. net deferred tax assets. We have specific valuation allowances of $38.2 million that, when reversed, will reduce goodwill and other non-current intangibles. Additionally, included in the deferred tax assets at December 31, 2006 is approximately $7.7 million of cumulative tax benefit related to equity transactions which will be credited to stockholders' equity when realized, after all other valuation allowances have been reversed.

The following is a summary of changes in the valuation allowance (dollars in millions):

	2006	2005	2004
Valuation allowance as of January 1	$549.3	$842.1	$ 603.2
Valuation allowance as of December 31	571.5	549.3	842.1
Net change	(22.2)	292.8	(238.9)
Foreign currency movements	6.5	(81.1)	52.5
Deferred tax liabilities recorded in purchase accounting which reduced the need for valuation allowances	(7.8)	(2.9)	—
Recognition of net operating losses based on final settlement with U.S. and U.K. tax authorities, with a corresponding increase to valuation allowance	53.0	—	—
Adjustments to deferred tax assets with an offsetting adjustment to valuation allowance	72.3	(99.8)	68.6
Movement of net deferred tax assets unrelated to income or loss from continuing operations	25.0	5.2	73.9
Reversal of valuation allowances on deferred tax assets related to prior acquisitions, with a corresponding reduction to goodwill or intangible assets	(1.1)	(0.8)	(25.8)
Change in valuation allowance per rate reconciliation	$125.7	$113.4	$ (69.7)
Components of change in valuation allowance:			
Effects of pre-tax income and pre-tax losses in jurisdictions with valuation allowances	$104.8	$ (20.7)	$ (77.3)
Effects of AdMat consolidation transaction	—	88.4	—
Releases of valuation allowances in various jurisdictions	29.1	56.5	10.8
Establishments of valuation allowances in various jurisdictions	(8.2)	(10.8)	(3.2)
Change in valuation allowance per rate reconciliation	$125.7	$113.4	$ (69.7)

For non-U.S. entities that are not treated as branches for U.S. tax purposes, we do not provide for income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely. The undistributed earnings of foreign subsidiaries that are deemed to be permanently invested were $175.9 million at December 31, 2006. It is not practicable to determine the unrecognized deferred tax liability on those earnings.

As a matter of course, our subsidiaries are regularly audited by various taxing authorities in both the U.S. and numerous non-U.S. jurisdictions. We believe adequate provision has been made for all outstanding issues for all open years. Significant judgments and estimates are required in determining the global provision for income taxes, including judgments and estimates regarding the realization of deferred tax assets and the ultimate outcome of tax-related contingencies. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We either recognize a liability, including related interest, or reduce a tax asset, for the anticipated outcome of tax audits. We adjust these amounts in light of changing facts and circumstances, such as the closing of a tax audit or the expiration of a statute of limitations in the period in which the change occurs. If our tax positions are ultimately upheld under audits by respective taxing authorities, it is possible that the provision for income taxes in future years may reflect significant favorable adjustments. During 2006, the remaining unresolved issues of the IRS Exam for the years ended 1998 through 2001 were settled. The net increase to our net operating losses was approximately $134 million, which was offset by a corresponding chnage in valuation allowance. Accruals for U.S. tax contingencies of $30.2 million were reversed as a benefit to current tax benefit. We also successfully settled disputes in non-U.S. jurisdictions which resulted in the reversal of accruals for tax contingencies of $23.8 million to current tax benefit. The non-U.S. dispute resolutions also resulted in increases in deferred tax assets, offset by a corresponding increase in valuation allowances.

Property Held for Sale

2.80

PEERLESS MFG. CO. (JUN)

(Amounts in thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 6,411	$ 8,277
Accounts receivable-principally trade—net of allowance for doubtful accounts of $462 at June 30, 2006 and $352 at June 30, 2005	16,463	11,613
Inventories	4,871	3,297
Costs and earnings in excess of billings on uncompleted contracts	13,891	10,140
Assets held for sale	767	—
Deferred income taxes	1,338	1,163
Other current assets	1,431	1,206
Total current assets	$45,172	$35,696

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

Note F. Assets Held for Sale

The Company has been notified by the Dallas Area Rapid Transit Authority that the Company's headquarters facility located in Dallas, Texas will be acquired in either a negotiated transaction or condemnation proceeding under eminent domain laws. The property is approximately 12 acres and contains the Company's administrative offices, research & development laboratory, and manufacturing and storage operations. The Company estimates that the fair value of the facility is between $4,000 and $4,400, based on appraisals (unaudited). At June 30, 2006, the book value of the facility was $767. The Company anticipates that it will be required to relocate all administrative, research & development, manufacturing and storage operations currently performed at this facility during the fiscal quarter ending March 31, 2007.

The assets held for sale are summarized as follows:

	2006
Buildings & improvements	$ 2,768
Equipment	152
Furniture and fixtures	13
	2,933
Less accumulated depreciation	(2,794)
	139
Land	628
	$ 767

Derivatives

2.81

CLEVELAND-CLIFFS INC (DEC)

(In millions)	2006	2005
Current assets		
Cash and cash equivalents	$351.7	$192.8
Marketable securities		9.9
Trade accounts receivable—net	28.3	35.1
Receivables from associated companies	4.0	5.4
Product inventories	150.3	119.1
Work in process inventories	50.6	56.7
Supplies and other inventories	77.5	70.5
Deferred and refundable taxes	9.7	12.1
Deferred power receivable	15.6	73.0
Derivative asset	32.9	19.2
Other	61.7	42.2
Total current assets	$782.3	$636.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Derivative Financial Instruments (In Part)

Portman, an Australian company wholly owned by Cliffs, receives funds in United States currency for its iron ore sales. Portman uses forward exchange contracts, call options, collar options and convertible collar options, designated as cash flow hedges, to hedge its foreign currency exposure for a portion of its sales receipts denominated in United States currency. United States currency is converted to Australian dollars at the currency exchange rate in effect at the time of the transaction. The primary objective for the use of these instruments is to reduce the volatility of earnings due to changes in the Australian and United States currency exchange rates, and to protect against undue adverse movement in these exchange rates. The instruments are subject to formal documentation, intended to achieve qualifying hedge treatment, and are tested at inception and at each reporting period as to effectiveness. Portman's policy is to hedge no more than 90 percent of anticipated sales up to 12 months, no more than 30 percent of anticipated sales from 13 to 24 months and no more than 15 percent of anticipated sales from 25 to 36 months. In 2006 and 2005, $2.7 million and $9.8 million, respectively, of hedge contracts were settled and recognized as a reduction of revenues. Changes in fair value for highly effective hedges are recorded as a component of *Other comprehensive income*. In 2006 and 2005, ineffectiveness resulting in a $2.7 million gain and $2.6 million loss, respectively, were charged to *Miscellaneous—net* on the Statements of Consolidated Operations. We estimate $4.7 million of cash flow hedge contracts will be settled and reclassified into earnings in the next 12 months.

At December 31, 2006, Portman had outstanding $268.2 million in the form of call options, collar options, convertible collars and forward exchange contracts with varying maturity dates ranging from January 2007 to June 2009, and a fair value gain based on the December 31, 2006 spot rate of $9.9 million. We had $6.3 million and $.6 million of hedge contracts recorded as *Derivative assets* on the December 31, 2006 and 2005 Statements of Consolidated Financial Position, respectively and $3.6 million of hedge contracts recorded as long-term assets as *Deposits and miscellaneous* on the Statements of Consolidated Financial Position at December 31, 2006. Hedge contracts payable totaling $1.3 million were included as *Other Liabilities* on the December 31, 2005 Statements of Consolidated Financial Position.

Most of our North American long-term supply agreements are comprised of a base price with annual price adjustment factors. These price adjustment factors vary from agreement to agreement but typically include adjustments based upon changes in international pellet prices, changes in specified Producers Price Indices including those for all commodities, industrial commodities, energy and steel. The adjustments generally operate in the same manner, with each factor typically comprising a portion of the price adjustment, although the weighting of each factor varies from agreement to agreement. One of our term supply agreements contains price collars, which typically limit the percentage increase or decrease in prices for our iron ore pellets during any one year. In most cases, these adjustment factors have not been finalized at the time our product is sold; we routinely estimate these adjustment factors. The price adjustment factors have been evaluated as embedded derivatives. We evaluated the embedded derivatives in the supply agreements in accordance with the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. The price adjustment factors share the same economic characteristics and risks as the host contract and are integral to the host contract as inflation adjustments; accordingly they have not been separately valued as derivative instruments.

Certain supply agreements with one of our North American customers include provisions for supplemental revenue or refunds based on the customer's annual steel pricing for the year the product is consumed in the customer's blast furnace. The supplemental pricing is characterized as an embedded derivative instrument and is required to be accounted for separately from the base contract price. The derivative, which is finalized based on a future price, is marked to fair value as a revenue adjustment each reporting period until the year the pellets are consumed and the amounts are settled. The amounts, totaling $107.9 million, $65.9 million, and $115.7 million, were recognized as *Iron Ore* revenues in the Statements of Consolidated Operations, in 2006, 2005 and 2004, respectively. Derivative assets, representing the fair value of pricing factors, were $26.6 million and $18.6 million on the December 31, 2006 and December 31, 2005 Statements of Consolidated Financial Position, respectively.

Note 14 (In Part): Fair Value of Financial Instruments

The carrying amount and fair value of our financial instruments at December 31, 2006 and 2005 were as follows:

	2006		2005	
(In millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$351.7	$351.7	$192.8	$192.8
Marketable securities (short-term)			9.9	9.9
Derivative assets	32.9	32.9	19.2	19.2
Long-term receivable	55.7	68.4	60.7	76.9
Marketable securities (long-term)	28.9	28.9	10.6	10.6
Hedge contracts (long-term)	3.6	3.6		
Hedge contracts payable			1.3	1.3
Long-term debt	6.9	6.6	7.7	7.3

The carrying amount of cash and cash equivalents, marketable securities, derivative assets and hedge contracts equals fair value.

Certain supply agreements with one of our North American customers include provisions for supplemental revenue or refunds based on the customer's annual steel pricing for the year the product is consumed in the customer's blast furnace. The supplemental pricing is characterized as an embedded derivative instrument and is required to be accounted for separately from the contract base price. The derivative which is finalized based on a future price, is marked to fair value as revenue adjustments each reporting period until the product is consumed and the amount is settled. Derivative assets, representing the fair value of pricing factors, were $26.6 million and $18.6 million on the December 31, 2006 and December 31, 2005 Statements of Consolidated Financial Position, respectively.

Portman hedges a portion of its United States currency-denominated sales in accordance with a formal policy. The primary objective for using derivative financial instruments is to reduce the earnings volatility attributable to changes in Australian and United States currency fluctuations. We had $6.3 million and $.6 million of hedge contracts recorded as *Derivative assets* on the December 31, 2006 and 2005 Statements of Consolidated Financial Position, respectively, and $3.6 million of hedge contracts recorded as long-term assets as *Deposits and miscellaneous* on the Statements of Consolidated Financial Position at December 31, 2006. Hedge contracts payable totaling $1.3 million were included as *Other Liabilities* on the December 31, 2005 Statements of Consolidated Financial Position.

Unbilled Costs

2.82

MCDERMOTT INTERNATIONAL, INC. (DEC)

(In thousands)	2006	2005
Current assets:		
Cash and cash equivalents	$ 600,843	$ 19,263
Restricted cash and cash equivalents	106,674	152,086
Investments	172,171	384,202
Accounts receivable—trade, net	668,310	232,236
Accounts receivable from The Babcock & Wilcox Company	—	3,778
Accounts and notes receivable—unconsolidated affiliates	29,825	52,867
Accounts receivable—other	57,548	32,982
Contracts in progress	230,146	73,732
Inventories	77,769	319
Deferred income taxes	180,234	32,131
Assets held for sale	—	10,886
Other current assets	16,958	8,147
Total current assets	$2,140,478	$1,002,629

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Contracts and Revenue Recognition

We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the product or activity involved. Some of our contracts contain a risk-and-reward element, whereby a portion of total compensation is tied to the overall performance of several companies working under alliance arrangements. We include revenues and related costs so recorded, plus accumulated contract costs that exceed amounts invoiced to customers under the terms of the contracts, in contracts in progress. We include in advance billings on contracts billings that exceed accumulated contract costs and revenues and costs recognized under the percentage-of-completion method. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. We review contract price and cost estimates periodically as the work progresses and reflect adjustments proportionate to the percentage-of-completion in income in the period when those estimates are revised. For all contracts, if a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined.

For contracts as to which we are unable to estimate the final profitability except to assure that no loss will ultimately be incurred, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these deferred profit recognition contracts, we recognize revenue and cost equally and only recognize gross margin when probable and reasonably estimable, which we generally determined to be when the contract is approximately 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical except to assure that no loss will be incurred, as deferred profit recognition contracts.

Our policy is to account for fixed-price contracts under the completed-contract method if we believe we are unable to reasonably forecast cost to complete at start-up. Under the completed-contract method, income is recognized only when a contract is completed or substantially complete.

Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. We include claims for extra work or changes in scope of work to the extent of costs incurred in contract revenues when we believe collection is probable.

(In thousands)	2006	2005
Included in contracts in progress:		
Costs incurred less costs of revenue recognized	$ 113,906	$ 73,533
Revenues recognized less billings to customers	116,240	199
Contracts in progress	$ 230,146	$ 73,732
Included in advance billings on contracts:		
Billings to customers less revenues recognized	$ 2,508,539	$ 1,024,109
Costs incurred less costs of revenue recognized	(1,392,421)	(709,642)
Advance billings on contracts	$ 1,116,118	$ 314,467

The following amounts represent retainages on contracts:

(In thousands)	2006	2005
Retainages expected to be collected in 2007	$ 76,067	$ 91,795
Retainages expected to be collected after one year	67,617	14,624
Total retainages	$143,684	$106,419

We have included in accounts receivable—trade retainages expected to be collected in 2007. Retainages expected to be collected after one year are included in other assets. Of the long-term retainages at December 31, 2006, we anticipate collecting $42.3 million in 2008, $17.3 million in 2009, $7.4 million in 2010 and $0.6 million in 2011.

Advances/Deposits

2.83

WESTERN DIGITAL CORPORATION (JUN)

(In millions)	2006	2005
Current assets:		
Cash and cash equivalents	$ 550.7	$ 485.2
Short-term investments	148.1	113.2
Accounts receivable, net	481.5	402.9
Inventories	205.1	152.9
Advances to suppliers	79.6	12.5
Prepaid expenses and other	27.2	14.5
Total current assets	$1,492.2	$1,181.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Commitments and Contingencies

Long-Term Purchase Agreements

The Company has entered into long-term purchase agreements with various component suppliers. The commitments depend on specific products ordered and may be subject to minimum quality requirements and future price negotiations. For 2007, 2008, and 2009, WD expects these commitments to total approximately $885 million, $1.075 billion and $970 million, respectively. In conjunction with these agreements, the Company has advanced approximately $92 million related to 2007 and 2008 purchase commitments, of which $80 million is included in advances to suppliers and $12 million is included in other long-term assets as of June 30, 2006.

PROPERTY, PLANT, AND EQUIPMENT

2.84 Property, Plant, and Equipment are the long-lived, physical assets of the firm acquired for use in the firm's normal business operations and not intended for resale by the firm. These assets are usually valued at historical cost. SFAS No. 34, *Capitalization of Interest Cost*, establishes standards of financial accounting and reporting for capitalizing interest cost as part of the historical cost of acquiring certain assets such as plant assets that a firm constructs for its own use. In 2006, 126 survey companies disclosed that interest costs were capitalized during the period.

2.85 SOP No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, provides guidance on accounting for the costs of internal-use computer software other than software used in research and development activities. Under *SOP No. 98-1*, certain computer software costs should be capitalized and amortized over their estimated useful lives. Accounting for computer software costs is also addressed by SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. Under *SFAS No. 86*, certain computer software production costs incurred subsequent to establishing technological feasibility should be capitalized and amortized on a product-by-product basis. Presentations of capitalized computer software costs by survey companies vary. Examples of capitalized software cost disclosures are included here and in the Other Noncurrent Asset section.

2.86 Paragraph 5 of *APB Opinion No. 12* states:

> Because of the significant effects on financial position and results of operations of the depreciation method or methods used, the following disclosures should be made in the financial statements or in notes thereto:
> a. Depreciation expense for the period,
> b. Balance of major classes of depreciable assets, by nature or function, at the balance sheet date,
> c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date, and
> d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

2.87 APB Opinion No. 20, *Accounting Changes*, defines various types of accounting changes, including a change in depreciation, amortization or depletion method, and provides guidance on the manner of reporting each type. Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, SFAS No. 154, *Accounting Changes and Error Corrections*, replaces *APB No. 20. SFAS No. 154* changes the requirements for the accounting for and reporting of a change in accounting principle. *SFAS No. 154* also requires that a change in depreciation, amortization, or depletion method be accounted for prospectively as a change in accounting estimate effected by a change in accounting principle. A change in accounting estimate is accounted for either in the period of change if the change affects that period only, or the period of change and future periods if the change affects both.

2.88 Tables 2-13 and 2-14 show the assets classified as Property, Plant, and Equipment by the survey companies. Table 2-15 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

2.89 Examples of Property, Plant, and Equipment disclosures follow.

2.90

TABLE 2-13: LAND CAPTIONS

	2006	2005	2004	2003
Land	325	337	339	342
Land and improvements	140	128	132	132
Land and buildings	60	59	56	55
Land combined with other identified assets	7	10	9	7
No caption with term land	42	46	48	47
	574	**580**	**584**	**583**
Lines of business classification	26	20	16	17
Total Companies	**600**	**600**	**600**	**600**

2.91

TABLE 2-14: DEPRECIABLE ASSET CAPTIONS

	2006	2005	2004	2003
Buildings				
Buildings	183	184	189	195
Buildings and improvement	275	267	269	256
Building and land or equipment	78	85	84	73
Buildings combined with other identified assets	11	13	14	14
No caption with term buildings	42	34	32	49
	589	**583**	**588**	**587**
Line of business classification	11	17	12	13
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Other Depreciable Asset Captions				
Machinery and/or equipment	377	387	391	387
Machinery and/or equipment combined with other assets	130	129	128	113
Construction in progress	289	284	276	274
Leasehold improvements	129	133	135	131
Lease assets	62	59	60	66
Automobiles and other specific type equipment	99	97	89	84
Furniture and fixtures	106	100	106	107
Computer equipment	69	63	59	38
Software	67	67	56	58
Assets leased to others	25	13	15	21

2.92

TABLE 2-15: ACCUMULATED DEPRECIATION

	2006	2005	2004	2003
Accumulated depreciation	357	345	337	336
Accumulated depreciation and amortization	184	188	192	193
Accumulated depreciation, amortization and depletion	14	18	19	16
Accumulated depreciation and depletion	5	6	6	7
Allowance for depreciation	15	17	17	20
Allowance for depreciation and amortization	5	5	9	6
Other captions	20	21	20	22
Total Companies	**600**	**600**	**600**	**600**

2.93

THE CLOROX COMPANY (JUN)

(Dollars in millions)	2006	2005
Total current assets	$1,007	$1,090
Property, plant and equipment, net	1,004	999
Goodwill	744	743
Trademarks and other intangible assets, net	604	599
Other assets	257	186
Total assets	$3,616	$3,617

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization expense are calculated by the straight-line method using the estimated useful lives of the related assets. The following table provides estimated useful lives of property, plant and equipment by asset classification:

Classification	Expected Useful Lives
Land improvements	10–30 years
Buildings	10–40 years
Machinery and equipment	3–15 years
Computer equipment	3 years
Capitalized software costs	3–7 years

Property, plant and equipment to be held and used is reviewed at least annually for possible impairment. The Company's impairment review is based on an estimate of the undiscounted cash flow at the lowest level for which identifiable cash flows exist. Impairment occurs when the carrying value of the asset exceeds the estimated future undiscounted cash flows generated by the asset and the impairment is viewed as other than temporary. When an impairment is indicated, an impairment charge is recorded for the difference between the carrying value of the asset and its fair market value. Depending on the asset, fair market value may be determined either by use of a discounted cash flow model, or by reference to estimated selling values of assets in similar condition.

Note 5. Property, Plant and Equipment

The components of property, plant and equipment at June 30 were as follows:

	2006	2005
Land and improvements	$ 104	$ 96
Buildings	511	487
Machinery and equipment	1,300	1,245
Computer equipment	129	120
Capitalized software costs	262	235
Construction in progress	84	69
	2,390	2,252
Less: accumulated depreciation and amortization	(1,386)	(1,253)
Net balance	$ 1,004	$ 999

Depreciation and amortization expense related to property, plant and equipment was $170, $170 and $167 in fiscal years 2006, 2005 and 2004, respectively.

2.94

LEUCADIA NATIONAL CORPORATION (DEC)

(Dollars in thousands)	2006	2005
Total current assets	$1,366,209	$2,228,615
Non-current investments	1,465,849	977,327
Notes and other receivables, net	24,999	22,747
Intangible assets, net and goodwill	59,437	85,083
Deferred tax asset, net	978,415	1,094,017
Other assets	401,689	240,601
Property, equipment and leasehold improvements, net	234,216	237,021
Investments in associated companies	773,010	375,473
Total assets	$5,303,824	$5,260,884

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

e) Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the assets or, if less, the term of the underlying lease.

10 (In Part): Property, Equipment and Leasehold Improvements, Net

A summary of property, equipment and leasehold improvements, net at December 31, 2006 and 2005 is as follows (in thousands):

	Depreciable Lives (in years)	2006	2005
Buildings and leasehold improvements	3–45	$ 131,122	$ 136,460
Machinery and equipment	3–25	101,104	93,740
Network equipment	5–15	30,587	14,524
Corporate aircraft	10	87,981	87,981
Computer equipment and software	2–5	3,921	9,520
General office furniture and fixtures	2–10	7,131	8,933
Construction in progress	N/A	3,291	4,978
Other	3–7	5,144	7,645
		370,281	363,781
Accumulated depreciation and amortization		(136,065)	(126,760)
		$ 234,216	$ 237,021

2.95

THE STANLEY WORKS (DEC)

(Millions of dollars)	2006	2005
Total current assets	$1,638.5	$1,825.6
Property, plant and equipment, net	559.4	467.1
Goodwill	1,100.2	740.9
Customer relationships	163.3	157.6
Trademarks	310.6	119.2
Other intangible assets	47.4	42.7
Other assets	116.0	192.0
Total assets	$3,935.4	$3,545.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Property, Plant and Equipment

The Company generally values property, plant and equipment (“PP&E”), including capitalized software, on the basis of historical cost less accumulated depreciation and amortization. Depreciation and amortization are provided using straight-line methods over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful life or the term of the lease. Costs related to maintenance and repairs which do not prolong the assets useful lives are expensed as incurred. The Company assesses its long-lived assets for impairment when indicators that the carrying values may not be recoverable are present. In assessing long-lived assets for impairment, the Company groups its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are generated (“asset group”) and estimates the

undiscounted future cash flows that are directly associated with and expected to be generated from the use of and eventual disposition of such asset group. The amount of the impairment loss, if any, is quantified by comparing the carrying amount of the asset group to the estimated fair value, which is determined using weighted average discounted cash flows that consider various possible outcomes for the disposition of the asset group. Primarily as a result of plant rationalization, certain facilities and equipment are not currently used in operations, which has resulted in impairment losses. PP&E impairment charges, classified in Restructuring and Asset Impairments, amounted to $3.7 million in 2004 and were zero in both 2006 and 2005.

E. Property, Plant and Equipment

(Millions of dollars)	2006	2005	Useful Life (Years)
Land	$ 43.5	$ 28.0	N/A
Land improvements	16.3	18.0	10–20
Buildings	272.6	247.9	40
Leasehold improvements	21.2	17.8	Term of lease
Machinery and equipment	946.4	876.9	3–15
Computer software	129.2	108.4	3–5
Gross PP&E	$1,429.2	$1,297.0	
Less: accumulated depreciation and amortization	869.8	829.9	
Total	$ 559.4	$ 467.1	

Depreciation and amortization expense associated with property, plant and equipment was as follows:

(Millions of dollars)	2006	2005	2004
Depreciation	$69.4	$53.5	$58.3
Amortization	12.2	12.7	13.0
Depreciation and amortization expense	$81.6	$66.2	$71.3

The amounts above are inclusive of discontinued operations depreciation and amortization expense of $0.1 million in 2006, $0.3 million in 2005 and $3.0 million in 2004.

2.96

THE WASHINGTON POST COMPANY (DEC)

(In thousands)	2006	2005
Total current assets	$ 934,825	$ 818,326
Property, plant and equipment		
Buildings	331,682	327,569
Machinery, equipment and fixtures	1,939,110	1,839,983
Leasehold improvements	204,797	167,116
	2,475,589	2,334,668
Less accumulated depreciation	(1,433,060)	(1,325,676)
	1,042,529	1,008,992
Land	42,030	42,257
Construction in progress	133,750	91,383
	1,218,309	1,142,632
Investments in marketable equity securities	325,805	262,325
Investments in affiliates	53,510	66,775
Goodwill, net	1,240,251	1,125,570
Indefinite-lived intangible assets, net	517,742	494,692
Amortized intangible assets, net	31,799	22,814
Prepaid pension cost	975,292	593,469
Deferred charges and other assets	83,839	58,170
	$ 5,381,372	$ 4,584,773

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and includes interest capitalized in connection with major long-term construction projects. Replacements and major improvements are capitalized; maintenance and repairs are charged to operations as incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment: 3 to 20 years for machinery and equipment, and 20 to 50 years for buildings. The costs of leasehold improvements are amortized over the lesser of the useful lives or the terms of the respective leases.

The cable division capitalizes costs associated with the construction of cable transmission and distribution facilities and new cable service installations. Costs include all direct labor and materials, as well as certain indirect costs. Also at the cable division, the carrying value applicable to assets sold or retired is removed from the accounts, with the gain or loss on disposition recognized as a component of depreciation expense.

INVESTMENTS

2.97 APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, stipulates that the equity method should be used to account for investments in corporate joint ventures and certain other companies when an investor has "the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock." *APB*

Opinion No. 18 considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. Financial Accounting Standards Board (FASB) Interpretation No. 35, *Criteria for Applying the Equity Method of Accounting for Investments in Common Stock*, issued to clarify the criteria for applying the equity method of accounting to 50% or less owned companies, lists circumstances under which, despite 20% ownership, an investor may not be able to exercise significant influence.

2.98 In addition to investments accounted for by the equity method, many survey companies disclosed investments in equity and debt securities subject to the requirements of *SFAS No. 115.* This Statement is the authoritative pronouncement on accounting for and reporting investments in equity securities that have readily determinable fair value and all investments in debt securities. Paragraphs 19–22 of *SFAS No. 115*, as amended by *SFAS No. 133*, state the disclosure requirements for such investments. SFAS No. 115 does not apply to investments accounted for by the equity method.

2.99 For investments subject to *SFAS No. 115* requirements, *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of investments unless it is not practicable to estimate that value. During 2006, 172 survey companies made 174 fair value disclosures. 105 of those disclosures used market or broker quotes of the investments to determine fair value. 14 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. Nine of those disclosures estimated fair value using other valuation methods. 82 disclosures presented carrying amounts which approximated fair value of investments. In addition, there were 71 disclosures in which carrying value was compared to fair value in an exposition or a table. One disclosure stated it was not practicable to estimate fair value.

2.100 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions. Reporting certain marketable securities at fair value under *SFAS No. 115* is an example of a fresh-start measurement.

2.101 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.102 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged, SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While *SFAS No. 157* does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as *SFAS Nos. 107, 115, and 133. SFAS No. 157* clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. *SFAS No. 157* emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, *SFAS No. 157* specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs. For assets and liabilities measured at fair value on a recurring basis, *SFAS No. 157* expands the required disclosures concerning the inputs used to measure fair value, and encourages the combination of fair value information disclosed under the standard with those disclosed under other pronouncements, such as *SFAS No. 107*.

2.103 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with conditioned earlier application allowed, SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Further, under *SFAS No. 159* a business entity shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, and applied to the entire instrument, not just a portion of it. *SFAS No. 159* includes an amendment to *SFAS No. 115* that relates to the accounting for and disclosure of the unrealized gains and losses of available-for-sale and held-to-maturity securities for which the fair value option is elected. *SFAS No. 159* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. *SFAS No. 159* does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included in pronouncements, such as *SFAS Nos. 107 and 157*.

2.104 The FASB's Emerging Issues Task Force (EITF) Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*, should be used to determine when certain investments are considered impaired, whether that impairment is other than temporary, and the measurement and recognition of an impairment loss. *EITF Issue No. 03-1* also provides guidance on accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

2.105 Table 2-16 lists the balance sheet carrying bases for investments presented as noncurrent assets.

2.106 Table 2-17 lists descriptions of investments presented as non-current investments. Examples of presentations and disclosures for such investments follow.

2.107

TABLE 2-16: INVESTMENTS—CARRYING BASES

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Equity	300	302	293	290
Fair value	124	131	150	153
Cost	123	119	114	129
Lower of cost or market	5	2	4	3

2.108

TABLE 2-17: INVESTMENTS—DESCRIPTION

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Common stock	232	210	222	230
Marketable equity securities	111	106	122	114
Joint ventures	84	100	86	71
Debt	42	47	54	59
Preferred stock	11	13	14	14
Leases	7	12	14	15
Real estate	5	6	12	11
Other	24	13	32	21
No details	8	11	23	18

Equity Method

2.109

CORNING INCORPORATED (DEC)

Consolidated Balance Sheets

(In millions)	2006	2005
Total current assets	$ 4,798	$ 3,860
Investments (Note 8)	2,522	1,729
Property, net of accumulated depreciation—$4,087 and $3,632	5,193	4,675
Goodwill and other intangible assets, net	316	338
Deferred income taxes	114	10
Other assets	122	595
Total assets	$13,065	$11,207

Consolidated Statements of Operations

(In millions)	2006	2005	2004
Net sales	$5,174	$4,579	$ 3,854
Cost of sales	2,891	2,595	2,439
Gross margin	2,283	1,984	1,415
Operating expenses:			
Selling, general and administrative expenses	857	756	653
Research, development and engineering expenses	517	443	355
Amortization of purchased intangibles	11	13	38
Restructuring, impairment and other charges and (credits)	54	(38)	1,789
Asbestos settlement	(2)	218	65
Operating income (loss)	846	592	(1,485)
Interest income	118	61	25
Interest expense	(76)	(108)	(133)
Loss on repurchases and retirement of debt, net	(11)	(16)	(36)
Other income, net	84	30	25
Income (loss) from continuing operations before income taxes	961	559	(1,604)
Provision for income taxes	(55)	(578)	(1,084)
Income (loss) before minority interests and equity earnings	906	(19)	(2,688)
Minority interests	(11)	(7)	(17)
Equity in earnings of affiliated companies, net of impairments (Note 8)	960	611	454
Income (loss) from continuing operations	$1,855	$ 585	$(2,251)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Our consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which Corning exercises control and, when applicable, entities for which Corning has a controlling financial interest.

For variable interest entites, we assess the terms of our interest in the entity to determine if we are the primary beneficiary as prescribed by FIN 46R, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Revised* (FIN 46R). The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests. Variable interests are the ownership, contractual, or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets excluding variable interests. We consolidate one variable interest entity in which we are the primary beneficiary.

The equity method of accounting is used for investments in affiliated companies which are not controlled by Corning and in which our interest is generally between 20% and 50%

and we have significant influence over the entity. Our share of earnings or losses of affiliated companies, in which at least 20% of the voting securities is owned and we have significant influence but not control over the entity, is included in consolidated operating results.

We use the cost method to account for our investments in companies that we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at cost or fair value, as appropriate.

All material intercompany accounts, transactions and profits are eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no impact on our results of operations or changes in shareholders' equity.

8 (In Part): Investments

Investments comprise the following (in millions):

	Ownership Interest[1]	2006	2005
Affiliated companies accounted for under the equity method:			
Samsung Corning Precision Glass Co., Ltd.	50%	$1,380	$ 859
Dow Corning Corporation	50%	683	473
Samsung Corning Co., Ltd.	50%	254	231
All other	25%–50%	202	162
		2,519	1,725
Other investments		3	4
Total		$2,522	$1,729

[1] Amounts reflect Corning's direct ownership interests in the respective affiliated companies. Corning does not control any of such entities.

Affiliated Companies at Equity (In Part)

The financial position and results of operations of the investments accounted for under the equity method follow (in millions):

	2006	2005	2004
Statement of operations:			
Net sales	$8,039	$6,979	$6,146
Gross profit	3,368	2,866	2,341
Net income	1,968	1,250	1,036
Corning's equity in earnings of affiliated companies[1][2]	960	611	454
Related party transactions:			
Corning sales to equity company affiliates	$ 43	$ 9	$ 37
Corning purchases from equity company affiliates	61	101	106
Corning transfers of assets, at cost, to affiliates	71	116	90
Dividends received from affiliated companies	363	301	140
Royalty income from affiliated companies	88	75	47

	2006	2005
Balance sheet:		
Current assets	$5,027	$3,596
Noncurrent assets	6,358	5,023
Short-term borrowings, including current portion of long-term debt	94	88
Other current liabilities	1,825	1,520
Long-term debt	339	153
Other long-term liabilities	2,879	2,676
Minority interest	346	223
Related party transactions:		
Balances due from affiliates	$ 26	$ 23
Balances due to affiliates	8	43

[1] Equity in earnings shown above and in the consolidated statements of operations are net of amounts recorded for income tax.

[2] Amounts include the following restructuring and impairment charges:

- In 2006, Dow Corning reached settlement with the IRS regarding liabilities for tax years 1992 to 2003. Equity earnings reflected a $33 million gain as a result of the settlement which resolved all Federal tax issues related to Dow Corning's implant settlement.
- In 2006, Samsung Corning recorded the following items which increased Corning's equity earnings by $2 million, net: a gain on the sale of land which increased Corning's equity earnings by $61 million; an impairment charge for certain long-lived assets which reduced Corning's equity earnings by $46 million; and the establishment of a valuation allowance for certain deferred tax assets which reduced Corning's equity earnings by $13 million.
- In 2005, Samsung Corning incurred impairment and other charges as a result of a decline in the projected operating results for its cathode ray tube (CRT) glass business. The charge, which included certain manufacturing assets and severance and exit costs, reduced Corning's equity earnings by $106 million in the third quarter.
- In 2005, Dow Corning recorded a gain on the issuance of subsidiary stock. Our equity earnings included $11 million related to this gain.
- In 2004, Corning incurred charges of $35 million to impair equity method investments in the Telecommunications segment to their estimated fair value.
- In 2004, Dow Corning recorded charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included $21 million related to these charges.

We have contractual agreements with several of our equity investees which include sales, purchasing, licensing and technology agreements.

At December 31, 2006, approximately $2,154 million of equity in undistributed earnings of equity companies was included in our accumulated deficit.

2.110

W.W. GRAINGER, INC. (DEC)

Consolidated Balance Sheets

(In thousands of dollars)	2006	2005	2004
Total current assets	$1,862,086	$1,985,539	$1,744,416
Property, buildings and equipment			
Land	167,218	162,123	154,673
Buildings, structures and improvements	890,380	841,031	804,317
Furniture, fixtures, machinery and equipment	769,506	716,497	679,141
	1,827,104	1,719,651	1,638,131
Less accumulated depreciation and amortization	1,034,169	949,026	876,558
Property, buildings and equipment—net	792,935	770,625	761,573
Deferred income taxes	48,793	16,702	29,168
Investments in unconsolidated entities	8,492	25,155	26,126
Goodwill	210,671	182,726	165,011
Other assets and intangibles—net	123,111	127,174	83,279
Total assets	$3,046,088	$3,107,921	$2,809,573

Consolidated Statements of Earnings

(In thousands of dollars)	2006	2005	2004
Net sales	$5,883,654	$5,526,636	$5,049,785
Cost of merchandise sold	3,529,504	3,365,095	3,143,133
Gross profit	2,354,150	2,161,541	1,906,652
Warehousing, marketing and administrative expenses	1,776,079	1,642,552	1,465,624
Restructuring charge	—	—	(226)
Total operating expenses	1,776,079	1,642,552	1,465,398
Operating earnings	578,071	518,989	441,254
Other income and (expense):			
Interest income	21,496	12,882	6,376
Interest expense	(1,926)	(1,863)	(4,388)
Equity in income of unconsolidated entities—net	2,960	2,809	996
Gains on sales of unconsolidated entities	2,291	—	750
Unclassified—net	131	(143)	151
Total other income and (expense)	24,952	13,685	3,885
Earnings before income taxes	$ 603,023	$ 532,674	$ 445,139

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investments in Unconsolidated Entities

For investments in which the Company owns or controls from 20% to 50% of the voting shares, the equity method of accounting is used. Changes in interest arising from the issuance of stock by an investee is accounted for as additional contributed capital. See Note 6 to the Consolidated Financial Statements.

Note 6. Investments in Unconsolidated Entities

The table below summarizes the activity of these investments (in thousands of dollars):

	MonotaRO Co., Ltd.	USI-AGI Prairies Inc.	Total
Balance at January 1, 2004	$ 2,874	$ 19,948	$ 22,822
Equity (loss) earnings	(1,107)	2,103	996
Foreign currency gain	524	1,784	2,308
Balance at December 31, 2004	2,291	23,835	26,126
Equity earnings	472	2,337	2,809
Loan repayment	—	(3,706)	(3,706)
Foreign currency (loss) gain	(329)	255	(74)
Balance at December 31, 2005	2,434	22,721	25,155
Cash investments	3,988	—	3,988
Equity earnings	1,826	1,134	2,960
Divestiture	—	(24,967)	(24,967)
Change in interest due to issuance of stock	453	—	453
Foreign currency (loss) gain	(209)	1,112	903
Balance at December 31, 2006	$ 8,492	$ —	$ 8,492
Ownership interest at December 31, 2006	38%	0%	

The Company has investments in two Asian companies accounted for under the equity method of accounting. At December 31, 2006, the ownership percentages of the two investments were 49% and 38%. In the fourth quarter of 2003, the Company wrote off its investment in the joint venture in Korea (49% ownership interest) and suspended recognition of equity income. Even though the business is marginally profitable and self-funding, it currently has only one significant customer (the other party in the joint venture) and will need to secure sufficient capital funding in order to grow.

In the first quarter of 2006, the Company contributed $4.0 million to MonotaRO Co., Ltd., its 38% owned company in Japan. In the fourth quarter of 2006, an initial public offering by this company resulted in a change of interest of $0.5 million, recorded as additional contributed capital. The market value of this investment, based on the closing stock price on February 20, 2007, was $40.1 million.

On February 23, 2006, Acklands-Grainger Inc. (Acklands-Grainger), the Company's Canadian subsidiary, received a Notice of Purchase advising Acklands-Grainger that Uni-Select Inc., a Canadian company, was exercising its contractual option to purchase all of Acklands-Grainger's shares in the USI-AGI Prairies Inc. joint venture. The transaction closed on May 31, 2006, for Canadian $30.9 million (US$27.8 million), resulting in a US$2.3 million pre-tax gain for the Company. The Company's 50% ownership investment in this joint venture was previously accounted for under the equity method of accounting. The carrying value of this investment included US$5.1 million of allocated goodwill. The joint venture was managed by Uni-Select.

Fair Value

2.111

BMC SOFTWARE, INC. (MAR)

(In millions)	2005	2006
Total current assets	$1,475.9	$1,506.4
Property and equipment, net	383.7	352.1
Software development costs and related assets, net	126.1	110.8
Long-term marketable securities	354.3	280.3
Long-term trade finance receivables, net	126.1	81.9
Acquired technology, net	65.9	23.7
Goodwill	559.7	561.4
Intangible assets, net	62.3	29.8
Other long-term assets	188.4	264.5
Total assets	$3,342.4	$3,210.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3) Marketable Securities

Management determines the appropriate classification of investments in marketable debt and equity securities at the time of purchase and re-evaluates such designation as of each subsequent balance sheet date. Securities classified as "available-for-sale" are carried at estimated fair value with unrealized gains and losses, net of tax, recorded as a component of accumulated other comprehensive income (loss). As of March 31, 2005 and 2006, the Company held no securities classified as "held-to-maturity" or "trading" securities. Realized and unrealized gains and losses are calculated using the specific identification method.

The tables below summarize the Company's total marketable securities portfolio as of March 31, 2005 and 2006:

Available-for-Sale Securities				
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2005				
Maturities within 1 year:				
Municipal bonds	$ 2.7	$ —	$ —	$ 2.7
Agency bonds	5.9	—	—	5.9
Corporate bonds	46.7	0.5	—	47.2
Mortgage securities	49.9	1.6	—	51.5
Other	1.4	—	—	1.4
Total maturities within 1 year	$106.6	$2.1	$ —	$108.7
Maturities from 1–5 years:				
Agency bonds	$ 58.7	$ —	$(1.3)	$ 57.4
Corporate bonds	219.9	1.9	(3.5)	218.3
Foreign debt securities	55.3	0.6	(0.6)	55.3
Mutual funds and other	20.9	2.5	(0.1)	23.3
Total maturities from 1–5 years	$354.8	$5.0	$(5.5)	$354.3
2006				
Maturities within 1 year:				
Municipal bonds	$ 10.1	$ —	$(0.1)	$ 10.0
Agency bonds	4.0	—	—	4.0
Corporate bonds	58.0	—	(0.1)	57.9
Foreign debt securities	32.9	—	(0.2)	32.7
Mortgage securities	49.9	3.0	—	52.9
Total maturities within 1 year	$154.9	$3.0	$(0.4)	$157.5
Maturities from 1–5 years:				
Municipal bonds	$ 31.0	$ —	$(0.4)	$ 30.6
Agency bonds	54.8	—	(1.9)	52.9
Corporate bonds	153.8	0.1	(4.5)	149.4
Foreign debt securities	26.2	—	(0.5)	25.7
Mutual funds and other	19.2	2.7	(0.2)	21.7
Total maturities from 1–5 years	$285.0	$2.8	$(7.5)	$280.3

The following table shows the gross unrealized losses and fair value of the Company's marketable securities with unrealized losses as of March 31, 2005 and 2006 that are not deemed to be other-than-temporarily impaired.

	Less Than 12 Months		Greater Than 12 Months		Total	
(In millions)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
2005						
Agency bond	$ 63.3	$(1.3)	$ —	$ —	$ 63.3	$(1.3)
Corporate bond	119.1	(3.3)	—	—	119.1	(3.3)
Foreign debt securities	30.3	(0.8)	—	—	30.3	(0.8)
Mutual funds & other	17.8	(0.1)	—	—	17.8	(0.1)
Total	$230.5	$(5.5)	—	—	$230.5	$(5.5)
2006						
Agency bond	$ —	$ —	$ 56.9	$(1.9)	$ 56.9	$(1.9)
Corporate bond	29.0	(0.7)	106.0	(3.9)	135.0	(4.6)
Foreign debt securities	13.8	(0.5)	21.7	(0.2)	35.5	(0.7)
Municipals	20.3	(0.2)	20.2	(0.3)	40.5	(0.5)
Mutual funds & other	10.2	(0.2)	—	—	10.2	(0.2)
Total	$ 73.3	$(1.6)	$204.8	$(6.3)	$278.1	$(7.9)

BMC Software reviews its marketable securities routinely for other-than-temporary impairment. The primary factors used to determine if an impairment charge must be recorded because a decline in the fair value of a marketable security is other than temporary include whether: (i) the fair value of the investment is significantly below the Company's cost basis; (ii) the financial condition of the issuer of the security has deteriorated; (iii) if a debt security, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the security; (iv) the decline in fair value has existed for an extended period of time; (v) if a debt security, such security has been downgraded by a rating agency; and (vi) the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value.

At March 31, 2006, all marketable securities with unrealized losses were debt securities. The contractual terms of these investments do not permit the issuer to settle them at a price less than the amortized cost of the investments. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired.

Also during the year ended March 31, 2006, the Company determined that certain marketable securities had experienced declines in their fair value of $0.2 million that were other-than-temporary. The available-for-sale securities were liquidated subsequent to year-end in connection with the acquisition of Identify Software.

Sales of available-for-sale securities for the years ended March 31, 2004, 2005 and 2006 were as follows:

(In millions)	2004	2005	2006
Proceeds from sales	$48.8	$151.5	$38.8
Gross realized gains	1.4	1.2	1.4
Gross realized losses	(0.3)	(2.8)	(0.1)

2.112

DEVON ENERGY CORPORATION (DEC)

(In millions)	2006	2005
Total current assets	$ 3,212	$ 4,206
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties ($3,674 and $2,704 excluded from amortization in 2006 and 2005, respectively)	41,889	33,824
Less accumulated depreciation, depletion and amortization	17,294	14,913
	24,595	18,911
Investment in Chevron Corporation common stock, at fair value	1,043	805
Goodwill	5,706	5,705
Assets held for sale	185	217
Other assets	322	429
Total assets	$35,063	$30,273

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Short-Term Investments and Other Marketable Securities

Devon reports its short-term investments and other marketable securities at fair value, except for debt securities in which management has the ability and intent to hold until maturity. At December 31, 2006 and 2005, Devon's short-term investments consisted of $574 million and $680 million, respectively, of auction rate securities classified as available for sale. Although Devon's auction rate securities have contractual maturities of more than 10 years, the underlying interest rates on such securities reset at intervals ranging from seven to 90 days. Therefore, these auction rate securities are priced and subsequently trade as short-term investments because of the interest rate reset feature. As a result, Devon has classified its auction rate securities as short-term investments in the accompanying consolidated balance sheet.

Devon's only other significant investment security is its investment in approximately 14.2 million shares of Chevron Corporation common stock which is reported at fair value. Except for unrealized losses that are determined to be "other than temporary", the tax effected unrealized gain or loss on the investment in Chevron Corporation common stock is recognized in other comprehensive income and reported as a separate component of stockholders' equity.

5 (In Part): Financial Instruments

The following table presents the carrying amounts and estimated fair values of Devon's financial instrument assets (liabilities) at December 31, 2006 and 2005.

	2006		2005	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment in Chevron Corporation common stock	$1,043	$1,043	$805	$805
Oil and gas price hedge agreements	39	39	—	—
Interest rate swap agreements	(6)	(6)	(22)	(22)
Embedded option in exchangeable debentures	(302)	(302)	(121)	(121)
Debt	(7,773)	(8,725)	(6,619)	(7,642)

The following methods and assumptions were used to estimate the fair values of the financial instruments in the above table. The carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable (including income taxes payable and accrued expenses) included in the accompanying consolidated balance sheets approximated fair value at December 31, 2006 and 2005.

Investment in Chevron Corporation Common Stock

The fair value of this investment is based on a quoted market price.

Cost

2.113

EARTHLINK, INC. (DEC)

(In thousands)	2005	2006
Total current assets	$444,518	$456,750
Long-term investments in marketable securities	40,980	21,460
Property and equipment, net	73,177	96,620
Investment in equity affiliate	67,143	61,743
Investments in other companies	1,417	59,325
Purchased intangible assets, net	16,278	59,798
Goodwill	101,125	202,277
Other long-term assets	4,511	10,066
Total assets	$749,149	$968,039

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Investments in Other Companies

Minority investments in other companies are classified as investments in other companies in the Consolidated Balance Sheets and are accounted for under the cost method of accounting because the Company does not have the ability to exercise significant influence over the companies' operations. Under the cost method of accounting, investments in private companies are carried at cost and are only adjusted for other-than-temporary declines in fair value and distributions of earnings. For cost method investments in public companies that have readily determinable fair values, the Company classifies its investments as available-for-sale in accordance with SFAS No. 115 and, accordingly, records these investments at their fair values with unrealized gains and losses included as a separate component of stockholders' equity and in total comprehensive income (loss). Upon sale or liquidation, realized gains and losses are included in the Consolidated Statement of Operations.

Management regularly evaluates the recoverability of its investments in other companies based on the performance and the financial position of those companies as well as other evidene of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financings, projected and historical financial performance, cash flow forecasts and financing needs. During the years ended December 31, 2004 and 2005, the Company recognized losses due to other-than-temporary declines of the value of investments of $1.4 million and $0.9 million, respectively. These losses are included in gain (loss) on investments in other companies, net, in the Consolidated Statements of Operations. During the year ended December 31, 2006, the Company did not recognize any losses due to other-than-temporary declines of the value of investments.

4 (In Part): Investments

Investments in Other Companies

As of December 31, 2005 and 2006, minority investments in other companies were $1.4 million and $59.3 million, respectively, and are classified as investments in other companies in the Consolidated Balance Sheets. Minority investments in other companies as of December 31, 2005 and 2006 included $1.0 million and $11.0 million, respectively, of investments carried at cost, and $0.4 million and $48.3 million, respectively, of investments recorded at fair value. As of December 31, 2005, gross unrealized losses were $0.1 million and there were no gross unrealized gains. As of December 31, 2006, gross unrealized losses were $6.5 million and there were no gross unrealized gains.

In March 2006, the Company invested $50.0 million in Covad Communications Group, LLC ("Covad"), which consisted of 6.1 million shares of Covad common stock for an aggregate purchase price of $10.0 million and $40.0 million aggregate principal amount of 12% Senior Secured Convertible Notes due 2011 (the "Covad Notes"). The Company cannot exert significant influence over Covad's operating and financial policies and, as such, accounts for its investment in Covad under the cost method of accounting and classifies the investment as available-for-sale. The Company deferred $0.8 million of direct loan origination costs that are being recognized as a reduction in the effective yield over the term of the Covad Notes.

In April 2006, the Company invested $10.0 million in Current Communications Group, LLC ("Current"), a privately-held broadband-over-powerline provider. The Company accounts for its investment in Current under the cost method of accounting because the Company cannot exert significant influence over Current's operating and financial policies.

During the year ended December 31, 2005, the Company received $4.4 million in cash distributions from eCompanies Venture Group, L.P. ("EVG"), a limited partnership that invested in domestic emerging Internet-related companies. In applying the cost method, EarthLink recorded $0.6 million as a return of EarthLink's investment based on the carrying value of the investment, and the gain of $3.8 million was included in gain (loss) on investments in other companies, net, in the Consolidated Statement of Operations for the year ended December 31, 2005. During the year ended December 31, 2006, the Company recorded a $0.4 million gain on investments in other companies resulting from an additional EVG dividend.

NONCURRENT RECEIVABLES

2.114 ARB No. 43, Chapter 3A, *Current Assets and Current Liabilities*, states that the concept of current assets excludes "receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) which are not expected to be collected within twelve months."

2.115 *SFAS No. 107* defines noncurrent receivables as financial instruments. *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of noncurrent receivables unless it is not practicable to estimate that value. 54 survey

companies made 57 fair value disclosures. 15 of those disclosures used market or broker quotes of the noncurrent receivables to determine fair value. 19 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. One of those disclosures estimated fair value using other valuation methods. 30 disclosures presented carrying amounts which approximated fair value of noncurrent receivables. In addition, there were 26 disclosures in which carrying value was compared to fair value in an exposition or a table.

2.116 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.117 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.118 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged, SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While *SFAS No. 157* does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as *SFAS Nos. 107, and 133. SFAS No. 157* clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. *SFAS No. 157* emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, *SFAS No. 157* specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs. For assets and liabilities measured at fair value on a recurring basis, *SFAS No. 157* expands the required disclosures concerning the inputs used to measure fair value, and encourages the combination of fair value information disclosed under the standard with those disclosed under other pronouncements, such as *SFAS No. 107*.

2.119 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with conditioned earlier application allowed, SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Further, under *SFAS No. 159* a business entity shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, and applied to the entire instrument, not just a portion of it. *SFAS No. 159* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. *SFAS No. 159* does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included in pronouncements, such as *SFAS Nos. 107 and 157*.

2.120 *SFAS No. 125*, as amended by *SFAS No. 133* and as replaced by *SFAS No. 140*, establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. This topic and the related examples are covered under the "Receivables Sold or Collateralized" part of this section.

2.121 Table 2-18 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivable presentations and disclosures follow.

2.122

TABLE 2-18: NONCURRENT RECEIVABLES

	2006	2005	2004	2003
Caption Title				
Finance receivable	35	35	37	22
Notes receivable	29	32	33	21
Insurance receivable	25	25	17	12
Long-term receivables	22	33	26	28
Receivables from related party	8	8	16	13
Other	45	39	39	40
Receivables combined with other investments, deposits, etc	2	5	4	9
Total Presentations	**166**	**177**	**172**	**145**
Number of Companies				
Presenting noncurrent receivables	148	149	150	130
Not presenting noncurrent receivables	452	451	450	470
Total Companies	**600**	**600**	**600**	**600**

2.123

AUTOMATIC DATA PROCESSING, INC. (JUN)

(In millions)	2006	2005
Total current assets	$ 4,760.1	$ 4,869.9
Long-term marketable securities	334.0	447.9
Long-term receivables, net	215.4	186.9
Property, plant and equipment, net	782.4	637.9
Other assets	830.1	813.8
Goodwill	2,466.2	2,185.8
Intangible assets, net	618.0	575.7
Total assets before funds held for clients	10,006.2	9,717.9
Funds held for clients	17,483.9	17,897.5
Total assets	$27,490.1	$27,615.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollars in millions)

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

F. Long-Term Receivables

Long-term receivables relate to notes receivable from the sale of computer systems, primarily to automotive and truck dealerships. Unearned income from finance receivables represents the excess of gross receivables over the sales price of the computer systems financed. Unearned income is amortized using the effective-interest method to maintain a constant rate of return on the net investment over the term of each contract.

The allowance for doubtful accounts on long-term receivables is the Company's best estimate of the amount of probable credit losses in the Company's existing note receivables.

Note 6. Receivables

Accounts receivable is net of an allowance for doubtful accounts of $43.2 million and $43.6 million at June 30, 2006 and 2005, respectively.

The Company's receivables for the financing of the sale of computer systems, most of which are due from automotive, heavy truck and powersports dealers, are reflected on the Consolidated Balance Sheets as follows:

	2006		2005	
	Current	Long-term	Current	Long-term
Receivables	$172.1	$239.6	$153.3	$210.9
Less:				
Allowance for doubtful accounts	(4.8)	(7.7)	(5.0)	(8.2)
Unearned income	(18.2)	(16.5)	(16.9)	(15.8)
	$149.1	$215.4	$131.4	$186.9

Long-term receivables at June 30, 2006 mature as follows:

2008	$121.5
2009	80.0
2010	28.6
2011	9.2
2012	0.3
	$239.6

2.124

HERCULES INCORPORATED (DEC)

(Dollars in millions)	2006	2005
Total current assets	$ 984.5	$ 843.4
Property, plant and equipment, net	600.4	535.4
Intangible assets, net	143.1	142.8
Goodwill	481.5	441.0
Deferred income taxes	374.6	240.4
Asbestos-related assets (Note 13)	87.5	120.7
Deferred charges and other assets	136.9	245.1
Total assets	$2,808.5	$2,568.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

13 (In Part): Commitments and Contingencies

Litigation (In Part)

Asbestos (In Part)

The Company is a defendant in numerous asbestos-related personal injury lawsuits and claims which typically arise from alleged exposure to asbestos fibers from resin encapsulated pipe and tank products which were sold by one of the Company's former subsidiaries to a limited industrial market ("products claims"). The Company is also a defendant in lawsuits alleging exposure to asbestos at facilities formerly or presently owned or operated by the Company ("premises claims"). Claims are received and settled or otherwise resolved on an on-going basis.

As of December 31, 2006, there were approximately 26,045 unresolved claims, of which approximately 980 were premises claims and the rest were products claims. There were also approximately 2,075 unpaid claims which have been settled or are subject to the terms of a settlement agreement. In addition, as of December 31, 2006, there were approximately 528 claims which have either been dismissed without payment or are in the process of being dismissed without payment, but with plaintiffs retaining the right to refile should they be able to establish exposure to an asbestos-containing product for which the Company bears liability.

Between January 1, 2006 and December 31, 2006, the Company received approximately 2,665 new claims. During that same period, the Company spent approximately $31.5 million to resolve and defend asbestos matters, including $23.1 million in settlement payments and approximately $8.4 million for defense costs.

The Company's primary and first level excess insurance policies that provided coverage for these asbestos-related matters exhausted their products limits at or before the end of July 2003. On November 27, 2002, the Company initiated litigation against the solvent excess insurance carriers that provided insurance coverage for asbestos-related liabilities in a matter captioned Hercules Incorporated v. OneBeacon, et al., Civil Action No. 02C-11-237 (SCD), Superior Court of Delaware, New Castle County. Beginning in August 2004 and continuing through October 2004, the Company entered into settlements with all of the insurers named in that lawsuit. As a result, the lawsuit was dismissed in early November 2004.

The following table presents the beginning and ending balances and balance sheet activity for the Company's asbestos-related accounts for the year ended December 31, 2006.

	Balance January 1, 2006	Interest Income/ Additional Accruals	Insurance Recovered/ Liabilities Settled	Accretion/ Reclassification	Balance December 31, 2006
Asbestos-related assets:					
Insurance receivable	$ 65.2	$ —	$(33.3)	$0.9	$ 32.8
Restricted cash in trust	55.5	3.0	(3.8)	—	54.7
Asbestos-related assets	$120.7	$ 3.0	$(37.1)	$0.9	$ 87.5
Asbestos-related liabilities:					
Asbestos-related liabilities, current	$ 36.4	$ —	$ —	$ —	$ 36.4
Asbestos-related liabilities, non-current	233.6	23.1	(23.1)	—	233.6
Total asbestos-related liabilities	$270.0	$23.1	$(23.1)	$ —	$270.0

The Company, in conjunction with outside advisors, will continue to study its asbestos-related matters, insurance recovery expectations and reserves on an ongoing basis, and make adjustments as appropriate.

2.125

INTUIT INC. (JUL)

(In thousands)	2006	2005
Total current assets	$1,817,030	$1,614,339
Property and equipment, net	194,434	208,548
Goodwill, net	504,991	509,499
Purchased intangible assets, net	59,521	69,678
Long-term deferred income taxes	144,697	118,475
Loans to executive officers and other employees	8,865	9,245
Other assets	40,489	30,078
Long-term assets of discontinued operations	—	156,589
Total assets	$2,770,027	$2,716,451

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Related Party Transactions

Loans to Executive Officers and Other Employees

Prior to July 30, 2002, loans to executive officers were made generally in connection with their relocation and purchase of a residence near their new place of work. The loans were all approved by the Compensation and Organizational Development Committee of our Board of Directors, which consists solely of independent directors. Consistent with the requirements of the Sarbanes-Oxley legislation enacted on July 30, 2002, we have not made or modified any loans to executive officers since that date and we do not intend to make or modify any loans to executive officers in the future. At July 31, 2006 no loans were in default and all interest payments were current in accordance with the terms of the loan agreements.

At July 31, 2006 and July 31, 2005, loans to executive officers in the principal amount of $5.7 million and $6.0 million were outstanding and loans to other employees in the principal amount of $3.2 million were outstanding. These amounts were classified as long-term assets on our balance sheets in accordance with the terms of the loan agreements. Loans to executive officers and other employees at July 31, 2006 excluded a $5.0 million secured loan to one executive officer who ceased to be an Intuit employee in the third quarter of fiscal 2005. We transferred this loan to other long-term assets on our balance sheet during that quarter.

Of the total loans to executive officers and other employees at July 31, 2006, $4.4 million accrue no interest for the term of the note. The remaining loans to executive officers and other employees at July 31, 2006 accrue interest at rates equal to the applicable federal rates in effect at the time the loans were made. All of the loans to executive officers and other employees at July 31, 2006 were secured by real property and had original terms of 10 years.

INTANGIBLE ASSETS

2.126 SFAS No. 142, *Goodwill and Other Intangible Assets*, specifies that goodwill and intangible assets that have indefinite useful lives will not be subject to amortization, but rather will be tested at least annually for impairment. In addition, the Standard provides specific guidance on how to determine and measure goodwill impairment. Intangible assets that have finite useful lives will be amortized over their useful lives. *SFAS No. 142* requires additional disclosures including information about carrying amounts of goodwill and other intangible assets, and estimates as to future intangible asset amortization expense.

2.127 Table 2-19 lists those intangible assets, amortized or not, which are most frequently disclosed by the survey companies. Table 2-20 summarizes the amortization periods used by the survey companies to amortize intangible assets that have finite useful lives.

2.128 Examples of intangible asset presentations and disclosures follow.

2.129

TABLE 2-19: INTANGIBLE ASSETS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Goodwill recognized in a business combination	542	522	510	506
Trademarks, brand names, copyrights	296	271	260	226
Customer lists/relationships	290	243	195	157
Patents, patent rights	153	149	151	136
Technology	142	140	125	114
Licenses, franchises, memberships	111	106	101	92
Noncompete covenants	103	87	85	86
Contracts, agreements	89	85	68	60
Other—described	77	79	88	76

2.130

TABLE 2-20: AMORTIZATION PERIOD—2006

	Number of Companies					
Intangible Asset	**Exceeding 40 Years**	**31–40 Years**	**21–30 Years**	**11–20 Years**	**10 Years or Less**	**Estimated or Legal Life**
Trademarks, brand names, copyrights	—	9	20	43	71	38
Patents	—	3	35	57	47	41
Customer lists/relationships	—	5	16	95	126	46
Technology	—	2	5	39	71	24
Licenses, franchises	1	1	4	25	30	24
Noncompete covenants	—	1	3	12	71	16
Contracts, agreements	—	1	3	15	40	31

Goodwill

2.131

NASH-FINCH COMPANY (DEC)

(In thousands)	2006	2005
Total current assets	$457,053	$ 512,207
Notes receivable, net	13,167	16,299
Property, plant and equipment:		
Land	16,924	18,107
Buildings and improvements	194,793	193,181
Furniture, fixtures and equipment	311,280	311,778
Leasehold improvements	65,197	65,451
Construction in progress	1,148	1,876
Assets under capitalized leases	31,213	40,171
	620,555	630,564
Less accumulated depreciation and amortization	(400,750)	(387,857)
Net property, plant and equipment	219,805	242,707
Goodwill	215,174	244,471
Customer contracts & relationships, net	32,141	35,619
Investment in direct financing leases	6,143	9,920
Deferred tax asset, net	—	1,667
Other assets	10,820	14,534
Total assets	$954,303	$1,077,424

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill and Intangible Assets (In Part)

Intangible assets, consisting primarily of goodwill and customer contracts, resulting from business acquisitions, are carried at cost. Separate intangible assets that are not deemed to have an indefinite life are amortized over their useful lives. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), we test goodwill for impairment on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

We performed our annual impairment test of goodwill during the fourth quarter based on conditions as of the end of

our third fiscal quarter in 2006, in accordance with SFAS 142, and determined that our retail segment goodwill was impaired necessitating a charge of $26.4 million. The impairment was due to decreased sales and cash flows in our retail segment as a result of closing or selling retail stores and continued declines in same store sales brought about by intense competition from supercenters and other alternative formats. Impairment tests performed as of the third quarter of 2005 and third quarter of 2004 indicated that no impairment was necessary based on the conditions at those times.

Changes in the net carrying amount of goodwill were as follows (in thousands):

	Food Distribution	Military	Retail	Total
Goodwill as of January 1, 2005	$ 23,158	$25,754	$ 98,523	$147,435
Acquisition of food distribution centers	98,566	—	—	98,566
Sale of retail stores	—	—	(1,530)	(1,530)
Goodwill as of December 31, 2005	121,724	25,754	96,993	244,471
Resolution of estimates related to 2005 acquisition	139	—	—	139
Sale or closure of retail stores	—	—	(3,017)	(3,017)
Retail goodwill impairment	—	—	(26,419)	(26,419)
Goodwill as of December 30, 2006	$121,863	$25,754	$ 67,557	$215,174

2.132

POLYONE CORPORATION (DEC)

(In millions)	2006	2005
Total current assets	$ 669.3	$ 613.5
Property, net	442.4	436.0
Investment in equity affiliates	276.1	273.9
Goodwill	287.0	287.0
Other intangible assets, net	9.4	10.6
Deferred income tax assets	25.0	0.1
Other non-current assets	64.4	59.9
Discontinued operations	—	6.7
Total assets	$1,773.6	$1,687.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets (In Part)

Goodwill is the excess of the purchase price paid over the fair value of the net assets of the acquired business. Goodwill is subject to annual impairment testing and the Company has selected July 1 as the annual impairment testing date. Other intangible assets, which consist primarily of non-contractual customer relationships, sales contracts, patents and technology, are amortized over their estimated useful lives. The remaining lives range from three to 20 years.

Note D (In Part): Goodwill and Intangible Assets

There were no changes in the carrying amount of goodwill during the year ended December 31, 2006. Changes in the carrying amount of goodwill by operating segment during the year ended December 31, 2005 was as follows:

(In millions)	Vinyl Business	International Color and Engineered Materials	Polymer Coating Systems	PolyOne Distribution	Total
January 1, 2005	$156.7	$73.3	$61.1	$1.6	$292.7
Business acquisition	—	1.0	—	—	1.0
Reduction of acquired tax accrual	(4.4)	(2.3)	—	—	(6.7)
December 31, 2005	$152.3	$72.0	$61.1	$1.6	$287.0

PolyOne acquired the remaining 16% of Star Color, a Thailand-based color and additives business, in the first quarter of 2005, resulting in goodwill of $1.0 million.

The reduction of the acquired tax accrual represents an adjustment to goodwill from resolving certain income tax uncertainties that existed prior to the business combination of Geon and Hanna.

As of December 31, 2006, PolyOne had $287.0 million of goodwill that resulted from acquiring businesses. SFAS No. 142 requires that goodwill and intangible assets with indefinite lives be tested for impairment at least once a year. Carrying values are compared with fair values, and when the carrying value exceeds the fair value, the carrying value of the impaired asset is reduced to its fair value. PolyOne has elected July 1 as its annual assessment date.

PolyOne uses a combination of two valuation methods, a market approach and an income approach, to estimate the fair value of its reporting units. Absent an indication of fair value from a potential buyer or similar specific transactions, the Company believes that the use of these two methods provides reasonable estimates of a reporting unit's fair value. Fair value computed by these two methods is arrived at using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable marketplace data within a consistent industry grouping, and the cost of capital. There are inherent uncertainties, however, related to these factors and to management's judgment in applying them to this analysis. Nonetheless, management believes that the combination of these two methods provides a reasonable approach to estimate the fair value of PolyOne's reporting units. Assumptions for sales, earnings and cash flows for each reporting unit were consistent between these two methods.

The market approach estimates fair value by applying sales, earnings and cash flow multiples (derived from comparable publicly traded companies with similar investment characteristics of the reporting unit) to the reporting unit's operating performance adjusted for non-recurring items. Management believes that this approach is appropriate because it provides a fair value estimate using multiples from entities with operations and economic characteristics comparable to PolyOne's reporting units. The key estimates and assumptions that are used to determine fair value under this approach include trailing twelve- and thirty-six month results and a control premium applied to the market multiples to adjust the enterprise value upward for a 100% ownership interest, where applicable.

The income approach is based on projected future debt-free cash flow that is discounted to present value using factors that consider the timing and risk of the future cash flows. Management believes that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating and cash flow performance. This approach also mitigates most of the impact of cyclical downturns that occur in the reporting unit's industry. The income approach is based on a reporting unit's five- to ten-year projection of operating results and cash flows that is discounted using a weighted-average cost of capital. The projection is based upon management's best estimates of projected economic and market conditions over the related period including growth rates, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements based on management projections.

SFAS No. 142 requires that this assessment be performed at the "reporting unit" level. At July 1, 2006, PolyOne had three reporting units, consistent with PolyOne's operating segments, that had a significant amount of goodwill: Vinyl Business, International Color and Engineered Materials, and Polymer Coating Systems. Under the provisions of SFAS No. 142, these three reporting units were tested for impairment as of July 1, 2006. The average fair values of the market approach and income approach exceeded the carrying value of Vinyl Business, International Color and Engineered Materials, and Polymer Coating Systems by 81%, 28% and 19%, respectively, as of July 1, 2006.

Even though PolyOne determined that there was no additional goodwill impairment as of the July 1, 2006 annual assessment, the future occurrence of a potential indicator of impairment, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, a material negative change in relationships with significant customers, strategic decisions made in response to economic or competitive conditions, loss of key personnel or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, would require an interim assessment for some or all of the reporting units prior to the next required annual assessment on July 1, 2007.

Trademarks

2.133

BE AEROSPACE, INC. (DEC)

(In millions)	2006	2005
Total current assets	$ 725.7	$ 744.2
Property and equipment, net	107.9	95.0
Goodwill	457.2	362.9
Identified intangibles, net	160.6	139.9
Deferred income tax assets, net	27.9	62.0
Other assets, net	18.4	22.5
Total assets	$1,497.7	$1,426.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Identified Intangible Assets

Under Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed at least annually for impairment. Acquired intangible assets with definite lives are amortized over their individual useful lives. In addition to goodwill, intangible assets with indefinite lives consist of the M & M trademark. Patents and other intangible assets are amortized using the straight-line method over periods ranging from one to thirty years (see Note 5). On at least an annual basis, management assesses whether there has been any impairment in the value of goodwill or intangible assets with indefinite lives by comparing the fair value to the net carrying value of reporting units. If the carrying value exceeds its estimated fair value, an impairment loss would be recognized if the implied fair value of the asset being tested was less than its carrying value. In this event, the asset is written down accordingly. In accordance with SFAS No. 142, the Company completed step one of the impairment tests and fair value

analysis for goodwill and other intangible assets, and there were no impairments or impairment indicators present and no impairment loss was recorded during the fiscal years ended December 31, 2006, 2005 or 2004.

5 (In Part): Goodwill and Intangible Assets

In accordance with SFAS No. 142, the Company's goodwill and indefinite life intangible assets are not amortized, but are subject to an annual impairment test. The following sets forth the intangible assets by major asset class, all of which were acquired through business acquisition transactions:

		2006			2005		
	Useful Life (Years)	Original Cost	Accumulated Amortization	Net Book Value	Original Cost	Accumulated Amortization	Net Book Value
Acquired technologies	10–40	$ 99.5	$ 26.4	$ 73.1	$ 93.6	23.4	$ 70.2
Trademarks and patents	1–20	28.1	15.2	12.9	26.5	13.0	13.5
Trademarks (nonamortizing)	—	20.6	—	20.6	20.6	—	20.6
Technical qualifications, plans and drawings	18–30	31.5	18.7	12.8	30.8	16.7	14.1
Replacement parts annuity and product approvals	18–30	42.4	28.3	14.1	40.4	24.8	15.6
Covenant not to compete and other identified intangibles	3–14	43.1	16.0	27.1	20.8	14.9	5.9
		$265.2	$104.6	$160.6	$232.7	$92.8	$139.9

Aggregate amortization expense of intangible assets was approximately $10.2, $9.8 and $9.3 for the fiscal years ended December 31, 2006, 2005 and 2004, respectively. Amortization expense associated with identified intangible assets is expected to be approximately $10.5 in each of the next five years.

2.134

LIZ CLAIBORNE, INC. (DEC)

(In thousands)	2006	2005
Total current assets	$1,470,117	$1,456,537
Property and equipment, net	581,992	494,693
Goodwill, net	1,007,859	858,565
Intangibles, net	413,962	332,017
Other assets	21,838	10,224
Total assets	$3,495,768	$3,152,036

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Goodwill and Other Intangibles, Net

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets with indefinite lives are not amortized, but rather tested for impairment at least annually. Intangible assets with finite lives are amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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The fair value of purchased intangible assets with indefinite lives, primarily trademarks and trade names, are estimated and compared to the carrying value. The Company estimates the fair value of these intangible assets based on an income approach using the relief-from-royalty method. This methodology assumes that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of these types of assets. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. The Company bases its fair value estimates on assumptions it believes to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. The Company recognizes an impairment loss when the estimated fair value of the intangible asset is less than the carrying value.

Owned trademarks that have been determined to have indefinite lives are not subject to amortization and are reviewed at least annually for potential value impairment as mentioned above. Trademarks having definite lives are amortized over their estimated useful lives. Acquired trademarks are valued using the relief-from-royalty method. Trademarks that are licensed by the Company from third parties are amortized over the individual terms of the respective license agreements, which range from 5 to 15 years. Intangible merchandising rights are amortized over a period of four years. Customer relationships are amortized assuming gradual attrition over time. Existing relationships are being amortized over periods ranging from 5 to 25 years.

The recoverability of the carrying values of all long-lived assets with definite lives is reevaluated when changes in circumstances indicate the assets' value may be impaired. Impairment testing is based on a review of forecasted operating cash flows and the profitability of the related business.

For the three year period ended December 30, 2006, there were no material adjustments to the carrying values of any long-lived assets resulting from these evaluations.

Note 7 (In Part): Goodwill and Intangibles, Net

The following tables disclose the carrying value of all the intangible assets:

(In thousands)	Estimated Lives	2006	2005
Amortized intangible assets:			
Gross carrying amount:			
Licensed trademarks	5–15 years	$ 32,449	$ 32,449
Owned trademarks & tradenames	20 years	7,600	7,600
Customer relationships	5–25 years	49,351	40,184
Merchandising rights	3–4 years	57,695	49,460
Subtotal		$147,095	$129,693
Accumulated amortization:			
Licensed trademarks		$ (14,330)	$ (11,697)
Owned trademarks & tradenames		(752)	(372)
Customer relationships		(6,800)	(2,960)
Merchandising rights		(29,563)	(18,590)
Subtotal		$ (51,445)	$ (33,619)
Net:			
Licensed trademarks		$ 18,119	$ 20,752
Owned trademarks & tradenames		6,848	7,228
Customer relationships		42,551	37,224
Merchandising rights		28,132	30,870
Total amortized intangible assets, net		$ 95,650	$ 96,074
Unamortized intangible assets:			
Owned trademarks & tradenames		$318,312	$235,943
Total intangible assets		$413,962	$332,017

The Company completed its annual impairment tests as of the first day of the third quarters of each of fiscal 2006 and fiscal 2005. No impairment was recognized at either date. Intangible amortization expense for 2006, 2005 and 2004 amounted to $19.6 million, $18.0 million and $19.8 million, respectively.

Customer Lists/Relationships

2.135

THE NEW YORK TIMES COMPANY (DEC)

(In thousands)	2006	2005
Total current assets	$ 1,185,043	$ 1,014,586
Investments in joint ventures	145,125	238,369
Property, plant and equipment		
Land	65,808	61,021
Buildings, building equipment and improvements	718,061	705,652
Equipment	1,359,496	1,398,616
Construction and equipment installations in progress	529,546	501,544
Total—at cost	2,672,911	2,666,833
Less: accumulated depreciation and amortization	(1,297,546)	(1,265,465)
Property, plant and equipment—net	1,375,385	1,401,368
Intangible assets acquired		
Goodwill	650,920	1,399,337
Other intangible assets acquired (less accumulated amortization of $224,487 in 2006 and $168,319 in 2005)	133,448	176,572
Total	784,368	1,575,909
Deferred income taxes	125,681	—
Miscellaneous assets	240,346	333,846
Total assets	$ 3,855,928	$ 4,564,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Intangible Assets Acquired (In Part)

Goodwill and other intangible assets are accounted for in accordance with Statement of Financial Accounting Standards ("FAS") No. 142, Goodwill and Other Intangible Assets ("FAS 142").

Other intangible assets acquired consist primarily of mastheads and licenses on various acquired properties, customer lists, as well as other assets. Other intangible assets acquired that have indefinite lives (mastheads and licenses) are not amortized but tested for impairment annually or if certain circumstances indicate a possible impairment may exist. Certain other intangible assets acquired (customer lists and other assets) are amortized over their estimated useful lives and tested for impairment if certain circumstances indicate an impairment may exist.

Intangible assets that are amortized are tested for impairment at the asset level associated with the lowest level of cash flows. An impairment exists if the carrying value of the asset is i) not recoverable (the carrying value of the asset is greater than the sum of undiscounted cash flows) and ii) is greater than its fair value.

The significant estimates and assumptions used by management in assessing the recoverability of goodwill and other intangible assets are estimated future cash flows, present value discount rate, and other factors. Any changes in these estimates or assumptions could result in an impairment charge. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgment. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluations of long-lived assets can vary within a range of outcomes.

In addition to the testing above which is done on an annual basis, management uses certain indicators to evaluate whether the carrying value of goodwill and other intangible assets may not be recoverable, such as i) current-period operating or cash flow declines combined with a history of operating or cash flow declines or a projection/forecast that demonstrates continuing declines in the cash flow of an entity or inability of an entity to improve its operations to forecasted levels and ii) a significant adverse change in the business climate, whether structural or technological, that could affect the value of an entity.

4 (In Part): Goodwill and Other Intangible Assets

Other intangible assets acquired consist primarily of mastheads and licenses on various acquired properties, customer lists, as well as other assets. Other intangible assets acquired that have indefinite lives (mastheads and licenses) are not amortized but tested for impairment annually or it certain circumstances indicate a possible impairment may exist. Certain other intangible assets acquired (customer lists and other assets) are amortized over their estimated useful lives. See Note 1 for the Company's policy of goodwill and other intangibles impairment testing.

In 2006, the Company's annual impairment tests resulted in a non-cash impairment charge of $814.4 million ($735.9 million after tax, or $5.09 per share) related to a write-down of intangible assets of the New England Media Group. The New England Media Group, which includes The Boston Globe (the "Globe"), Boston.com and the Worcester Telegram & Gazette, is part of the News Media Group reportable segment. The majority of the charge is not tax deductible because the 1993 acquisition of the Globe was structured as a tax-free stock transaction. The impairment charge, which is included in the line item "Impairment of intangible assets" in the 2006 Consolidated Statement of Operations, is presented below by intangible asset:

(In thousands)	Pre-tax	Tax	After-tax
Goodwill	$782,321	$65,009	$717,312
Customer list	25,597	10,751	14,846
Newspaper masthead	6,515	2,736	3,779
Total	$814,433	$78,496	$735,937

The impairment of the intangible assets above mainly resulted from declines in current and projected operating results and cash flows of the New England Media Group due to, among other factors, advertiser consolidations in the New England area and increased competition with online media. These factors resulted in the carrying value of the intangible assets being greater than their fair value, and therefore a write-down to fair value was required.

The fair value of goodwill is the residual fair value after allocating the total fair value of the New England Media Group to its other assets, net of liabilities. The total fair value of the New England Media Group was estimated using a combination of a discounted cash flow model (present value of future cash flows) and two market approach models (a multiple of various metrics based on comparable businesses and market transactions).

The fair value of the customer list and newspaper masthead was calculated by estimating the present value of future cash flows associated with each asset.

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Other intangible assets acquired as of December 2006 and 2005 were as follows:

	2006			2005		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized other intangible assets:						
Customer lists	$220,935	$(196,268)	$ 24,667	$218,326	$(155,763)	$ 62,563
Other	63,777	(21,704)	42,073	55,018	(12,556)	42,462
Total	284,712	(217,972)	66,740	273,344	(168,319)	105,025
Unamortized other intangible assets:						
Newspaper mastheads	73,223	(6,515)	66,708	71,547	—	71,547
Total other intangible assets acquired	$357,935	$(224,487)	$133,448	$344,891	$(168,319)	$176,572

The table above includes other intangible assets related to the acquisitions of About.com, North Bay and Baseline. Additionally, certain amounts in the table above include the foreign currency translation adjustment related to the consolidation of the IHT.

As of December 2006, the remaining weighted-average amortization period is eight years for customer lists and seven years for other intangible assets acquired included in the table above.

Accumulated amortization includes write-downs of $25.6 million in customer lists and $6.5 million in newspaper mastheads related to the impairment charge. Amortization expense related to amortized other intangible assets acquired was $24.4 million in 2006, $24.9 million in 2005 and $17.3 million in 2004. Amortization expense for the next five years related to these intangible assets is expected to be as follows:

(In thousands)	Amount
2007	$13,400
2008	10,500
2009	8,700
2010	8,500
2011	8,200

Patents

2.136

SYMANTEC CORPORATION (MAR)

(In thousands)	2006	2005
Total current assets	$ 3,907,932	$ 3,688,282
Property and equipment, net	946,217	382,689
Acquired product rights, net	1,238,511	127,619
Other intangible assets, net	1,440,873	30,739
Goodwill	10,331,045	1,365,213
Other long-term assets	48,605	19,679
Total assets	$17,913,183	$5,614,221

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Goodwill and Other Intangible Assets

We account for goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that goodwill and identifiable intangible assets with indefinite useful lives be tested for impairment at least annually, or more frequently if events and circumstances warrant. We evaluate goodwill for impairment by comparing the fair value of each of our reporting units, which are the same as our operating segments, to its carrying value, including the goodwill allocated to that reporting unit. To determine the reporting units' fair values in the current year evaluation, we used the income approach under which we calculate the fair value of each reporting unit based on the estimated discounted future cash flows of that unit. Our cash flow assumptions are based on historical and forecasted revenue, operating costs, and other relevant factors. SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Note 4 (In Part): Goodwill, Acquired Product Rights, and Other Intangible Assets

Acquired Product Rights, Net

Acquired product rights subject to amortization are as follows:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
2006			
Developed technology	$1,597,567	$(420,887)	$1,176,680
Patents	78,713	(18,416)	60,297
Backlog and other	60,661	(59,127)	1,534
	$1,736,941	$(498,430)	$1,238,511
2005			
Developed technology	$ 243,958	$(167,061)	$ 76,897
Patents	53,559	(11,030)	42,529
Backlog and other	14,761	(6,568)	8,193
	$ 312,278	$(184,659)	$ 127,619

In addition to the business combinations discussed in Note 3, we acquired Acquired product rights in the following transactions:

On October 7, 2005, in connection with the acquisition of Sygate, we obtained certain acquired product rights related to patent licenses held by Sygate valued at approximately $18 million. The Acquired product rights are being amortized to Cost of revenues in the Consolidated Statements of Income over their estimated life of twelve years.

On May 12, 2005, we resolved patent litigation matters with Altiris, Inc. by entering into a cross-licensing agreement that resolved all legal claims between the companies. As part of the settlement, we paid Altiris $10 million for use of the disputed technology. Under the transaction, we expensed $2 million of patent settlement costs in the June 2005 quarter that was related to benefits received by us in and prior to the June 2005 quarter. The remaining $8 million was recorded as Acquired product rights and is being amortized to Cost of revenues in the Consolidated Statements of Income over the remaining life of the primary patent, which expires in May 2017.

On August 6, 2003, we purchased a security technology patent as part of a settlement in *Hilgraeve, Inc. v. Symantec Corporation*. As part of the settlement, we also received licenses to the remaining patents in Hilgraeve's portfolio. The total cost of purchasing the patent and licensing additional patents was $63 million, which was paid in cash in August 2003. Under the transaction, we recorded $14 million of patent settlement costs in the June 2003 quarter that were related to benefits received by us in and prior to the June 2003 quarter. The remaining $49 million was recorded as Acquired product rights and is being amortized to Cost of revenues in the Consolidated Statements of Income over the remaining life of the primary patent, which expires in June 2011.

On April 17, 2003, we purchased acquired product rights related to Roxio Inc.'s GoBack computer recovery software business for $13 million in cash. The acquired product rights are being amortized to Cost of revenues in the Consolidated Statements of Income over their estimated life of three years.

In fiscal 2006, 2005, and 2004, amortization expense for acquired product rights was $314 million, $49 million, and $41 million, respectively. Amortization of acquired product rights was included in Cost of revenues in the Consolidated Statements of Income. The weighted average remaining estimated lives of acquired product rights are approximately four years for developed technology, approximately seven years for patents, and less than one year for backlog and other. The weighted average remaining estimated life of acquired product rights in total is approximately four years. Annual amortization of acquired product rights, based upon our existing acquired product rights and their current useful lives, is estimated to be the following as of March 31, 2006:

2007	$343 million
2008	$335 million
2009	$329 million
2010	$176 million
2011	$41 million
Thereafter	$15 million

Technology

2.137

SEAGATE TECHNOLOGY (JUN)

(In millions)	2006	2005
Total current assets	$4,333	$3,502
Property, equipment and leasehold improvements, net	2,106	1,529
Other intangible assets	307	3
Other assets, net	323	210
Goodwill	2,475	—
Total assets	$9,544	$5,244

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangibles Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination, and is not subject to amortization. SFAS 142 requires that goodwill be tested for impairment at least annually, or more often if warranted by events and changes in circumstances indicating that the carrying value may exceed its fair value, and written down to fair value if impaired. Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. SFAS 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives. The Company's acquisition-related intangible assets is comprised primarily of existing technology, customer relationships, trade names, and other intangible assets and are amortized over periods ranging from one to four years on a straight-line basis. SFAS 142 further requires that intangible assets be reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

11 (In Part): Goodwill and Other Intangible Assets

Other Intangible Assets

Other intangible assets consist primarily of existing technology, customer relationships and trade names acquired in business combinations. Acquired intangibles are amortized on a straight-line basis over the respective estimated useful lives of the assets. The carrying value of intangible assets at June 30, 2006 is set forth in the table below. The carrying value of intangible assets at July 1, 2005 was immaterial. Accumulated amortization of intangibles was $33 million and $6 million at June 30, 2006 and July 1, 2005, respectively.

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology	$150	$(18)	$132
Customer relationships	140	(5)	135
Trade names	33	(2)	31
Patents and licenses	17	(8)	9
Total acquired identifiable intangible assets	$340	$(33)	$307

In fiscal years 2006, 2005, and 2004, amortization expense for other intangible assets was $29 million, $2 million, and $1 million, respectively. Amortization of the existing technology intangible is charged to Cost of revenue while the amortization of the other intangible assets is included in Operating expenses in the Consolidated Statements of Operations. Aggregate annual amortization of other intangible assets, based on their current estimated lives, is estimated to be $148 million, $84 million, $51 million and $24 million for fiscal years 2007, 2008, 2009 and 2010, respectively.

Licenses and Franchises

2.138

BRISTOL-MYERS SQUIBB COMPANY (DEC)

(Dollars in millions)	2006	2005
Total current assets	$10,302	$12,283
Property, plant and equipment, net	5,673	5,693
Goodwill	4,829	4,823
Other intangible assets, net	1,852	1,921
Deferred income taxes, net of valuation allowances	2,577	1,808
Prepaid pension	—	1,324
Other assets	342	286
Total assets	$25,575	$28,138

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Impairment of Long-Lived Assets

The Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. An estimate of the asset's fair value is based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. The Company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Goodwill and Other Intangible Assets (In Part)

Other intangible assets, consisting of patents, trademarks, technology, licenses, and capitalized software, are amortized on a straight-line basis over their useful lives, ranging from 3 to 17 years. Indefinite-lived intangible assets, if any, are tested for impairment using a one-step process, which consists of a comparison of the fair value to the carrying value of the intangible asset. Such intangible assets are deemed to be impaired if their net carrying value exceeds their estimated fair value. All other intangible assets are evaluated for impairment as described under "—Impairment of Long-Lived Assets" above.

Note 13. Other Intangible Assets

As of December 31, 2006 and 2005, other intangible assets consisted of the following:

(Dollars in millions)	2006	2005
Patents/trademarks	$ 258	$ 269
Less accumulated amortization	145	113
Patents/trademarks, net	113	156
Licenses	659	431
Less accumulated amortization	162	113
Licenses, net	497	318
Technology	1,787	1,787
Less accumulated amortization	836	676
Technology, net	951	1,111
Capitalized software	844	761
Less accumulated amortization	553	425
Capitalized software, net	291	336
Total other intangible assets, net	$1,852	$1,921

In the first quarter of 2006 and for the year 2005, the Company recorded impairment charges for licenses of $32 million and $42 million, respectively, resulting from actual and estimated future sales declines of *Tequin.* These charges were recorded in cost of products sold in the Company's consolidated statement of earnings.

In March 2006, as a result of the FDA approval of Erbitux for use in the treatment of head and neck cancer, the Company made a $250 million milestone payment to ImClone, which was capitalized as licenses.

In the third quarter of 2006, the Company recorded an impairment charge for licenses of $27 million, resulting from the lower than expected sales of EMSAM. This charge was recorded in cost of products sold in the Company's consolidated statement of earnings.

Amortization expense for other intangible assets for the years ended December 31, 2006, 2005 and 2004 was $363 million, $352 million and $316 million, respectively.

Expected amortization expense related to the current net carrying amount of other intangible assets follows:

(Dollars in millions)	
2007	$ 344
2008	291
2009	262
2010	248
2011	236
Later Years	471

Covenants Not to Compete

2.139

PRAXAIR, INC. (DEC)

(Dollar amounts in millions)	2006	2005
Total current assets	$ 2,059	$ 2,133
Property, plant and equipment—net	6,694	6,108
Equity investments	218	218
Goodwill	1,613	1,545
Other intangible assets—net	71	81
Other long-term assets	447	406
Total assets	$11,102	$10,491

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Other Intangible Assets

Patents are recorded at historical cost and are amortized over their remaining useful lives. Customer and license/use agreements, non-compete agreements and patents and other intangibles are amortized over the estimated period of benefit. The determination of the estimated period of benefit will be dependent upon the use and underlying characteristics of the intangible asset. Praxair evaluates the recoverability of its intangible assets subject to amortization when facts and circumstances indicate that the carrying value of the asset may not be recoverable. If the carrying value is not recoverable, impairment is measured as the amount by which the carrying value exceeds its estimated fair value. Fair value is generally estimated based on either appraised value or other valuation techniques.

Note 11. Other Intangible Assets

The following is a summary of Praxair's other intangible assets at December 31, 2006 and 2005:

(Millions of dollars)	Customer & License/Use Agreements	Non-Compete Agreements	Patents & Other	Total
2006				
Cost:				
Balance, December 31, 2005	$ 71	$ 38	$ 17	$126
Additions	5	2	—	7
Foreign currency translation	2	1	—	3
Other	(6)	(2)	(1)	(9)
Balance, December 31, 2006	72	39	16	127
Less: accumulated amortization:				
Balance, December 31, 2005	(22)	(18)	(5)	(45)
Amortization expense	(6)	(8)	(1)	(15)
Foreign currency translation	(1)	—	—	(1)
Other	3	2	—	5
Balance, December 31, 2006	(26)	(24)	(6)	(56)
Net balance at December 31, 2006	$ 46	$ 15	$ 10	$ 71
2005				
Cost:				
Balance, December 31, 2004	$ 70	$ 36	$ 17	$123
Additions	7	5	—	12
Foreign currency translation	(3)	(1)	—	(4)
Other	(3)	(2)	—	(5)
Balance, December 31, 2005	71	38	17	126
Less: accumulated amortization:				
Balance, December 31, 2004	(18)	(13)	(4)	(35)
Amortization expense	(8)	(7)	(1)	(16)
Foreign currency translation	1	—	—	1
Other	3	2	—	5
Balance, December 31, 2005	(22)	(18)	(5)	(45)
Net balance at December 31, 2005	$ 49	$ 20	$ 12	$ 81

There are no expected residual values related to these intangible assets. Amortization expense for the years ended December 31, 2006, 2005, and 2004 was $15 million, $16 million, and $13 million, respectively. The remaining weighted-average amortization period for intangible assets is approximately 12 years. Total estimated annual amortization expense is as follows: 2007, $15 million; 2008, $10 million; 2009, $7 million; 2010, $6 million; 2011, $5 million and $28 million thereafter.

Contracts

2.140

DELUXE CORPORATION (DEC)

(In thousands)	2006	2005
Total current assets	$ 202,117	$ 213,938
Long-term investments	35,985	48,668
Property, plant, and equipment—net of accumulated depreciation	142,247	152,968
Assets held for sale	—	5,665
Intangibles—net of accumulated amortization	178,537	258,004
Goodwill	590,543	581,123
Non-current assets of discontinued operations	—	2,256
Other non-current Assets	117,703	163,253
Total assets	$1,267,132	$1,425,875

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Intangibles

Intangible assets are started at historical cost. Amortization expense is generally determined on the straight-line basis over periods ranging form one to 14 years, with a weighted-average life of 5.9 years as of December 31, 2006. Customer lists and distributor contracts are amortized using accelerated methods. Certain trade name assets have been assigned indefinite lives. As such, these assets are not amortized, but are subject to impairment testing on at least an annual basis. Gains or losses resulting from the disposition of intangibles are included in SG&A expense in the consolidated statements of income.

Impairment of Long-Lived Assets and Amortizable Intangibles

We evaluate the recoverability of property, plant, equipment and amortizable intangibles not held for sale whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to, (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used or in its physical condition, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset. We measure the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. If the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset. The estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

We evaluate the recoverability of property, plant, equipment and intangibles held for sale by comparing the asset's carrying amount with its fair value less costs to sell. Should the fair value less costs to sell be less than the carrying value of the long-lived asset, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset less costs to sell.

The evaluation of asset impairment requires us to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

Note 2 (In Part): Supplementary Balance Sheet and Cash Flow Information

Intangibles (In Part)

Intangibles were comprised of the following at December 31:

	2006			2005		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived:						
Trade names	$ 59,400	$ —	$ 59,400	$ 59,400	$ —	$ 59,400
Amortizable intangibles:						
Internal-use software	264,847	(228,719)	36,128	304,793	(218,024)	86,769
Customer lists	114,344	(71,088)	43,256	110,164	(48,177)	61,987
Distributor contracts	30,900	(14,552)	16,348	30,900	(9,402)	21,498
Trade names	31,644	(12,350)	19,294	30,248	(7,258)	22,990
Other	7,596	(3,485)	4,111	7,849	(2,489)	5,360
Amortizable intangibles	449,331	(330,194)	119,137	483,954	(285,350)	198,604
Intangibles	$508,731	$(330,194)	$178,537	$543,354	$(285,350)	$258,004

Total amortization of intangibles was $59.4 million in 2006, $79.4 million in 2005 and $66.5 million in 2004. Of these amounts, amortization of internal-use software was $25.2 million in 2006, $38.2 million in 2005 and $43.6 million in 2004. Based on the intangibles in service as of December 31, 2006, estimated amortization expense for each of the next five years ending December 31 is as follows:

(In thousands)	
2007	$44,186
2008	33,616
2009	20,574
2010	8,084
2011	4,475

OTHER NONCURRENT ASSETS

2.141 Table 2-21 summarizes the nature of assets (other than property, investments, noncurrent receivables, and intangible assets) classified as noncurrent assets on the balance sheet of the survey companies. Examples of other noncurrent asset presentations and disclosures, except assets leased to others, follow. Examples of assets leased to others are presented under “Lessor Leases” in the “Long-Term Leases” section.

2.142

TABLE 2-21: OTHER NONCURRENT ASSETS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Deferred income taxes	261	243	237	212
Pension asset	200	193	151	147
Software	117	118	132	124
Debt issue costs	104	89	69	57
Segregated cash or securities	82	73	75	61
Property held for sale	68	47	52	49
Derivatives	46	68	88	54
Cash surrender value of life insurance	43	35	40	31
Contracts	16	12	16	8
Assets leased to others	13	11	12	11
Estimated insurance recoveries	12	11	7	8
Assets of nonhomogeneous operations	8	8	7	3
Other identified noncurrent assets	60	62	66	53

Deferred Income Taxes

2.143

INTUIT INC. (JUL)

(In thousands)	2006	2005
Total current assets	$1,817,030	$1,614,339
Property and equipment, net	194,434	208,548
Goodwill, net	504,991	509,499
Purchased intangible assets, net	59,521	69,678
Long-term deferred income taxes	144,697	118,475
Loans to executive officers and other employees	8,865	9,245
Other assets	40,489	30,078
Long-term assets of discontinued operations	—	156,589
Total assets	$2,770,027	$2,716,451

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

When we prepare our financial statements, we estimate our income taxes based on the various jurisdictions where we conduct business. Significant judgment is required in determining our worldwide income tax provision. We recognize liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. We record an additional amount in our provision for income taxes in the period in which we determine that our recorded tax liability is less than we expect the ultimate tax assessment to be. If in a later period we determine that payment of this additional amount is unnecessary, we reverse the liability and recognize a tax benefit in that later period. As a result, our ongoing assessments of the probable outcomes of the audit issues and related tax positions require judgment and can materially increase or decrease our effective tax rate and materially affect our operating results. This also requires us to estimate our current tax exposure and to assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our balance sheet. We must then assess the likelihood that our deferred tax assets will be realized. To the extent we believe that realization is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a corresponding tax expense in our statement of operations.

We record a valuation allowance to reflect uncertainties about whether we will be able to utilize some of our deferred tax assets (consisting primarily of certain state capital loss and net operating loss carryforwards) before they expire. The

valuation allowance is based on our estimates of taxable income for the jurisdictions in which we operate and the period over which our deferred tax assets will be realizable. While we have considered future taxable income in assessing the need for the valuation allowance, we could be required to increase the valuation allowance to take into account additional deferred tax assets that we may be unable to realize. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we make the increase.

11 (In Part): Income Taxes

Significant deferred tax assets and liabilities were as follows at the dates indicated:

(In thousands)	2006	2005
Deferred tax assets:		
Accruals and reserves not currently deductible	$ 30,253	$ 37,233
Accrued and deferred compensation	22,292	18,729
Loss and tax credit carryforwards	6,434	20,387
Intangible assets	77,851	87,500
Property and equipment	19,506	1,394
Share-based compensation	22,704	3,057
Other, net	18,007	11,834
Total deferred tax assets	197,047	180,134
Deferred tax liabilities:		
Other, net	762	824
Total deferred tax liabilities	762	824
Total net deferred tax assets	196,285	179,310
Valuation allowance	(4,389)	(5,981)
Total net deferred tax assets, net of valuation allowance	$191,896	$173,329

We have provided a valuation allowance related to the benefits of certain state capital loss carryforwards and state net operating losses that we believe are unlikely to be realized. The valuation allowance decreased by $1.6 million in fiscal 2006 and by $1.5 million in fiscal 2005. The valuation allowance did not change in fiscal 2004.

The components of total net deferred tax assets, net of valuation allowance, as shown on our balance sheet were as follows at the dates indicated:

(In thousands)	2006	2005
Current deferred income taxes	$ 47,199	$ 54,854
Long-term deferred Income taxes	144,697	118,475
Total net deferred tax assets, net of valuation allowance	$191,896	$173,329

At July 31, 2006, we had various state net operating loss carryforwards totaling approximately $60.0 million for which we have recorded a gross deferred tax asset of $4.1 million and a valuation allowance of $2.8 million. These net operating losses will expire starting in fiscal 2022. At July 31, 2006, we had state capital loss carryovers of $29.2 million for which we have recorded a gross deferred tax asset of $2.2 million and a valuation allowance of $1.6 million. The majority of these state capital losses will expire in fiscal 2008. Utilization of the net operating losses and state capital losses may be subject to substantial annual limitation. The annual limitation may result in the expiration of net operating losses and capital losses before utilization.

2.144

THE MANITOWOC COMPANY, INC. (DEC)

(Millions of dollars)	2006	2005
Total current assets	$1,142.7	$ 953.4
Property, plant and equipment—net	398.9	353.9
Goodwill	462.1	429.6
Other intangible assets—net	160.0	139.9
Deferred income taxes	14.3	26.7
Other non-current assets	41.5	58.3
Total assets	$2,219.5	$1,961.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Income Taxes

The company utilizes the liability method to recognize deferred tax assets and liabilities for the expected future income tax consequences of events that have been recognized in the company's financial statements. Under this method, deferred tax assets and liabilities are determined based on the temporary difference between financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. Valuation allowances are provided for deferred tax assets where it is considered more likely than not that the company will not realize the benefit of such assets.

11 (In Part): Income Taxes

The deferred income tax accounts reflect the impact of temporary differences between the basis of assets and liabilities for financial reporting purposes and their related basis

as measured by income tax regulations. A summary of the deferred income tax accounts at December 31 is as follows:

	2006	2005
Current deferred assets:		
Inventories	$ 13.2	$ 6.1
Accounts receivable	11.4	14.6
Product warranty reserves	13.6	10.6
Product liability reserves	11.9	18.4
Other employee-related benefits and allowances	23.2	12.5
Net operating losses carryforwards, current portion	2.1	0.1
Deferred revenue, current portion	12.2	6.2
Other reserves and allowances	10.1	5.9
Future income tax benefits, current	$ 97.7	$ 74.4
Non-current deferred assets (liabilities):		
Property, plant and equipment	$(38.9)	$(25.5)
Intangible assets	(1.3)	(6.7)
Post retirement benefits other than pensions	20.0	20.3
Deferred employee benefits	1.1	9.9
Severance benefits	2.2	1.4
Product warranty reserves	1.3	1.3
Tax Credits	6.7	5.8
Net operating loss carryforwards	22.8	26.4
Deferred revenue	8.5	—
Other	1.6	1.2
Total non-current deferred asset	24.0	34.1
Less valuation allowance	(9.7)	(7.4)
Net future tax benefits, non-current	$ 14.3	$ 26.7

The company's policy is to remit earnings from foreign subsidiaries only to the extent any underlying foreign taxes are creditable in the United States. Accordingly, the company does not currently provide for additional United States and foreign income taxes which would become payable upon repatriation of undistributed earnings of foreign subsidiaries. Undistributable earnings from continuing operations on which additional income taxes have not been provided amounted to approximately $161.3 million at December 31, 2006. If all such undistributed earnings were remitted, an additional provision for income taxes of approximately $56.5 million would have been necessary as of December 31, 2006.

As of December 31, 2006, the company has approximately $256.2 million of state net operating loss carryforwards, which are available to reduce future state tax liabilities. These state net operating loss carryforwards expire beginning 2007 through 2026. The company also has approximately $50.9 million of foreign loss carryforwards, which are available to reduce future foreign tax liabilities. These foreign loss carryforwards generally have no expiration under current foreign law. The valuation allowance represents a reserve for certain foreign loss carryforwards for which realization is not "more likely than not."

Pension Asset

2.145

CROWN HOLDINGS, INC. (DEC)

(In millions)	2006	2005
Total current assets	$2,062	$1,845
Goodwill	2,185	2,013
Property, plant and equipment, net	1,608	1,607
Other non-current assets (note I)	503	1,080
Total assets	$6,358	$6,545

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

A (In Part): Summary of Significant Accounting Policies

Recent Accounting and Reporting Standards (In Part)

SFAS No. 158 ("FAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R)," requires employers to fully recognize in their financial statements the obligations associated with single–employer defined benefit pension plans, retiree healthcare plans, and other postretirement plans. Specifically, it requires a company to (1) recognize on its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status, (2) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and (3) recognize changes in the funded status of a plan through comprehensive income in the year in which the changes occur. The adoption of FAS 158 resulted in the following adjustments to the consolidated balance sheet at December 31, 2006.

	Balance Before Adoption	Effect of Adoption	Balance After Adoption
Prepaid pension assets	$1,697	($1,402)	$ 295
Intangible pension assets	8	(8)	
Accrued pension liabilities	197	(5)	192
Postretirement liabilities	550	64	614
Net deferred tax liabilities	314	(228)	86
Accumulated other comprehensive loss	490	1,241	1,731

I (In Part): Other Non-Current Assets

	2006	2005
Pension assets	$295	$ 871
Debt issue costs	61	48
Pension intangibles		17
Deferred taxes	30	59
Investments	39	40
Long-term notes and receivables	40	6
Other	38	39
	$503	$1,080

The reduction in pension assets and the elimination of pension intangibles in 2006 was primarily due to the adoption of FAS 158 as discussed in Note A.

W (In Part): Pensions and Other Retirement Benefits

Pensions (In Part)

The Company sponsors various pension plans covering certain U.S. and non-U.S. employees, and participates in certain multi-employer pension plans. The benefits under the Company plans are based primarily on years of service and either the employees' remuneration near retirement or a fixed dollar multiple. Contributions to multi-employer plans in which the Company and its subsidiaries participate are determined in accordance with the provisions of negotiated labor contracts or applicable local regulations.

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for U.S. pension plans with accumulated benefit obligations in excess of plan assets were $69, $64 and $0, respectively as of December 31, 2006 and $1,434, $1,406 and $1,291, respectively, as of December 31, 2005.

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for non–U.S. pension plans with accumulated benefit obligations in excess of plan assets were $204, $182 and $81, respectively, as of December 31, 2006 and $207, $183 and $78, respectively, as of December 31, 2005.

	U.S. Plans		Non-U.S. Plans	
Projected benefit obligations	2006	2005	2006	2005
Benefit obligations at January 1	$1,434	$1,402	$2,926	$2,808
Service cost	9	9	35	34
Interest cost	77	78	152	163
Plan participants' contributions		1	7	8
Amendments				5
Curtailments and settlements			(6)	(52)
Actuarial (gain)/loss	(14)	60	(75)	393
Benefits paid	(115)	(116)	(163)	(149)
Foreign currency exchange rate changes			368	(284)
Benefit obligations at December 31	$1,391	$1,434	$3,244	$2,926
Accumulated benefit obligations at December 31	$1,365	$1,406	$3,086	$2,762
Plan assets				
Fair value of plan assets at January 1	$1,291	$952	$2,881	$2,885
Actual return on plan assets	161	131	210	340
Employer contributions	1	323	89	78
Plan participants' contributions		1	7	8
Benefits paid	(115)	(116)	(163)	(149)
Foreign currency exchange rate changes			376	(281)
Fair value of plan assets at December 31	$1,338	$1,291	$3,400	$2,881

Pension assets/(liabilities) included in the Consolidated Balance Sheets were:

	2006	2005
Non-current asset	$295	$871
Current liability	(14)	(25)
Non-current liability	(178)	(229)

The Company's current liability of $14 as of December 31, 2006, represents the expected payments to be made for unfunded plans over the next twelve months. Estimated 2007 employer contributions are $48 for the Company's funded plans.

2.146

ILLINOIS TOOL WORKS INC. (DEC)

(In thousands)	2006	2005
Total current assets	$ 5,206,405	$ 4,111,605
Plant and equipment:		
Land	193,328	156,975
Buildings and improvements	1,374,926	1,210,133
Machinery and equipment	3,594,057	3,235,571
Equipment leased to others	149,682	155,565
Construction in progress	96,853	92,934
	5,408,846	4,851,178
Accumulated depreciation	(3,355,389)	(3,044,069)
Net plant and equipment	2,053,457	1,807,109
Investments	595,083	896,487
Goodwill	4,025,053	3,009,011
Intangible assets	1,113,634	669,927
Deferred income taxes	116,245	45,269
Other assets	770,562	906,235
Total assets	$13,880,439	$11,445,643

NOTES TO FINANCIAL STATEMENTS

Other Assets

(In thousands)	2006	2005
Cash surrender value of life insurance policies	$318,771	$298,190
Prepaid pension assets	257,537	430,862
Customer tooling	47,520	45,602
Noncurrent receivables	41,788	27,609
Other	104,946	103,972
	$770,562	$906,235

Retirement Plans and Postretirement Benefits

The Company has both funded and unfunded defined benefit pension plans. The major domestic plan covers a substantial portion of its U.S. employees and provides benefits based on years of service and final average salary. Beginning January 1, 2007, the major domestic defined benefit plan was closed to new participants. Newly hired employees and employees from acquired businesses that are not participating in this plan will be eligible for additional Company contributions under the existing defined contribution retirement plan.

The Company also has other postretirement benefit plans covering substantially all of its U.S. employees. The primary postretirement health care plan is contributory with the participants' contributions adjusted annually. The postretirement life insurance plans are noncontributory.

The Company has various defined benefit pension plans in foreign countries, predominantly the United Kingdom, Germany, Canada and Australia.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R), ("SFAS 158"). On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158. This statement requires employers to recognize the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and previously unrecognized changes in that funded status through accumulated other comprehensive income. The Company recorded an after-tax charge to accumulated other comprehensive income of $180,037,000 in 2006 to recognize the funded status of its benefit plans. As a result, the Company recognized the following adjustments in the statement of financial position at December 31, 2006:

(In thousands)	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Current deferred income tax assets	$ 203,342	$ (6,482)	$ 196,860
Noncurrent deferred income tax assets	138,083	(21,838)	116,245
Other noncurrent assets	978,147	(207,585)	770,562
Accrued expenses	1,198,426	(10,900)	1,187,526
Noncurrent deferred income tax liabilities	421,192	(162,033)	259,159
Other noncurrent liabilities	894,513	117,065	1,011,578
Accumulated other comprehensive income	626,676	(180,037)	446,639

Effective for the 2008 fiscal year, SFAS 158 requires plan assets and liabilities to be measured as of year-end, rather than the September 30 measurement date that the Company presently uses.

Summarized information regarding the Company's significant defined benefit pension and postretirement health care and life insurance benefit plans was as follows:

	Pension			Other Postretirement Benefits		
(In thousands)	2006	2005	2004	2006	2005	2004
Components of net periodic benefit cost:						
Service cost	$107,335	$84,929	$78,991	$16,747	$12,945	$13,471
Interest cost	97,044	85,713	82,518	32,330	30,293	34,666
Expected return on plan assets	(137,866)	(124,382)	(118,024)	(7,982)	(5,754)	(3,466)
Amortization of actuarial loss	25,036	8,591	5,074	21,126	1,246	5,595
Amortization of prior service cost (income)	(2,170)	(2,277)	(2,304)	6,269	6,736	6,736
Amortization of transition amount	64	(18)	(139)	—	—	—
Settlement/curtailment loss	2,624	195	59	—	—	—
Net periodic benefit cost	$ 92,067	$52,751	$46,175	$68,490	$45,466	$57,002

The estimated cost (income) from the items below that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2007 are as follows:

(In thousands)	Pension	Other Postretirement Benefits
Net loss	$19,966	$2,022
Prior service cost (income)	$ (2,350)	$6,261
Net transition obligation	$ 29	$ —

	Pension		Other Postretirement Benefits	
(In thousands)	2006	2005	2006	2005
Change in benefit obligation as of September 30:				
Benefit obligation at beginning of period	$1,879,661	$1,589,256	$606,022	$546,112
Service cost	107,335	84,929	16,747	12,945
Interest cost	97,044	85,713	32,330	30,293
Plan participants' contributions	5,606	2,583	15,850	15,565
Amendments	2,685	1,306	—	(16,212)
Actuarial (gain) loss	(18,494)	125,819	(70,765)	64,880
Acquisitions	7,309	119,080	—	—
Benefits paid	(130,078)	(112,287)	(44,972)	(47,561)
Medicare subsidy received	—	—	2,612	—
Liabilities (to) from other plans	2,813	24,326	(480)	—
Foreign currency translation	73,755	(41,064)	—	—
Benefit obligation at end of period	$2,027,636	$1,879,661	$557,344	$606,022
Change in plan assets as of September 30:				
Fair value of plan assets at beginning of period	$1,773,574	$1,491,574	$103,528	$65,204
Actual return on plan assets	193,206	220,829	13,771	4,321
Acquisitions	—	86,619	—	—
Company contributions	89,382	103,157	61,063	65,999
Plan participants' contributions	5,606	2,583	15,850	15,565
Benefits paid	(130,078)	(112,287)	(44,972)	(47,561)
Assets from other plans	1,975	8,400	—	—
Foreign currency translation	52,751	(27,301)	—	—
Fair value of plan assets at end of period	$1,986,416	$1,773,574	$149,240	$103,528

(continued)

(In thousands)	Pension 2006	Pension 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Funded status	$ (41,220)	$ (106,087)	$(408,104)	$(502,494)
Unrecognized net actuarial loss	—	367,932	—	131,316
Unrecognized prior service cost (income)	—	[6,435)	—	36,050
Unrecognized net transition amount	—	2,341	—	—
Contributions after measurement date	49,694	2,460	30,214	35,895
Other immaterial plans	(18,244)	(17,262)	(7,579)	(2,169)
Net asset (liability) at end of year	$ (9,770)	$ 242,949	$(385,469)	$(301,402)
The amounts recognized in the statement of financial position as of December 31 consisted of:				
Noncurrent assets	$ 257,537	$ 424,165	$ —	$ —
Current liabilities	(13,111)	—	(11,139)	(34,348)
Noncurrent liabilities	(254,196)	(235,625)	(374,330)	(267,054)
Intangible asset for minimum pension liability	—	6,697	—	—
Accumulated other comprehensive loss for minimum pension liability	—	47,712	—	—
Net asset (liability) at end of year	$ (9,770)	$ 242,949	$(385,469)	$(301,402)
The pre-tax amounts recognized in accumulated other comprehensive income consist of:				
Net loss	$ 279,500		$ 27,427	
Prior service cost (income)	(1,289)		38,788	
Net transition obligation	2,386		—	
	$ 280,597		$ 66,215	
Accumulated benefit obligation for all significant defined benefit pension plans	$1,778,146	$1,653,854		
Plans with accumulated benefit obligation in excess of plan assets as of September 30:				
Projected benefit obligation	$ 334,142	$ 349,916		
Accumulated benefit obligation	$ 300,697	$ 324,128		
Fair value of plan assets	$ 102,609	$ 137,669		

2.147

TECUMSEH PRODUCTS COMPANY (DEC)

(Dollars in millions)	2006	2005
Total current assets	$ 733.4	$ 807.1
Property, plant, and equipment, net	552.4	578.6
Goodwill	127.0	130.9
Other intangibles	53.0	54.8
Prepaid pension expense	202.5	185.3
Other assets	114.4	43.8
Total assets	$1,782.7	$1,800.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Pension and Other Postretirement Benefit Plans

The Company has defined benefit retirement plans that cover substantially all domestic employees. Plans covering salaried employees generally provide pension benefits that are based on average earnings and years of credited service. Plans covering hourly employees generally provide pension benefits of stated amounts for each year of service. We sponsor a retiree health care benefit plan, including retiree life insurance, for eligible salaried employees and their eligible dependents. At certain divisions, we also sponsor retiree health care benefit plans for hourly retirees and their eligible dependents. The retiree health care plans, which are unfunded, provide for coordination of benefits with Medicare and any other insurance plan covering a participating retiree or dependent, and have lifetime maximum benefit restrictions. Some of the retiree health care plans are contributory, with some retiree contributions adjusted annually. We have reserved the right to interpret, change or eliminate these health care benefit plans.

On September 29, 2006, SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158) was issued. SFAS 158 requires companies to recognize the funded status of their defined postretirement benefit plans as a net asset or liability on the balance sheet. Each overfunded plan is recognized as an asset and each unfunded or underfunded plan is recognized as a liability. Any unrecognized past service cost, experience gains/losses, or transition obligations are reported as a

component of accumulated other comprehensive income in stockholders' equity.

SFAS 158 was effective with balance sheets reported as of December 31, 2006, and its impact on our balance sheet was material. As of December 31, 2006, we had net unrecognized assets totaling $39.6 million (consisting of $2.5 million related to U.S. pension plans, $1.2 million related to foreign pension plans, and $35.9 million related to OPEB plans). Due to the adoption of SFAS 158, this unrecognized amount was recorded in Accumulated Other Comprehensive Income, thereby increasing consolidated net assets and shareholders' equity by approximately $39.6 million. The change in accounting principle has no impact on our net earnings, cash flow, liquidity, debt covenants, or plan funding requirements.

The following table summarizes the effect of the adoption of SFAS 158 on our consolidated balance sheet as of December 31, 2006:

(In millions)	Prior to SFAS 158	SFAS 158 Adjustments	Post SFAS 158
Prepaid benefit costs	$200.1	$ 2.4	$202.5
Accrued benefit cost	(228.0)	37.2	(190.8)
Accumulated other comprehensive (income) loss	0.1	(39.6)	(39.5)
Net amount recognized	($27.8)	—	($27.8)

We currently use September 30 as the measurement date (the date upon which plan assets and obligations are measured) to facilitate the preparation and reporting of pension and postretirement plan data. Information regarding the funded status and net periodic benefit costs is reconciled to or stated as of the fiscal year end of December 31. SFAS 158 eliminates a company's ability to select a date to measure plan assets and obligations that is prior to its year-end balance sheet date. This provision of SFAS 158 will become effective with our fiscal year ended December 31, 2008. We do not anticipate adopting this provision of SFAS 158 prior to that time.

During the second quarter of 2005, we announced some changes to certain of our retiree medical benefits. Included among these changes were plans to phase in retiree contributions and raise plan deductibles (both as of January 1, 2006). We also implemented plans to eliminate Post-65 prescription drug benefits starting January 1, 2008 and discontinue all retiree medical benefits for anyone hired after January 1, 2006. As a result of these actions, we performed a re-measurement of the plan liability at June 30, 2005, factoring in applicable plan changes, as well as a reduction in the discount rate used in the calculation from 5.85% to 5.5%, resulting in a decrease in the liability of $32.2 million. The amortization of the benefit related to these changes recognized in the fourth quarter of 2005 was $1.4 million.

Amounts recognized for both U.S.–based and foreign pension plans in the consolidated balance sheets as of December 31 consist of:

(In millions)	Pension Benefit		Other Benefit	
	2006	2005	2006	2005
Prepaid benefit cost	$202.5	$185.3	$ —	$ —
Accrued benefit cost	(15.9)	(2.4)	(176.5)	(232.7)
Accumulated other comprehensive (income) loss	(3.6)	0.1	(35.9)	—
Net amount recognized	$183.0	$183.0	$(212.4)	$(232.7)

The estimated net experience gain and prior service credit that will be amortized from accumulated other comprehensive income into pension expense over the fiscal year are $0.4 million and $10.5 million, respectively.

Software Development Costs

2.148

AMERICAN STANDARD COMPANIES INC. (DEC)

(Amounts in millions)	2006	2005
Total current assets	$3,436.7	$3,066.2
Facilities, at cost, net of accumulated depreciation	1,725.8	1,616.2
Goodwill	1,231.7	1,158.9
Capitalized software costs, net of accumulated amortization—$398.9 in 2006; $321.8 in 2005	183.1	200.6
Long-term asbestos receivable	336.6	384.0
Long-term future income tax benefits	244.9	93.5
Investment in associated companies	109.6	98.2
Other assets	144.7	250.2
Total Assets	$7,413.1	$6,867.8

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Computer Software

In accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Company capitalizes the costs of obtaining or developing internal-use computer software, including directly related payroll costs. The Company amortizes those costs over periods up to seven years, beginning when the software is ready for its intended use.

2.149

SYBASE, INC. (DEC)

(Dollars in thousands)	2006	2005
Total current assets	$ 871,561	$ 933,950
Long-term cash investments	12,781	118,948
Restricted long-term cash investments	—	2,600
Property, equipment and improvements, net	66,458	59,178
Deferred income taxes	36,069	24,879
Capitalized software, net	71,179	65,911
Goodwill	540,303	238,864
Other purchased intangibles, less accumulated amortization of $119,393 (2005–$101,965)	149,648	87,562
Other assets	39,551	38,722
Total assets	$1,787,550	$1,570,614

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Capitalized Software

The Company capitalizes software development costs in accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed," (SFAS 86), under which certain software development costs incurred subsequent to the establishment of technological feasibility may be capitalized and amortized over the estimated lives of the related products. The Company determines technological feasibility to be established upon the internal release of a detailed program design as specified by SFAS 86. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding three years, based on the estimated economic life of the product. Capitalized software costs amounted to $322.6 million and $285.1 million, at December 31, 2006 and 2005, respectively, and related accumulated amortization was $251.4 million, and $219.2 million, respectively. Software amortization charges included in cost of license fees were $31.2 million, $29.7 million and $33.6 million for 2006, 2005 and 2004, respectively.

SFAS 86 also requires that the unamortized capitalized costs of a computer software product be compared to the net realizable value of such product at each reporting date. To the extent the unamortized capitalized cost exceeds the net realizable value of a software product based upon its estimated future gross revenues reduced by estimated future costs of completing and disposing of the product, the excess is written off. If the estimated future gross revenue associated with certain of the Company's software products were to be reduced, write-offs of capitalized software costs might be required. There were no significant write-offs in 2006, 2005 or 2004.

Debt Issue Costs

2.150

IRON MOUNTAIN INCORPORATED (DEC)

(In thousands)	2005	2006
Total current assets	$ 554,168	$ 679,721
Property, plant and equipment:		
Property, plant and equipment	2,556,880	2,965,995
Less—Accumulated depreciation	(775,614)	(950,760)
Net property, plant and equipment	1,781,266	2,015,235
Other assets, net:		
Goodwill	2,138,641	2,165,129
Customer relationships and acquisition costs	229,006	282,756
Deferred financing costs	31,606	29,795
Other	31,453	36,885
Total other assets, net	2,430,706	2,514,565
Total assets	$4,766,140	$5,209,521

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

2 (In Part): Summary of Significant Accounting Policies

j. Deferred Financing Costs

Deferred financing costs are amortized over the life of the related debt using the effective interest rate method. If debt is retired early, the related unamortized deferred financing costs are written off in the period the debt is retired to other (income) expense, net. As of December 31, 2005 and 2006, gross carrying amount of deferred financing costs was $46,697 and $50,775, respectively, and accumulated amortization of those costs was $15,091 and $20,980, respectively, and was recorded in other assets, net in the accompanying consolidated balance sheet.

Segregated Funds

2.151

SYSCO CORPORATION (JUN)

(In thousands)	2006	2005
Total current assets	$4,399,694	$4,001,786
Plant and equipment at cost, less depreciation	2,464,900	2,268,301
Other assets		
Goodwill	1,302,591	1,212,603
Intangibles, less amortization	95,651	72,581
Restricted cash	102,274	101,731
Prepaid pension cost	388,650	389,766
Other	238,265	221,134
Total other assets	2,127,431	1,997,815
Total assets	$8,992,025	$8,267,902

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Restricted Cash

SYSCO is required by its insurers to collateralize a part of the self-insured portion of its workers' compensation and liability claims. SYSCO has chosen to satisfy these collateral requirements by depositing funds in insurance trusts or by issuing letters of credit.

In addition, for certain acquisitions, SYSCO has placed funds into escrow to be disbursed to the sellers in the event that specified operating results are attained or contingencies are resolved. Escrowed funds related to certain acquisitions in the amount of $1,700,000 were released during fiscal 2006, which included $800,000 that was disbursed to sellers.

A summary of restricted cash balances appears below:

	2006	2005
Funds deposited in insurance trusts	$ 82,653,000	$ 80,410,000
Escrow funds related to acquisitions	19,621,000	21,321,000
Total	$102,274,000	$101,731,000

15 (In Part): Acquisitions

During fiscal 2006, in the aggregate, the company paid cash of $114,378,000 and issued 161,549 shares with a value of $3,055,000 for acquisitions during fiscal 2006 and for contingent consideration related to operations acquired in previous fiscal years. In addition, escrowed funds related to certain acquisitions in the amount of $800,000 were released to sellers during fiscal 2006.

Property Held for Sale

2.152

KELLWOOD COMPANY (JAN)

(Amounts in thousands)	2006	2007
Total current assets	$1,040,802	$972,562
Property, plant and equipment:		
Land	2,199	2,471
Buildings and improvements	94,541	96,881
Machinery and equipment	112,676	119,569
Capitalized software	52,690	60,460
Total property, plant and equipment	262,106	279,381
Less accumulated depreciation and amortization	(183,932)	(203,384)
Property, plant and equipment, net	78,174	75,997
Intangible assets, net	160,027	202,704
Goodwill	200,837	228,168
Other assets	26,506	30,709
Long-term assets of discontinued operations	5,798	4,436
Total assets	$1,512,144	$1,514,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 4. Discontinued Operations

During the third quarter of 2006, our New Campaign and IZOD women's sportswear operations became discontinued. The discontinuance of New Campaign was the result of our agreement during the third quarter to transfer the business and sell business assets to the licensor. We expect to receive proceeds of approximately $9 million and do not anticipate a significant gain or loss from this sale. We expect to close this transaction in the first quarter of 2007. The discontinuance of our IZOD women's sportswear operation was the result of our agreement during the three months ended October 28, 2006 to terminate the licensing agreement. We expect to close this transaction in the second quarter of 2007 with no significant gain or loss. Prior to being classified as discontinued, the New Campaign and IZOD operations were included in the Women's Sportswear segment.

Related to our 2005 Restructuring Plan, as discussed in Note 2, our Private Label Menswear (which does not include our Smart Shirts subsidiary) and several labels at our Oakland Operation were discontinued during the fourth quarter of 2005. During the third quarter of 2005, our Intimate Apparel and Kellwood New England operations became discontinued. Prior to being classified as discontinued, Kellwood New England and the labels at the Oakland Operation were included in the Women's Sportswear segment, the Private Label Menswear operations were included in the Men's Sportswear segment, and Intimate Apparel was included in the Other Soft Goods segment.

The results of operations and impairment, restructuring and other non-recurring charges for the discontinued operations are reported as discontinued operations for all periods presented. Additionally, assets and liabilities of the discontinued operations are segregated in the accompanying Consolidated Balance Sheets.

Operating results for the discontinued operations, including all charges incurred during the periods presented for the 2005 Restructuring Plan related to these divisions as described in Note 2, are as follows:

	2004	2005	2006
Net sales	$440,453	$389,359	$86,790
Impairment, restructuring and other non-recurring charges	$ —	$ 57,931	$ 688
Earnings (loss) before income taxes	$ 6,933	$ (81,942)	$ 6,392
Income taxes	2,818	(24,773)	(3,927)
Net earnings (loss)	$ 4,115	$ (57,169)	$10,319
Diluted earnings (loss) per share	$ 0.15	$ (2.11)	$ 0.40

The 2004 income tax rate of 40.6% for discontinued operations differs from our overall 2004 tax rate due to foreign losses for which no benefit will be obtained. The 2005 income tax benefit rate of 30.2% for discontinued operations differs from our overall tax rate due to the non-deductibility of certain costs (goodwill impairment) recorded under the 2005 Restructuring Plan. The 2006 income taxes for discontinued operations includes a $6,300 reversal of allowances

for tax exposures (related to a 2003 discontinued operation) no longer deemed necessary due to finalization of an open tax year.

Summarized assets and liabilities of the discontinued operations are as follows:

	2005	2006
Cash and cash equivalents	$ 253	$ 5
Receivables, net	42,806	12,898
Inventories	13,481	12,248
Current deferred taxes and prepaid expenses	33,671	3,485
Current assets of discontinued operations	$90,211	$28,636
Property, plant and equipment, net	$ 1,648	$ 1,190
Goodwill	2,995	2,995
Other assets	1,155	251
Long-term assets of discontinued operations	$ 5,798	$ 4,436
Accounts payable	$17,924	$ 9,363
Accrued liabilities	25,660	12,911
Current liabilities of discontinued operations	$43,584	$22,274
Deferred income taxes and other	$ —	$ 347
Long-term liabilities of discontinued operations	$ —	$ 347

The accrued liabilities reflect the discontinued operations classification of New Campaign and IZOD and also include charges taken in connection with the 2005 Restructuring Plan that have not yet been paid and primarily related to contractual obligations and employee severance and terminations benefits. As noted above, the transactions related to the New Campaign and IZOD women's sportswear operations are expected to close in the first quarter and second quarter of 2007, respectively.

Derivatives

2.153

LIBERTY MEDIA CORPORATION (DEC)

(Amounts in millions)	2006	2005
Total current assets	$ 6,729	$ 5,577
Investments in available-for-sale securities and other cost investments, including $1,482 million and $1,581 million pledged as collateral for share borrowing arrangements	21,622	18,489
Long-term financial instruments (note 7)	1,340	1,123
Investments in affiliates, accounted for using the equity method	1,842	1,908
Property and equipment, at cost	1,531	1,196
Accumulated depreciation	(385)	(250)
	1,146	946
Intangible assets not subject to amortization		
Goodwill	7,588	6,809
Trademarks	2,471	2,385
	10,059	9,194
Intangible assets subject to amortization, net	3,910	3,975
Other assets, at cost, net of accumulated amortization	990	753
Total assets	$47,638	$41,965

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments including equity collars, written put and call options, bond swaps and interest rate swaps to manage fair value and cash flow risk associated with many of its investments and some of its variable rate debt. Liberty's derivative instruments are executed with counterparties who are well known major financial institutions. While Liberty believes these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk. Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect itself against credit risk associated with these counterparties the Company generally:

- executes its derivative instruments with several different counterparties, and
- executes equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for the Company's benefit, if the respective counterparty's credit rating for its senior unsecured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A- and/or Moody's rating of A3.

Due to the importance of these derivative instruments to its risk management strategy, Liberty actively monitors the creditworthiness of each of its counterparties. Based on its analysis, the Company currently considers nonperformance by any of its counterparties to be unlikely.

Liberty accounts for its derivatives pursuant to Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("Statement 133") and related amendments and interpretations. All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. During 2006, the Company entered into several interest rate swap agreements to mitigate the cash flow risk associated with interest payments related to certain of its variable rate debt. These interest rate swap arrangements have been designated as cash flow hedges. The Company assesses the effectiveness of its interest rate swaps using the hypothetical derivative method. Hedge ineffectiveness had no impact on earnings for the year ended December 31, 2006. None of the Company's other derivatives have been designated as hedges.

The fair value of the Company's equity collars and other similar derivative instruments is estimated using third party estimates or the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

7) (In Part): Financial Instruments

The Company's financial instruments are summarized as follows:

(Amounts in millions)	2006	2005
Assets		
Equity collars	$1,218	$1,568
Put spread collars	—	133
Other	361	83
	1,579	1,784
Less current portion	(239)	(661)
	$1,340	$1,123
Liabilities		
Borrowed shares	$1,482	$1,581
Exchangeable debenture call option obligations	1,280	927
Put options	—	342
Equity collars	416	160
Other	12	16
	3,190	3,026
Less current portion	(1,484)	(1,939)
	$1,706	$1,087

Equity Collars and Put Options

The Company has entered into equity collars, written put and call options and other financial instruments to manage market risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models. Equity collars provide the Company with a put option that gives the Company the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments.

Cash Value of Life Insurance

2.154

W. R. GRACE & CO. (DEC)

(In millions)	2006	2005
Total current assets	$1,368.8	$1,266.3
Properties and equipment, net of accumulated depreciation and amortization of $1,510.5 (2005–$1,420.2)	664.5	632.9
Goodwill	116.5	103.9
Cash value of life insurance policies, net of policy loans	89.2	84.8
Deferred income taxes	728.5	679.1
Asbestos-related insurance	500.0	500.0
Pension assets	38.4	121.5
Other assets	131.5	150.1
Total assets	$3,637.4	$3,538.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Life Insurance

Grace is the beneficiary of corporate-owned life insurance ("COLI") policies on certain current and former employees with net cash surrender values of $89.2 million and $84.8 million at December 31, 2006 and 2005, respectively. The policies were acquired to fund various employee benefit programs and other long-term liabilities and are structured to provide cash flow (primarily tax-free) over an extended number of years.

The following tables summarize activity in these policies for 2006, 2005 and 2004, and the components of net cash value at December 31, 2006 and 2005:

LIFE INSURANCE—ACTIVITY SUMMARY

(In millions)	2006	2005	2004
Earnings on policy assets	$ 5.6	$ 6.3	$ 32.4
Interest on policy loans	(1.5)	(2.8)	(29.4)
Premiums	2.3	1.7	2.4
Policy loan repayments	0.1	0.6	4.0
Proceeds from termination of life insurance policies	(0.3)	(14.8)	—
Net investing activity	(1.8)	(2.2)	(4.2)
Change in net cash value	$ 4.4	$(11.2)	$ 5.2
Tax-free proceeds received	$ 2.3	$ 2.2	$ 15.8

COMPONENTS OF NET CASH VALUE

(In millions)	2006	2005
Gross cash value	$114.7	$109.2
Principal—policy loans	(25.0)	(23.7)
Accrued interest—policy loans	(0.5)	(0.7)
Net cash value	$ 89.2	$ 84.8
Insurance benefits in force	$197.9	$196.3

Grace's financial statements display income statement activity and balance sheet amounts on a net basis, reflecting the contractual interdependency of policy assets and liabilities.

In January 2005, Grace surrendered and terminated most of these life insurance policies and received approximately $14.8 million of net cash value from the termination. As a result of the termination, gross cash value of the policies was reduced by approximately $381 million and policy loans of approximately $365 million were satisfied. Grace's insurance benefits in force was reduced by approximately $2 billion.

Contracts

2.155

ELECTRONIC DATA SYSTEMS CORPORATION (DEC)

(In millions)	2006	2005
Total current assests	$ 8,257	$ 8,502
Property and equipment, net	2,179	1,967
Deferred contract costs, net	807	638
Investments and other assets	636	684
Goodwill	4,365	3,832
Other intangible assets, net	749	640
Deferred income taxes	961	824
Total assets	$17,954	$17,087

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition and Deferred Contract Costs (In Part)

The Company provides IT and business process outsourcing services under time-and-material, unit-price and fixed-price contracts, which may extend up to 10 or more years. Services provided over the term of these arrangements may include one or more of the following: IT infrastructure support and management; IT system and software maintenance; application hosting; the design, development, and/or construction of software and systems ("Construct Service"); transaction processing; business process management and consulting services.

If a contract involves the provision of a single element, revenue is generally recognized when the product or service is provided and the amount earned is not contingent upon any future event. If the service is provided evenly during the contract term but service billings are irregular, revenue is recognized on a straight-line basis over the contract term. However, if the single service is a Construct Service, revenue is recognized under the percentage-of-completion method using a zero-profit methodology. Under this method, costs are deferred until contractual milestones are met, at which time the milestone billing is recognized as revenue and an amount of deferred costs is recognized as expense so that cumulative profit equals zero. If the milestone billing exceeds deferred costs, then the excess is recorded as deferred revenue. When the Construct Service is completed and the final milestone met, all unrecognized costs, milestone billings, and profit are recognized in full. If the contract does not contain contractual milestones, costs are expensed as incurred and revenue is recognized in an amount equal to costs incurred until completion of the Construct Service, at which time any profit would be recognized in full. If total costs are estimated to exceed revenue for the Construct Service, then a provision for the estimated loss is made in the period in which the loss first becomes apparent.

If a contract involves the provision of multiple service elements, total estimated contract revenue is allocated to each element based on the relative fair value of each element. The amount of revenue allocated to each element is limited to the amount that is not contingent upon the delivery of another element in the future. Revenue is then recognized for each element as described above for single-element contracts,

except revenue recognized on a straight-line basis for a non-Construct Service will not exceed amounts currently billable unless the excess revenue is recoverable from the client upon any contract termination event. If the amount of revenue allocated to a Construct Service is less than its relative fair value, costs to deliver such service equal to the difference between allocated revenue and the relative fair value are deferred and amortized over the contract term. If total Construct Service costs are estimated to exceed the relative fair value for the Construct Service contained in a multiple-element arrangement, then a provision for the estimated loss is made in the period in which the loss first becomes apparent. If fair value is not determinable for all elements, the contract is treated as one accounting unit and revenue is recognized using the proportional performance method.

The Company also defers and subsequently amortizes certain set-up costs related to activities that enable the provision of contracted services to the client. Such activities include the relocation of transitioned employees, the migration of client systems or processes, and the exit of client facilities acquired upon entering into the client contract. Deferred contract costs, including set-up costs, are amortized on a straight-line basis over the remaining original contract term unless billing patterns indicate a more accelerated method is appropriate. The recoverability of deferred contract costs associated with a particular contract is analyzed on a periodic basis using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, including contract concessions paid to the client, the deferred contract costs and contract concessions are written down by the amount of the cash flow deficiency. If a cash flow deficiency remains after reducing the balance of the deferred contract costs and contract concessions to zero, any remaining long-lived assets are evaluated for impairment. Any such impairment recognized would equal the amount by which the carrying value of the long-lived assets exceeds the fair value of those assets.

Note 4. Deferred Contract Costs

The Company defers certain costs relating to construction and set-up activities on client contracts. Following is a summary of deferred costs for the years ended December 31, 2006 and 2005 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Total
Balance at December 31, 2004	$1,594	$ (886)	$ 708
Net Change	(50)	(20)	(70)
Balance at December 31, 2005	1,544	(906)	638
Net Change	367	(198)	169
Balance at December 31, 2006	$1,911	$(1,104)	$ 807

During 2005, the Company identified deterioration in the projected performance of one of its commercial contracts based on, among other things, a change in management's judgment regarding the amount and likelihood of achieving anticipated benefits from contract-specific productivity initiatives, primarily related to the length of time necessary to achieve cost savings from planned infrastructure optimization initiatives. The Company determined that the estimated undiscounted cash flows of the contract over its remaining term were insufficient to recover the contract's deferred contract costs. As a result, the Company recognized a non-cash impairment charge of $37 million in the second quarter of 2005 to write-off the contract's deferred contract costs. The impairment charge is reported as a component of cost of revenues in the 2005 consolidated statement of operations and is included in the results of the Americas segment. Remaining long-lived assets associated with this contract totaled $168 million at December 31, 2006. The current estimate of cash flows includes cost reductions resulting from the expected optimization of the contract's service delivery infrastructure based on project plans and anticipated vendor rate reductions based on historical and industry trends. Some of the project plans have near-term milestones that are critical to meeting overall cost reduction goals. It is reasonably possible that these milestones may not be met or actual cost savings from these and other planned initiatives may not materialize in the near-term and, as a result, remaining long-lived assets associated with this contract will become fully impaired. The Company continues to pursue several opportunities to improve the financial performance of this contract, including leveraging the infrastructure through the addition of new business opportunities with the client.

Estimated amortization expense related to deferred costs at December 31, 2006 for each of the years in the five-year period ending December 31, 2011 and thereafter is (in millions): 2007–$215; 2008–$164; 2009–$153; 2010–$113; 2011–$60; and thereafter–$102.

Estimated Insurance Recoveries

2.156

HONEYWELL INTERNATIONAL INC. (DEC)

(Dollars in millions)	2006	2005
Total current assets	$12,304	$11,962
Investments and long-term receivables	382	370
Property, plant and equipment—net	4,797	4,658
Goodwill	8,403	7,660
Other intangible assets—net	1,247	1,173
Insurance recoveries for asbestos related liabilities	1,100	1,302
Deferred income taxes	1,075	730
Prepaid pension benefit cost	695	2,716
Other assets	938	1,062
Total assets	$30,941	$31,633

NOTES TO FINANCIAL STATEMENTS

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

Asbestos Related Contingencies and Insurance Recoveries

Honeywell is a defendant in personal injury actions related to asbestos containing products (refractory products and friction products). We recognize a liability for any asbestos related contingency that is probable of occurrence and reasonably estimable. Regarding North American Refractories Company (NARCO) asbestos related claims, we accrue for pending claims based on terms and conditions, including

evidentiary requirements, in definitive agreements or agreements in principle with current claimants. We also accrued for the probable value of future NARCO asbestos related claims through 2018 based on the disease criteria and payment values contained in the NARCO trust as described in Note 21. In light of the inherent uncertainties in making long term projections regarding claims filing rates and disease manifestation, we do not believe that we have a reasonable basis for estimating NARCO asbestos claims beyond 2018 under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5). Regarding Bendix asbestos related claims, we accrue for the estimated value of pending claims based on expected claim resolution values and dismissal rates. In the fourth quarter of 2006, the Company accrued a liability for the estimated cost of future anticipated claims related to Bendix through 2011 based on our assessment of additional claims that may be brought against us and anticipated resolution values in the tort system. In December 2006, we also changed our methodology for valuing Bendix pending and future claims from using average resolution values of the previous five years to using average resolution values of the previous two years. For additional information see Note 21. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential ranges of probable losses and recognize a liability, if any, for these contingencies based on an analysis of each individual issue with the assistance of outside legal counsel and, if applicable, other experts.

In connection with the recognition of liabilities for asbestos related matters, we record asbestos related insurance recoveries that are deemed probable. In assessing the probability of insurance recovery, we make judgments concerning insurance coverage that we believe are reasonable and consistent with our historical experience with our insurers, our knowledge of any pertinent solvency issues surrounding insurers, various judicial determinations relevant to our insurance programs and our consideration of the impacts of any settlements with our insurers.

Note 21 (In Part): Commitments and Contingencies

Asbestos Matters (In Part)

Like many other industrial companies, Honeywell is a defendant in personal injury actions related to asbestos. We did not mine or produce asbestos, nor did we make or sell insulation products or other construction materials that have been identified as the primary cause of asbestos related disease in the vast majority of claimants. Products containing asbestos previously manufactured by Honeywell or by previously owned subsidiaries primarily fall into two general categories: refractory products and friction products.

Refractory Products (In Part)

Honeywell owned North American Refractories Company (NARCO) from 1979 to 1986. NARCO produced refractory products (high temperature bricks and cement) that were sold largely to the steel industry in the East and Midwest. Less than 2 percent of NARCO'S products contained asbestos.

As of December 31, 2006 and 2005, our consolidated financial statements reflect an insurance receivable corresponding to the liability for settlement of pending and future NARCO-related asbestos claims of $955 million and $1.1 billion, respectively. This coverage reimburses Honeywell for portions of the costs incurred to settle NARCO related claims and court judgments as well as defense costs and is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. At December 31, 2006, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. We conduct analyses to determine the amount of insurance that we estimate is probable of recovery in relation to payment of current and estimated future claims. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

Projecting future events is subject to many uncertainties that could cause the NARCO related asbestos liabilities or assets to be higher or lower than those projected and recorded. There is no assurance that a plan of reorganization will be confirmed, that insurance recoveries will be timely or whether there will be any NARCO related asbestos claims beyond 2018. Given the inherent uncertainty in predicting future events, we review our estimates periodically, and update them based on our experience and other relevant factors. Similarly we will reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability or other developments that may impact insurance recoveries.

Friction Products (In Part)

Honeywell's Bendix friction materials (Bendix) business manufactured automotive brake pads that contained chrysotile asbestos in an encapsulated form. There is a group of existing and potential claimants consisting largely of individuals that allegedly performed brake replacements.

Honeywell currently has approximately $1.9 billion of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims, of which $302 and $377 million are reflected as receivables in our consolidated balance sheet at December 31, 2006 and 2005, respectively. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Insurance receivables are recorded in the financial statements simultaneous with the recording of the liability for the estimated value of the underlying asbestos claims. The amount of the insurance receivable recorded is based on our ongoing analysis of the insurance that we estimate is probable of recovery. This determination is based on our analysis of the underlying insurance policies, our historical experience with our insurers, our ongoing review of the solvency of our insurers, our interpretation of judicial determinations relevant to our insurance programs, and our consideration of the impacts of any settlements reached with our issuers. Insurance receivables are also recorded when structured insurance settlements provide for future fixed payment streams that are not contingent upon future claims or other events. Such amounts are recorded at the net present value of the fixed payment stream.

On a cumulative historical basis, Honeywell has recorded insurance receivables equal to approximately 50 percent of

the value of the underlying asbestos claims recorded. However, because there are gaps in our coverage due to insurance company insolvencies, certain uninsured periods, and insurance settlements, this rate is expected to decline for any future Bendix related asbestos liabilities that may be recorded. Future recoverability rates may also be impacted by numerous other factors, such as future insurance settlements, insolvencies and judicial determinations relevant to our coverage program, which are difficult to predict. Assuming continued defense and indemnity spending at current levels, we estimate that the cumulative recoverability rate could decline over the next five years to approximately 40 percent.

Insurance Recoveries for Asbestos Related Liabilities

	2006			2005			2004		
(In millions)	Bendix	NARCO	Total	Bendix	NARCO	Total	Bendix	NARCO	Total
Beginning of year	$ 377	$1,096	$1,473	$336	$1,226	$1,562	$209	$1,238	$1,447
Probable insurance recoveries related to claims filed	11	—	11	34	—	34	96	—	96
Probable insurance recoveries related to annual update of expected resolution values for pending claims	39	—	39	(15)	—	(15)	39	—	39
Insurance receipts for asbestos related liabilities	(166)	(100)	(266)	(33)	(127)	(160)	(8)	(59)	(67)
Insurance receivables settlements and write-offs[1]	34	(41)	(7)	41	—	41	—	—	—
Other[2]	7	—	7	14	(3)	11	—	47	47
End of year	$ 302	$ 955	$1,257	$377	$1,096	$1,473	$336	$1,226	$1,562

[1] In 2006, $34 million reflects gains from settlements with two Bendix insurance carriers and $41 million represents the write-down of the NARCO insurance receivable to reflect the reduction in the estimated cost of future claims. In 2005, consists of gains from insurance settlements of $172 million principally related to a structured insurance settlement with a carrier which converted a policy into a future, fixed, non-contingent payment stream, and charges of $131 million for write-offs of certain amounts due from insurance carriers.

[2] In 2004, $47 million related to additional probable insurance recoveries identified in the second quarter of 2004 based on our ongoing evaluation of the enforceability of our rights under the various insurance policies.

NARCO and Bendix asbestos related balances are included in the following balance sheet accounts:

	2006	2005
Other current assets	$ 157	$ 171
Insurance recoveries for asbestos related liabilities	1,100	1,302
	$1,257	$1,473
Accrued liabilities	$ 557	$ 520
Asbestos related liabilities	1,262	1,549
	$1,819	$2,069

Film and Television Costs

2.157

TIME WARNER INC. (DEC)

(Millions)	2006	2005
Total current assets	$ 10,851	$ 14,050
Noncurrent inventories and film costs	5,394	4,597
Investments, including available-for-sale securities	3,442	3,495
Property, plant and equipment, net	16,775	12,896
Intangible assets subject to amortization, net	5,230	3,476
Intangible assets not subject to amortization	46,623	37,367
Goodwill	40,953	40,139
Other assets	2,401	3,119
Noncurrent assets of discontinued operations	—	3,605
Total assets	$131,669	$122,744

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Change in Accounting Principle for Recognizing Programming Inventory Costs at HBO (In Part)

Effective January 1, 2006, the Company changed its methodology for recognizing programming inventory costs (for both theatrical and original programming) at its HBO division. Previously, the Company recognized HBO's programming costs on a straight-line basis in the calendar year in which the related programming first aired on the HBO and Cinemax pay television services. The Company now recognizes programming costs on a straight-line basis over the license periods or estimated period of use of the related shows, beginning with the month of initial exhibition. The Company concluded that this change in accounting for programming inventory costs was preferable after giving consideration to the cumulative impact that marketplace and technological changes have had in broadening the variety of viewing options and period over which consumers are now experiencing HBO's programming.

Revenues and Costs (In Part)

Publishing (In Part)

Inventories of merchandise are stated at the lower of cost or estimated realizable value. Cost is determined using primarily the first-in, first-out method, or, alternatively, the average cost method. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

Networks (In Part)

The Company records programming arrangements (e.g., film inventory, sports rights, etc.) at the lower of unamortized cost or estimated net realizable value. For cable networks (e.g., TBS, TNT, etc.), that earn both Advertising and Subscription revenues, the Company evaluates the net realizable value of unamortized cost based on the package of programming provided to the subscribers by the network. Specifically, in determining whether the programming arrangements for a particular network are impaired, the Company determines the net realizable value for all of the network's programming arrangements based on a projection of the network's estimated combined subscription revenues and advertising revenues. Similarly, given the premise that customers subscribe to a premium service (e.g., HBO) because of the overall quality of its programming, the Company performs its evaluation of the net realizable value of unamortized programming costs based on the package of programming provided to the subscribers by the network. Specifically, the Company determines the net realizable value for all of its premium service programming arrangements based on projections of estimated subscription revenues.

Filmed Entertainment (In Part)

Inventories of theatrical and television product consist primarily of DVDs and are stead at the lower of cost or net realizable value. Cost is determined using the average cost method. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

Film costs include the unamortized cost of completed theatrical films and television episodes, theatrical films and television series in production and film rights in preparation of development. Film costs are stated at the lower of cost, less accumulated amortization, or fair value. The amount of capitalized film costs recognized as cost of revenues for a given film as it is exhibited in various markets, throughout its life cycle, is determined using the film forecast method. Under this method, the amortization of capitalized costs and the accrual of participations and residuals is based on the proportion of the film's revenues recognized for such period to the film's estimated remaining ultimate revenues. Estimated ultimate revenues are revised periodically. Losses are provided in full if estimated ultimate revenues indicate that the carrying value of a film is impaired.

7. Inventories and Film Costs

Inventories and film costs consist of:

(Millions)	2006	2005
Programming costs, less amortization	$ 3,287	$ 3,213
DVDs, books, paper and other merchandise	353	410
Film costs—Theatrical:		
Released, less amortization	682	724
Completed and not released	205	123
In production	1,392	782
Development and pre-production	50	80
Film costs—Television:		
Released, less amortization	704	529
Completed and not released	158	230
In production	473	545
Development and pre-production	3	2
Total inventories and film costs[a]	7,307	6,638
Less: current portion of inventory[b]	(1,913)	(2,041)
Total noncurrent inventories and film costs	$ 5,394	$ 4,597

[a] Does not include $2.691 billion and $2.903 billion of net film library costs as of December 31, 2006 and December 31, 2005, respectively, which are included in intangible assets subject to amortization on the accompanying consolidated balance sheet (Note 3).

[b] Current inventory as of December 31, 2006 and December 31, 2005 is comprised primarily of programming inventory at the Networks segment ($1.558 billion and $1.629 billion, respectively), magazines, paper and other merchandise at the Publishing segment ($145 million and $170 million, respectively), DVDs and videocassettes at the Filmed Entertainment segment ($210 million and $239 million, respectively) and general merchandise at the AOL segment ($3 million as of December 31, 2005).

Approximately 89% of unamortized film costs for released theatrical and television product are expected to be amortized within three years from December 31, 2006, In addition, approximately $1.2 billion of the film costs of released and completed and not released theatrical and television product are expected to be amortized during the twelve month period ending December 31, 2007.

CURRENT LIABILITIES

2.158 ARB No. 43, Chapter 3A, *Current Assets and Current Liabilities*, as amended by SFAS No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced*, and SFAS No. 78, *Classification of Obligations That Are Callable by the Creditor*, discusses, in paragraphs 7 and 8, the nature of current liabilities. Examples of the various types of current liabilities follow.

SHORT-TERM DEBT

2.159 Table 2-22 lists the captions used by the survey companies to describe short-term notes payable, loans payable and commercial paper. By definition, such short-term obligations are financial instruments.

2.160 *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of short-term notes payable, loans payable, and commercial paper unless it is not practicable to estimate that value. 228 survey companies made 230 fair value disclosures. 40 of those disclosures used market or broker quotes of the short-term debt to determine fair value. 22 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. None of those disclosures estimated fair value using other valuation methods. 202 disclosures presented carrying amounts which approximated fair value of short-term debt. In addition, there were 45 disclosures in which carrying value was compared to fair value in an exposition or table. None of the disclosures stated it was not practicable to estimate fair value.

2.161 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.162 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.163 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged, SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While *SFAS No. 157* does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as *SFAS Nos. 107, and 133. SFAS No. 157* clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. *SFAS No. 157* emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, *SFAS No. 157* specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs. For assets and liabilities measured at fair value on a recurring basis, *SFAS No. 157* expands the required disclosures concerning the inputs used to measure fair value, and encourages the combination of fair value information disclosed under the standard with those disclosed under other pronouncements, such as *SFAS No. 107.*

2.164 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with conditioned earlier application allowed, SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Further, under *SFAS No. 159* a business entity shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, and applied to the entire instrument, not just a portion of it. *SFAS No. 159* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. *SFAS No. 159* does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included in pronouncements, such as *SFAS Nos. 107 and 157.*

2.165 Examples of short-term debt presentations and disclosures follow.

2.166

TABLE 2-22: SHORT-TERM DEBT

	2006	2005	2004	2003
Description				
Notes or loans				
Payee indicated	22	27	26	31
Payee not indicated	77	85	89	100
Short-term debt or borrowings	133	133	138	145
Commercial paper	45	40	32	46
Credit agreements	38	37	13	12
Other	24	16	25	21
Total Presentations	**339**	**338**	**323**	**355**
Number of Companies				
Showing short-term debt	293	279	285	308
Not showing short-term debt	307	321	315	292
Total Companies	**600**	**600**	**600**	**600**

2.167

THE TIMKEN COMPANY (DEC)

(Dollars in thousands)	2006	2005
Current liabilities		
Short-term debt	$ 40,217	$ 63,437
Accounts payable and other liabilities	506,301	470,966
Salaries, wages and benefits	225,409	364,028
Income taxes payable	52,768	30,497
Deferred income taxes	638	4,880
Current liabilities of discontinued operations	—	41,676
Current portion of long-term debt	10,236	95,842
Total current liabilities	$835,569	$1,071,326

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

5 (In Part): Financing Arrangements

Short-term debt at December 31, 2006 and 2005 was as follows:

	2006	2005
Variable-rate lines of credit for certain of the company's European and Asian subsidiaries with various banks with interest rates ranging from 3.32% to 11.5% and 2.65% to 7.70% at December 31, 2006 and 2005, respectively	$27,000	$23,884
Variable-rate Ohio Water Development Authority revenue bonds for PEL (3.59% at December 31, 2005)	—	23,000
Fixed-rate mortgage for PEL with an interest rate of 9.00%	—	11,491
Fixed-rate short-term loans of an Asian subsidiary with interest rates ranging from 6.76% to 6.84% at December 31, 2006	10,005	—
Other	3,212	5,062
Short-term debt	$40,217	$63,437

In January 2006, the company repaid, in full, the $23,000 balance outstanding of the revenue bonds held by PEL Technologies LLC (PEL), an equity investment of the company. In June 2006, the company continued to liquidate the remaining assets of PEL with land and buildings exchanged for the fixed-rate mortgage.

The lines of credit for certain of the company's European and Asian subsidiaries provide for borrowings up to $217,109. At December 31, 2006, the company had borrowings outstanding of $27,000, which reduced the availability under these facilities to $190,109.

On December 30, 2005, the company entered into a new $200,000 Accounts Receivable Securitization Financing Agreement (2005 Asset Securitization), replacing the $125,000 Asset Securitization Financing Agreement that had been in place since 2002. The 2005 Asset Securitization provided for borrowings up to $200,000, limited to certain borrowing base calculations, and was secured by certain domestic trade receivables of the company. On December 30, 2006, the company entered into a $200,000 Accounts Receivable Securitization Financing Agreement (2006 Asset Securitization) replacing the 2005 Asset Securitization. Under the terms of the 2006 Asset Securitization, the company sells, on an ongoing basis, certain domestic trade receivables to Timken Receivables Corporation, a wholly-owned consolidated subsidiary that in turn uses the trade receivables to secure the borrowings, which are funded through a vehicle that issues commercial paper in the short-term market. Under the 2006 Asset Securitization, the company also has the ability to issue letters of credit. As of December 31, 2006, 2005 and 2004, there were no amounts outstanding under the receivables securitization facility. As of December 31, 2006, the company had issued letters of credit totaling $16,658, which reduced the availability under the 2006 Asset Securitization to $183,342. Any amounts outstanding under this facility would be reported on the company's Consolidated Balance Sheet in short-term debt. The yield on the commercial paper, which is the commercial paper rate plus program fees, is considered a financing cost and is included in interest expense on the Consolidated Statement of Income. This rate was 5.84%, 4.59% and 2.57%, at December 31, 2006, 2005 and 2004, respectively.

10 (In Part): Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, commercial paper, short-term borrowings and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments. The fair value of the company's long-term fixed-rate debt, based on quoted market prices, was $440,700 and $525,000 at December 31, 2006 and 2005, respectively. The carrying value of this debt at such dates was $450,200 and $538,000, respectively.

2.168

WHEELING-PITTSBURGH CORPORATION (DEC)

(Dollars in thousands)	2006	2005
Current liabilities:		
Accounts payable, including book overdrafts of $13,842 and $21,020	$ 99,536	$117,821
Short-term debt	110,000	17,300
Payroll and employee benefits payable	34,766	41,125
Accrued income and other taxes	10,333	11,735
Deferred income taxes payable	30,537	26,264
Accrued interest and other current liabilities	8,970	5,757
Deferred revenue	1,287	8,523
Long-term debt due in one year	32,119	31,357
Total current liabilities	$327,548	$259,882

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

13. Short-Term Debt

On July 8, 2005, the Company entered into an amended and restated $225,000 revolving credit agreement, which matures on July 8, 2009. This new revolving credit facility amended and restated the Company's $225,000 revolving credit agreement entered into in August 2003, which was scheduled to mature on August 1, 2006. At December 31, 2006 and 2005,

$110,000 and $17,300 was outstanding under the revolving credit facility, respectively.

The revolving credit facility requires the Company to maintain minimum borrowing availability of $50,000 at all times or to comply with a minimum fixed charge coverage ratio if borrowing availability under the revolving credit facility falls below $50,000 at any point in time. If an event of default occurs under the Company's $250,000 senior secured term loan, such event will constitute an event of default under the Company's amended and restated revolving credit agreement. Additionally, if an event of default results in acceleration of the Company's term loan or revolving credit agreement, such event would also result in the acceleration of substantially all of the Company's other indebtedness pursuant to cross-default or cross-acceleration provisions. The Company is restricted from paying any cash dividends under the terms of the revolving credit agreement.

On March 16, 2007, the revolving credit agreement was amended to allow the Company to access collateral in excess of the $225,000 commitment under the facility. If the minimum fixed charge coverage ratio is not met by the Company at the end of any quarter and excess collateral, as defined by the agreement, is available, the Company will be able to access up to $45,000 of such excess collateral over and above the $225,000 commitment amount and the Company will be required to maintain at least $50,000 of borrowing availability at all times. Provided that sufficient collateral will support such borrowings, the Company will be permitted to borrow up to $220,000 under the facility. The incremental amount of borrowing availability of up to $45,000 will decrease by $5,000 each quarter commencing with the fourth quarter of 2007 through the second quarter of 2008, and will be limited, thereafter, to up to $25,000 through, but not beyond, November 1, 2008. On this date and thereafter, the previous requirement that the Company maintain minimum borrowing availability of $50,000 at all times without access to collateral beyond the $225,000 million amount of the facility, or to maintain a minimum fixed charge coverage ratio, will again be applicable.

Borrowing availability under the revolving credit facility is based on eligible accounts receivable and inventory amounts, as defined by the revolving credit facility. Borrowing availability is reduced by amounts outstanding under the revolving credit facility and by outstanding letters of credit. Interest on borrowings under the revolving credit facility is payable monthly and is calculated based on LIBOR or the prime rate using spreads based on borrowing availability, as defined by the revolving credit facility. The average rate of interest on amounts outstanding under the revolving credit facility during 2006, 2005 and 2004 approximated 7.9%, 6.3% and 4.9%, respectively. Amounts outstanding under the revolving credit facility are collateralized by a first lien on accounts receivable and inventory and a third lien on other tangible and intangible assets and investments in affiliates.

Due to certain mandatory lockbox requirements and other provisions under the revolving credit agreement, amounts outstanding under the revolving credit facility have been classified as a short-term obligation in accordance with the provisions of EITF 95-22.

22 (In Part): Financial Instruments

The carrying value and the estimated fair value of the Company's financial instruments were as follows:

	2006		2005	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Cash and cash equivalents	$ 21,842	$ 21,842	$ 8,863	$ 8,863
Short-term debt	110,000	110,000	17,300	17,300
Long-term debt:				
Senior secured term loan	193,650	193,650	218,650	218,650
Other	93,430	93,430	96,807	96,807

Short-Term Debt

Short-term debt carries a fair value rate of interest. The fair value of this instrument is estimated to reasonably approximate its carrying value.

TRADE ACCOUNTS PAYABLE

2.169 All the survey companies disclosed the existence of amounts owed to trade creditors. As shown in Table 2-23, such amounts were usually described as *Accounts Payable* or *Trade Accounts Payable*.

2.170 As stated in paragraph 13 of *SFAS No. 107*, as amended by *SFAS No. 133*, fair value disclosure is not required for trade payables when the carrying amount of the trade payable approximates its fair value. 314 survey companies made 319 fair value disclosures. Carrying amount approximated fair value of trade payables for 312 disclosures.

2.171 Examples of trade accounts payable presentations follow.

2.172

TABLE 2-23: TRADE ACCOUNTS PAYABLE

	2006	**2005**	**2004**	**2003**
Accounts payable	464	460	458	466
Trade accounts payable	79	88	90	89
Accounts payable combined with accrued liabilities or accrued expenses	28	26	30	28
Other captions	29	26	22	17
Total Companies	**600**	**600**	**600**	**600**

2.173

THE BOEING COMPANY (DEC)

(Dollars in millions)	2006	2005
Accounts payable and other liabilities	$16,201	$16,513
Advances and billings in excess of related costs	11,449	9,868
Income taxes payable	670	556
Short-term debt and current portion of long-term debt	1,381	1,189
Total current liabilities	$29,701	$28,126

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Accounts Payable and Other Liabilities

Accounts payable and other liabilities at December 31 consisted of the following:

	2006	2005
Accounts payable	$ 5,643	$ 5,124
Accrued compensation and employee benefit costs	4,852	4,165
Legal, environmental, and other contingencies	1,254	1,647
Forward loss recognition	532	1,114
Other	3,920	4,463
	$16,201	$16,513

Payments associated with these liabilities may occur in periods significantly beyond the next twelve months. Accounts payable included $335 and $204 at December 31, 2006 and 2005, attributable to checks written but not yet cleared by the bank.

Note 21 (In Part): Disclosures About Fair Value of Financial Instruments

As of December 31, 2006, the carrying amounts of Accounts receivable and Accounts payable were $5,285 and $5,643, and the related fair values, based on current market rates for loans of the same risk and maturities, were estimated at $4,876 and $5,356. The estimated fair values of our Accounts receivable and Accounts payable balances at December 31, 2005 approximate their carrying value. The estimated fair value of our Other liabilities balance at December 31, 2006 and 2005 approximates its carrying value.

2.174

UNITED STATES STEEL CORPORATION (DEC)

(Dollars in millions)	2006	2005
Current liabilities:		
Accounts payable	$1,254	$1,208
Accounts payable to related parties (Note 22)	59	48
Bank checks outstanding	66	115
Payroll and benefits payable	1,028	912
Accrued taxes	182	186
Accrued interest	31	31
Short-term debt and current maturities of long-term debt	82	249
Total current liabilities	$2,702	$2,749

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 (In Part): Fair Value of Financial Instruments

Fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement. The following table summarizes financial instruments, excluding derivative financial instruments disclosed in Note 21, by individual balance sheet account. U.S. Steel's financial instruments at December 31, 2006 and 2005, were:

	2006		2005	
(In millions)	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial assets:				
Cash and cash equivalents	$1,422	$1,422	$1,479	$1,479
Receivables	1,681	1,681	1,520	1,520
Receivables from related parties	123	123	93	93
Investments and long-term receivables	28	28	18	18
Total financial assets	$3,254	$3,254	$3,110	$3,110
Financial liabilities:				
Accounts payable	$1,320	$1,320	$1,323	$1,323
Accounts payable to related parties	59	59	48	48
Accrued interest	31	31	31	31
Debt	949	906	1,568	1,476
Total financial liabilities	$2,359	$2,316	$2,970	$2,878

Fair value of financial instruments classified as current assets or liabilities approximates carrying value due to the short-term maturity of the instruments. Fair value of investments and long-term receivables was based on discounted cash flows or other specific instrument analysis. U.S. Steel is subject to market risk and liquidity risk related to its investments; however, these risks are not readily quantifiable. Fair value of long-term debt instruments was based on market prices where available or current borrowing rates available for financings with similar terms and maturities.

22 (In Part): Transactions with Related Parties

Accounts payable to related parties include balances due to PRO-TEC Coating Company (PRO-TEC) under an agreement whereby U. S. Steel provides marketing, selling and customer service functions, including invoicing and receivables collection, for PRO-TEC. U. S. Steel, as PRO-TEC's exclusive sales agent, is responsible for credit risk related to those receivables. Payables to PRO-TEC under the agreement were $57 million and $47 million at December 31, 2006 and 2005, respectively. Payables to equity investees totaled $2 million and $1 million at December 31, 2006 and 2005, respectively.

EMPLOYEE-RELATED LIABILITIES

2.175 SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, amends the recognition, measurement date, and disclosure requirements of SFAS No. 87, *Employers' Accounting for Pensions*, SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and SFAS No. 132 (Revised), *Employers' Disclosures about Pensions and Other Postretirement Benefits. SFAS No. 158* requires that a business entity recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position, recognize changes in that funded status in comprehensive income, and disclose in the notes to financial statements additional information about net periodic benefit cost. An employer whose equity securities are traded publicly is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures for their financial statements issued for fiscal years ending after December 15, 2006. Examples of the funded status of a benefit plan recognized under *SFAS No. 158* as asset or liability in the statement of financial position are presented in this section, the "Other Noncurrent Assets" section, and the "Other Noncurrent Liabilities" section. Additional examples can also be found in Section 3, under "Pensions and Other Postretirement Benefits."

2.176 Table 2-24 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Examples of employee related liability presentations and disclosures follow.

2.177

TABLE 2-24: EMPLOYEE-RELATED LIABILITIES

	2006	2005	2004	2003
Description				
Salaries, wages, payrolls, commissions	271	262	265	266
Compensation	229	225	228	222
Pension or profit-sharing contributions	150	60	56	49
Benefits	149	65	76	60
Compensated absences	11	13	13	14
Other	69	42	44	46
Total Presentations	**879**	**667**	**682**	**657**
Number of Companies				
Disclosing employee related liabilities	524	501	506	500
Not disclosing	76	99	94	100
Total Companies	**600**	**600**	**600**	**600**

2.178

COLGATE-PALMOLIVE COMPANY (DEC)

(Dollars in millions)	2006	2005
Current liabilities		
Notes and loans payable	$ 174.1	$ 171.5
Current portion of long-term debt	776.7	356.7
Accounts payable	1,039.7	876.1
Accrued income taxes	161.5	215.5
Other accruals	1,317.1	1,123.2
Total current liabilities	$3,469.1	$2,743.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

2 (In Part): Summary of Significant Accounting Policies

Recent Accounting Pronouncements (In Part)

In December 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). SFAS 158 requires company plan sponsors to display the net over- or under-funded position of a defined benefit postretirement plan as an asset or liability, with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as a component of accumulated other comprehensive income in shareholders' equity. Retirement plans, other retiree benefits and the impact of adopting SFAS 158 are more fully described in Note 10.

10 (In Part): Retirement Plans and Other Retiree Benefits

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158. "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). SFAS 158 requires company plan sponsors to record the net over- or under-funded position of a defined benefit postretirement plan as an asset or liability,

with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as a component of Accumulated other comprehensive income in shareholders' equity. The provisions of SFAS 158 are effective for fiscal years ending after December 15, 2006. Summarized information for the Company's December 31, 2006 implementation of SFAS 158 for defined benefit and other retiree benefit plans are as follows:

	Balance, Pre-SFAS 158 & Without AML Adjustment	2006 AML Adjustment	SFAS 158 Adoption Adjustment	Ending Balance
Amounts recognized in balance sheet				
Noncurrent assets	$ 388.0	$ —	$(316.9)	$ 71.1
Current liabilities	—	—	(44.3)	(44.3)
Noncurrent liabilities	(739.2)	27.9	(257.1)	(968.4)
Accumulated other comprehensive income adjustment, net of tax*	116.1	(19.2)	380.7	477.6
Deferred tax assets	62.4	(8.7)	237.6	291.3

*The SFAS 158 adoption adjustment of $380.7, net of tax includes a cumulative translation adjustment of $10.3.

Retirement Plans (In Part)

The Company uses a December 31 measurement date for its defined benefit and other retiree benefit plans. Summarized information for the Company's defined benefit and other retiree benefit plans are as follows:

	Pension Benefits				Other Retiree Benefits	
	2006	2005	2006	2005	2006	2005
	United States		International			
Change in benefit obligations						
Benefit obligations at beginning of year	$1,462.4	$1,368.3	$ 658.8	$ 675.8	$ 413.0	$ 332.9
Service cost (income)	45.2	47.4	21.1	20.0	(1.9)	(3.6)
Interest cost	83.4	76.1	32.1	33.3	28.7	26.4
Participants' contributions	2.3	2.6	3.1	3.6	—	—
Acquisitions/plan amendments	36.7	2.6	(2.3)	—	—	10.2
Actuarial loss (gain)	(36.7)	83.4	(7.1)	49.4	30.9	63.7
Foreign exchange impact	—	—	60.6	(62.5)	(0.9)	(0.8)
Termination benefits	100.9	11.4	0.2	—	6.5	1.4
Curtailments and settlements	—	(34.0)	(13.8)	(27.7)	—	(0.1)
Benefit payments	(112.2)	(95.4)	(32.3)	(33.1)	(16.3)	(17.1)
Benefit obligations at end of year	$1,582.0	$1,462.4	$ 720.4	$ 658.8	$ 460.0	$ 413.0
Change in plan assets						
Fair value of plan assets at beginning of year	$1,236.8	$1,148.2	$ 355.8	$ 360.0	$ 12.2	$ 5.5
Actual return on plan assets	153.2	92.4	25.1	41.8	2.8	1.1
Company contributions	113.6	123.0	36.4	41.6	23.9	22.7
Participants' contributions	2.3	2.6	3.1	3.6	—	—
Foreign exchange impact	—	—	28.8	(33.0)	—	—
Settlements	—	(34.0)	(12.4)	(25.1)	—	—
Benefit payments	(112.2)	(95.4)	(32.3)	(33.1)	(16.3)	(17.1)
Fair value of plan assets at end of year	$1,393.7	$1,236.8	$ 404.5	$ 355.8	$ 22.6	$ 12.2
Funded status						
Funded status at end of year	$ (188.3)	$ (225.6)	$(315.9)	$(303.0)	$(437.4)	$(400.8)
Unrecognized net actuarial loss	—	470.8	—	150.8	—	198.8
Unrecognized transition/prior service costs	—	9.7	—	10.0	—	1.5
Net amount recognized	$ (188.3)	$ 254.9	$(315.9)	$(142.2)	$(437.4)	$(200.5)
Amounts recognized in balance sheet						
Noncurrent assets	$ 65.6	$ 400.0	$ 5.5	$ 14.4	$ —	$ —
Current liabilities	(14.2)	—	(11.5)	—	(18.6)	—
Noncurrent liabilities	(239.7)	(224.7)	(309.9)	(245.2)	(418.8)	(200.5)
Accumulated other comprehensive income	—	79.6	—	88.6	—	—
Net amount recognized	$ (188.3)	$ 254.9	$(315.9)	$(142.2)	$(437.4)	$(200.5)

(continued)

	Pension Benefits				Other Retiree Benefits	
	2006	2005	2006	2005	2006	2005
	United States		International			
Amounts recognized in accumulated other comprehensive income consist of						
Actuarial loss	$ 355.4	$ —	$ 145.5	$ —	$ 216.4	$ —
Transition/prior service cost	41.5	—	8.8	—	1.3	—
Additional minimum pension liability	—	79.6	—	88.6	—	—
	$ 396.9	$ 79.6	$ 154.3	$ 88.6	$ 217.7	$ —
Accumulated benefit obligation	$1,502.0	$1,381.1	$ 625.2	$ 572.5	$ —	$ —
Weighted average assumptions used to determine benefit obligations						
Discount rate	5.80%	5.50%	4.82%	4.83%	5.80%	5.50%
Long-term rate of return on plan assets	8.00%	8.00%	6.70%	6.92%	8.00%	8.00%
Long-term rate of compensation increase	4.00%	4.00%	3.41%	3.42%	—	—
ESOP growth rate	—	—	—	—	10.00%	10.00%

16 (In Part): Supplemental Balance Sheet Information

Other Accruals	2006	2005
Accrued advertising	$ 438.4	$ 344.9
Accrued payroll and employee benefits	322.5	305.6
Accrued taxes other than income taxes	49.2	72.3
Restructuring accrual	64.7	38.7
Pension and other retiree benefits	44.3	—
Accrued interest	19.1	17.5
Other	378.9	344.2
Total other accruals	$1,317.1	$1,123.2

2.179

RYDER SYSTEM, INC. (DEC)

(Dollars in thousands)	2006	2005
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 332,745	$ 269,438
Accounts payable	515,121	414,336
Accrued expenses and other current liabilities	419,756	569,721
Total current liabilities	$1,267,622	$1,253,495

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Accounting Changes

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

Effective December 31, 2006, we adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Under SFAS No. 158, we are required to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement plan as an asset or liability in our Consolidated Balance Sheets and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also required the measurement of the funded status of a plan as of the date of its year-end statement of financial position. Our existing policy required us to measure the funded status of our plans as of the balance sheet date; accordingly, the new measurement date requirements of SFAS No. 158 had no impact.

The following table summarizes the incremental effect of recognizing the funded status of our plans in accordance with SFAS No. 158 on individual line items in the Consolidated Balance Sheet at December 31, 2006:

(In thousands)	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Intangible assets	$ 14,901	$ (514)	$ 14,387
Direct financing leases and other assets	540,046	(154,870)	385,176
Total assets	6,984,307	(155,384)	6,828,923
Accrued expenses and other current liabilities	422,957	(3,201)	419,756
Other non-current liabilities	366,502	82,656	449,158
Deferred income taxes	991,006	(83,840)	907,166
Total liabilities	5,112,529	(4,385)	5,108,144
Accumulated other comprehensive loss	4,505	(150,999)	(146,494)
Total shareholders' equity	1,871,778	(150,999)	1,720,779

13. Accrued Expenses and Other Liabilities

	2006			2005		
(In thousands)	Accrued Expenses	Non-Current Liabilities	Total	Accrued Expenses	Non-Current Liabilities	Total
Salaries and wages	$ 86,454	$ —	$ 86,454	$ 79,386	$ —	$ 79,386
Deferred compensation	3,206	21,866	25,072	3,134	20,212	23,346
Pension benefits	2,032	112,239	114,271	71,289	166,384	237,673
Other postretirement benefits	3,595	41,265	44,860	7,381	24,483	31,864
Employee benefits	3,127	—	3,127	3,746	—	3,746
Insurance obligations	117,311	191,098	308,409	111,163	192,077	303,240
Residual value guarantees	887	1,340	2,227	3,622	1,678	5,300
Vehicle rent	998	1,905	2,903	1,917	3,606	5,523
Deferred vehicle gains	912	1,813	2,725	1,087	2,450	3,537
Environmental liabilities	4,029	12,150	16,179	3,536	12,970	16,506
Asset retirement obligations	3,514	10,186	13,700	3,075	10,181	13,256
Operating taxes	78,233	—	78,233	87,489	—	87,489
Income taxes	4,831	36,800	41,631	95,352	26,971	122,323
Restructuring	1,806	181	1,987	2,714	513	3,227
Interest	19,497	—	19,497	17,918	—	17,918
Customer deposits	23,474	—	23,474	19,596	—	19,596
Derivatives	20,101	—	20,101	—	9,739	9,739
Other	45,749	18,315	64,064	57,316	16,004	73,320
Total	$419,756	$449,158	$868,914	$569,721	$487,268	$1,056,989

23 (In Part): Employee Benefit Plans

Pension Plans (In Part)

Obligations and Funded Status

The following table sets forth the balance sheet impact, as well as the benefit obligations, assets and funded status associated with Ryder's pension plans:

(In thousands)	2006	2005
Change in benefit obligations:		
Benefit obligations at January 1	$1,467,891	$1,330,356
Service cost	42,675	37,252
Interest cost	82,536	76,512
Actuarial (gain) loss	(23,544)	96,597
Benefits paid	(49,088)	(45,340)
Transfers	—	(5,013)
Plan amendment	(22,727)	—
Foreign currency exchange rate changes	33,834	(22,473)
Benefit obligations at December 31	$1,531,577	$1,467,891
Change in plan assets:		
Fair value of plan assets at January 1	$1,147,537	$1,106,386
Actual return on plan assets	158,782	94,748
Employer contribution	129,631	12,288
Plan participants' contributions	2,180	2,226
Benefits paid	(49,088)	(45,340)
Transfers	—	(5,013)
Foreign currency exchange rate changes	28,264	(17,758)
Fair value of plan assets at December 31	$1,417,306	$1,147,537
Funded status	$ (114,271)	$ (320,354)
Unrecognized transition asset	(163)	(171)
Unrecognized prior service (credit) cost	(20,785)	7,333
Unrecognized net actuarial loss	318,452	427,588
Net	$ 183,233	$ 114,396

Amounts recognized in the balance sheet consisted of:

(In thousands)	2006	2005
Accrued benefit liability	$(114,271)	$(237,673)
Intangible assets	—	7,333
Accumulated other comprehensive loss (pre-tax)	297,504	344,736
Net amount recognized	$ 183,233	$ 114,396

Other Postretirement Benefits (In Part)

Ryder's postretirement benefit plans are not funded. The following table sets forth the balance sheet impact, as well as the benefit obligations and rate assumptions associated with Ryder's postretirement benefit plans:

(In thousands)	2006	2005
Benefit obligations at January 1	$ 39,286	$ 39,142
Service cost	1,316	1,007
Interest cost	2,513	2,122
Actuarial loss	1,043	2,145
Benefits paid	(4,073)	(5,232)
Census data adjustment	4,796	—
Foreign currency exchange rate changes	(21)	102
Benefit obligations at December 31	44,860	39,286
Unrecognized prior service credit	2,693	2,924
Unrecognized net actuarial loss	(13,270)	(10,346)
Net	$ 34,283	$ 31,864

The following table details other postretirement benefits expected to be paid in each of the next five fiscal years and in aggregate for the five fiscal years thereafter:

(In thousands)	
2007	$ 3,595
2008	3,648
2009	3,734
2010	3,789
2011	3,980
2012–2016	20,893

INCOME TAX LIABILITY

2.180 Table 2-25 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

2.181

TABLE 2-25: CURRENT INCOME TAX LIABILITY

	2006	**2005**	**2004**	**2003**
Income taxes	330	336	334	318
Taxes—type not specified	61	59	57	59
Federal and state income taxes	9	10	9	8
U.S. and foreign income taxes	6	8	5	8
Federal, state, and foreign income taxes	6	3	6	11
Federal income taxes	1	3	4	2
Federal and foreign income taxes	2	2	4	2
Other captions	14	9	13	10
No current income tax liability	171	170	168	182
Total Companies	**600**	**600**	**600**	**600**

2.182

JACK IN THE BOX INC. (SEP)

(Dollars in thousands)	2006	2005
Current liabilities:		
Current maturities of long-term debt	$ 37,539	$ 7,788
Accounts payable	61,059	56,064
Accrued liabilities	240,320	211,438
Total current liabilities	$338,918	$275,290

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

16 (In Part): Supplemental Consolidated Financial Statement Information

	2006	2005
Accrued liabilities:		
Payroll and related taxes	$ 76,822	$ 75,101
Sales and property taxes	23,377	21,335
Insurance	49,035	47,072
Income taxes	19,188	7,577
Advertising	19,976	17,620
Other	51,922	42,733
	$240,320	$211,438

2.183

ZIMMER HOLDINGS, INC. (DEC)

(In millions)	2006	2005
Current liabilities:		
Accounts payable	$158.0	$123.6
Income taxes payable	106.5	82.1
Other current liabilities	363.7	401.2
Total current liabilities	$628.2	$606.9

CURRENT AMOUNT OF LONG-TERM DEBT

2.184 Table 2-26 summarizes the descriptive balance sheet captions used to describe the amount of long-term debt payable during the next year. *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of the current amount of long-term debt unless it is not practicable to estimate that value. 345 survey companies made 388 fair value disclosures. 188 of those disclosures used market or broker quotes of the current amount of long-term debt to determine fair value. 144 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. One of those disclosures estimated fair value using other valuation methods. 191 disclosures presented carrying amounts which approximated fair value of current amount of long-term debt. In addition there were 173 disclosures in which carrying value was compared to fair value in an exposition or a table. None of the disclosures stated it was not practicable to estimate fair value.

2.185 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new

carrying amount unrelated to previous amounts and accounting conventions.

2.186 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.187 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged, SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While *SFAS No. 157* does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as *SFAS Nos. 107, and 133. SFAS No. 157* clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. *SFAS No. 157* emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, *SFAS No. 157* specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs. For assets and liabilities measured at fair value on a recurring basis, *SFAS No. 157* expands the required disclosures concerning the inputs used to measure fair value, and encourages the combination of fair value information disclosed under the standard with those disclosed under other pronouncements, such as *SFAS No. 107*.

2.188 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with conditioned earlier application allowed, SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Further, under *SFAS No. 159 a* business entity shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, and applied to the entire instrument, not just a portion of it. *SFAS No. 159* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. *SFAS No. 159* does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included in pronouncements, such as *SFAS Nos. 107 and 157.*

2.189

TABLE 2-26: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Current portion of long-term debt	240	233	234	232
Current maturities of long-term debt	160	156	162	163
Current amount of long-term leases	41	36	44	34
Long-term debt due or payable within one year	26	32	33	32
Current installment of long-term debt	12	11	16	11
Other captions	13	10	14	11

2.190

THE BON-TON STORES, INC. (JAN)

(In thousands)	2007	2006
Current liabilities:		
Accounts payable	$209,742	$ 87,318
Accrued payroll and benefits	68,434	18,986
Accrued expenses	178,642	52,692
Current maturities of long-term debt	5,555	961
Current maturities of obligations under capital leases	1,936	74
Income taxes payable	48,086	26,743
Total current liabilities	$512,395	$186,774

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The carrying values of the Company's cash and cash equivalents, accounts payable and obligations under capital leases approximate fair value. The Company discloses the fair value of its long-term debt and derivative financial instruments in Notes 10 and 11, respectively. Fair value estimates of the Company's long-term debt and derivative financial instruments are based on market prices, when available, or are derived from discounted cash flow analyses.

10 (In Part): Long-Term Debt

Long-term debt consisted of the following:

	2007	2006
New senior secured credit facility—expires March 6, 2011; interest payable periodically at varying rates (7.16% weighted average for 2006)	$ 342,300	$ —
Senior notes—mature on March 15, 2014; interest payable each March 15 and September 15 at 10.25%	510,000	—
New mortgage loan facility—principal payable in varying monthly installments, with balance due March 6, 2016; interest payable monthly at 6.21%; secured by land and buildings	256,568	—
Revolving credit facility—terminated March 6, 2006; interest paid periodically at varying rates (4.91% weighted average for 2005)	—	25,550
Mortgage notes payable—principal payable in varying monthly installments through June 2016; interest payable monthly at 9.62%; secured by land and buildings	15,856	16,902
Mortgage note payable—principal payable January 1, 2011; interest payable monthly at 5.00%; secured by a building and fixtures	1,000	1,000
Total debt	1,125,724	43,452
Less: current maturities	(5,555)	(961)
Long–term debt	$1,120,169	$42,491

The fair value of the Company's debt, excluding interest rate swaps, was estimated at $1,149,957 and $45,192 at February 3, 2007 and January 28, 2006, respectively, and is based on an estimate of rates available to the Company for debt with similar features.

Debt maturities by year at February 3, 2007, are as follows:

2007	$ 5,555
2008	5,915
2009	6,394
2010	7,864
2011	349,670
2012 and thereafter	750,326
	$1,125,724

14 (In Part): Commitments and Contingencies

Leases (In Part)

At February 3, 2007, future minimum lease payments for the fixed, noncancelable terms of operating leases and the present value of net minimum lease payments under capital leases are as follows:

Year	Capital Leases	Operating Leases
2007	$ 7,224	$ 89,472
2008	7,375	87,219
2009	7,500	80,855
2010	7,500	71,175
2011	7,500	60,279
2012 and thereafter	89,375	247,367
Total net minimum rentals	$126,474	$636,367
Less: Amount representing interest	(55,082)	
Present value of net minimum lease payments, of which $1,936 is due within one year	$ 71,392	

2.191

BOWATER INCORPORATED (DEC)

(In millions)	2006	2005
Current liabilities:		
Current installments of long-term debt	$ 14.9	$ 22.2
Short-term bank debt	—	55.0
Accounts payable and accrued liabilities	431.2	498.5
Total current liabilities	$446.1	$575.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Fair Value of Financial Instruments (In Part)

SFAS No. 107, "Disclosure About Fair Value of Financial Instruments" requires that we disclose the fair value of our financial instruments when it is practical to estimate.

Long-Term Debt

The fair value of our notes and debentures (refer to Note 14, "Long-Term and Short-Term Debt and Off-Balance Sheet Arrangements") were determined by reference to quoted market prices or were determined by discounting the cash flows using current interest rates for financial instruments with similar characteristics and maturities. There were no significant differences as of December 31, 2006 and 2005 between the carrying value and fair value of our notes and debentures.

Note 14 (In Part): Long-Term and Short-Term Debt and Off-Balance Sheet Arrangements

Long-Term Debt

Long-term debt, net of current installments, consists of:

(In millions)	2006	2005
Unsecured:		
7.95% Notes due 2011, net of unamortized original discount of $0.9 in 2006 and $1.1 in 2005	$ 599.1	$ 598.9
6.5% Notes due 2013, net of unamortized original discount of $1.0 in 2006 and $1.2 in 2005	399.0	398.8
Notes due 2010 with interest at floating rates (8.36% at December 31, 2006 and 7.49% at December 31, 2005)	234.4	250.0
9.00% Debentures due 2009	248.1	250.0
9.38% Debentures due 2021, net of unamortized original discount of $0.8 in 2006 and $0.8 in 2005	199.3	199.2
9.50% Debentures due in 2012, net of unamortized original discount of $0.1 in 2006 and $0.1 in 2005	124.9	124.9
10.63% Notes due 2010	3.1	113.6
10.85% Debentures due 2014	130.0	131.6
10.50% Notes due at various dates from 2007 to 2010	40.5	52.7
10.60% Notes due 2011	80.7	82.8
7.75% recycling facilities revenue bonds due 2022	62.0	62.0
7.40% recycling facilities revenue bonds due 2022	39.5	39.5
Industrial revenue bonds due 2029 with interest at floating rates	33.5	33.5
7.62% recycling facilities revenue bonds due 2016	30.0	30.0
10.26% Notes due at various dates from 2007 to 2011	11.3	14.0
Pollution control revenue bond due at various dates from 2007 to 2010 with interest at 7.40%	4.6	5.2
Non-interest bearing loan with Government of Québec due 2007 and 2008	6.4	7.6
6.5% UDAG loan agreement due at various dates from 2007 to 2010	5.2	5.7
	$2,251.6	$2,400.0

Total Debt

Debt maturities for the next five years are as follows:

(In millions)	
2007	$ 14.9
2008	20.0
2009	261.8
2010	257.1
2011	672.2
Thereafter	997.8
	2,223.8
Discounts and revaluation of debt	42.7
	$2,266.5

The amounts due in 2007 are recorded as "Current installments of long–term debt" in our Consolidated Balance Sheet. All other amounts are recorded as "Long–term debt, net of current installments." Total debt includes an additional $45.5 million at December 31, 2006 and $67.6 million at December 31, 2005 due to the revaluation of the debt balances acquired with the purchase of the Grenada Operations paper mill in August 2000 and the acquisition of Avenor Inc. in July 1998. Total debt also includes discounts of $2.8 million and $3.2 million at December 31, 2006 and 2005, respectively.

OTHER CURRENT LIABILITIES

2.192 Table 2-27 summarizes other identified current liabilities. The most common types of other current liabilities are liabilities related to discontinued operations, deferred revenue, accrued interest, and taxes other than federal income taxes.

2.193

TABLE 2-27: OTHER CURRENT LIABILITIES

	Number of Companies			
	2006	2005	2004	2003
Costs related to discontinued operations/restructuring	162	161	163	151
Deferred revenue	161	162	144	127
Interest	143	137	141	130
Taxes other than federal income taxes	139	127	121	117
Warranties	120	126	122	126
Insurance	101	125	96	89
Deferred taxes	97	82	72	69
Advertising	73	66	63	60
Derivatives	70	64	61	52
Dividends	68	58	62	56
Customer advances, deposits	68	68	63	64
Environmental costs	67	56	53	48
Rebates	59	59	45	40
Litigation	50	46	47	30
Billings on uncompleted contracts	29	28	30	19
Due to affiliated companies	22	18	14	22
Royalties	21	25	22	20
Asset retirement obligations	20	11	11	6
Other—described	156	153	167	153

Costs Related to Discontinued Operations/Restructuring

2.194

COLGATE–PALMOLIVE COMPANY (DEC)

(Dollars in millions)	2006	2005
Current liabilities		
Notes and loans payable	$ 174.1	$ 171.5
Current portion of long–term debt	776.7	356.7
Accounts payable	1,039.7	876.1
Accrued income taxes	161.5	215.5
Other accruals	1,317.1	1,123.2
Total current liabilities	$3,469.1	$2,743.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

4. Restructuring Activities

In December 2004, the Company commenced a four-year restructuring and business-building program (the 2004 Restructuring Program) to enhance the Company's global leadership position in its core businesses. As part of this program the Company anticipates the rationalization of approximately one-third of the Company's manufacturing facilities, closure of certain warehousing facilities and an estimated 12% workforce reduction. The cost of implementing the 2004 Restructuring Program is estimated to result in cumulative pretax charges, once all the phases are approved and implemented, totaling between $750 and $900 ($550 and $650 aftertax).

For the years ended December 31, 2006, 2005 and 2004 restructuring and implementation related charges are reflected in the following income statement categories:

	2006	2005	2004
Cost of sales	$196.2	$100.2	$3.4
Selling, general and administrative expense	46.1	1.8	—
Other (income) expense, net	153.1	80.8	65.3
Total 2004 Restructuring Program charges pretax	$395.4	$182.8	$68.7
Total 2004 Restructuring Program charges aftertax	$286.3	$145.1	$48.0

Restructuring charges, in the preceding table, are recorded in the Corporate segment as these decisions are corporate-driven and are not included in internal measures of segment operating performance.

Total 2006 charges relate to restructuring activities in North America (45%), Europe/South Pacific (19%), Latin America (4%). Greater Asia/Africa (7%), Pet Nutrition (1%) and Corporate (24%). Total program-to-date accumulated charges relate to restructuring activities in North America (39%), Europe/South Pacific (32%), Latin America (4%), Greater Asia/Africa (7%), Pet Nutrition (1%) and Corporate (17%). Since the inception of the 2004 Restructuring Program in December 2004, the Company has incurred total charges of $646.9 ($479.4 aftertax) in connection with the implementation of various projects.

The majority of costs incurred since inception relate to the following significant projects: the voluntary early retirement program in the U.S.; the announced closing of the Jeffersonville, Indiana oral care facility; the consolidation of toothpaste production in Europe; and exiting certain manufacturing activities in other categories in Portugal, Belgium, Denmark, Canada and Kansas City, Kansas.

The following table summarizes the activity for the restructuring charges discussed above and related accrual:

	Termination Benefits	Incremental Depreciation	Asset Impairments	other	Total
Charges	$ 41.6	$ 3.3	$ 22.0	$ 1.8	$ 68.7
Cash payments	(1.4)	—	—	(1.4)	(2.8)
Charges against assets	—	(3.3)	(22.0)	—	(25.3)
Foreign exchange	1.5	—	—	—	1.5
Balance at December 31, 2004	$ 41.7	$ —	$ —	$ 0.4	$ 42.1
Charges	58.6	65.3	30.2	28.7	182.8
Cash payments	(47.8)	—	—	(23.4)	(71.2)
Charges against assets	(11.4)	(65.3)	(30.2)	(6.4)	(113.3)
Other	(1.4)	—	—	4.2	2.8
Foreign exchange	(4.4)	—	—	(0.1)	(4.5)
Balance at December 31, 2005	$ 35.3	$ —	$ —	$ 3.4	$ 38.7
Charges	212.7	91.5	6.6	84.6	395.4
Cash payments	(89.7)	—	—	(75.3)	(165.0)
Charges against assets	(98.4)	(91.5)	(6.6)	(6.7)	(203.2)
Other	(10.0)	—	—	5.2	(4.8)
Foreign exchange	3.5	—	—	0.1	3.6
Balance at December 31, 2006	$ 53.4	$ —	$ —	$ 11.3	$ 64.7

Termination benefits are calculated based on long-standing benefit practices, local statutory requirements and, in certain cases, voluntary termination arrangements. Termination benefits incurred pursuant to the 2004 Restructuring Program include pension and other retiree benefit enhancements of $108.4 and $12.8 as of December 31, 2006 and 2005, respectively, and are reflected as Charges against assets and Other charges within Termination Benefits in the preceding table, as the corresponding balance sheet amounts are reflected as a reduction of pension assets and an increase to other retiree benefit liabilities, respectively. During 2006 the Company made an $85.0 voluntary contribution to partially fund this obligation. The Company anticipates that it will make incremental cash contributions to its plans in order to fund these pension obligations over the duration of the 2004 Restructuring Program.

Incremental depreciation was recorded to reflect changes in useful lives and estimated residual values for long-lived assets that will be taken out of service prior to the end of their normal service period. Asset impairments have been recorded to write down assets held for sale or disposal to their fair value based on amounts expected to be realized.

16 (In Part): Supplemental Balance Sheet Information

Other Accruals	2006	2005
Accrued advertising	$ 438.4	$ 344.9
Accrued payroll and employee benefits	322.5	305.6
Accrued taxes other than income taxes	49.2	72.3
Restructuring accrual	64.7	38.7
Pension and other retiree benefits	44.3	—
Accrued interest	19.1	17.5
Other	378.9	344.2
Total other accruals	$1,317.1	$1,123.2

Deferred Revenue

2.195

CIENA CORPORATION (OCT)

(In thousands)	2005	2006
Current liabilities:		
Accounts payable	$ 43,868	$ 39,277
Accrued liabilities	76,491	79,282
Restructuring liabilities	15,492	8,914
Unfavorable lease commitments	9,011	8,512
Income taxes payable	5,785	5,981
Deferred revenue	27,817	19,637
Total current liabilities	$178,464	$161,603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) (In Part): Significant Accounting Policies and Estimates

Revenue Recognition

Ciena recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," which states that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price to the buyer is fixed or determinable; and collectibility is reasonably assured. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Revenue for maintenance services is generally deferred and recognized ratably over the period during which the services are to be performed.

Some of Ciena's communications networking equipment is integrated with software that is essential to the functionality of the equipment. In some cases, Ciena provides unspecified software upgrades and enhancements related to the equipment through maintenance contracts for these products. For transactions involving the sale of software, revenue is recognized in accordance with SOP 97–2, "Software Revenue Recognition," including deferral of revenue recognition in instances where vendor specific objective evidence for undelivered elements is not determinable.

For arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets, except as otherwise covered by SOP 97–2, the determination as to how the arrangement consideration should be measured and allocated to the separate deliverables of the arrangement is determined in accordance with EITF 00–21, "Revenue Arrangements with Multiple Deliverables." When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. Fair value for each element is established based on the sales price charged when the same element is sold separately.

11) (In Part): Other Balance Sheet Details

Deferred revenue (in thousands):

	2005	2006
Products	$ 14,534	$ 4,276
Services	28,984	36,400
	43,518	40,676
Less current portion	(27,817)	(19,637)
Long-term deferred revenue	$ 15,701	$ 21,039

Interest

2.196

TENNECO INC. (DEC)

(Millions)	2006	2005
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$ 28	$ 22
Trade payables	782	651
Accrued taxes	49	31
Accrued interest	40	38
Accrued liabilities	200	208
Other	34	29
Total current liabilities	$1,133	$979

Taxes Other Than Federal Income Taxes

2.197

BRINKER INTERNATIONAL, INC. (JUN)

(In thousands)	2006	2005
Current liabilities:		
Current installments of long-term debt	$ 2,197	$ 1,805
Accounts payable	151,216	133,096
Accrued liabilities	314,509	261,924
Income taxes payable	29,453	22,739
Current liabilities of discontinued operations	—	10,400
Total current liabilities	$497,375	$429,964

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

j) Sales Taxes

Sales taxes collected from customers are excluded from revenues. The obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities.

5 (In Part): Accrued and Other Liabilities

Accrued liabilities consist of the following (in thousands):

	2006	2005
Payroll	$117,940	$ 89,659
Gift cards	66,600	53,597
Sales tax	29,158	28,041
Insurance	29,021	25,044
Property tax	28,140	22,661
Other	43,650	42,922
	$314,509	$261,924

Product Warranties

2.198

QUANTUM CORPORATION (MAR)

(In thousands)	2006	2005
Current liabilities:		
Accounts payable	$ 67,306	$ 81,447
Accrued warranty	32,422	37,738
Accrued compensation	24,903	28,068
Income taxes payable	8,627	10,001
Accrued restructuring charges	13,019	7,704
Deferred revenue	22,107	20,489
Other accrued liabilities	46,894	57,510
Total current liabilities	$215,278	$242,957

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Warranty Expense and Liability

We generally warrant our products against defects for 6 to 48 months from the date of sale and provide warranty service on tape drives on a return-to-factory basis. Our tape automation systems may carry service agreements available to customers to extend or upgrade the warranty service. We perform services from our facility in Dundalk, Ireland and Penang, Malaysia, to support warranty and service obligations for tape drives, automation systems and other storage products. During fiscal year 2006, we started transitioning out of Dundalk, Ireland to Jabil Circuit Inc. ("Jabil") in Hungary. We also provide tape library warranty service from our facility in Costa Mesa, California. Jabil Global Service provides screen and repair services in Reynosa, Mexico for North America tape drives and in Hungary for Europe, Middle East and Asia ("EMEA") tape drives. In addition, we employ various other third party service providers throughout the world that perform tape drive, tape library and automation services for us.

We estimate future failure rates based upon both historical product failure data and anticipated future failure rates. Similarly, we estimate future costs of repair based upon both historical data and anticipated future costs. The Company uses a model and exercises considerable judgment in determining the underlying estimates. While our judgment requires an element of subjectivity for all of our products (for example, historical rates of return are not completely indicative of future return rates and we must therefore exercise judgment with respect to future deviations from our historical return rate), our judgment is subject to a greater degree of subjectivity with respect to newly introduced products because of the lack of past experience with those products upon which to base our estimates. We recently introduced a number of new products, of which we are in the early stages of volume shipment and we are experiencing improved quality on our existing products which both influence failure rates. When actual failure rates differ significantly from our estimates, we record the impact of these unforeseen costs or cost reductions in subsequent periods and update our assumptions and forecasting models accordingly. Our expected costs associated with this outsourcing initiative consist of outsourcing product repairs to third parties, with whom we negotiate ongoing outsourcing arrangements, as well as transition costs from-in-house repair to outsourcing. If the actual costs were to differ significantly from our estimates, we would record the impact of these unforeseen costs or cost reductions in subsequent periods.

Note 9 (In Part): Accrued Warranty and Indemnifications

Accrued Warranty

The following table details the change in the accrued warranty balance:

(In thousands)	2006	2005
Balance as of April 1	$ 37,738	$ 38,015
Additional warranties issued	21,416	29,532
Adjustments for warranties issued in prior fiscal years	1,570	3,073
Settlements made in cash	(28,302)	(32,882)
Balance as of March 31	$ 32,422	$ 37,738

Quantum warrants its products against defects for periods ranging from 6 to 48 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded when products are shipped and revenue recognized. Quantum's estimate of future costs to satisfy warranty obligations is primarily based on estimates of future failure rates and its estimates of future costs of repair including materials consumed in the repair, and labor and overhead amounts necessary to perform the repair.

The estimates of future product failure rates are based on both historical product failure data and anticipated future failure rates. If future actual failure rates differ from its estimates, Quantum records the impact in subsequent periods. Similarly, the estimates of future costs of repair are based on both historical data and anticipated future costs. If future actual costs to repair were to differ significantly from its estimates, Quantum would record the impact of these unforeseen cost differences in subsequent periods.

Insurance

2.199

RITE AID CORPORATION (FEB)

(In thousands)	2006	2005
Current liabilities:		
Current maturities of convertible notes, long-term debt and lease financing obligations	$ 584,196	$ 223,815
Accounts payable	862,192	757,571
Accrued salaries, wages and other current liabilities	696,936	690,351
Total current liabilities	$2,143,324	$1,671,737

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Insurance

The Company is self-insured for certain general liability and workers' compensation claims. For claims that are self-insured, stop-loss insurance coverage is maintained for workers' compensation occurrences exceeding $500 and general liability occurrences exceeding $2,000. The Company utilizes actuarial studies as the basis for developing reported claims and estimating claims incurred but not reported relating to the Company's self-insurance. Workers' compensation claims are discounted to present value using a risk-free interest rate.

A majority of the Company-sponsored associated medical plans are self-insured. The remaining Company-sponsored associate medical plans are covered through guaranteed cost contracts.

7. Accrued Salaries, Wages and Other Current Liabilities

Accrued salaries, wages and other current liabilities consist of the following at March 4, 2006 and February 26, 2005:

	2006	2005
Accrued wages, benefits and other personnel costs	$285,233	$274,844
Accrued self insurance liability, current portion	74,684	69,957
Accrued sales and other taxes payable	41,107	48,726
Accrued interest	38,503	43,047
Deferred vendor income, current portion	25,062	33,662
Accrued lease exist costs, current portion	28,883	30,243
Accrued store expense	28,529	25,632
Accrued real estate and personal property taxes	21,440	24,175
Accrued rent and other occupancy costs	23,937	28,867
Accrued legal and other professional fees	10,442	32,548
Other	119,116	78,650
	$696,936	$690,351

Deferred Taxes

2.200

TESORO CORPORATION (DEC)

(Dollars in millions)	2006	2005
Current liabilities		
Accounts payable	$1,270	$1,171
Accrued liabilities	385	328
Current maturities of debt	17	3
Total current liabilities	$1,672	$1,502

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

We record deferred tax assets and liabilities for future income tax consequences that are attributable to differences between financial statement carrying amounts of assets and liabilities and their income tax bases. We base the measurement of deferred tax assets and liabilities on enacted tax rates that we expect will apply to taxable income in the year when we expect to settle or recover those temporary differences. We recognize the effect on deferred tax assets and liabilities of any change in income tax rates in the period that includes the enactment date. We provide a valuation allowance for deferred tax assets if it is more likely than not that those items will either expire before we are able to realize their benefit or their future deductibility is uncertain.

Note F (In Part): Income Taxes

We provide deferred income taxes and benefits for differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Temporary

differences and the resulting deferred tax assets and liabilities at December 31, 2006 and 2005 were (in millions):

	2006	2005
Deferred tax assets:		
Alternative minimum tax credits	$ —	$ 56
Accrued pension, other postretirement benefits and stock-based compensation	124	61
Other accrued employee costs	6	5
Accrued environmental remediation liabilities	9	11
Other accrued liabilities	27	33
Other	3	—
Total deferred tax assets	$169	$166
Deferred tax liabilities:		
Accelerated depreciation and property related items	$447	$427
Deferred maintenance costs, including refinery turnarounds	60	36
Amortization of intangible assets	30	27
LIFO inventory	62	38
Other	—	5
Total deferred tax liabilities	$599	$533

The net deferred income tax liability is classified in the consolidated balance sheets as follows (in millions):

	2006	2005
Current assets	$ —	$ 22
Current liabilities	53	—
Noncurrent liabilities	377	389

The realization of deferred tax assets depends on Tesoro's ability to generate future taxable income. Although realization is not assured, we believe it is more likely than not that we will realize the deferred tax assets, and therefore, we did not record a valuation allowance as of December 31, 2006 or 2005.

Note K (In Part): Accrued Liabilities

The Company's current accrued liabilities and noncurrent other liabilities at December 31, 2006 and 2005 included (in millions):

	2006	2005
Accrued liabilities—current:		
Taxes other than income taxes, primarily excise taxes	$139	$139
Income taxes payable	8	7
Employee costs	79	70
Deferred income tax liability	53	—
Interest	20	16
Asset retirement obligations	18	3
MTBE facility lease termination obligation	—	30
Environmental liabilities	6	9
Pension and other postretirement benefits	6	—
Other	56	54
Total accrued liabilities—current	$385	$328

Advertising

2.201

THE ESTEE LAUDER COMPANIES INC. (JUN)

(In millions)	2006	2005
Current liabilities		
Short-term debt	$ 89.7	$ 263.6
Accounts payable	264.5	249.4
Accrued income taxes	135.5	109.9
Other accrued liabilities	948.5	874.8
Total current liabilities	$1,438.2	$1,497.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Advertising and Promotion

Costs associated with advertising are expensed during the year as incurred. Global net advertising and promotion expenses, which primarily include television, radio and print media, and promotional expenses, such as products used as sales incentives, were $1,793.1 million, $1,793.7 million and $1,595.5 million in fiscal 2006, 2005 and 2004, respectively. These amounts include activities relating to purchase with purchase and gift with purchase promotions that are reflected in net sales and cost of sales.

Advertising, merchandising and sampling expenses included in operating expenses were $1,586.3 million, $1,577.1 million and $1,410.4 million in fiscal 2006, 2005 and 2004, respectively.

Note 7. Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In millions)	2006	2005
Advertising and promotional accruals	$334.5	$297.5
Employee compensation	260.5	251.8
Special charges related to cost savings initiative	40.7	—
Other	312.8	325.5
	$948.5	$874.8

Derivatives

2.202

ROCKWELL AUTOMATION, INC. (SEP)

(In millions)	2006	2005
Current liabilities		
Short-term debt	$ 219.8	$ 1.2
Accounts payable	470.5	388.5
Compensation and benefits	175.6	214.4
Income taxes payable	51.0	5.4
Other current liabilities	376.4	331.3
Total current liabilities	$1,293.3	$940.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Derivative Financial Instruments

We use derivative financial instruments in the form of foreign currency forward exchange contracts and interest rate swap contracts to manage foreign currency and interest rate risks. We use foreign currency forward exchange contracts to offset changes in the amount of future cash flows associated with intercompany transactions expected to occur within the next three years (cash flow hedges) and changes in the fair value of certain assets and liabilities resulting from intercompany loans and other transactions with third parties denominated in foreign currencies. We sometimes use interest rate swap contracts to manage the balance of fixed and floating rate debt. Our accounting method for derivative financial instruments is based upon the designation of such instruments as hedges under accounting principles generally accepted in the United States. It is our policy to execute such instruments with creditworthy banks and not to enter into derivative financial instruments for speculative purposes. All foreign currency forward exchange contracts are denominated in currencies of major industrial countries.

7. Other Current Liabilities

Other current liabilities consist of (in millions):

	2006	2005
Advance payments from customers and deferred revenue	$102.1	$ 78.2
Customer returns, rebates and incentives	113.3	108.2
Unrealized losses on foreign exchange contracts (Note 9)	8.5	4.0
Product warranty obligations	40.3	36.3
Taxes other than income taxes	40.1	42.8
Other	72.1	61.8
Other current liabilities	$376.4	$331.3

9. Financial Instruments

Our financial instruments include long-term debt, foreign currency forward exchange contracts and an interest rate swap. The following is a summary of the carrying value and fair value of our financial instruments (in millions):

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$(748.2)	$(803.7)	$(748.2)	$(826.2)
Foreign currency forward exchange contracts	(6.6)	(6.6)	18.2	18.2
Interest rate swap	(6.8)	(6.8)	(6.3)	(6.3)

We base the fair value of long-term debt upon quoted market prices for the same or similar issues. We base the fair value of foreign currency forward exchange contracts on quoted market prices for contracts with similar maturities.

Foreign currency forward exchange contracts provide for the purchase or sale of foreign currencies at specified future dates at specified exchange rates. At September 30, 2006 and 2005, we had outstanding foreign currency forward exchange contracts primarily consisting of contracts relating to the euro, British pound sterling, South Korean won and Swiss franc. The foreign currency forward exchange contracts are recorded in other current assets in the amounts of $1.9 million as of September 30, 2006 and $22.2 million as of September 30, 2005 and other current liabilities in the amounts of $8.5 million as of September 30, 2006 and $4.0 million as of September 30, 2005. We do not anticipate any material adverse effect on our results of operations or financial position relating to these foreign currency forward exchange contracts. We have designated certain foreign currency forward exchange contracts related to forecasted intercompany transactions as cash flow hedges. The amount recognized in earnings as a result of the ineffectiveness of cash flow hedges was not significant.

We also hold financial instruments consisting of cash, accounts receivable, accounts payable and short-term debt. The carrying value of these assets and liabilities as reported in our Consolidated Balance Sheet approximate fair value.

Dividends

2.203

ABBOTT LABORATORIES (DEC)

(Dollars in thousands)	2006	2005
Current liabilities:		
Short-term borrowings	$ 5,305,985	$ 212,447
Trade accounts payable	1,175,590	1,032,516
Salaries, wages and commissions	807,283	625,254
Other accrued liabilities	3,850,723	2,722,685
Dividends payable	453,994	423,335
Income taxes payable	262,344	488,926
Current portion of long-term debt	95,276	1,849,563
Liabilities of operations held for sale	—	60,788
Total current liabilities	$11,951,195	$7,415,514

Advances/Deposits

2.204

CORNING INCORPORATED (DEC)

(In millions)	2006	2005
Current liabilities:		
Current portion of long-term debt	$ 20	$ 18
Accounts payable	631	690
Other accrued liabilities (Note 11)	1,668	1,662
Total current liabilities	$2,319	$2,370

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Other Liabilities

Other accrued liabilities follow (in millions):

	2006	2005
Current liabilities:		
Wages and employee benefits	$ 363	$ 325
Asbestos settlement	656	667
Income taxes	125	165
Customer deposits	213	164
Other current liabilities	311	341
Other accrued liabilities	$1,668	$1,662

Customer Deposits

In 2005 and 2004, several of Corning's customers entered into long-term purchase and supply agreements in which Corning's Display Technologies segment will supply large-size glass substrates to these customers over periods of up to six years. As part of the agreements, these customers agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased.

Upon receipt of the cash deposits made by customers, we record a customer deposit liability. This liability is reduced at the time of future product sales over the life of the agreements. As product is shipped to a customer, Corning recognizes revenue at the selling price and issues credit memoranda for an agreed amount of the customer deposit liability. The credit memoranda are applied against customer receivables resulting from the sale of product, thus reducing operating cash flows in later periods as these credits are applied for cash deposits received in earlier periods.

Customer deposits have been or will be received in the following periods (in millions):

	2005	2006	Estimated 2007	Total
Gross customer deposits received	$457	$171	$105	$733

In 2006 and 2005, we issued credit memoranda which totaled $126 million and $29 million for the years, respectively. These credits are not included (netted) in the above amounts.

Customer deposit liabilities were $633 million and $595 million at December 31, 2006 and 2005, respectively, of which $213 million and $164 million, respectively, were recorded in the current portion of other accrued liabilities in our consolidated balance sheets.

In the event customers do not make all customer deposit installment payments or elect not to purchase the agreed upon quantities of product, subject to specific conditions outlined in the agreements, Corning may retain certain amounts of the customer deposits. If Corning does not deliver agreed upon product quantities, subject to specific conditions outlined in the agreements, Corning may be required to return certain amounts of customer deposits.

Environmental Costs

2.205

SPECTRUM CONTROL, INC. (NOV)

(Dollar amounts in thousands)	2006	2005
Current liabilities		
Short-term debt	$ 9,000	$ —
Accounts payable	7,227	6,760
Income taxes payable	71	266
Accrued liabilities	4,061	2,913
Current portion of long-term debt	295	290
Total current liabilities	$20,654	$10,229

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Accrued Liabilities

Accrued liabilities consist of the following:

(In thousands)	2006	2005
Accrued salaries and wages	$3,209	$2,589
Accrued environmental remediation costs (see Note 11)	456	—
Accrued interest	151	52
Accrued other expenses	245	272
	$4,061	$2,913

11. Other Liabilities

Other liabilities consists of the following:

(In thousands)	2006	2005
Accrued environmental remediation costs	$2,469	$—
Less current portion	456	—
	$2,013	$—

On December 30, 2005, the Company acquired certain land and manufacturing facilities in State College, Pennsylvania. The property, which was acquired from Murata Electronics North America ("Murata"), consists of approximately 53 acres of land and 250,000 square feet of manufacturing facilities. The acquired facilities have become the design and manufacturing center for the Company's ceramic operations, replacing the ceramic operations previously conducted by the Company in New Orleans, Louisiana.

The purchase price for the acquired property consisted of: (a) $1.00, plus (b) closing costs of $695,000 including realtor commissions, transfer taxes, and legal fees; plus (c) the assumption of, and indemnification of Murata against, all environmental liabilities related to the property. The acquired property has known environmental conditions that require remediation, and certain hazardous materials previously used on the property have migrated into neighboring third party areas. These environmental issues arose from the use of chlorinated organic solvents including tetrachloroethylene ("PCE") and trichloroethylene ("TCE"). As a condition to the purchase, the Company entered into an agreement with the Pennsylvania Department of Environmental Protection ("PADEP") pursuant to which: (a) the Company agreed to remediate all known environmental conditions relating to the property to

a specified industrial standard, with the Company's costs for remediating such conditions being capped at $4,000,000; (b) PADEP released Murata from further claims by Pennsylvania under specified state laws for the known environmental conditions; and (c) the Company purchased an insurance policy providing clean-up cost cap coverage (for known and unknown pollutants) with a combined coverage limit of approximately $8,200,000, and pollution legal liability coverage (for possible third party claims) with an aggregate coverage limit of $25,000,000. The total premium cost for the insurance policy, which has a ten year term and an aggregate deductible of $650,000, was $4,762,000. The cost of the insurance is being charged to general and administrative expense on a pro rata basis over the 10 year policy term, which approximates the period of remediation of the environmental liability.

Based upon estimates prepared by the Company's environmental consultants, a liability of $2,888,000 was recorded by the Company to cover probable future environmental expenditures related to the remediation, the cost of which is expected to be entirely covered by the insurance policy. As of November 30, 2006, remediation expenditures of $419,000 have been incurred and charged against the environmental liability, with all such expenditures being reimbursed by the insurance carrier. The remaining aggregate undiscounted expenditures of $2,469,000, which are anticipated to be incurred over the next nine years, principally consist of: (a) continued operation and monitoring of the existing on-site groundwater extraction, treatment, and recharge system; (b) implementation of a chemical oxidation system, subject to the results of a laboratory treatability study; (c) completion of soil investigations to determine the extent of potential soil contamination; (d) excavation and off-site disposal of soil containing contaminates above acceptable standards; and (e) implementation of soil vapor extraction systems in certain areas. Depending upon the results of future environmental testing and remediation actions, it is possible that the ultimate costs incurred could exceed the current aggregate estimate of $2,888,000. The Company expects such increase, if any, to be entirely covered by the insurance policy. Insurance recoveries for actual environmental remediation costs incurred are recorded when it is probable that such insurance reimbursement will be received and the related amounts are determinable. Such insurance recoveries are credited to the Company's general and administrative expense.

Based on the current remediation plan developed by the Company's environmental consultants, $456,000 of the total remediation costs are expected to be incurred during the next twelve months.

Rebates

2.206

PENTAIR, INC. (DEC)

(In thousands)	2006	2005
Current liabilities		
Short-term borrowings	$ 14,563	$ —
Current maturities of long-term debt	7,625	4,137
Accounts payable	206,286	207,320
Employee compensation and benefits	88,882	95,552
Current pension and post-retirement benefits	7,918	—
Accrued product claims and warranties	44,093	43,551
Current liabilities of discontinued operations	—	192
Income taxes	22,493	17,518
Accrued rebates and sales incentives	39,419	45,374
Other current liabilities	90,003	111,026
Total current liabilities	$521,282	$524,670

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Pricing and Sales Incentives

We record estimated reductions to revenue for customer programs and incentive offerings including pricing arrangements, promotions, and other volume-based incentives at the later of the date revenue is recognized or the incentive is offered. Sales incentives given to our customers are recorded as a reduction of revenue unless we (1) receive an identifiable benefit for the goods or services in exchange for the consideration and (2) we can reasonably estimate the fair value of the benefit received.

Pricing Arrangements

Pricing is established up front with our customers, and we record sales at the agreed upon net selling price. However, one of our businesses allows customers to apply for a refund of a percentage of the original purchase price if they can demonstrate sales to a qualifying OEM customer. At the time of sale, we estimate the anticipated refund to be paid based on historical experience and reduce sales for the probable cost of the discount. The cost of these refunds is recorded as a reduction in gross sales.

Volume-Based Incentives

These incentives involve rebates that are negotiated up front with the customer and are redeemable only if the customer achieves a specified cumulative level of sales or sales increase. Under these incentive programs, at the time of sale, we reforecast the anticipated rebate to be paid based on forecasted sales levels. These forecasts are updated at least monthly, for each customer and sales are reduced for the anticipated cost of the rebate. If the forecasted sales for a customer changes, the accrual for rebates is adjusted to reflect the new amount of rebates expected to be earned by the customer.

There have been no material accounting revisions for revenue-recognition related estimates.

Litigation

2.207

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

(In millions)	2006	2005
Current liabilities:		
Accounts payable	$108.8	$ 64.7
Accrued expenses	191.0	143.6
Income taxes payable	98.5	76.7
Total current liabilities	$398.3	$285.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Consolidated Financial Statement Details

Consolidated Balance Sheets

(In millions)	2006	2005
Accrued expenses		
Payroll and employee related	$119.3	$ 77.3
Severance and restructuring expenses	9.1	5.3
Litigation accruals	3.3	3.3
Other	59.3	57.7
Total accrued expenses	$191.0	$143.6

Note 12 (In Part): Commitments and Contingencies

Contingencies—Legal Proceedings (In Part)

Other Matters

In January 1999, a class action suit was filed against us and our chemical suppliers by former and present employees claiming damages for personal injuries. The complaint alleged that cancer and reproductive harm were caused to employees exposed to chemicals in the workplace. The plaintiffs' efforts to certify a medical monitoring class were denied by the court. The case was settled and dismissed in February 2006 and the matter is now finalized. The parties have agreed to keep confidential the terms of the settlement, which did not have a material effect on our consolidated financial position or results of operations.

In November 2000, a derivative action was brought against us and other defendants by a shareholder of Fairchild Semiconductor International, Inc. Plaintiff seeks recovery of alleged "short-swing" profits under section 16(b) of the Securities Exchange Act of 1934 from the sale by the defendants in January 2000 of Fairchild common stock. The complaint alleges that Fairchild's conversion of preferred stock held by the defendants at the time of Fairchild's initial public offering in August 1999 constitutes a "purchase" that must be matched with the January 2000 sale for purposes of computing the "short-swing" profits. Plaintiff seeks from us alleged recoverable profits of $14.1 million. We have completed discovery in the case in the district court. In June 2004, the Securities and Exchange Commission proposed clarifying amendments to its section 16(b) rules which we believe would be dispositive of the case and the SEC adopted the rule amendments in August 2005. Oral argument on the briefing ordered by the district court as to whether the SEC amendments should apply to the case was held in November 2005 and we are awaiting the court's ruling. We intend to continue to contest the case through all available means.

In September 2002, iTech Group ("iTech") brought suit against us alleging a number of contract and tort claims related to a software license agreement and discussions to sell certain assets to iTech. At the trial which began in May 2005, the jury rendered a verdict finding us liable for breach of contract, promissory fraud and unjust enrichment and assessing approximately $234.0 thousand in compensatory damages and $15.0 million in punitive damages. After hearing post trial motions, the court affirmed the verdict for compensatory damages of approximately $234.0 thousand, awarded attorneys' fees to iTech of approximately $60.0 thousand, and reduced the punitive damages to $3.0 million and judgment was entered in those amounts in late August 2005. We have appealed the verdict and judgment and have filed our appellate briefs. We intend to continue to contest the case through all available means. In the fourth quarter of fiscal 2005, we accrued a charge of $3.3 million to cover the total amount of damages awarded iTech under the court's order. Although the loss we ultimately sustain may be higher or lower than the amount we have recorded, this is currently our best estimate of any loss we may incur.

We are currently a party to various claims and legal proceedings, including those noted above. We make provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We believe we have made adequate provisions for potential liability in litigation matters. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Based on the information that is currently available to us, we believe that the ultimate outcome of litigation matters, individually and in the aggregate, will not have a material adverse effect on our results of operations or consolidated financial position. However, litigation is inherently unpredictable. If an unfavorable ruling or outcome were to occur, there is a possibility of a material adverse effect on results of operations or our consolidated financial position.

Billings in Excess of Uncompleted Contract Costs

2.208

THE MANITOWOC COMPANY, INC. (DEC)

(Millions of dollars)	2006	2005
Current liabilities:		
Accounts payable and accrued expenses	$839.6	$591.8
Short-term borrowings	4.1	19.4
Product warranties	59.6	47.3
Product liabilities	32.1	31.8
Total current liabilities	$935.4	$690.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition and Long-Term Contracts (In Part)

Revenue is recognized and earned when all the following criteria are satisfied with regard to a specific transaction: persuasive evidence of a sales arrangement exists; the price is fixed or determinable; collectibility of cash is reasonably assured; and delivery has occurred or services have been rendered. Shipping and handling fees are reflected in net sales and shipping and handling costs are reflected in cost of sales in the Consolidated Statements of Operations. Revenues under long-term contracts within the Marine segment are recorded using the percentage-of-completion method of accounting. Revenue under these fixed-price long-term contracts are recorded based on the ratio of costs incurred to estimated total costs at completion, and costs are expensed as incurred. Amounts representing contract change orders, claims or other items are included in revenue only when they can be reliably estimated and realization is probable. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

Amounts related to long-term contracts accounted for according to the percentage-of-completion method included in the Consolidated Balance Sheet at December 31 were as follows:

(In millions)	2006	2005
Amounts billed, included in accounts receivable	$10.3	$15.7
Recoverable costs and accrued profit on progress completed but not billed, included in other current assets	33.8	29.8
Amounts billed in excess of sales, included in accounts payable and accrued expenses	57.2	22.4

Recoverable costs and accrued profit on progress completed but not billed related to amounts not billable at the balance sheet date. It is anticipated that such amounts will be billed in the first quarter of the subsequent year. Amounts billed but not paid pursuant to retainage contract provisions, which are due upon completion of the contracts, were $2.4 million and $7.8 million as of December 31, 2006 and 2005, respectively, and are included in other current assets in the Consolidated Balance Sheets.

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31 are summarized as follows:

(In millions)	2006	2005
Trade accounts and interest payable	$439.7	$316.6
Employee related expenses	76.3	61.5
Income taxes payable	62.9	23.2
Profit sharing and incentives	54.8	37.3
Unremitted cash liability	11.7	13.1
Deferred revenue—current	48.1	46.8
Amounts billed in excess of sales	57.2	22.4
Miscellaneous accrued expenses	88.9	70.9
	$839.6	$591.8

Asset Retirement Obligations

2.209

NOBLE ENERGY, INC. (DEC)

(In thousands)	2006	2005
Current liabilities		
Accounts payable—trade	$ 518,609	$ 519,971
Derivative instruments	254,625	445,939
Income taxes	107,136	65,136
Asset retirement obligations	68,500	60,331
Other current liabilities	235,392	148,768
Total current liabilities	$1,184,262	$1,240,145

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in tables are in thousands)

Note 4. Effect of Gulf Coast Hurricanes

2005 Hurricane Activity

In August 2005, Hurricane Katrina moved through the Gulf of Mexico and caused the loss of the Main Pass 306D platform. The net book value of the platform was $15 million. Clean-up costs associated with the damage resulted in an increase to the Main Pass 306D asset retirement obligation of $66 million. We accounted for the net book value of the destroyed platform and the increase in asset retirement costs as a loss on involuntary conversion.

As of December 31, 2006, we have incurred $79 million (cumulative) in costs related to Hurricane Katrina damage, $16.5 million of which has been approved and reimbursed by our insurance carriers. During 2005, we were notified by one of our insurance carriers that its maximum exposure limit for losses incurred during Hurricane Katrina had been reached and that, consequently, our final insurance recovery will be limited. As of December 31, 2006, we have recorded probable insurance claims of $64 million, the estimated remaining recovery for losses sustained from Hurricane Katrina. Total Hurricane Katrina costs for clean-up, repair and redevelopment are currently estimated at approximately $183 million. We expect to complete clean-up work during 2007 and receive final reimbursements thereafter.

Hurricane Rita struck the Gulf Coast in September 2005 and caused minor damage to our Gulf of Mexico assets. As of December 31, 2006, based upon work completed, we have incurred $8 million (cumulative) in costs related to Hurricane Rita damage. We expect our insurance carrier to approve and reimburse these costs subject to our $1 million deductible.

2004 Hurricane Activity

In September 2004, Hurricane Ivan caused infrastructure damage at Main Pass 293/305/306. The net book value of the property was $24 million. The remediation work began second quarter 2005, and we commenced production from undamaged platforms in the third quarter 2005.

As of December 31, 2006, based upon work completed, we have incurred $203 million (cumulative) in costs related to Hurricane Ivan damage. Our insurance carriers have approved and reimbursed $176 million of these costs with the balance pending subsequent review and approval. We expect to complete clean-up work during 2007 and receive final reimbursements thereafter.

Amounts related to involuntary conversions caused by Hurricanes Katrina and Ivan are as follows:

	2005	2004
Net book value of assets impaired or destroyed	$ 14,500	$ 23,978
Increase in asset retirement obligation related to hurricane damage	66,000	130,000
Loss on involuntary conversion of assets	80,500	153,978
Income from probable insurance claims	(79,500)	(152,978)
Net loss on involuntary conversion of assets	$ 1,000	$ 1,000

Assets (liabilities) related to the hurricane insurance recoveries and included in the consolidated balance sheets consist of the following:

	2006	2005
Probable insurance claims—current	$101,233	$ 142,311
Other assets (long-term portion of probable insurance claims)	46,500	112,800
Total expected hurricane insurance recoveries	$147,733	$ 255,111
Asset retirement obligations—current	$ (65,120)	$ (42,016)
Asset retirement obligations—long-term	—	(121,800)
Total asset retirement obligations related to hurricane damage	$ (65,120)	$(163,816)

Note 6. Asset Retirement Obligations

Asset retirement obligations consist of estimated costs of dismantlement, removal, site reclamation and similar activities associated with our oil and gas properties. An asset retirement obligation and the related asset retirement cost are recorded when an asset is first constructed or purchased. The asset retirement cost is determined and discounted to present value using a credit-adjusted risk-free rate. After initial recording the liability is increased for the passage of time, with the increase being reflected as accretion expense in the statement of operations. Subsequent adjustments in the cost estimate are reflected in the liability and the amounts continue to be amortized over the useful life of the related long-lived asset.

Changes in asset retirement obligations were as follows:

	2006
Asset retirement obligations, beginning of period	$ 338,871
Liabilities incurred in current period	4,086
Liabilities transferred in sale of Gulf of Mexico shelf properties	(44,521)
Liabilities settled in current period	(150,847)
Revisions	37,803
Accretion expense	10,797
Asset retirement obligations, end of period	$ 196,189
Current portion	$ 68,500
Noncurrent portion	127,689

Revisions during 2006 resulted from changes in estimated timing of actual abandonment and overall cost increases. The ending aggregate carrying amount at December 31, 2006 included $65 million, which we expect to be reimbursed by insurance, related to damage to the Main Pass assets caused by Hurricanes Ivan and Katrina in the Gulf of Mexico.

LONG-TERM DEBT

2.210 Table 2-28 summarizes the types of long-term debt most frequently disclosed by the survey companies.

2.211 Paragraph 10b of SFAS No. 47, *Disclosure of Long-Term Obligations*, requires that financial statements disclose for each of the five years following the date of the latest balance sheet presented the "aggregate amount of maturities and sinking fund requirements for all long-term borrowings." In addition, disclosure of terms and conditions provided in loan agreements, such as assets pledged as collateral, covenants to limit additional debt, maintain working capital, and restrict dividends, is required by paragraph 18 of SFAS No. 5, *Accounting for Contingencies.*

2.212 Paragraph 7 of *ARB 43, Chapter 3A*, as amended by SFAS No. 78, states that the current liability classification is intended to include long-term obligations that are or will be callable by the creditor either because the debtors' violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Such callable obligations shall be classified as current liabilities unless one of the following conditions is met:

a. The creditor has waived or subsequently lost the right to demand payment for more than one year (or operating cycle, if longer) from the balance sheet date.
b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

As part of long-term debt presentations there were 13 disclosures of covenant violations.

2.213 *SFAS No. 107*, as amended by *SFAS No. 133*, requires disclosure of both the fair value and the bases for estimating the fair value of long-term debt unless it is not practicable to estimate the value. 513 survey companies made 634 fair value disclosures. 308 of those disclosures used market or broker quotes of long-term debt to determine fair value. 252 of those disclosures stated that either discounted cash flows or market prices of similar instruments were used to estimate fair value. Five of those disclosures estimated fair value using other valuation methods. 257 disclosures presented carrying amounts which approximated fair value of long-term debt. In addition there were 304 disclosures in which carrying value was compared to fair value in an exposition or a table. Two disclosures stated it was not practicable to estimate fair value.

2.214 *SFAC No. 7* provides a framework for using future cash flows and present value as the basis for accounting measurements of fair value of an asset or a liability at initial recognition or fresh-start measurements and for future-cash-flow-based amortization techniques, such as interest method amortization. Fresh-start measurements are measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions.

2.215 When observable marketplace-determined values are not available, discounted cash flows are often used to estimate fair value. Accounting applications of present value typically use a single set of estimated cash flows and a risk-adjusted discount rate. *SFAC No. 7* introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible cash outcomes and their respective probabilities.

2.216 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged, SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While *SFAS No. 157* does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as *SFAS Nos. 107, and 133. SFAS No. 157* clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. *SFAS No. 157* emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, *SFAS No. 157* specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs. For assets and liabilities measured at fair value on a recurring basis, *SFAS No. 157* expands the required disclosures concerning the inputs used to measure fair value, and encourages the combination of fair value information disclosed under the standard with those disclosed under other pronouncements, such as *SFAS No. 107.*

2.217 Effective for financial statements issued for fiscal years beginning after November 15, 2007 with conditioned earlier application allowed, SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*, permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Further, under *SFAS No. 159* a business entity shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, and applied to the entire instrument, not just a portion of it. *SFAS No. 159* also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. *SFAS No. 159* does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included in pronouncements, such as *SFAS Nos. 107 and 157.*

2.218 Examples of long-term debt disclosures and presentations follow. Examples of long-term lease disclosures and presentations are presented under "Long-Term Leases" in this section.

2.219

TABLE 2-28: LONG-TERM DEBT

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Unsecured				
Notes	423	431	439	427
Debentures	140	152	157	168
Loans	87	79	75	78
Foreign	78	76	82	82
Commercial paper	43	44	53	59
Bonds	25	19	24	31
ESOP loans	11	15	20	26
Collateralized				
Capitalized leases	230	231	245	230
Notes or loans	100	91	97	95
Mortgages	47	51	56	50
Convertible				
Notes	68	68	76	77
Debentures	49	54	60	54

Unsecured

2.220

STEEL TECHNOLOGIES INC. (SEP)

(In thousands)	2006	2005
Total current liabilities	$ 96,388	$ 74,451
Long-term debt and capital lease obligations	119,911	80,000
Deferred income taxes	20,243	12,113
Other long-term liabilities	3,941	1,488
Total liabilities	$240,483	$168,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Long-Term Debt

Long-term debt consists of the following:

(In thousands)	2006	2005
Notes payable to bank, unsecured under current line of credit; interest rates at September 30, 2006 ranged from 6.77% to 8.25% and at September 30, 2005 was 4.29%	$ 64,000	$30,000
Series A Senior Notes payable, unsecured, due October 2011; interest due semiannually at 5.33%	10,000	10,000
Series B Senior Notes payable, unsecured, due October 2014; interest due semiannually at 5.75%	40,000	40,000
Payables to former shareholders of Kasle Steel, unsecured, due from January 2010 to May 2017; monthly payments of $46,000 including interest ranging from 5.82% to 7.00% and an annual principal payment of $350,000 plus interest at 9.00%	4,443	—
Other	69	—
	118,512	80,000
Less amounts due within one year	776	—
	$117,736	$80,000

In September 2004, the Company entered into a $135,000,000 unsecured revolving credit facility with its existing bank group. In October 2005, the Company amended its facility to extend the maturity date to October 2010 and improve interest rates. Under certain circumstances, the facility can be expanded to $200,000,000. Interest on the facility is paid with various variable options on the interest rate, none of which are greater than the bank's prime. The Company can elect to use both the LIBOR based interest rate and the prime interest rate on its outstanding borrowings under the agreement. At September 30, 2006, there was $64,000,000 outstanding on this credit facility.

In October 2004, the Company issued $50,000,000 in unsecured senior notes. The notes are comprised of $10,000,000 of 5.33% Series A Senior Notes due October 21, 2011 and $40,000,000 of 5.75% Series B Senior Notes due October 21, 2014.

Provisions contained in the Company's revolving credit facility and unsecured senior notes require the Company to maintain specified levels of net worth, maintain certain financial ratios and limit capital expenditures, operating leases, capital leases and additional debt. The Company estimates that the fair value of fixed interest debt instruments approximates $54,518,000 at September 30, 2006. The fair value of the Company's debt is estimated based on quoted market rates or current rates offered to the Company on comparable remaining maturities.

The aggregate amount of all long-term debt to be repaid for the years following September 30, 2006 is (in thousands):

2007	$ 776
2008	731
2009	755
2010	781
2011	64,333
Thereafter	51,136
	$118,512

10 (In Part): Leases

The Company leases certain equipment under various capital lease agreements. Future minimum lease payments at September 30, 2006 under non-cancelable capital leases with an original term exceeding one year are as follows (in thousands):

2007	$1,512
2008	1,109
2009	741
2010	341
2011	128
Thereafter	34
Total	3,865
Less amounts representing interest	(392)
	3,473
Less current portion of obligation under capital leases	1,298
Long-term portion of obligations under capital lease	$2,175

2.221

THE TORO COMPANY (OCT)

(Dollars in thousands)	2006	2005
Total current liabilities	$345,539	$341,202
Long-term debt, less current portion	175,000	175,000
Long-term deferred income taxes	—	872
Deferred revenue and other long-term liabilities	9,415	9,629

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Long-Term Debt

A summary of long-term debt as of October 31 is as follows:

(Dollars in thousands)	2006	2005
7.125% Notes, due June 15, 2007	$ 75,000	$ 75,000
7.800% Debentures, due June 15, 2027	100,000	100,000
Other	—	46
	175,000	175,046
Less current portion	—	46
Long-term debt, less current portion	$175,000	$175,000

The company has $75 million of notes due on June 15, 2007 that are classified as long-term debt as the company is in the process of evaluating several alternatives for replacing this debt, including refinancing the obligation on a long-term basis using funds available under the company's current credit facilities. The company believes it will obtain cost effective financing in advance of the repayment of the $75 million notes due June 15, 2007.

In connection with the issuance in June 1997 of the $175.0 million in long-term debt securities, the company paid $23.7 million to terminate three forward-starting interest rate swap agreements with notional amounts totaling $125.0 million. These swap agreements had been entered into to reduce exposure to interest rate risk prior to the issuance of the new long-term debt securities. As of the inception of one of the swap agreements, the company had received payments that were recorded as deferred income to be recognized as an adjustment to interest expense over the term of the new debt securities. As of the date the swaps were terminated, this deferred income totaled $18.7 million. The excess termination fees over the deferred income recorded has been deferred and is being recognized as an adjustment to interest expense over the term of the debt securities issued.

Principal payments required on long-term debt in each of the next five fiscal years ending October 31 are as follows: 2007, $75,000,000; 2008, $0; 2009, $0; 2010, $0; 2011, $0; and after 2011, $100,000,000.

13 (In Part): Financial Instruments

Fair Value

Estimated fair value amounts have been determined using available information and appropriate valuation methodologies. Because considerable judgment is required in developing the estimates of fair value, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. For cash and cash equivalents, receivables, short-term debt, and accounts payable, carrying value is a reasonable estimate of fair value. The estimate of fair value for the company's foreign currency contracts as of October 31, 2006 was a net liability of $361,000 and a net asset of $1,579,000 as of October 31, 2005.

As of October 31, 2006, the estimated fair value of long-term debt with fixed interest rates was $184,910,000 compared to its carrying value of $175,000,000. As of October 31, 2005, the estimated fair value of long-term debt with fixed interest rates was $191,503,000 compared to its carrying value of $175,046,000. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts of debt could currently be borrowed.

2.222

VARIAN MEDICAL SYSTEMS, INC. (SEP)

(In thousands)	2006	2005
Total current liabilities	$643,956	$543,933
Long-term debt	49,356	57,318
Other long-term liabilities	21,186	57,124
Total liabilities	$714,498	$658,375

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Debt

Debt outstanding at September 29, 2006 and September 30, 2005 is summarized as follows:

(Dollars in millions)	2006	2005
Unsecured term loan, 6.70% due in installments of $6.25 payable in fiscal years 2008, 2010, 2012, and 2014	$25.0	$25.0
Unsecured term loan, 6.76% due in installments of $5.25 payable in fiscal years 2007, 2009, and 2011	15.8	15.8
Unsecured term loan, 7.15% due in annual installments of $2.5 payable in fiscal years 2006–2010	10.0	12.5
Loans assumed through purchases of land and buildings, 7.34% and 7.58% due in monthly installments (including principal and interest) of $0.06 payable in fiscal years 2006–2012 and balloon payments of $5.3 in fiscal year 2012	6.5	6.7
	$57.3	$60.0
Less: current maturities of long-term debt	7.9	2.7
Long-term debt	$49.4	$57.3

The remaining unsecured term loan agreements contain a covenant that requires the Company to pay prepayment penalties if the Company elects to pay off this debt before the maturity dates and the market interest rate is lower than the fixed interest rates of the debt at the time of repayment. They also contain covenants that limit future borrowings and cash dividend payments and require the Company to maintain specified levels of working capital and operating results. For all fiscal years presented within these consolidated financial statements, the Company was in compliance with all restrictive covenants of the unsecured term loan agreements.

Interest paid on debt was $4.1 million for each of fiscal years 2006, 2005 and 2004. At September 29, 2006, aggregate debt maturities for fiscal years 2007 through 2011 and thereafter are as follows (in millions): $7.9, $9.0, $8.0, $9.0, $5.5 and $17.9.

The fair value of the Company's debt was estimated to be $60.4 million at September 29, 2006 based on the then-current rates available to the Company for debt of similar terms and remaining maturities. The Company determined the estimated fair value amount by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimate presented herein is not necessarily indicative of the amount that the Company or holders of the instruments could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Collateralized

2.223

BASSETT FURNITURE INDUSTRIES, INCORPORATED (NOV)

(In thousands)	2006	2005
Total current liabilities	$43,560	$48,117
Long-term liabilities		
Post employment benefit obligations	$15,263	$14,857
Long-term debt	4,000	3,910
Real estate notes payable	19,522	15,144
Distributions in excess of affiliate earnings	11,726	11,833
Total long-term liabilities	$50,511	$45,744

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

11. Real Estate Notes Payable and Other Long-Term Debt

Certain of our retail real estate properties have been financed through commercial mortgages which are payable over periods of four to twenty years and have interest rates ranging from 6.73% to 9.18%. These mortgages are collateralized by the respective properties with net book values totaling approximately $26,000 at November 25, 2006. The current portion of these mortgages, $622 and $460 as of November 25, 2006, and November 26, 2005, respectively, has been included as a current liability in other accrued liabilities in the accompanying consolidated balance sheets. The long-term portion, $19,522 and $15,144 as of November 25, 2006, and November 26, 2005, respectively, is presented as real estate notes payable in the consolidated balance sheets. The fair value of our real estate notes payable is $21,026. Our weighted average interest rate is 7.94%. Interest paid during 2006 and 2005 was $1,293 and $1,384, respectively.

Maturities of real estate notes payable are as follows:

2007	$ 622
2008	672
2009	729
2010	8,379
2011	5,447
Thereafter	4,295
	$20,144

We amended our existing revolving credit facility in November 2005 by extending the agreement by one year and amending certain covenants. The credit facility provides for borrowings of up to $40,000 at a variable interest rate of LIBOR plus 1.5% (6.82% on November 25, 2006). The facility is secured by substantially all of our receivables and inventories. Borrowings under the facility, which matures November 30, 2007, totaled $4,000 and $3,000 at November 25, 2006, and November 26, 2005, respectively. After coverage for letters of credit, we had $21,817 available for borrowing under the facility at November 25, 2006. The average interest rate was 6.46% for the year ended November 25, 2006.

This facility contains, among other provisions, certain defined financial requirements including a maximum ratio of debt to equity and a minimum level of tangible net worth. At November 25, 2006, we were not in compliance with our minimum tangible net worth covenant. We received a waiver of this requirement through fiscal 2007. We were in compliance with all other covenants as of November 25, 2006.

Interest paid during 2006, 2005 and 2004 was $873, $619 and $436, respectively.

2.224

THE DIXIE GROUP, INC. (DEC)

(Dollars in thousands)	2006	2005
Total current liabilities	$35,586	$40,651
Long-term debt		
Senior indebtedness	57,780	60,987
Capital lease obligations	3,937	4,727
Convertible subordinated debentures	19,662	22,162
Total long-term debt	81,379	87,876
Deferred income taxes	11,697	10,768
Other long-term liabilities	13,334	15,310

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note G. Long-Term Debt and Credit Arrangements

	2006	2005
Senior indebtedness		
Credit line borrowings	$27,821	$32,949
Term loans	17,721	19,430
Equipment financing	9,336	4,341
Capital lease obligations	5,232	5,848
Mortgage note payable	6,770	6,987
Total senior indebtedness	66,880	69,555
Convertible subordinated debentures	22,162	24,662
Total long-term debt	89,042	94,217
Less current portion of long-term debt	(6,368)	(5,221)
Less current portion of capital lease obligations	(1,295)	(1,120)
Total long-term debt, less current portion	$81,379	$87,876

In 2006, the Company amended its senior loan and security agreement to (1) increase the revolving credit portion of the facility and change certain definitions in the agreement to facilitate the increase in revolving credit, and (2) reduce the credit spreads applicable to certain borrowings under the agreement by 0.25% and (3) reduce the maximum credit spreads that could be applicable to borrowings under the agreement by 0.50%. The senior loan and security agreement matures on May 11, 2010 and at December 30, 2006 provided the Company with $77,721 of credit, consisting of $60,000 of revolving credit and a $17,721 term loan. The term loan is payable in monthly principal installments of $142 and is due May 11, 2010.

Interest rates available under the senior loan and security agreement may be selected from a number of options that effectively allow the Company to borrow at rates ranging from the lender's prime rate to the lender's prime rate plus 0.50% for base rate loans, or at rates ranging from LIBOR plus 1.00% to LIBOR plus 2.75% for LIBOR loans. The weighted-average interest rate on borrowings outstanding under this

agreement was 6.99% at December 30, 2006 and 6.60% at December 31, 2005. Commitment fees ranging from 0.25% to 0.375% per annum are payable on the average daily unused balance of the revolving credit facility. The interest rate on borrowings under the senior loan and security agreement are fixed by an interest rate swap arrangement, that effectively fixes $30.0 million of borrowings under the agreement at 4.79% plus the applicable credit spreads. The levels of the Company's accounts receivable and inventory limit borrowing availability under the revolving credit facility. The facility is secured by a first priority lien on substantially all of the Company's assets.

The senior loan and security agreement generally permits dividends and repurchases of the Company's Common Stock up to an aggregate annual amount of $3,000 and such distributions in excess of $3,000 annually as may be made under conditions specified in the agreement. The agreement also contains covenants that could limit future acquisitions. The unused borrowing capacity under the senior loan and security agreement on December 30, 2006 was approximately $27,095.

The Company's equipment financing notes have terms ranging from five to seven years, are secured by the specific equipment financed, bear interest ranging from 5.55% to 6.94% and are due in monthly installments of principal and interest of $206 through February 2010 and monthly installments of principal and interest ranging from $157 to $23 from March 2010 through February 2013. The notes do not have financial covenants.

The Company's significant capitalized lease obligations have terms ranging from five to six years, are secured by the specific equipment leased, bear interest ranging from 5.93% to 7.27% and are due in monthly installments of principal and interest of $135 through January 2010 and monthly installments of principal and interest ranging from $110 to $11 from February 2010 through June 2011. One of the lease obligations requires a final installment of $200 at the end of its lease term in July 2010. The capitalized leases do not have financial covenants.

The Company's $6,770 mortgage note payable is secured by real property, is payable in monthly principal installments ranging from $17 to $28 during the remaining term and matures on March 2013. The mortgage note bears interest based on LIBOR plus 2.0% and the interest rate is fixed at 6.54% through March 13, 2013 by an interest rate swap.

The Company's convertible subordinated debentures bear interest at 7% payable semi-annually, are due in 2012, and are convertible by the holder into shares of Common Stock of the Company at an effective conversion price of $32.20 per share, subject to adjustment under certain circumstances. Mandatory sinking fund payments, which commenced May 15, 1998, retire $2,500 principal amount of the debentures annually and approximately 86% of the debentures prior to maturity. The convertible debentures are subordinated in right of payment to all other indebtedness of the Company.

Interest payments for continuing operations were $7,152 in 2006, $5,646 in 2005, and $5,760 in 2004. Interest capitalized by the Company was $243 in 2006 and $151 in 2005.

Maturities of long-term debt for periods following December 30, 2006 are as follows:

	Long-Term Debt	Capital Leases (See Note O)	Total
2007	$ 6,368	$1,295	$ 7,663
2008	6,510	1,389	7,899
2009	6,662	1,489	8,151
2010	44,919	985	45,904
2011	3,762	74	3,836
Thereafter	15,589	—	15,589
Total	$83,810	$5,232	$89,042

Note H. Financial Instruments

The Company's financial instruments are not held or issued for trading purposes. The carrying amounts and estimated fair value of the Company's financial instruments are summarized as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 538	$ 538	$ —	$ —
Notes receivable, including current portion	589	589	522	522
Escrow funds	66	66	68	68
Financial liabilities:				
Long-term debt and capital leases, including current portion	89,042	87,514	94,217	97,055
Interest rate swaps	324	324	(140)	(140)

The fair value of the Company's long-term debt and capital leases were estimated using market rates the Company believes are available for similar types of financial instruments.

Note O (In Part): Commitments

The Company leases certain equipment under capital leases and certain buildings, machinery and equipment under operating leases. Commitments for minimum rentals under noncancelable leases, including any applicable rent escalation clauses, are as follows:

	Capital Leases	Operating Leases
2007	$1,622	$1,731
2008	1,622	1,580
2009	1,622	1,168
2010	1,016	1,032
2011	75	940
Total commitments	5,957	6,451
Less amounts representing interest	(725)	—
	$5,232	$6,451

Property, plant and equipment includes machinery and equipment under capital leases which have cost and accumulated depreciation of $9,165 and $3,883, respectively, at December 30, 2006, and $8,623 and $2,724, respectively, at December 31, 2005.

Convertible

2.225

NOVELL, INC. (OCT)

(Amounts in thousands)	2006	2005
Total current liabilities	$ 685,545	$ 724,152
Deferred income taxes	4,186	4,537
Long-term deferred revenue	45,992	28,778
Senior convertible debentures	600,000	600,000
Total liabilities	$1,335,723	$1,357,467

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Summary of Significant Accounting Policies

Disclosure of Fair Value of Financial Instruments

Our financial instruments mainly consist of cash and cash equivalents, short-term investments, accounts receivable, notes receivable, accounts payable, accrued expenses, Series B Preferred Stock, and the Debentures. The carrying amounts of our cash equivalents and short-term investments, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. We periodically review the realizability of each short-term and long-term investment when impairment indicators exist with respect to the investment. If an other-than-temporary impairment of the value of the investments is deemed to exist, the carrying value of the investment is written down to its estimated fair value. We consider an impairment to be other-than-temporary when market evidence or issuer-specific knowledge does not reflect long-term growth to support current carrying values. The carrying amounts for the Series B Preferred Stock and Debentures approximate fair value. As of October 31, 2006 and 2005, we did not hold any publicly-traded long-term equity securities. Our Debentures have interest rates that approximate current market rates; therefore, the carrying value approximates fair value.

P (In Part): Senior Convertible Debentures

On July 2, 2004, we issued and sold $600 million aggregate principal amount of senior convertible debentures ("Debentures") due 2024. The Debentures pay interest at 0.50% per annum, payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2005. Each $1,000 principal amount of Debentures is convertible, at the option of the holders, into approximately 86.79 shares of our common stock prior to July 15, 2024 if (1) the price of our common stock trades above 130% of the conversion price for a specified duration, (2) the trading price of the Debentures is below a certain threshold, subject to specified exceptions, (3) the Debentures have been called for redemption, or (4) specified corporate transactions have occurred. None of the conversion triggers have been met as of October 31, 2006. The conversion rate is subject to certain adjustments. The conversion rate initially represents a conversion price of $11.52 per share. Holders of the Debentures may require us to repurchase all or a portion of their Debentures on July 15, 2009, July 15, 2014 and July 15, 2019, or upon the occurrence of certain events including a change in control. We may redeem the Debentures for cash beginning on or after July 20, 2009.

The Debentures were sold to an "accredited investor" within the meaning of Rule 501 under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the private placement exemption afforded by Section 4(2) of the Securities Act. The initial investor offered and resold the Debentures to "qualified institutional buyers" under Rule 144A of the Securities Act. In connection with the issuance of the Debentures, we agreed to file a shelf registration statement with the SEC for the resale of the Debentures and the common stock issuable upon conversion of the Debentures and use our reasonable best efforts to cause it to become effective, within an agreed-upon period. We also agreed to periodically update the shelf registration and to keep it effective until the earlier of the date the Debentures or the common stock issuable upon conversion of the Debentures is eligible to be sold to the public pursuant to Rule 144(k) of the Securities Act or the date on which there are no outstanding registrable securities. We filed the shelf registration statement and it became effective within the initial required period. As of October 31, 2006, the common stock issuable upon the conversion of the Debentures was eligible for sale to the public under Rule 144(k). Accordingly, we are no longer obligated to maintain the shelf registration statement. We have evaluated the terms of the call feature, redemption feature, and the conversion feature under applicable accounting literature, including SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," and concluded that none of these features should be separately accounted for as derivatives.

In connection with the issuance of the Debentures, we incurred $14.9 million of issuance costs, which primarily consisted of investment banker fees and legal and other professional fees. These costs are classified within Other Assets and are being amortized as interest expense using the effective interest method over the term from issuance through the first date that the holders can require repurchase of the Debentures, which is July 15, 2009. Amortization expense related to the issuance costs was $3.0 million, and interest expense on the Debentures was $3.0 milion for the fiscal year ended October 31, 2006 and 2005. We made cash payments for interest of $3.0 million and $3.1 million in fiscal 2006 and 2005, respectively.

X. Net Income (Loss) Per Share Attributable to Common Stockholders

The following table reconciles the numerators and denominators of the earnings per share calculation for the fiscal years ended October 31, 2006, 2005, and 2004:

(In thousands, except per share data)	2006	2005	2004
Basic net income from continuing operations per share computation:			
Net income from continuing operations	$ 7,625	$371,291	$ 46,596
Dividends on Series B Preferred Stock	(187)	(466)	(416)
Allocation of earnings to stockholders of Series B Preferred Stock	(32)	(3,614)	(181)
Deemed dividend related to beneficial conversion feature of Series B Preferred Stock	—	—	(25,680)
Net income attributable to common stockholders	$ 7,406	$367,211	$ 20,319
Weighted-average common shares outstanding, excluding unvested restricted stock	361,174	379,499	381,100
Basic net income from continuing operations per share attributable to common stockholders	$ 0.02	$ 0.97	$ 0.05
Diluted net income from continuing operations per share computation:			
Net income from continuing operations	$ 7,625	$371,291	$ 46,596
Dividends on Series B Preferred Stock	(187)	(466)	(416)
Allocation of earnings to the holders of Series B Preferred Stock	(32)	(3,614)	(181)
Deemed dividend related to beneficial conversion feature of Series B Preferred Stock	—	—	(25,680)
Interest expense on the Debentures	—	5,972	—
Diluted net income from continuing operations attributable to common stockholders	$ 7,406	$373,183	$ 20,319
Weighted-average common shares outstanding	361,174	379,499	381,100
Incremental shares attributable to the assumed exercise of outstanding options, unvested restricted stock, and other stock plans	4,485	9,012	9,779
Incremental shares attributable to the assumed conversion of the Debentures	—	52,074	—
Total adjusted weighted average common shares	365,659	440,585	390,879
Diluted net income from continuing operations per share attributable to common stockholders	$ 0.02	$ 0.85	$ 0.05

Incremental shares attributable to the assumed conversion of the Debentures have been excluded from the calculation of diluted earnings per share in fiscal 2006 and 2004 as their effect would have been anti-dilutive.

Incremental shares attributable to the assumed conversion of Series B Preferred Stock have been excluded from the calculation of diluted earnings per share in fiscal years 2006, 2005 and 2004 as their effect would have been anti-dilutive. Incremental shares attributable to options with exercise prices that were at or greater than the average market price ("out of the money") at October 31, 2006, 2005, and 2004 were also excluded from the calculation of diluted earnings per share as their effect would have been antidilutive. At October 31, 2006, 2005, and 2004, there were 21,521,748, 22,725,998, and 18,539,606 out of the money options, respectively, that had been excluded.

Debt Covenant Violation

2.226

SPECTRUM BRANDS, INC. (SEP)

(In thousands)	2006	2005
Total current liabilities	$ 562,613	$ 557,376
Long-term debt, net of current maturities	2,234,458	2,268,025
Employee benefit obligations, net of current portion	76,893	78,510
Deferred income taxes	156,578	208,251
Other	66,561	67,199
Total liabilities	$3,097,103	$3,179,361

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

7) (In Part): Debt

Debt consists of the following:

	2006		2005	
	Amount	Rate	Amount	Rate
Senior Subordinated Notes, due February 1, 2015	$ 700,000	7.4%	$ 700,000	7.4%
Senior Subordinated Notes, due October 1, 2013	350,000	8.5%	350,000	8.5%
Term Loan, US Dollar, expiring February 6, 2012	604,827	8.6%	651,725	5.8%
Term Loan, Canadian Dollar, expiring February 6, 2012	72,488	7.4%	74,081	4.9%
Term Loan, Euro, expiring February 6, 2012	134,721	6.3%	137,142	4.7%
Term Loan, Euro Tranche B, expiring February 6, 2012	332,315	6.2%	338,288	4.4%
Term C Loan, expiring September 30, 2009	—	—	—	—
Euro Term C Loan, expiring September 30, 2009	—	—	—	—
Revolving Credit Facility, expiring February 6, 2011	26,200	10.3%	—	—
Revolving Credit Facility, expiring September 30, 2008	—	—	—	—
Euro Revolving Credit Facility, expiring February 6, 2011	—	—	—	—
Other notes and obligations	42,698	5.7%	38,701	—
Capitalized lease obligations	13,922	5.0%	17,396	—
	2,277,171		2,307,333	
Less current maturities	42,713		39,308	
Long-term debt	$2,234,458		$2,268,025	

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The Company's senior credit facilities (the "Senior Credit Facilities") include aggregate facilities of $1,444,351 consisting of a $604,827 U.S. Dollar Term Loan, a €106,063 Term Loan (USD $134,721 at September 30, 2006), a Tranche B €261,624 Term Loan (USD €332,315 at September 30, 2006), a Canadian Dollar $80,548 Term Loan (USD $72,488 at September 30, 2006) and a revolving credit facility of $300,000 (the "Revolving Credit Facility"). Approximately $26,200 was outstanding under the Revolving Credit Facility at September 30, 2006. The Revolving Credit Facility includes foreign currency sublimits equal to the U.S. Dollar equivalent of €25,000 for borrowings in Euros, the U.S. Dollar equivalent of £10,000 for borrowings in Pounds Sterling and the equivalent of borrowings in Chinese Yuan of $35,000.

Approximately $221,224 remains available under the Revolving Credit Facility as of September 30, 2006, net of approximately $52,576 of outstanding letters of credit.

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The Senior Credit Facilities contain financial covenants with respect to borrowings, which include maintaining minimum interest coverage and maximum leverage ratios. In accordance with the Senior Credit Facilities, the limits imposed by such ratios become more restrictive over time. In addition, the Senior Credit Facilities restrict the Company's ability to, among other things, incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and enter into a merger or acquisition or sell assets. Indebtedness under these facilities (i) is secured by substantially all of the Company's assets, and (ii) is guaranteed by certain of the Company's subsidiaries.

The terms of both the $350 million 8½% and $700 million 7⅜% Senior Subordinated Notes permit the holders to require us to repurchase all or a portion of the notes in the event of a change of control. In addition, the terms of the notes restrict or limit the Company's ability to, among other things: (i) pay dividends or make other restricted payments; (ii) incur additional indebtedness and issue preferred stock; (iii) create liens; (iv) enter into mergers, consolidations, or sales of all or substantially all of the Company assets; (v) make asset sales; (vi) enter into transactions with affiliates; and (vii) issue or sell capital stock of the Company's wholly owned subsidiaries. Payment obligations of the notes are fully and unconditionally guaranteed on a joint and several basis by all of the Company's domestic subsidiaries.

On December 12, 2005, the Company reached agreement with its creditors to amend its leverage and interest charge covenants associated with the Senior Credit Facilities for subsequent periods. In connection with this amendment, interest costs on the Company's existing U.S. Dollar and Canadian Dollar term loans increased by 25 basis points as the spread between the base rate and the rate paid by the Company increased from 2.00% to 2.25%. In connection with the amendment, the Company incurred approximately $2,100 of fees which are being amortized over the remaining term of the Senior Credit Facilities.

On May 9, 2006, the Company reached agreement with its senior lenders to amend the consolidated leverage ratio and consolidated interest coverage ratio covenants effective for the period ended April 2, 2006 and subsequent periods. Under the amendment, the limits imposed by such ratios become more restrictive over time. As a result of this amendment, interest costs on the Company's existing Euro term loan increased by 25 basis points as the spread between the market rate and the Company's rate increased from 2.75% to 3.00%. Interest costs on the Company's existing U.S. Dollar, Canadian Dollar and Euro Tranche B term loans increased by 50 basis points as the spread between the market rate and the Company's rate increased from 2.50% to 3.00%. Interest costs on the Company's existing Revolver increased by 75 basis points as the spread between the market rate and the Company's rate increased from 2.25% to 3.00%. In connection with the amendment, the Company incurred $3,494 of fees which are being amortized over the remaining term of the Senior Credit Facilities.

The Company was in compliance with all covenants associated with its Senior Credit Facilities, as amended, and Senior Subordinated Notes, with the exception of the Fixed Charge Coverage Ratio relating to the Senior Subordinated Notes, that were in effect as of and during the period ended September 30, 2006. Due to significant Restructuring Charges and reduced business performance, the Company is not in compliance with the minimum requirement of 2:1 for the Fixed Charge Coverage Ratio under the indentures governing the Company's Subordinated Notes. Until the Company returns to compliance with the ratio, the Company is limited in its ability to make significant acquisitions or incur

significant additional senior debt beyond its existing Senior Credit Facilities. The Company does not expect this to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of its existing business, although no assurance can be given in this regard.

On December 12, 2006, the Company reached agreement with its Senior Lenders to amend the maximum consolidated leverage ratio and the minimum consolidated interest coverage ratio covenants associated with its Senior Credit Facilities effective for the periods ended December 31, 2006 and April 1, 2007. The amendment raises the interest rate on all of the Company's debt under its Senior Credit Facilities by 0.25% per annum until the Company prepays at least $500,000 in principal amount of its term loans with proceeds from the sale of certain of its assets. The Company's ability to comply with future debt covenants beyond the first quarter of fiscal 2007, ending December 31, 2006, will depend on its ability to consummate the disposal of certain assets on favorable contractual terms. In connection with the amendment, the Company incurred approximately $1,285 of fees which are being amortized over the remaining term of its Senior Credit Facilities. Failure to comply with the financial covenants and other provisions could materially and adversely affect the Company's ability to finance its future operations or capital needs and could create a default under such instrument and cause all amounts borrowed to become due and payable immediately. In the event of default under the Senior Credit Facilities, the amounts outstanding under its Senior Subordinated Notes would also be subject to acceleration.

18) (In Part): Subsequent Events

On December 12, 2006, the Company reached agreement with its Senior Lenders to amend the maximum consolidated leverage ratio and the minimum consolidated interest coverage ratio covenants associated with its Senior Credit Facilities effective for the periods ended December 31, 2006 and April 1, 2007. The amendment raises the interest rate on all of the Company's debt under its Senior Credit Facilities by 0.25% per annum until the Company prepays at least $500,000 in principal amount of its term loans with proceeds from the sale of certain of its assets. The Company's ability to comply with future debt covenants beyond the first quarter of fiscal 2007, ending December 31, 2006, will depend on its ability to consummate the disposal of the above mentioned assets on favorable contractual terms. In connection with the amendment, the Company incurred approximately $1,285 of fees which are being amortized over the remaining term of its Senior Credit Facilities. Failure to comply with the financial covenants and other provisions could materially and adversely affect the Company's ability to finance its future operations or capital needs and could create a default under such instrument and cause all amounts borrowed to become due and payable immediately. In the event of default under the Senior Credit Facilities, the amounts outstanding under its Senior Subordinated Notes would also be subject to acceleration.

CREDIT AGREEMENTS

2.227 As shown in Table 2-29, many of the survey companies disclosed the existence of loan commitments from the banks or insurance companies for future loans. Examples of such loan commitment disclosures follow:

2.228

TABLE 2-29: CREDIT AGREEMENTS

	2006	2005	2004	2003
Disclosing credit agreements	548	534	533	533
Not disclosing credit agreements	52	66	67	67
Total Companies	**600**	**600**	**600**	**600**

2.229

EQUIFAX INC. (DEC)

(In millions)	2006	2005
Total current liabilities	$582.1	$ 294.5
Long-term debt	173.9	463.8
Deferred income tax liabilities, net	70.8	126.1
Long-term pension and other postretirement benefit liabilities	65.3	56.2
Other long-term liabilities	60.4	70.6
Total liabilities	$952.5	$1,011.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Debt

Debt outstanding at December 31, 2006 and 2005 was as follows:

(In millions)	2006	2005
Notes, 4.95%, due November 2007	$250.0	$250.0
Debentures, 6.9%, due July 2028	150.0	150.0
Trade receivables-backed revolving credit facility, weighted-average rate of 5.4% and 3.9% in 2006 and 2005, respectively	80.0	88.0
Long-term revolving credit facilities, weighted-average rate of 5.3% and 4.1% in 2006 and 2005, respectively	25.0	65.0
Other	0.1	4.4
Total debt	505.1	557.4
Less short-term debt and current maturities	(330.0)	(92.3)
Less unamortized discounts	(1.2)	(1.3)
Total long-term debt, net of discount	$173.9	$463.8

Long-Term Revolving Credit Facilities

On July 24, 2006, we amended and restated our existing five-year, $500.0 million senior unsecured revolving credit facility with Sun Trust Bank as Joint Lead and Administrative Agent, Banc of America Securities, LLC as Joint Lead and Syndication Agent, and a number of other financial institutions. Sun Trust Bank and Bank of America, N.A., of which Banc of

America Securities, LLC is a subsidiary, are both considered related parties in accordance with SFAS No. 57, "Related Party Disclosures," since members of our Board of Directors have affiliations with these companies. Under the Amended and Restated Credit Agreement (the "Amended Credit Agreement"), Sun Trust Bank and Banc of America Securities, LLC have each committed $75.0 million. We believe that the terms of this transaction are at current market rates and would not have been any different had they been negotiated with an independent third-party. See Note 13 for additional information about these related parties.

Under the Amended Credit Agreement, among other provisions, the term was extended from August 20, 2009 to July 24, 2011, the applicable margin for borrowings and the annual facility fee were lowered, the maximum leverage ratio (as defined in the Amended Credit Agreement) was increased from 3.0 to 1 to 3.5 to 1, and a minimum interest coverage ratio was deleted. The Amended Credit Agreement may be used for working capital and other general corporate purposes, including acquisitions.

The Amended Credit Agreement also includes an "accordion" feature that will allow us to request an increase of up to $500.0 million in the maximum borrowing commitment, which cannot exceed $1.0 billion. Each member of the lending group may elect to participate or not participate in any request we make to increase the maximum borrowing commitment. In addition, any increase in the borrowing commitment pursuant to this accordion feature is subject to certain terms and conditions, including the absence of an event of default. The increased borrowing commitment may be used for general corporate purposes. We are permitted and intend to request an increase in the borrowing limit under the accordion feature of this credit facility effective upon the completion of our acquisition of TALX Corporation. See Note 15 for additional information about this acquisition.

Under our Amended Credit Agreement, we must comply with various financial and non-financial covenants. The financial covenants require us to maintain a maximum leverage ratio, defined as consolidated funded debt divided by consolidated EBITDA (as set forth in the Amended Credit Agreement) for the preceding four quarters, of not more than 3.5 to 1.0. Compliance with this financial covenant is tested quarterly. The non-financial covenants include limitations on liens, cross defaults, subsidiary debt, mergers, liquidations, asset dispositions and acquisitions. As of December 31, 2006, we were in compliance with our covenants under the Amended Credit Agreement.

Our borrowings under this facility, which have not been guaranteed by any of our subsidiaries, are unsecured and will rank on parity in right of payment with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. This facility restricts our ability to pay cash dividends on our capital stock or repurchase capital stock if the total amount of such payments in any fiscal year would exceed 20 percent of our consolidated total assets, measured as of the end of the preceding fiscal year.

At December 31, 2006, interest was payable on borrowings under the existing credit facility at the base rate or London Interbank Offered Rate ("LIBOR") plus a specified margin or competitive bid option as selected by us from time to time. The annual facility fee, which we pay regardless of borrowings, and interest rate are subject to adjustment based on our debt ratings. As of December 31, 2006, $475.0 million was available for borrowings and there were outstanding borrowings of $25.0 million under this facility, which is included in long-term debt on our Consolidated Balance Sheet.

While the underlying final maturity date of this facility is July 2011, it is structured to provide borrowings under short-term loans. Since these borrowings have a contractual maturity of thirty days, the borrowings and repayments are presented on a net basis within the financing activities portion of our Consolidated Statements of Cash Flows as net (repayments) borrowings under long-term revolving credit facilities.

Trade Receivables-Backed Revolving Credit Facility

We are party to a trade receivables-backed, revolving credit facility under which a wholly-owned subsidiary of Equifax may borrow up to $125.0 million, subject to borrowing base availability and other terms and conditions, for general corporate purposes. The amended credit facility is scheduled to expire on November 29, 2007, with the option to extend the term for an additional period of up to one year if specified conditions are satisfied. Borrowings bear interest at commercial paper rates, LIBOR or Base Rate plus a specified margin. We pay a commitment fee based on an annual rate of 15.0 basis points on any unused portion of this facility.

Outstanding debt under the facility is consolidated on our Balance Sheets for financial reporting purposes. Based on the calculation of the borrowing base applicable at December 31, 2006, $19.4 million was available for borrowing and $80.0 million was outstanding under this facility, which is included in short-term debt and current maturities on our Consolidated Balance Sheet.

At December 31, 2006 and 2005, $137.1 million and $126.2 million of net accounts receivable, respectively, had been transferred to our wholly-owned subsidiary and are included in accounts receivable in our Consolidated Balance Sheets.

Canadian Credit Facility

We are a party to a credit agreement with a Canadian financial institution that provides for a C$25.0 million (denominated in Canadian dollars), 364-day revolving credit agreement which was scheduled to expire on September 30, 2006. During the third quarter of 2006, however, we renewed this facility through September 30, 2007. We pay a commitment fee based on an annual rate of 10.0 basis points on any unused portion of this facility. During the twelve months ended December 31, 2006 and 2005, there was no activity under this facility. At December 31, 2006 and 2005, there were no outstanding borrowings under this facility.

2.230

INGRAM MICRO INC. (DEC)

(Dollars in 000s)	2006	2005
Total current liabilities	$4,467,781	$4,105,484
Long-term debt, less current maturities	270,714	455,650
Other liabilities	45,337	35,258
Total liabilities	$4,783,832	$4,596,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-Term Debt

The Company's debt consists of the following:

	2006	2005
North American revolving trade accounts receivable-backed financing facilities	$234,400	$343,026
Asia-Pacific revolving trade accounts receivable-backed financing facilities	36,299	112,624
Revolving unsecured credit facilities and other debt	238,808	149,217
	509,507	604,867
Current maturities of long-term debt	(238,793)	(149,217)
	$270,714	$455,650

In July 2006, the Company increased its borrowing capacity to $550,000 under its revolving accounts receivable-backed financing program in the U.S., secured by substantially all U.S.-based receivables. The Company also extended the maturity date of the program from March 31, 2008 to July 30, 2010. At the Company's option, the program may be increased to as much as $650,000 at any time prior to the new maturity date. The interest rate on this facility varies dependent on the designated commercial paper rates plus a predetermined margin. At December 30, 2006 and December 31, 2005, the Company had borrowings of $234,400 and $304,300, respectively, under its revolving accounts receivable-backed financing program in the U.S.

The Company also has a trade accounts receivable-based financing program in Canada, which matures on August 31, 2008 and provides for borrowing capacity up to 150,000 Canadian dollars, or approximately $129,000 at December 30, 2006. The interest rate on this facility is dependent on the designated commercial paper rates plus a predetermined margin at the drawdown date. At December 30, 2006 and December 31, 2005, the Company had borrowings of $0 and $38,726, respectively, under this trade accounts receivable-based financing program.

The Company has two revolving accounts receivable-backed financing facilities in Europe, which individually provide for borrowing capacity of up to Euro 107,000, or approximately $141,000, and Euro 230,000, or approximately $303,000, respectively at December 30, 2006, with a financial institution that has an arrangement with a related issuer of third-party commercial paper. These facilities mature in July 2007 and January 2009, respectively. Both of these European facilities require certain commitment fees and borrowings under both facilities incur financing costs at rates indexed to EURIBOR. At December 30, 2006 and December 31, 2005, the Company had no borrowings under these European revolving accounts receivable-backed financing facilities.

The Company has a multi-currency revolving accounts receivable-backed financing facility in Asia-Pacific supported by trade accounts receivable, which provides for up to 250,000 Australian dollars of borrowing capacity, or approximately $197,000 at December 30, 2006, with a financial institution that has an arrangement with a related issuer of third-party commercial paper. This facility expires in June 2008. The interest rate is dependent upon the currency in which the drawing is made and is related to the local short-term bank indicator rate for such currency. At December 30, 2006 and December 31, 2005, the Company had borrowings of $36,299 and $112,624, respectively, under this facility.

The Company's ability to access financing under our North American, European and Asia-Pacific facilities, as discussed above, is dependent upon the level of eligible trade accounts receivable and the level of market demand for commercial paper. At December 30, 2006, the Company's actual aggregate available capacity under these programs was approximately $974,000 based on eligible accounts receivable available, of which approximately $270,699 of such capacity was outstanding. The Company could, however, lose access to all or part of its financing under these facilities under certain circumstances, including: (a) a reduction in credit ratings of the third-party issuer of commercial paper or the back-up liquidity providers, if not replaced, or (b) failure to meet certain defined eligibility criteria for the trade accounts receivable, such as receivables remaining assignable and free of liens and dispute or set-off rights. In addition, in certain situations, the Company could lose access to all or part of its financing with respect to the European facility that matures in Janaury 2009 as a result of a rescission of its authorization to collect the receivables by the relevant supplier under applicable local law. Based on the Company's assessment of the duration of these programs, the history and strength of the financial partners involved, other historical data, various remedies available to the Company under these programs, and the remoteness of such contingencies, the Company believes that it is unlikely that any of these risks will materialize in the near term.

The Company has a $175,000 revolving senior unsecured credit facility with a bank syndicate that matures in July 2008. The interest rate on the revolving senior unsecured credit facility is based on LIBOR, plus a predetermined margin that is based on our debt ratings and our leverage ratio. At December 30, 2006 and December 31, 2005, the Company had no borrowings under this credit facility. This credit facility may also be used to support letters of credit. At December 30, 2006 and December 31, 2005, letters of credit of $30,633 and $21,235, respectively, were issued to certain vendors and financial institutions to support purchases by the Company's subsidiaries, payment of insurance premiums and flooring arrangements. The Company's available capacity under the agreement is reduced by the amount of any issued and outstanding letters of credit.

The Company has a 100,000 Australian dollar, or approximately $79,000 at December 30, 2006, senior unsecured credit facility with a bank syndicate that matures in December 2008. The interest rate on this credit facility is based on Australian or New Zealand short-term bank indicator rates, depending on the funding currency, plus a predetermined margin that is based on our debt ratings and our leverage ratio. At December 30, 2006 and December 31, 2005, the Company had borrowings of $0 and $14,357, respectively,

under this credit facility. This credit facility may also be used to support letters of credit. The Company's available capacity under the agreement is reduced by the amount of any issued and outstanding letters of credit. At December 30, 2006 and December 31, 2005, no letters of credit were issued.

The Company also has additional lines of credit, short-term overdraft facilities and other credit facilities with various financial institutions worldwide, which provide for borrowing capacity aggregating approximately $796,000 at December 30, 2006. Most of these arrangements are on an uncommitted basis and are reviewed periodically for renewal. At December 30, 2006 and December 31, 2005 the Company had $238,808 and $134,860, respectively, outstanding under these facilities. Borrowings under certain of these facilities are secured by collateral deposits of $35,000 at December 30, 2006, which are included in other current assets. At December 30, 2006 and December 31, 2005, letters of credit totaling approximately $36,864 and $53,367, respectively, were issued principally to certain vendors to support purchases by the Company's subsidiaries. The issuance of these letters of credit reduces its available capacity under these agreements by the same amount. The weighted average interest rate on the outstanding borrowings under these facilities was 6.4% and 6.1% per annum at December 30, 2006 and December 31, 2005, respectively.

The Company is required to comply with certain financial covenants under some of its financing facilities, including minimum tangible net worth, restrictions on funded debt and interest coverage and trade accounts receivable portfolio performance covenants, including metrics related to receivables and payables. The Company is also restricted in the amount of additional indebtedness it can incur, dividends it can pay, as well as the amount of common stock that it can repurchase annually. At December 30, 2006, the Company was in compliance with all material covenants or other requirements set forth in the credit agreements or other agreements with the Company's creditors discussed above.

2.231

NOBLE ENERGY, INC. (DEC)

(In thousands)	2006	2005
Total current liabilities	$1,184,262	$1,240,145
Deferred income taxes	1,758,452	1,201,191
Asset retirement obligations	127,689	278,540
Derivative instruments	328,875	757,509
Other noncurrent liabilities	274,720	279,971
Long-term debt	1,800,810	2,030,533
Total liabilities	$5,474,808	$5,787,889

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Debt

Our debt consists of the following:

	2006		2005	
(In thousands, except percentages)	Debt	Interest Rate	Debt	Interest Rate
$2.1 billion Credit Facility, due December 2011	$1,155,000	5.69	$1,280,000	4.82
5 1/4% Senior Notes, due April 2014	200,000	5.25	200,000	5.25
7 1/4% Notes, due October 2023	100,000	7.25	100,000	7.25
8% Senior Notes, due April 2027	250,000	8.00	250,000	8.00
7 1/4% Senior Debentures, due August 2097	100,000	7.25	100,000	7.25
Term Loans, due January 2009	—	—	105,000	5.23
Outstanding debt	1,805,000		2,035,000	
Unamortized discount	(4,190)		(4,467)	
Long-term debt	$1,800,810		$2,030,533	

Credit Facility

In November 2006, we amended our $2.1 billion unsecured five-year revolving credit facility (the "Credit Facility"). The Credit Facility, as amended, (i) extends the maturity date of the Credit Facility to December 9, 2011, (ii) provides for Credit Facility fee rates that range from 5 basis points to 15 basis points per year depending upon our credit rating, (iii) makes available swingline loans up to an aggregate amount of $300 million and (iv) provides for interest rates that are based upon the Eurodollar rate plus a margin that ranges from 20 basis

points to 70 basis points depending upon our credit rating and utilization of the Credit Facility. The Credit Facility contains customary representations and warranties and affirmative and negative covenants. The amendment to the Credit Facility eliminated the financial covenant requiring a 4.0 to 1.0 ratio of Earnings Before Interest, Taxes, Depreciation and Exploration Expense to interest expense. However, the Credit Facility continues to require that our total debt to capitalization ratio, expressed as a percentage, not exceed 60% at any time. A violation of this covenant could result in a default under the Credit Facility, which would permit the participating banks to restrict our ability to access the Credit Facility and require the immediate repayment of any outstanding advances under the Credit Facility. The Credit Facility is with certain commercial lending institutions and is available for general corporate purposes.

Certain lenders that are a party to the Credit Facility have in the past performed, and may in the future from time to time perform, investment banking, financial advisory, lending or commercial banking services for us, for which they have received, and may in the future receive, customary compensation and reimbursement of expenses. Debt issuance costs of approximately $3 million remain and are being amortized to expense over the life of the Credit Facility.

The Credit Facility does not restrict the payment of dividends on Noble Energy common stock, except, if after giving effect thereto, an Event of Default shall have occurred and be continuing or been caused thereby.

LONG-TERM LEASES

2.232 Standards for reporting leases on the financial statements of lessees and lessors are set forth in SFAS No. 13, *Accounting for Leases*, and in subsequently issued amendments and interpretations of *SFAS No. 13.*

2.233 Table 2-30, in addition to summarizing the number of survey companies reporting capitalized and/or noncapitalized lessee leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. 65 survey companies reported lessor leases.

2.234 Examples of long-term lease presentations and disclosures follow.

2.235

TABLE 2-30: LONG-TERM LEASES

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Information Disclosed as to Capitalized Leases				
Minimum lease payments	151	154	148	131
Imputed interest	96	81	85	79
Leased assets by major classifications	56	45	29	30
Executory costs	4	2	6	8
Information Disclosed as to Noncapitalized Leases				
Rental expenses				
Basic	565	572	556	564
Sublease	57	58	65	63
Contingent	42	44	46	52
Minimum rental payments				
Schedule of	561	565	554	547
Classified by major categories of property	10	8	6	10
Number of Companies				
Noncapitalized leases only	315	317	316	327
Capitalized and noncapitalized leases	271	261	258	242
Capitalized leases only	5	5	9	6
No leases disclosed	9	17	17	25
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

2.236

HEWITT ASSOCIATES, INC. (SEP)

(In thousands)	2006	2005
Current liabilities:		
Accounts payable	$ 31,256	$ 57,412
Accrued expenses	194,736	165,632
Funds held for clients	83,026	97,907
Advanced billings to clients	176,563	156,257
Accrued compensation and benefits	263,143	171,486
Short-term debt	32,246	21,858
Current portion of long-term debt and capital lease obligations	34,742	30,066
Total current liabilities	815,712	700,618
Non-current liabilities:		
Deferred contract revenues	193,638	140,474
Debt and capital lease obligations, less current portion	254,852	287,149
Other non-current liabilities	148,794	156,859
Deferred income taxes, net	98,313	60,883
Total non-current liabilities	695,597	645,365
Total liabilities	$1,511,309	$1,345,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

2 (In Part): Summary of Significant Accounting Policies

Property and Equipment (In Part)

Property and equipment, which include amounts recorded under capital leases, are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Asset Description	Asset Life
Computer equipment	3 to 5 years
Capitalized software	3 to 5 years
Telecommunications equipment	5 years
Furniture and equipment	5 to 15 years
Buildings	15 to 39 years
Leasehold improvements	Lesser of estimated useful life or lease term

7 (In Part): Property and Equipment

As of September 30, 2006 and 2005, net property and equipment, which includes assets under capital leases, consisted of the following:

	2006	2005
Property and equipment:		
Buildings	$ 93,397	$ 92,990
Capitalized software	340,613	310,568
Computer equipment	347,081	346,780
Telecommunications equipment	136,086	134,575
Furniture and equipment	134,305	116,881
Leasehold improvements	142,594	126,468
Total property and equipment	1,194,076	1,128,262
Less accumulated depreciation and amortization	(782,871)	(714,390)
Balance at end of year	$ 411,205	$ 413,872

11 (In Part): Debt

Debt at September 30, 2006 and 2005, consisted of the following:

	2006	2005
Term loan credit facility	$ 9,362	$ 10,583
Other foreign debt	847	1,621
Unsecured convertible senior term notes	104,805	103,545
Unsecured senior term notes	98,000	121,000
Capital lease obligations	76,580	80,466
	289,594	317,215
Current portion of long-term debt and capital lease obligations	34,742	30,066
Debt and capital lease obligations, less current portion	$254,852	$287,149

12 (In Part): Lease Agreements

Capital Leases

Capital lease obligations at September 30, 2006 and 2005, consisted of the following:

	2006	2005
Building capital leases	$76,213	$79,834
Computer and telecommunications equipment capital leases	367	632
	76,580	80,466
Current portion	4,286	3,989
Capital lease obligations, less current portion	$72,294	$76,477

The following is a schedule of minimum future rental payments required as of September 30, 2006, under capital leases which have an initial or remaining non-cancelable lease term in excess of one year:

Capital Leases:	Principal	Interest	Total
Fiscal year ending:			
2007	$ 4,286	$ 5,423	$ 9,709
2008	4,695	5,103	9,798
2009	5,177	4,750	9,927
2010	5,757	4,356	10,113
2011	6,396	3,918	10,314
2012 and thereafter	50,269	11,343	61,612
Total minimum lease payments	$76,580	$34,893	$111,473

Building Capital Leases

The Norwalk, Connecticut and Newport Beach, California capital leases are payable in monthly installments at 7.33% interest and expire in April 2017 and May 2017, respectively. The leases provide for stepped rents over the lease term with the option for two renewal terms of five years each. The capitalized leases and the related capital lease obligations were recorded at lease inception and the capitalized lease assets are being amortized over the remaining lease term on a straight-line basis. The terms of the Norwalk lease also provide the Company with a right of first refusal on sale if the landlord receives an offer for the sale of the building.

Computer and Telecommunications Equipment Capital Leases

The Company's computer and telecommunications equipment installment notes and capitalized leases are secured by the related equipment and are payable typically over three to five years in monthly or quarterly installments at an interest rate of 5.0%.

2.237

JONES APPAREL GROUP, INC. (DEC)

(All amounts in millions)	2006	2005
Current liabilities:		
Short-term borrowings	$ 100.0	$ 129.5
Current portion of long-term debt and capital lease obligations	4.1	227.8
Accounts payable	315.5	256.5
Income taxes payable	12.7	54.2
Accrued employee compensation and benefits	52.3	51.0
Accrued expenses and other current liabilities	130.8	117.5
Total current liabilities	615.4	836.5
Noncurrent liabilities:		
Long-term debt	752.8	752.6
Obligations under capital leases	35.8	37.2
Deferred taxes	42.4	175.9
Other	129.0	109.2
Total noncurrent liabilities	960.0	1,074.9
Total liabilities	$1,575.4	$1,911.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Property, Plant, Equipment and Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets. Leasehold improvements recorded at the inception of a lease are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter; for improvements made during the lease term, the amortization period is the shorter of the useful life or the remaining lease term (including any renewal periods that are deemed to be reasonably assured). Property under capital leases is amortized over the lives of the respective leases or the estimated useful lives of the assets, whichever is shorter.

Property, Plant and Equipment (In Part)

Major classes of property, plant and equipment are as follows:

(In millions)	2006	2005	Useful Lives (Years)
Land and buildings	$ 81.2	$ 95.0	5–40
Leasehold improvements	347.5	268.6	1–39
Machinery, equipment and software	320.1	294.4	3–20
Furniture and fixtures	109.6	95.3	3–8
Construction in progress	37.7	31.0	—
	896.1	784.3	
Less: accumulated depreciation and amortization	511.3	472.2	
	$384.8	$312.1	

Depreciation and amortization expense relating to property, plant and equipment (including capitalized leases) was $83.8 million, $81.2 million and $64.0 million in 2006, 2005 and 2004, respectively. At December 31, 2006, we had outstanding commitments of approximately $97.3 million relating primarily to the construction or remodeling of retail store locations (net of $19.0 million expected to be recovered through landlord construction allowances) and the design and implementation of new computer software systems. During 2006, we capitalized approximately $0.5 million of interest as part of the cost of major capital projects.

Included in property, plant and equipment are the following capitalized leases:

(In millions)	2006	2005	Useful Lives (Years)
Buildings	$45.9	$58.8	15–20
Machinery and equipment	10.5	12.3	4–5
	56.4	71.1	
Less: accumulated amortization	22.0	29.7	
	$34.4	$41.4	

Obligations Under Capital Leases

Obligations under capital leases consist of the following:

(In millions)	2006	2005
Warehouses, office facilities and equipment	$39.9	$40.1
Less: current portion	4.1	2.9
Obligations under capital leases—noncurrent	$35.8	$37.2

We lease warehouse and office facilities in Bristol, Pennsylvania. Two 15-year net leases run until March and October 2013, respectively, and require minimum annual rent payments of $1.3 million and $0.9 million, respectively.

In 2003, we entered into a sale-leaseback agreement for our Virginia warehouse facility. This transaction resulted in a net gain of $7.5 million that has been deferred and is being amortized over the lease term, which runs until April 2023 and requires minimum annual rent payments of $2.4 million. The building has been capitalized at $25.6 million, which approximates the present value of the minimum lease payments.

We also lease various equipment under two to six-year leases at an aggregate annualized rental of $2.0 million. The equipment has been capitalized at its fair market value of $6.8 million, which approximates the present value of the minimum lease payments.

The following is a schedule by year of future minimum lease payments under capital leases, together with the present

value of the net minimum lease payments as of December 31, 2006:

(In millions)	
2007	$ 6.6
2008	6.8
2009	5.2
2010	4.9
2011	4.9
Later years	31.1
Total minimum lease payments	59.5
Less: amount representing interest	19.6
Present value of net minimum lease payments	$39.9

2.238

MERRIMAC INDUSTRIES, INC. (DEC)

	2006	2005
Current liabilities:		
Current portion of long-term debt	$ 648,524	$ 907,895
Accounts payable	994,221	1,161,199
Accrued liabilities	1,420,322	1,545,407
Customer deposits	203,783	863,582
Deferred income taxes	100,000	20,000
Total current liabilities	3,366,850	4,498,083
Long-term debt, net of current portion	4,564,040	2,071,299
Deferred compensation	—	19,692
Deferred liabilities	37,839	2,720
Deferred tax liabilities	—	140,000
Total liabilities	$7,968,729	$6,731,794

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment (In Part)

Property, plant and equipment are recorded at cost. Depreciation and amortization is computed for financial purposes on the straight-line method, while accelerated methods are used, where applicable, for tax purposes. The costs of additions and improvements are capitalized and expenditures for repairs and maintenance are expensed as incurred. The costs and accumulated depreciation applicable to assets retired or otherwise disposed of are removed from the asset accounts and any gain or loss is included in the consolidated statements of operations. The following estimated useful lives are used for financial income statement purposes:

Land improvements	10 years
Building	25 year
Machinery and equipment	3–10 years
Office equipment, furniture and fixtures	5–10 years

The Company leases various property, plant and equipment. Leased property is accounted for under Financial Accounting Standard No. 13 "Accounting for Leases" ("SFAS 13"). Accordingly, leased property that meets certain criteria are capitalized and the present value of the related lease payments are recorded as a liability. All other leases are accounted for as operating leases and the related payments are expensed ratably over the rental period. Amortization of assets under capital leases is computed utilizing the straight-line method over the shorter of the remaining lease term or the estimted useful life. Company leases that include escalating lease payments are straight-lined over the non-cancelable base lease period in accordance with SFAS 13.

5 (In Part): Current and Long-Term Debt

The Company was obligated under the following debt instruments at December 30, 2006 and December 31, 2005:

	2006	2005
North Fork Bank:		
Revolving line of credit, 2.00% above LIBOR or 0.50% below prime	$ —	$ —
Term loan, due October 1, 2011, 2.25% above LIBOR or 0.50% below prime	1,900,000	—
Mortgage loan, due October 1, 2016, 2.25% above LIBOR or 0.50% below prime	2,962,500	—
The CIT Group/Business Credit, Inc.:		
Revolving line of credit, interest 0.50% above prime	—	—
Term loan A, due October 8, 2008, variable interest above LIBOR or prime	—	725,000
Term loan B, due October 8, 2010, variable interest above LIBOR or prime	—	1,866,074
The Bank of Nova Scotia:		
Capital leases, interest 7.30% due April 2006	—	74,025
Capital leases, interest 5.85%, due May 2006	—	36,725
Capital leases, interest 7.90%, due June 2006	—	67,469
Capital leases, interest 7.35%, due March 2007	15,389	—
Capital leases, interest 7.50%, due May 2007	20,590	—
Capital leases, interest 5.80%, due January 2010	173,170	209,901
Capital leases, interest 6.60%, due March 2011	140,915	—
	5,212,564	2,979,194
Less current portion	648,524	907,895
Long-term portion	$4,564,040	$2,071,299

FMI has a $1,800,000 (Canadian) (approximately $1,600,000 US) revolving lease line with the Bank of Nova Scotia, whereby the Company can obtain funding for previous production equipment purchases via a sale/leaseback transaction. As of December 30, 2006, $350,000 had been utilized under this facility. Such leases are payable in monthly installments for up to five years and are secured by the related production equipment, interest rates (typically prime rate plus one percent) are set at the closing of each respective sale/leaseback transaction. During the first quarter of 2006, FMI obtained $160,000 in connection with the sale/leaseback of certain production equipment. The related equipment was originally purchased by the Company in 2005. During the first

quarter of 2005, FMI obtained $231,000 in connection with the sale/leaseback of certain production equipment. The related equipment was originally purchased by the Company in 2004.

Assets securing capital leases included in property, plant and equipment, net, have a depreciated cost of approximately $703,000 at December 30, 2006 and $678,000 at December 31, 2005.

11 (In Part): Commitments and Contingencies

Lease Commitments (In Part)

Capital leases included in property, plant and equipment at December 30, 2006 are approximately as follows:

Machinery and equipment	$1,624,000
Less accumulated depreciation and amortization	921,000
Total	$ 703,000

Future minimum lease payments under capital leases and the present value of such payments as of December 30, 2006 are approximately as follows:

2006	$117,000
2007	80,000
2008	80,000
2009	81,000
2010	37,000
Total minimum lease payments	395,000
Less amount representing interest	45,000
Present value of total minimum lease payments	$350,000

Lessee—Operating Leases

2.239

AMERICAN GREETINGS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

Note 1 (In Part): Significant Accounting Policies

Operating Leases

Rent expense for operating leases, which may have escalating rentals over the term of the lease, is recorded on a straight-line basis over the initial lease term. The initial lease term includes the "build-out" period of leases, where no rent payments are typically due under the terms of the lease. The difference between rent expense and rent paid is recorded as deferred rent. Construction allowances received from landlords are recorded as a deferred rent credit and amortized to rent expense over the initial term of the lease.

Note 14. Long-Term Leases and Commitments

The Corporation is committed under noncancelable operating leases for commercial properties (certain of which have been subleased) and equipment, terms of which are generally less than 25 years. Rental expense under operating leases for the years ended February 28, 2006, February 28, 2005 and February 29, 2004, are as follows:

	2006	2005	2004
Gross rentals	$56,258	$64,084	$71,262
Sublease rentals	(436)	(404)	(266)
Net rental expense	$55,822	$63,680	$70,996

At February 28, 2006, future minimum rental payments for noncancelable operating leases, net of aggregate future minimum noncancelable sublease rentals, are as follows:

Gross rentals:	
2007	$ 34,156
2008	28,720
2009	23,772
2010	18,537
2011	14,151
Later years	21,978
	141,314
Sublease rentals	(2,731)
Net rentals	$138,583

2.240

WEIS MARKETS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

w) Rental Income

The company leases or subleases space to tenants in owned, vacated and open store facilities. Rental income is recorded when earned as a component of "Operating, general and administrative expenses." All leases are operating leases, as disclosed in Note 5, and do not contain up front considerations.

Note 5. Lease Commitments

At December 30, 2006, the company leased approximately 55% of its open store facilities under operating leases that expire at various dates through 2026. These leases generally provide for fixed annual rentals; however, several provide for minimum annual rentals plus contingent rentals as a percentage of annual sales and a number of leases require the company to pay for all or a portion of insurance, real estate taxes, water and sewer rentals, and repairs, the cost of which is charged to the related expense category rather than being accounted for as rent expense. Most of the leases contain multiple renewal options, under which the company may extend the lease terms from 5 to 20 years. Rents on operating leases, including agreements with step rents, are charged to expense on a straight-line basis over the minimum lease term. The company does not have any leases that include capital improvement funding or other leases concessions.

Rent expense and income on all leases consisted of:

(Dollars in thousands)	2006	2005	2004
Minimum annual rentals	$30,147	$29,752	$29,233
Contingent rentals	333	303	266
Lease or sublease income	(6,757)	(7,820)	(7,780)
	$23,723	$22,235	$21,719

The following is a schedule by years of future minimum rental payments required under operating leases and total minimum sublease and lease rental income to be received that have initial or remaining noncancelable lease terms in excess of one year as of December 30, 2006.

(Dollars in thousands)	Leases	Subleases
2007	$28,551	$(4,680)
2008	28,395	(4,247)
2009	26,271	(3,098)
2010	22,272	(2,457)
2011	18,390	(1,463)
Thereafter	119,456	(2,624)
	$243,335	$(18,569)

The company has $1,688,000 accrued as of December 30, 2006, for future minimum rental payments due on previously closed stores, reduced by the estimated sublease income to be received. The future minimum rental payments required under operating leases and estimated sublease income for these locations are included in the above schedule.

2.241

YAHOO! INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Operating Leases

The Company leases office space and data centers under operating lease agreements with original lease periods up to 23 years. Certain of the lease agreements contain rent holidays and rent escalation provisions. Rent holidays and rent escalation provisions are considered in determining straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial possession of the lease property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. Lease renewal periods are considered on a lease-by-lease basis and are generally not included in the initial lease term.

Note 13 (In Part): Commitments and Contingencies

Operating Lease Commitments

The Company leases office space and data centers under operating lease agreements with original lease periods up to 23 years which expire between 2007 and 2027.

The Company has entered into the following material lease agreements with minimum lease commitments as of December 31, 2006.

- In 2004, the Company entered into a 23 year lease agreement for office space in Sunnyvale, California with a total expected minimum lease commitment of approximately $149 million over the lease term and a remaining minimum lease commitment of approximately $139 million as of December 31, 2006. The Company has the option to renew the lease for two additional five year terms and the right of first offer to purchase the leased office space if the lessor sells the building.
- In 2005, the Company entered into two ten year lease agreements for data centers in the eastern United States with total expected minimum lease commitments of approximately $280 million over the lease terms. One of these lease agreements with total expected minimum lease commitments of $172 million was cancelled during 2005. The remaining minimum lease commitments excluding the cancelled lease were $97 million as of December 31, 2006. The Company has the option to renew this lease for an additional five years and also has a right of expansion for any additional lease space that becomes available.
- In 2005, the Company entered into three ten year lease agreements for office space in Southern California, with total expected minimum lease commitments (as per 2006 amendments) of approximately $159 million over the lease terms and remaining minimum lease commitments of approximately $154 million as of December 31, 2006. In each of these leases, the Company has the option to renew for two additional terms of three to five years, as well as the right of expansion for any additional lease space that becomes available. Further, in the case of two of these leases, the Company has the right of first offer to purchase the leased office space if the lessor sells the building.
- In 2006, the Company entered into an eleven year lease agreement for a data center in the eastern United States. As of December 31, 2006, the Company had total expected and remaining minimum lease commitments of approximately $191 million over the lease term. The Company has the option to renew this lease for an additional five years and also has a right of expansion for any additional lease space that becomes available.

Rent expense for all operating leases was approximately $34 million, $55 million, and $73 million for 2004, 2005, and 2006, respectively.

Many of the Company's leases contain one or more of the following options which the Company can exercise at the end of the initial lease term: (a) renewal of the lease for a defined number of years at the then fair market rental rate or at a slight discount to the fair market rental rate; (b) purchase of the property at the then fair market value; or (c) right of first offer to lease additional space that becomes available.

Gross and net lease commitments as of December 31, 2006 can be summarized as follows (in millions):

	Gross Lease Commitments	Sublease Income	Net Lease Commitments
2007	$ 97	$ 3	$ 94
2008	107	3	104
2009	107	3	104
2010	93	2	91
2011	75	1	74
Due after 5 years	399	—	399
Total gross and net lease commitments	$878	$12	$866

Lessor Leases

2.242

DANA CORPORATION (DEC)

(In millions)	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 719	$ 762
Accounts receivable		
Trade, less allowance for doubtful accounts of $23–2006 and $22–2005	1,131	1,064
Other	235	244
Inventories	725	664
Assets of discontinued operations	392	521
Other current assets	122	142
Total current assets	3,324	3,397
Goodwill	416	439
Investments and other assets	663	1,074
Investments in equity affiliates	555	820
Property, plant and equipment, net	1,776	1,628
Total assets	$6,734	$7,358

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Lease Financing

Lease financing consists of direct financing leases, leveraged leases and operating leases on equipment. Income on direct financing leases is recognized by a method that produces a constant periodic rate of return on the outstanding investment in the lease. Income on leveraged leases is recognized by a method that produces a constant rate of return on the outstanding net investment in the lease, net of the related deferred tax liability, in the years in which the net investment is positive. Initial direct costs are deferred and amortized using the interest method over the lease period. Operating leases for equipment are recorded at cost, net of accumulated depreciation. Income from operating leases is recognized ratably over the term of the leases. In 2006, we adopted a plan to accelerate the sale of these leases and recorded an impairment charge of $176 (see Note 4).

Note 4 (In Part): Impairments, Discontinued Operations, Divestitures and Realignment of Operations

Impairments

In accordance with SFAS No. 144, "Impairment of Long-lived Assets" (SFAS No. 144), we review long-lived assets, including goodwill, for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to their carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, the long-lived assets of the operation (excluding goodwill) are written down to fair value. Fair value is determined based on discounted cash flows, or other methods providing best estimates of value.

As a result of DCC's adopting a plan to proceed with a more accelerated sale of substantially all of its remaining assets, we also recognized an asset impairment charge of $176 in 2006. DCC's investments are reviewed for impairment on a quarterly basis and adjusted to current estimated fair value less cost to sell. Based on our assessments of other long-lived assets and goodwill at December 31, 2006, no impairment charges were determined to be required.

Note 6 (In Part): Components of Certain Balance Sheet Amounts

	2006	2005
Investments and other assets		
Prepaid pension expense	$106	$ 364
Deferred tax benefits	293	189
Investment in leveraged leases	63	208
Notes receivable	81	96
Amounts recoverable from insurers	70	67
Other	50	150
Total	$663	$1,074

The components of the net investment in leveraged leases are as follows:

	2006	2005
Rental receivables	$739	$1,516
Residual values	80	135
Nonrecourse debt service	(535)	(1,244)
Unearned income	(145)	(199)
Lease impairment reserve	(76)	—
Total investments	63	208
Less: deferred taxes arising from leverage leases	54	170
Net investments	$ 9	$ 38

2.243

DEERE & COMPANY (OCT)

(In millions of dollars)	2006	2005
Cash and cash equivalents	$ 1,687.5	$ 2,258.2
Marketable securities	1,816.7	2,169.1
Receivables from unconsolidated affiliates	22.2	18.4
Trade accounts and notes receivable—net	3,037.7	3,117.8
Financing receivables—net	14,004.0	12,869.4
Restricted financing receivables—net	2,370.8	1,457.9
Other receivables	448.2	523.0
Equipment on operating leases—net	1,493.9	1,335.6
Inventories	1,957.3	2,134.9
Property and equipment—net	2,763.6	2,343.3
Investments in unconsolidated affiliates	124.0	106.7
Goodwill	1,110.0	1,088.5
Other intangible assets—net	56.4	18.3
Prepaid pension costs	2,642.4	2,662.7
Other assets	465.6	419.8
Deferred income taxes	582.2	628.1
Deferred charges	137.9	133.8
Assets of discontinued operations		351.3
Total assets	$34,720.4	$33,636.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition (In Part)

Financing revenue is recorded over the lives of the related receivables using the interest method. Deferred costs on the origination of financing receivables are recognized as a reduction in finance revenue over the expected lives of the receivables using the interest method. Income from operating leases is recognized on a straight-line basis over the scheduled lease terms.

Depreciation and Amortization

Property and equipment, capitalized software and other intangible assets are depreciated over their estimated useful lives generally using the straight-line method. Equipment on operating leases is depreciated over the terms of the leases using the straight-line method. Property and equipment expenditures for new and revised products, increased capacity and the replacement or major renewal of significant items are capitalized. Expenditures for maintenance, repairs and minor renewals are generally charged to expense as incurred.

14. Equipment on Operating Leases

Operating leases arise primarily from the leasing of John Deere equipment to retail customers. Initial lease terms generally range from 36 to 60 months. Net equipment on operating leases totaled $1,494 million and $1,336 million at October 31, 2006 and 2005, respectively. The equipment is depreciated on a straight-line basis over the terms of the leases. The accumulated depreciation on this equipment was $460 million and $436 million at October 31, 2006 and 2005, respectively. The corresponding depreciation expense was $269 million in 2006, $237 million in 2005 and $239 million in 2004.

Future payments to be received on operating leases totaled $708 million at October 31, 2006 and are scheduled as follows in millions of dollars: 2007–$300, 2008–$204, 2009–$125, 2010–$61 and 2011–$18.

OTHER NONCURRENT LIABILITIES

2.244 In addition to long-term debt, many of the survey companies presented captions for deferred taxes, minority interests, employee liabilities, estimated losses or expenses, and deferred credits. Table 2-31 summarizes the nature of such noncurrent liabilities and deferred credits. Examples of presentations and disclosures for noncurrent liabilities and deferred credits follow.

2.245

TABLE 2-31: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Deferred income taxes	411	406	409	376
Minority interest	185	173	159	146
Derivatives	62	70	76	95
Preferred stock	16	17	20	38
Liabilities of nonhomogeneous operations	5	6	4	4
Employee Liabilities				
Pension accruals	319	253	231	233
Benefits	264	217	209	209
Deferred compensation, bonus, etc.	87	67	68	64
Other—described	26	22	17	15
Estimated Losses or Expenses				
Environmental	83	74	62	63
Discontinued operations	82	78	77	54
Insurance	55	46	44	24
Litigation	38	31	28	19
Asset retirement obligations	36	28	23	19
Warranties	30	29	29	22
Other—described	67	79	74	40
Deferred Credits				
Payments received prior to rendering service	96	67	52	58
Deferred profits on sales	31	26	28	26
Other—described	6	10	11	12

Deferred Income Taxes

2.246

INTERFACE, INC. (DEC)

(In thousands)	2006	2005
Total current liabilities	$159,606	$140,107
Senior notes	276,365	323,000
Senior subordinated notes	135,000	135,000
Deferred income taxes	12,686	23,534
Other	64,783	40,864
Total liabilities	$648,440	$662,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Taxes on Income

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in tax laws or rates. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized as income or expense in the period that includes the enactment date.

The Company records a valuation allowance to reduce its deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will expire before realization of the benefit or that future deductibility is not probable. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future. This requires us to use estimates and make assumptions regarding significant future events such as the taxability of entities operating in the various taxing jurisdictions.

The Company does not record taxes collected from customers and remitted to governmental authorities on a gross basis.

Taxes on Income (In Part)

Deferred income taxes for the years ended December 31, 2006, and January 1, 2006, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

At December 31, 2006, the Company has approximately $128 million in federal net operating loss carryforwards from continuing operations with expiration dates through 2025. In addition, the Company has approximately $5.5 million in federal net operating losses from share-based payment awards for which it has not recorded a financial statement benefit as per SFAS No. 123R. The Company's foreign subsidiaries have approximately $9.2 million in net operating losses available for an unlimited carryforward period. The Company expects to utilize all of its federal and foreign carryforwards prior to their expiration. The Company has approximately $111 million in state net operating loss carryforwards relating to continuing operations with expiration dates through 2026. The Company has provided a valuation allowance against $17.4 million of such losses, which the Company does not expect to utilize. In addition, the Company has approximately $172 million in state net operating loss carryforwards relating to discontinued operations against which a valuation allowance has been provided.

The sources of the temporary differences and their effect on the net deferred tax asset are as follows:

(In thousands)	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Basis differences of property and equipment	$ —	$14,916	$ —	$14,766
Basis difference of intangible assets	—	4,687	—	4,420
Foreign currency loss	—	2,731	—	3,134
Net operating loss carryforwards, net of valuation allowances	51,803	—	54,084	—
Deferred compensation	14,853	—	8,821	—
Nondeductible reserves and accruals	5,549	—	3,397	—
Pensions	10,517	—	6,179	—
Other differences in basis of assets and liabilities	—	394	—	112
	$82,722	$22,728	$72,481	$22,432

Deferred tax assets and liabilities are included in the accompanying balance sheet as follows:

(In thousand)	2006	2005
Deferred income taxes (current asset)	$ 6,839	$ 4,540
Other (non-current asset)	65,841	69,043
Deferred income taxes (non-current liabilities)	(12,686)	(23,534)
	$ 59,994	$ 50,049

Management believes, based on the Company's history of operating expenses and expectations for the future, that it is more likely than not that future taxable income will be sufficient to fully utilize the defferred tax assets at December 31, 2006.

The American Jobs Creation Act of 2004 (the "Act") was enacted into law in October 2004. The Act provided for a one-time dividend received deduction of 85%, in excess of the base-period amount, for qualifying foreign earnings repatriated from controlled foreign corporations. During 2005, the Company repatriated approximately $35.9 million in previously unremitted foreign earnings and recorded a provision for taxes on such previously unremitted foreign earnings of approximately $3.4 million.

During 2006, in connection with the sale of its European fabrics business, the Company repatriated approximately $1.4 million in previously unremitted foreign earnings and recorded a provision for taxes on such previously unremitted foreign earnings of approximately $0.5 million. This repatriation of foreign earnings increased the Company's effective rate by 1.7% which has been reflected as a component of the "Foreign and U.S. tax effects attributable to foreign operations" line item of the effective tax rate reconciliation.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $79 million at December 31, 2006. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. Withholding taxes of approximately $3.1 million would be payable upon remittance of all previously un-remitted earnings at December 31, 2006.

2.247

LIBERTY MEDIA CORPORATION (DEC)

(Amounts in millions)	2006	2005
Total current liabilities	$ 3,569	$ 5,344
Long-term debt	8,909	6,370
Long-term financial instruments	1,706	1,087
Deferred income tax liabilities (note 10)	9,784	8,696
Other liabilities	1,747	1,058
Total liabilities	$25,715	$22,555

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the Company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it more-likely-than-not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

10) (In Part): Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

(Amounts in millions)	2006	2005
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 470	$ 513
Accrued stock compensation	79	90
Other future deductible amounts	485	399
Deferred tax assets	1,034	1,002
Valuation allowance	(93)	(155)
Net deferred tax assets	941	847
Deferred tax liabilities:		
Investments	6,885	6,048
Intangible assets	2,362	2,523
Discount on exchangeable debentures	981	1,006
Other	369	89
Deferred tax liabilities	10,597	9,666
Net deferred tax liabilities	$ 9,656	$8,819

The Company's deferred tax assets and liabilities are reported in the accompanying consolidated balance sheets as follows:

(Amounts in millions)	2006	2005
Current deferred tax asset	$ (128)	$ (46)
Current deferred tax liabilities	—	169
Long-term deferred tax liabilities	9,784	8,696
Net deferred tax liabilities	$9,656	$8,819

The Company's valuation allowance decreased $76 million in 2006 related to the recognition of a tax benefit and increased $14 million due to acquisitions.

At December 31, 2006, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $893 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2009: $351 million; 2011: $169 million and beyond 2011: $373 million. Of the foregoing net operating and capital loss carryforward amount, approximately $288 million is subject to certain limitations and may not be currently utilized. The remaining $605 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

Since the date Liberty issued its exchangeable debentures, it has claimed interest deductions on such exchangeable dedentures for federal income tax purposes based on the "comparable yield" at which it could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in Liberty claiming interest deductions significantly in excess of the cash interest currently paid on its exchangeable debentures. In this regard, Liberty has deducted $2,218 million in cumulative interest expense associated with the exchangeable debentures since the Company's 2001 split off from AT&T Corp. ("AT&T"). Of that amount, $629 million represents cash interest payments. Interest deducted in prior years on its exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2006 and later years. These NOLs and current interest deductions on its

exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge Liberty's tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to Liberty's reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in its deferred tax expense. However, Liberty would be required to make current federal income tax payments and may be required to make interest payments to the IRS. These payments could prove to be significant.

Minority Interest

2.248

SMITH INTERNATIONAL, INC. (DEC)

(In thousands)	2006	2005
Total current liabilities	$1,379,468	$933,153
Long-term debt	800,928	610,857
Deferred tax liabilities	143,124	107,838
Other long-term liabilities	102,904	86,853
Minority interests	922,114	742,708

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Minority Interests

The Company records minority interest expense which reflects the portion of the earnings of majority-owned operations which are applicable to the minority interest partners. The minority interest amount primarily represents the share of the M-I SWACO profits associated with the minority partner's 40 percent interest in those operations. To a lesser extent, minority interests include the portion of CE Franklin Ltd. and United Engineering Services LLC earnings applicable to the respective minority shareholders.

2.249

SUNOCO, INC. (DEC)

(Millions of dollars)	2006	2005
Total current liabilities	$4,755	$4,171
Long-term debt	1,705	1,234
Retirement benefit liabilities	523	525
Deferred income taxes	829	817
Other deferred credits and liabilities	477	486
Commitments and contingent liabilities		
Minority interests (Note 15)	618	647

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Minority Interests in Cokemaking Operations

Cash investments by third parties are recorded as an increase in minority interests in the consolidated balance sheets. There is no recognition of any gain at the dates cash investments are made as the third-party investors are entitled to a preferential return on their investments.

Nonconventional fuel credit and other net tax benefits generated by the Company's cokemaking operations and allocated to third-party investors are recorded as a reduction in minority interests and are included as income in the Coke segment. The investors' preferential return is recorded as an increase in minority interests and is recorded as expense in the Corporate and Other segment. The net of these two amounts represents a noncash change in minority interests in cokemaking operations, which is recognized in other income (loss), net, in the consolidated statements of income.

Cash payments, representing the distributions of the investors' share of cash generated by the cokemaking operations, are recorded as a reduction in minority interests.

15. Minority Interests

Cokemaking Operations

Sunoco received a total of $309 million in exchange for interests in its Jewell cokemaking operations in two separate transactions in 1995 and 2000. Sunoco also received a total of $415 million in exchange for interests in its Indiana Harbor cokemaking operations in two separate transactions in 1998 and 2002. Sunoco did not recognize any gain as of the dates of these transactions because the third-party investors were entitled to a preferential return on their respective investments.

In December 2006, Sunoco acquired the limited partnership interest of the third-party investor in the Jewell cokemaking operation for $155 million and recognized a $3 million after-tax loss in connection with this transaction (Note 2). As a result, such third-party investor is no longer entitled to any preferential or residual return.

The preferential returns of the investors in the Indiana Harbor cokemaking operations are currently equal to 98 percent of the cash flows and tax benefits from such cokemaking operations during the preferential return period, which continues until the investor entitled to the preferential return recovers its investment and achieves a cumulative annual after-tax return of approximately 10 percent. The preferential return period for the Indiana Harbor operations is projected

to end during 2007. The accuracy of this estimate is somewhat uncertain as the length of the preferential return period is dependent upon estimated future cash flows as well as projected tax benefits which could be impacted by their potential phase-out (see below). Higher-than-expected cash flows and tax benefits will shorten the investor's preferential return period, while lower-than-expected cash flows and tax benefits will lengthen the period. After payment of the preferential return, the investors in the Indiana Harbor operations will be entitled to a minority interest in the related cash flows and tax benefits initially amounting to 34 percent and thereafter declining to 10 percent by 2038.

Under existing tax law, most of the coke production at Jewell and all of the production at Indiana Harbor are not eligible to generate nonconventional fuel tax credits after 2007. In addition, prior to the expiration dates for such credits, they would be phased out, on a ratable basis, if the average annual price of domestic crude oil at the wellhead is within a certain inflation-adjusted price range. (This range was $53.20 to $66.79 per barrel for 2005, the latest year for which the range is available.) The domestic wellhead price averaged $60.03 per barrel for the eleven months ended November 30, 2006. The corresponding price for West Texas Intermediate ("WTI") crude oil, a widely published reference price for domestic crude oil, was $66.59 per barrel for the eleven months ended November 30, 2006. Based on the Company's estimate of the domestic wellhead price for the full-year 2006, Sun Coke recorded only 65 percent of the benefit of the tax credits that otherwise would have been available without regard to these phase-out provisions. The estimated impact of this phase-out reduced earnings for 2006 by $8 million after tax. The ultimate amount of the credits to be earned for 2006 will be based upon the average annual price of domestic crude oil at the wellhead.

The energy policy legislation enacted in August 2005 includes additional tax credits pertaining to a portion of the coke production at Jewell, all of the coke production at Haverhill, where operations commenced in March 2005, and all future domestic coke plants placed into service by January 1, 2010. The credits cover a four-year period, effective January 1, 2006 or the date any new facility is placed into service, if later. These tax credits, which are not subject to any phase-out based upon crude oil prices, increased earnings for 2006 by $6 million after tax.

The Company indemnifies the third-party investors for certain tax benefits available to them during the preferential return period in the event the Internal Revenue Service disallows the tax deductions and benefits allocated to the third parties or if there is a change in the tax laws that reduces the amount of nonconventional fuel tax credits. These tax indemnifications are in effect until the applicable tax returns are no longer subject to Internal Revenue Service review. In certain of these cases, if performance under the indemnification is required, the Company also has the option to purchase the remaining third-party investors' interests. Although the Company believes it is remote that it will be required to make any payments under these indemnifications, at December 31, 2006, the maximum potential payment under these tax indemnifications and the options to purchase the third-party investors' interests, if exercised, would have been approximately $375 million.

The following table sets forth the minority interest balances and the changes in these balances attributable to the third-party investors' interests in cokemaking operations:

(Millions of dollars)	2006	2005	2004
Balance at beginning of year	$234	$287	$328
Nonconventional fuel credit and other tax benefits*	(45)	(57)	(52)
Preferential return*	48	42	47
Cash distributions to third-party investors	(43)	(38)	(36)
Acquisition of third-party investor's interest in Jewell cokemaking operations	(92)	—	—
Balance at end of year	$102	$234	$287

* The nonconventional fuel credit and other tax benefits and the preferential return, which comprise the noncash change in the minority interest in cokemaking operations, are included in other income (loss), net, in the consolidated statements of income (Note 3). The preferential return for 2006 includes an $11 million increase ($7 million after tax) attributable to a correction of an error in the computation of the preferential return relating to prior years. Prior-period amounts have not been restated as this adjustment was not deemed to be material.

Logistics Operations

In the second quarter of 2004, Sunoco Logistics Partners L.P., a master limited partnership in which Sunoco has an ownership interest, issued 3.4 million limited partnership units at a price of $39.75 per unit. Proceeds from the offering, net of underwriting discounts and offering expenses, totaled $129 million. Coincident with the offering, the Partnership redeemed 2.2 million limited partnership units owned by Sunoco for $83 million. The proceeds from the offering also were principally used by the Partnership to finance its acquisitions during 2004. In the second quarter of 2005, the Partnership issued 2.8 million limited partnership units at a price of $37.50 per unit. Proceeds from the offering, net of underwriting discounts and offering expenses, totaled approximately $99 million. These proceeds were used to redeem an equal number of limited partnership units owned by Sunoco. In the third quarter of 2005, the Partnership issued 1.6 million limited partnership units at a price of $39.00 per unit. Proceeds from the offering, which totaled approximately $61 million, net of underwriting discounts and offering expenses, were used by the Partnership principally to repay a portion of the borrowings under its revolving credit facility. In the second quarter of 2006, the Partnership issued $175 million of senior notes due 2016 and 2.7 million limited partnership units at a price of $43.00 per unit. Proceeds from the 2006 offerings, net of underwriting discounts and offering expenses, totaled approximately $173 and $110 million, respectively. These proceeds were used by the Partnership in part to repay the outstanding borrowings under its revolving credit facility with the balance used to fund a portion of the Partnership's 2006 growth capital program. Upon completion of the equity offerings, Sunoco's interest in the Partnership, including its 2 percent general partnership interest, decreased to 43 percent. The accounts of the Partnership continue to be included in Sunoco's consolidated financial statements.

As of December 31, 2006, Sunoco owned 12.06 million limited partnership units consisting of 6.37 million common units and 5.69 million subordinated units. Distributions on

Sunoco's subordinated units are payable only after the minimum quarterly distributions of $.45 per unit for the common units held by the public and Sunoco, including any arrearages, have been made. The subordinated units convert to common units if certain financial tests related to earning and paying the minimum quarterly distribution for the preceding three consecutive one-year periods have been met. In February 2007, 2006 and 2005, when the quarterly cash distributions pertaining to the fourth quarters of 2006, 2005 and 2004 were paid, all three three-year requirements were satisfied. As a result, all of Sunoco's subordinated units were converted to common units, 5.69 million in February 2007 and 2.85 million each in February 2006 and February 2005.

The Partnership's issuance of common units to the public has resulted in an increase in the value of Sunoco's proportionate share of the Partnership's equity as the issuance price per unit exceeded Sunoco's carrying amount per unit at the time of issuance. The resultant gain to Sunoco on these transactions, which totaled approximately $150 million pretax at December 31, 2006, was deferred as a component of minority interest in the Company's consolidated balance sheet as the common units issued did not represent residual interests in the Partnership at that time due to Sunoco's ownership of the subordinated units. The deferred gain will be recognized in income during the first quarter of 2007 when Sunoco's remaining subordinated units converted to common units at which time the common units became the residual interests.

Sunoco is a party to various agreements with the Partnership which require Sunoco to pay for minimum storage and throughput usage of certain Partnership assets. These agreements also establish fees for administrative services provided by Sunoco to the Partnership and provide indemnifications by Sunoco for certain environmental, toxic tort and other liabilities.

The following table sets forth the minority interest balance and the changes to this balance attributable to the third-party investors' interests in Sunoco Logistics Partners L.P.:

(Millions of dollars)	2006	2005	2004
Balance at beginning of year	$397	$232	$104
Net proceeds from public equity offerings	110	160	129
Minority interest share of income*	42	28	19
Increase attributable to Partnership management incentive plan	2	5	—
Cash distributions to third-party investors**	(48)	(28)	(20)
Balance at end of year	$503	$397	$232

* Included in selling, general and administrative expenses in the consolidated statements of income.

** During the 2004–2006 period, the Partnership increased its quarterly cash distribution per unit from $.55 to $.8125.

Epsilon Joint Venture Operations

Epsilon Products Company, LLC ("Epsilon") is a joint venture that consists of polymer-grade propylene operations at Sunoco's Marcus Hook, PA refinery and an adjacent polypropylene plant. The joint venture is a variable interest entity for which the Company is the primary beneficiary. As such, the accounts of Epsilon are included in Sunoco's consolidated financial statements. Epsilon was unable to repay its $120 million term loan that was due in September 2006 and $31 million of borrowings under its $40 million revolving credit facility that matured in September 2006. Upon such default, the lenders made a demand on Sunoco, Inc., as guarantor, and Sunoco, Inc. satisfied its guarantee obligations in the third quarter of 2006. Sunoco, Inc. is now subrogated to the rights and privileges of the former debtholders. In January 2007, Sunoco, Inc., as subrogee, made a demand for payment of the outstanding amounts, but Epsilon was unable to make payment. Sunoco, Inc., Epsilon and the Epsilon joint-venture partners are currently in litigation to resolve this matter.

The following table sets forth the minority interest balance and the changes to this balance attributable to the other joint-venture partner's interest in Epsilon:

(Millions of dollars)	2006	2005	2004
Balance at beginning of year	$16	$11	$8
Minority interest share of income (loss)*	(3)	5	3
Balance at end of year	$13	$16	$11

* Included in selling, general and administrative expenses in the consolidated statements of income.

Derivatives

2.250

DEVON ENERGY CORPORATION (DEC)

(In millions)	2006	2005
Total current liabilities	$4,645	$2,934
Debentures exchangeable into shares of Chevron Corporation common stock	727	709
Other long-term debt	4,841	5,248
Fair value of derivative financial instruments	302	125
Asset retirement obligation	833	610
Liabilities associated with assets held for sale	25	40
Other liabilities	598	371
Deferred income taxes	5,650	5,374

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Derivative Instruments

The majority of Devon's derivative instruments consist of commodity financial instruments used to manage Devon's cash flow exposure to oil and gas price volatility. Devon has also entered into interest rate swaps to manage its exposure to interest rate volatility. The interest rate swaps mitigate either the cash flow effects of interest rate fluctuations on interest expense for variable-rate debt instruments, or the fair value effects of interest rate fluctuations on fixed-rate debt. Devon also has an embedded option derivative related to the fair value of its debentures exchangeable into shares of Chevron Corporation common stock.

All derivatives are recognized at their current fair value as fair value of derivative financial instruments on the balance

sheet. Changes in the fair value of derivative financial instruments are recorded in the statement of operations unless specific hedge accounting criteria are met. If such criteria are met for cash flow hedges, the effective portion of the change in the fair value is recorded directly to accumulated other comprehensive income, a component of stockholders' equity, until the hedged transaction occurs. The ineffective portion of the change in fair value is recorded in the statement of operations. If such criteria are met for fair value hedges, the change in the fair value is recorded in the statement of operations with an offsetting amount recorded for the change in fair value of the hedged item.

A derivative instrument qualifies for hedge accounting treatment if Devon designates the instrument as such on the date the derivative contract is entered into or the date of an acquisition or business combination which includes derivative contracts. Additionally, Devon must document the relationship between the hedging instrument and hedged item, as well as the risk-management objective and strategy for undertaking the instrument. Devon must also assess, both at the instrument's inception and on an ongoing basis, whether the derivative is highly effective in offsetting the change in cash flow of the hedged item.

During 2006, Devon entered into and acquired certain commodity derivative instruments. For such instruments, Devon chose not to meet the necessary criteria to qualify these derivative instruments for hedge accounting treatment. Therefore, Devon recorded a $37 million gain in gas sales in the statement of operations for the change in fair value related to these instruments.

The following table presents the components of the 2006, 2005 and 2004 change in fair value of derivative financial instruments presented in the accompanying statement of operations. Significant items are discussed in more detail following the table.

(In millions)	2006	2005	2004
Option embedded in exchangeable debentures	$181	$54	$58
Non-qualifying commodity hedges	—	39	—
Ineffectiveness of commodity hedges	—	5	5
Interests rate swaps	(3)	(4)	(1)
Total change in fair value of derivative financial instruments	$178	$94	$62

The change in the fair value of the embedded option relates to the debentures exchangeable into shares of Chevron Corporation common stock. These expenses were caused primarily by increases in the price of Chevron Corporation's common stock.

During 2005 and 2004, Devon had a number of commodity derivative instruments that qualified for hedge accounting treatment as described above. During 2005, certain of these derivatives ceased to qualify for hedge accounting treatment. In the third quarter of 2005, certain oil derivatives ceased to qualify for hedge accounting primarily as a result of deferred production caused by hurricanes in the Gulf of Mexico. Because these contracts no longer qualified for hedge accounting, Devon recognized $39 million in losses as change in fair value of derivative financial instruments in the accompanying 2005 statement of operations.

In addition to the changes in fair value of non-qualifying commodity hedges presented in the table above, Devon also recognized in 2005 a $55 million loss related to certain oil hedges that no longer qualified for hedge accounting due to the effect of the 2005 property divestiture program. These commodity instruments related to 5,000 barrels per day of U.S. oil production and 3,000 barrels per day of Canadian oil production from properties that were sold as part of Devon's divestiture program. This loss is presented in other income in the accompanying 2005 statement of operations. During 2004, no derivatives ceased to qualify for hedge accounting.

In addition to the changes in fair value of Devon's interest rate swaps presented in the table above, settlements on these interest rate swaps increased interest expense by $15 million and $12 million in 2006 and 2005, respectively, and decreased interest expense $18 million in 2004.

The following table presents the balances of Devon's accumulated net gain (loss) on cash flow hedges included in accumulated other comprehensive income.

(In millions)	
December 31, 2003	$(135)
December 31, 2004	(286)
December 31, 2005	3
December 31, 2006	1

By using derivative instruments to hedge exposures to changes in commodity prices and interest rates, Devon exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are placed with counterparties that Devon believes are minimal credit risks. It is Devon's policy to enter into derivative contracts only with investment grade rated counterparties deemed by management to be competent and competitive market makers.

Market risk is the change in the value of a derivative instrument that results from a change in commodity prices, interest rates or other relevant underlyings. The market risk associated with commodity price and interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The oil and gas reference prices upon which the commodity hedging instruments are based reflect various market indices that have a high degree of historical correlation with actual prices received by Devon. Devon does not hold or issue derivative instruments for speculative trading purposes.

5 (In Part): Financial Instruments

The following table presents the carrying amounts and estimated fair values of Devon's financial instrument assets (liabilities) at December 31, 2006 and 2005.

	2006		2005	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment in Chevron Corporation common stock	$1,043	$1,043	$805	$805
Oil and gas price hedge agreements	39	39	—	—
Interest rate swap agreements	(6)	(6)	(22)	(22)
Embedded option in exchangeable debentures	(302)	(302)	(121)	(121)
Debt	(7,773)	(8,725)	(6,619)	(7,642)

The following methods and assumptions were used to estimate the fair values of the financial instruments in the above table.

Oil and Gas Price Hedge Agreements

The fair values of the oil and gas price hedges were based on either (a) an internal discounted cash flow calculation, (b) quotes obtained from the counterparty to the hedge agreement or (c) quotes provided by brokers.

Interest Rate Swap Agreements

The fair values of the interest rate swaps are based on internal discounted cash flow calculations, using market quotes of future interest rates, or quotes obtained from counterparties.

Preferred Stock

2.251

TIME WARNER INC. (DEC)

(Millions)	2006	2005
Total current liabilities	$12,780	$12,528
Long-term debt	34,933	20,238
Mandatorily redeemable preferred membership units issued by a subsidiary	300	—
Deferred income taxes	13,196	12,146
Deferred revenue	547	681
Other liabilities	5,484	5,454
Noncurrent liabilities of discontinued operations	1	863
Minority interests	4,039	5,729

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Mandatorily Redeemable Preferred Membership Units Issued by a Subsidiary

In connection with the financing of the Adelphia Acquisition, TW NY issued $300 million of Series A Preferred Membership Units (the "Preferred Membership Units") to a limited number of third parties. The Preferred Membership Units pay cash dividends at an annual rate equal to 8.21% of the sum of the liquidation preference thereof and any accrued but unpaid dividends thereon, on a quarterly basis. The Preferred Membership Units are subject to mandatory redemption by TW NY on August 1, 2013 and are not redeemable by TW NY at any time prior to that date. The redemption price of the Preferred Membership Units is equal to their liquidation preference plus any accrued and unpaid dividends through the redemption date. Except under limited circumstances, holders of any Preferred Membership Units have no voting rights. The terms of the Preferred Membership Units require that in certain circumstances holders owning a majority of the Preferred Membership Units must approve any merger or consolidation with another company, change in corporate structure, and/or agreements for a material sale or transfer by TW NY and its subsidiaries of assets.

Employee-Related Liabilities

2.252

A. O. SMITH CORPORATION (DEC)

(Dollars in millions)	2006	2005
Total current liabilities	$437.3	$307.6
Long-term debt	432.1	162.4
Product warranties	66.7	35.1
Deferred income taxes	20.6	—
Post-retirement benefit obligation	16.0	16.6
Pension liabilities	98.5	110.4
Other liabilities	84.1	47.7
Total liabilities	$1,155.3	$679.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Recent Accounting Pronouncements (In Part)

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132 (R)." SFAS No. 158 requires that the company recognize the overfunded or underfunded status of its defined benefit and retiree medical plans as an asset or liability in the balance sheet as of December 31, 2006, with changes in the funded status recognized through comprehensive income in the year in which they occur. As further discussed in Note 11, the company adopted SFAS No. 158 effective December 31, 2006. SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable as the company already uses a measurement date of December 31 for its benefit plans.

11 (In Part): Pension and Other Post-Retirement Benefits

The company provides retirement benefits for all United States employees including benefits for employees of previously owned businesses which were earned up to the date of sale. The company also has several foreign pension

plans, none of which are material to the company's financial position.

The company has a defined-contribution profit sharing and retirement plan covering the majority of its salaried nonunion employees which provides for annual company contributions of 35 percent to 140 percent of qualifying contributions made by participating employees. The amount of the company's contribution in excess of 35 percent is dependent upon the company's profitability. The company also has defined-contribution plans for certain hourly employees which provide for annual matching company contributions.

The company has several unfunded defined-benefit post-retirment plans covering certain hourly and salaried employees that provide medical and life insurance benefits from retirement to age 65. Certain hourly employees retiring after January 1, 1996, are subject to a maximum annual benefit and salaried employees hired after December 31, 1993, are not eligible for post-retirement medical benefits.

Obligations and Funded Status

2006 Pension and Post-Retirement Disclosure Information Under FASB Statements 132 and 158

The following tables present the changes in benefit obligations, plan assets and funded status for domestic pension and post-retirement plans and the components of net periodic benefit costs.

	Pension Benefits		Post-Retirement Benefits	
(Dollars in millions)	2006	2005	2006	2005
Accumulated benefit obligation (ABO) at December 31	$ 794.1	$ 797.4	N/A	N/A
Change in benefit obligations (PBO)				
PBO at beginning of year	$(821.6)	$(779.5)	$(18.9)	$(17.8)
Service cost	(10.3)	(9.2)	(0.2)	(0.2)
Interest cost	(46.6)	(46.7)	(1.0)	(1.0)
Participant contributions	—	—	(0.6)	(0.5)
Plan amendments	(0.9)	(1.0)	—	—
Actuarial gains (losses) including assumption changes	17.2	(41.4)	0.8	(1.3)
Benefits paid	60.8	56.2	2.3	1.9
Acquired plan	(20.0)	—	—	—
PBO at end of year	$(821.4)	$(821.6)	$(17.6)	$(18.9)
Change in fair value of plan assets				
Plan assets at beginning of year	$ 687.1	$ 667.9	$ —	$ —
Actual return on plan assets	79.5	45.0	—	—
Contribution by the company	5.5	30.4	1.7	1.4
Participant contributions	—	—	0.6	0.5
Benefits paid	(60.8)	(56.2)	(2.3)	(1.9)
Acquired plan	12.2	—	—	—
Plan assets at end of year	$ 723.5	$ 687.1	$ —	$ —
Funded status	$ (97.9)	$(134.5)	$(17.6)	$(18.9)
Amount recognized in the statement of financial position				
Noncurrent assets	$ —	$ 1.5	$ —	$ —
Current liabilities	—	—	(1.6)	(1.6)
Non-current liabilities	(97.9)	(110.4)	(16.0)	(16.6)
Net pension liability at end of year	$ (97.9)*	$(108.9)	$(17.6)	$(18.2)
Amounts recognized in accumulated other comprehensive loss before tax				
Net actuarial loss/(gain)	$ 230.9	$ 256.6	$ (0.2)	$ —
Prior service cost	0.4	—	0.1	—
Total recognized in accumulated other comprehensive loss	$ 231.3	$ 256.6	$ (0.1)	$ —

* In addition the company has recorded a pension liability of $0.6 and an accumulated loss of $0.5 for a foreign pension plan.

Incremental Effect of Applying SFAS No. 158

	Pension Benefits	Post-Retirement Benefits
	2006	2006
Before application of Statement SFAS No. 158		
Intangible asset (pension)	$ 1.0	$ —
Deferred income tax asset	27.1	6.9
Liability for pension benefits	70.5	17.7
Accumulated other comprehensive loss	(202.9)	—
Adjustments for SFAS No. 158		
Intangible asset (pension)	(1.0)	—
Deferred income tax asset	11.1	—
Liability for pension benefits	27.4	(0.1)
Accumulated other comprehensive loss	(28.4)	0.1
After application of SFAS No. 158		
Intangible asset (pension)	—	—
Deferred income tax asset	38.2	6.9
Liability for pension benefits	97.9	17.6
Accumulated other comprehensive loss	(231.3)	0.1

The 2006 after tax adjustment for additional minimum pension liability resulted in other comprehensive income of $15.0 million.

2.253

NCR CORPORATION (DEC)

(In millions)	2006	2005
Total current liabilities	$1,770	$1,645
Long-term debt	306	305
Pension and indemnity plan liabilities	481	557
Postretirement and postemployment benefits liabilities	463	259
Deferred income taxes	27	140
Income tax accruals	132	167
Other liabilities	147	158
Minority interests	20	21
Total liabilities	$3,346	$3,252

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Pension, Postretirement and Postemployment Benefits

NCR has significant pension, postretirement and postemployment benefit costs, which are developed from actuarial valuations. Actuarial assumptions are established to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions the Company makes about interest rates, expected investment return on plan assets, rate of increase in health care costs, total and involuntary turnover rates, and rates of future compensation increases. In addition, NCR's actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop the Company's valuations. NCR generally reviews and updates these assumptions on an annual basis. NCR is required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that NCR uses may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension, postretirement or postemployment benefits expense the Company has recorded or may record.

Note 9 (In Part): Employee Benefit Plans

Pension, Postretirement and Postemployment Plans

NCR sponsors defined benefit plans for many of its U.S. employees and international employees. For salaried employees, the defined benefit plans are based primarily upon compensation and years of service. For certain hourly employees in the United States, the benefits are based on a fixed dollar amount per years of service. During 2004, NCR made changes to its U.S. defined benefit pension plans in order to limit participation in the plans to U.S.-based employees who were at least 40 years old and hired by August 31, 2004. The plans were closed to new participants as of September 1, 2004. During 2006, NCR made additional changes to its U.S. pension plans that cease the accrual of additional benefits for all U.S.-based employees after December 31, 2006. Certain international plans are also closed to new participants. NCR's funding policy is to contribute annually not less than the minimum required by applicable laws and regulations. Assets of NCR's defined benefit plans are primarily invested in publicly traded common stocks, corporate and government debt securities, real estate investments, and cash or cash equivalents.

Prior to September 1998, substantially all U.S. employees who reached retirement age while working for NCR were eligible to participate in a postretirement benefit plan. The plan provides medical care and life insurance benefits to retirees and their eligible dependents. In September 1998, the plan was amended whereby U.S. participants who had not reached a certain age and years of service with NCR were no longer eligible for such benefits. Non-U.S. employees are typically covered under government-sponsored programs, and NCR generally does not provide postretirement benefits other than pensions to non-U.S. retirees. NCR generally funds these benefits on a pay-as-you-go basis.

NCR offers various postemployment benefits to involuntarily terminated and certain inactive employees after employment but before retirement. These benefits are paid in accordance with NCR's established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers' compensation benefits, and continuation of health care benefits and life insurance coverage. NCR provides appropriate accruals for these postemployment benefits. These postemployment benefits are funded on a pay-as-you-go basis.

As of December 31, 2006, NCR adopted SFAS 158 which requires, among other things, the recognition of the funded status of each applicable plan on the balance sheet. Each over-funded plan is recognized as an asset and each underfunded plan is recognized as a liability. The initial impact of implementing the standard as well as future changes to the funded status is recognized as a component of accumulated comprehensive loss in stockholder's equity. Previously established additional minimum pension liabilities (AML) and

related intangible assets were derecognized upon adoption of SFAS 158.

The following table summarizes the effect of changes in the AML during the year (including the adjustment made due to the remeasurement of the U.S. defined benefit plans as of September 30, 2006) as well as the impact of the initial adoption of SFAS 158. Please note that the normal current year plan activities are excluded from this table and therefore does not reconcile across.

(In millions)	December 31, 2005 Amounts Recognized	Mid-Year AML Adjustment	September 30, 2006 Post Mid-Year AML Adjustment	December 31, 2006 Prior to AML and SFAS 158 Adjustment	AML Adjustment	SFAS 158 Adjustment	December 31, 2006 Post AML and SFAS 158 Adjustment
Prepaid pension costs	$976	$307	$1,324	$1,346	$ (2)	$(705)	$639
Pension and indemnity plan liabilities	557	(77)	497	482	(30)	29	481
Postretirement and postemployment liabilities	259	—	264	281	—	182	463
Other current liabilities	88	—	88	72	—	25	97
Deferred tax assets (liabilities)	14	(135)	(121)	(158)	2	231	75
Accumulated other comprehensive loss	356	(249)	107	107	(30)	710	787

The total net deferred tax assets from benefit plan amounts included in accumulated other comprehensive loss at December 31, 2006 was $247 million.

Due to NCR's decision to discontinue future U.S. defined benefit accruals, the Company recognized a curtailment, remeasured its actuarial liability associated with these plans as of September 30, 2006 and adjusted the minimum pension liability recorded in the consolidated balance sheet. The change to the minimum pension liability resulted in a $249 million increase to accumulated other comprehensive income within stockholders' equity, increased prepaid pension costs by $307 million, decreased pension liabilities by $77 million and decreased net deferred tax assets by $135 million. This non-cash charge did not affect our 2006 earnings, cash flow or debt covenants, nor did it otherwise impact the business operations of the Company.

In 2006, global capital market developments resulted in an increase in the discount rates used to estimate the pension liability. As a result, the accumulated benefit obligations (ABO) for many of the plans declined, and the Company adjusted the minimum liability recorded in the consolidated balance sheet for certain plans where the ABO exceeded the fair value of plan assets. This $30 million adjustment decreased prepaid pension costs by $2 million, decreased pension liabilities by $30 million, increased deferred tax assets by $2 million and reduced accumulated other comprehensive loss by $30 million.

Pension Plans (In Part)

Reconciliation of the beginning and ending balances of the benefit obligations of NCR's pension plans were:

	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
(In millions)	2006	2005	2006	2005	2006	2005
Change in benefit obligation						
Benefit obligation at January 1	$3,372	$3,194	$1,932	$1,939	$5,304	$5,133
Gross service cost	45	43	47	45	92	88
Interest cost	181	177	82	85	263	262
Amendments	(109)	—	10	1	(99)	1
Actuarial (gain) loss	(23)	126	(86)	162	(109)	288
Other	—	—	—	9	—	9
Benefits paid	(185)	(187)	(118)	(100)	(303)	(287)
Curtailment	—	—	(2)	—	(2)	—
Settlement	—	—	(4)	—	(4)	—
Special termination benefits	9	19	—	—	9	19
Currency translation adjustments	—	—	185	(209)	185	(209)
Benefit obligation at December 31	$3,290	$3,372	$2,046	$1,932	$5,336	$5,304
Accumulated benefit obligation as of December 31	$3,290	$3,254	$1,939	$1,824	$5,229	$5,078

In order to improve the profitability of Customer Service in the U.S., the Company offered special termination benefits to certain groups of employees in both 2006 and 2005. Additional information about these programs can be found in Note 3 of Notes to Consolidated Financial Statements.

A reconciliation of the beginning and ending balances of the fair value of the plan assets of NCR's pension plans follows:

	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
(In millions)	2006	2005	2006	2005	2006	2005
Change in plan assets						
Fair value of plan assets at January 1	$3,098	$3,016	$1,748	$1,658	$4,846	$4,674
Actual return on plan assets	463	260	159	257	622	517
Company contributions	9	9	103	101	112	110
Benefits paid	(185)	(187)	(118)	(100)	(303)	(287)
Currency translation adjustments	—	—	191	(180)	191	(180)
Other	—	—	—	10	—	10
Plan participant contributions	—	—	2	2	2	2
Fair value of plan assets at December 31	$3,385	$3,098	$2,085	$1,748	$5,470	$4,846

The following tables present the funded status and the reconciliation of the funded status to amounts recognized in the consolidated balance sheets and in accumulated other comprehensive loss at December 31:

	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
(In millions)	2006	2005	2006	2005	2006	2005
Reconciliation to balance sheet						
Funded status	$ 95	$(274)	$ 39	$(184)	$ 134	$(458)
Unrecognized net loss		522		848		1,370
Unrecognized prior service cost		1		15		16
Net amounts recognized		$ 249		$ 679		$ 928
Amounts recognized in the balance sheet						
Noncurrent assets	$202	$1	$ 437	$ 956	$ 639	$ 957
Current liabilities	(8)	—	(16)	—	(24)	—
Noncurrent liabilities	(99)	(156)	(382)	(378)	(481)	(534)
Accumulated other comprehensive loss	—	404	—	101	—	505
Net amounts recognized	$ 95	$ 249	$ 39	$ 679	$ 134	$ 928
Amounts recognized in accumulated other comprehensive loss						
Net actuarial loss	$129		$ 703		$ 832	
Prior service cost	—		20		20	
Total	$129		$ 723		$ 852	

For pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of assets were $586 million, $562 million and $111 million, respectively, at December 31, 2006, and $3,871 million, $3,732 million and $3,203 million, respectively, at December 31, 2005.

Postretirement Plans (In Part)

Reconciliation of the beginning and ending balances of the benefit obligation for NCR's U.S. postretirement plan were:

	Postretirment Benefits	
(In millions)	2006	2005
Change in benefit obligation		
Benefit obligation at January 1	$180	$187
Gross service cost	—	—
Interest cost	8	9
Amendments	—	(3)
Actuarial (gain) loss	(18)	7
Plan participant contributions	12	12
Benefits paid	(30)	(32)
Benefit obligation at December 31	$152	$180

The following tables present the funded status and the reconciliation of the funded status to amounts recognized in the consolidated balance sheets and in accumulated other comprehensive loss at December 31:

	Postretirment Benefits	
(In millions)	2006	2005
Reconciliation to balance sheet		
Benefit obligation	$(152)	$(180)
Unrecognized net loss		99
Unrecognized prior service benefit		(141)
Net amounts recognized		$(222)
Amounts recognized in the balance sheet		
Current liabilities	$ (21)	$ (27)
Noncurrent liabilities	(131)	(195)
Net amounts recognized	$(152)	$(222)
Amounts recognized in accumulated other comprehensive loss		
Net actuarial loss	$ 76	
Prior service credit	(128)	
Total	$ (52)	

Other Postemployment Benefits

Reconciliation of the beginning and ending balances of the benefit obligation for NCR's Postemployment Plan were:

	Postemployment Benefits	
(In millions)	2006	2005
Change in benefit obligation		
Benefit obligation at January 1	$388	$432
Service cost	30	32
Interest cost	17	17
Benefits paid	(54)	(61)
Foreign currency exchange	17	(27)
Assumption change	(2)	(1)
Actuarial gain	(13)	(4)
Benefit obligation at December 31	$383	$388

The following tables present the funded status and the reconciliation of the funded status to amounts recognized in the consolidated balance sheets and in accumulated other comprehensive loss at December 31:

	Postemployment Benefits	
(In millions)	2006	2005
Reconciliation to balance sheet		
Benefit obligation	$(383)	$(388)
Unrecognized net loss		268
Unrecognized prior service benefit		(4)
Net amounts recognized		$(124)
Amounts recognized in the balance sheet		
Current liabilities	$ (51)	$ (61)
Noncurrent liabilities	(332)	(63)
Net amounts recognized	$(383)	$(124)
Amounts recognized in accumulated other comprehensive loss		
Net actuarial loss	$ 238	
Prior service credit	(4)	
Total	$ 234	

Environmental Costs

2.254

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	2006	2005
Total current liabilities	$ 670,944	$ 431,740
Long-term debt	1,096,000	1,131,353
Deferred income tax liabilities	2,909	8,279
Postretirement and postemployment benefits liability	175,314	209,893
Minimum pension liability	212,258	409,042
Other long-term liabilities	116,197	139,144
Total liabilities	$2,273,622	$2,329,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Environmental Remediation and Compliance

Costs associated with environmental compliance and preventing future contamination that are estimable and probable are accrued and expensed, or capitalized as appropriate. Expected remediation and monitoring costs relating to the remediation of an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are accrued and expensed in the period that such costs become estimable. Liabilities are recognized for remedial activities when they are probable and the remediation cost can be reasonably estimated.

ATK's engineering, financial, and legal specialists estimate, based on current law and existing technologies, the cost of each environmental liability. Such estimates are based primarily upon the estimated cost of investigation and remediation required and the likelihood that other potentially responsible parties ("PRPs") will be able to fulfill their commitments at the sites where ATK may be jointly and severally liable. ATK's estimates for environmental obligations are dependent on, and affected by, the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, methods of remediation available, the technology that will be required, the outcome of discussions with regulatory agencies and other PRPs at multi-party sites, the number and financial viability of other PRPs, changes in environmental laws and regulations, future technological developments, and the timing of expenditures; accordingly, such estimates could change materially as ATK periodically evaluates and revises such estimates based on expenditures against established reserves and the availability of additional information.

11 (In Part): Contingencies

Environmental Remediation

ATK's operations and ownership or use of real property are subject to a number of federal, state, and local environmental laws and regulations. At certain sites that ATK owns or operates or formerly owned or operated, there is known or potential contamination that ATK is required to investigate or remediate. ATK could incur substantial costs, including remediation costs, fines, and penalties, or third party property damage or personal injury claims, as a result of violations or liabilities of environmental laws or non-compliance with environmental permits.

The liability for environmental remediation represents management's best estimate of the present value of the probable and reasonably estimable costs related to known remediation obligations. The receivable represents the present value of the amount that ATK expects to recover, as discussed below. Both the liability and receivable have been discounted to reflect the present value of the expected future cash flows, using a discount rate, net of estimated inflation, of 3.25% and 3.0% as of March 31, 2006 and 2005, respectively. The following is a summary of the amounts recorded for environmental remediation:

	2006		2005	
	Liability	Receivable	Liability	Receivable
Amounts (payable) receivable	$(67,065)	$39,772	$(70,791)	$40,213
Unamortized discount	11,470	(6,087)	11,918	(5,907)
Present value amounts (payable) receivable	$(55,595)	$33,685	$(58,873)	$34,306

Amounts payable or receivable in periods beyond fiscal 2007 have been classified as non-current on the March 31, 2006 balance sheet. As such, of the $55,595 net liability, $6,011 is recorded within other current liabilities and $49,584 is recorded within other non-current liabilities. Of the $33,685 net receivable, $4,936 is recorded within other current assets and $28,749 is recorded within other non-current assets. As of March 31, 2006, the estimated discounted range of reasonably possible costs of environmental remediation was $55,595 to $93,870.

ATK expects that a portion of its environmental compliance and remediation costs will be recoverable under U.S. Government contracts. Some of the remediation costs that are not recoverable from the U.S. Government that are associated with facilities purchased in a business acquisition may be covered by various indemnification agreements, as described below.

- As part of its acquisition of the Hercules Aerospace Company in fiscal 1995, ATK assumed responsibility for environmental compliance at the facilities acquired from Hercules (the Hercules Facilities). ATK believes that a portion of the compliance and remediation costs associated with the Hercules Facilities will be recoverable under U.S. Government contracts, and that those environmental remediation costs not recoverable under these contracts will be covered by Hercules Incorporated (Hercules) under environmental agreements entered into in connection with the Hercules acquisition. Under these agreements, Hercules has agreed to indemnify ATK for environmental conditions relating to releases or hazardous waste activities occurring prior to ATK's purchase of the Hercules Facilities; fines relating to pre-acquisition environmental compliance; and environmental claims arising out of breaches of Hercules' representations and warranties. Hercules is not required to indemnify ATK for any individual claims below $50. Hercules is obligated to indemnify ATK for the lowest cost response of remediation required at the facility that is aceptable to the applicable regulatory agencies. ATK is not responsible for conducting any remedial activities with respect to the Kenvil, NJ facility or the Clearwater, FL facility. In accordance with its agreement with Hercules, ATK notified Hercules of all known contamination on non-federal lands on or before March 31, 2000, and on federal lands on or before March 31, 2005.
- ATK generally assumed responsibility for environmental compliance at the Thiokol Facilities acquired from Alcoa Inc. in fiscal 2002. While ATK expects that a portion of the compliance and remediation costs associated with the acquired Thiokol Facilities will be recoverable under U.S. Government contracts, ATK has recorded an accrual to cover those environmental remediation costs at these facilities that will not be recovered through U.S. Government contracts. In accordance with its agreement with Alcoa, ATK notified Alcoa of all known environmental remediation issues as of January 30, 2004. Of these known issues, ATK is responsible for any costs not recovered through U.S. Government contracts at Thiokol Facilities up to $29,000, ATK and Alcoa have agreed to split evenly any amounts between $29,000 and $49,000, and ATK is responsible for any payments in excess of $49,000.
- With respect to the civil ammunition business' facilities purchased from Blount in fiscal 2002, Blount has agreed to indemnify ATK for certain compliance and remediation liabilities, to the extent those liabilities are related to pre-closing environmental conditions at or related to these facilities. Some other remediation costs are expected to be paid directly by a third party pursuant

to an existing indemnification agreement with Blount. Blount's indemnification obligations relating to environmental matters, which extend through December 7, 2006, are capped at $30,000, less any other indemnification payments made for breaches of representations and warranties. The third party's obligations, which extend through November 4, 2007, are capped at approximately $125,000, less payments previously made.

ATK cannot ensure that the U.S. Government, Hercules, Alcoa, Blount, or other third parties will reimburse it for any particular environemntal costs or reimburse ATK in a timely manner or that any claims for indemnification will not be disputed. U.S. Government reimbursements for cleanups are financed out of a particular agency's operating budget and the ability of a particular governmental agency to make timely reimbursements for cleanup costs will be subject to national budgetary constraints. ATK's failure to obtain full or timely reimbursement from the U.S. Government, Hercules, Alcoa, Blount, or other third parties could have a material adverse effect on its operating results, financial condition, or cash flows. While ATK has environmental management programs in place to mitigate these risks, and environmental laws and regulations have not had a material adverse effect on ATK's operating results, financial condition, or cash flows in the past, it is difficult to predict whether they will have a material impact in the future.

At March 31, 2006, the aggregate undiscounted amounts payable for environmental remediation costs, net of expected recoveries, are estimated to be:

Fiscal 2007	$ 1,110
Fiscal 2008	5,641
Fiscal 2009	152
Fiscal 2010	2,890
Fiscal 2011	2,066
Thereafter	15,434
Total	$27,293

There were no material insurance recoveries related to environmental remediations during fiscal 2006, 2005, or 2004.

Discontinued Operations

2.255

VF CORPORATION (DEC)

(In thousands)	2006	2005
Total current liabilities	$1,014,848	$1,152,143
Long-term debt	635,359	647,728
Other liabilities	536,728	528,138
Noncurrent liabilities of discontinued operations	13,586	11,523

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Discontinued Operations

In December 2006, management and the Board of Directors decided to exit the women's initimate apparel business. VF entered into a definitive agreement on January 22, 2007 to sell all of VF's domestic and international women's intimate apparel business units (referred to as the Intimate Apparel Coalition, formerly a reportable business segment) for $350.0 million, subject to a working capital level adjustment. The transaction, expected to close in early 2007, is consistent with VF's stated objective of focusing on lifestyle businesses having higher growth and profit potential. As part of the agreement, VF will provide transition services at its cost for a limited number of months after closing. VF management has concluded that the direct cash flows resulting from the transition services agreement will not be material to VF. Further, VF management will not have any continuing ownership interest or other influence over the intimate apparel business following the closing. Accordingly, the results of operations and cash flows of the intimate apparel business are separately presented as discontinued operations for all periods in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144"). Similarly, the assets and liabilities of this business have been reclassified and reported as held for sale for all periods presented.

VF recorded a charge of $42.2 million in 2006, computed in accordance with Statement 144, for the difference between the recorded book value of the initimate apparel business and the expected net sales proceeds. The recorded book value included $32.0 million of foreign currency translation losses, net of income tax benefit, deferred in Accumulated Other Comprehensive Income (Loss). The charge was recorded as a valuation allowance against noncurrent assets of the intimate apparel business. In addition, VF recorded a noncash partial pension plan curtailment charge of $5.6 million for the expected withdrawal of intimate apparel participants from VF's defined benefit pension plans. The writedown to expected net sales proceeds, plus the pension curtailment charge, were recorded as loss on disposal of the intimate apparel business, net of an income tax benefit of $10.9 million. Other gains or losses including purchase price adjustments in the sale agreement, changes in the estimated income tax allocation of the sales proceeds, sale of certain segment assets held for sale but not included in the sale transaction (primarily marketable securities of an intimate apparel supplier) and settlement of retained liabilities will be recorded in discontinued operations when realized.

Summarized operating results for the discontinued intimate apparel business are as follows:

(In thousands)	2006	2005	2004
Total revenues	$817,749	$848,222	$906,521
Income from operations, net of income taxes of $17,517, $23,214 and $40,628	$ 35,310	$ 35,906	$ 75,823
Loss on disposal, net of income tax benefit of $10,920	(36,845)	—	—
Income (loss) from discontinued operations	$ (1,535)	$ 35,906	$ 75,823

Summarized assets and liabilities of discontinued operations presented in the Consolidated Balance Sheets are as follows:

(In thousands)	2006	2005
Accounts receivable, net	$ 83,129	$ 87,919
Inventories	168,962	180,628
Other current assets, primarily deferred income taxes	9,835	12,057
Current assets of discontinued operations	$261,926	$280,604
Property, plant and equipment, net	$ 45,862	$ 53,377
Goodwill	117,526	117,526
Investment in marketable securities	21,533	26,522
Other assets, primarily deferred income taxes	16,377	5,008
Allowance to reduce noncurrent assets to estimated fair value, less costs of disposal	(42,153)	—
Noncurrent assets of discontinued operations	$159,145	$202,433
Accounts payable	$ 49,118	$ 59,191
Accrued liabilities	29,872	36,897
Current liabilities of discontinued operations	$ 78,990	$ 96,088
Minority interest in partially owned subsidiaries	$ 1,284	$ 1,567
Other	12,302	9,956
Noncurrent liabilities of discontinued operations	$ 13,586	$ 11,523

Insurance

2.256

ALLIED WASTE INDUSTRIES, INC. (DEC)

(In millions)	2006	2005
Total current liabilities	$1,532.7	$1,575.5
Long-term debt, less current portion	6,674.0	6,853.2
Deferred income taxes	357.3	305.5
Accrued capping, closure, post-closure and environmental costs, less current portion	769.5	796.8
Other long-term obligations	878.6	690.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Self-Insurance

We maintain high deductibles for commercial general liability, automobile liability, and workers' compensation coverages, ranging from $1 million to $3 million. Our insurance claim liabilities are reflected in our consolidated balance sheet as an accrued liability. Prior to December 31, 2006, we reported our insurance claim liabilities net of amounts due from insurers on claims in excess of the related deductible. As we are the primary obligor for payment of all claims, we determined that we should report our insurance claim liabilities on a gross basis along with a corresponding amount due from our insurers. As a result of this revision in classification, we have increased our insurance claim reserves as of December 31, 2006, 2005 and 2004 by $34.5 million, $35.7 million and $45.3 million, respectively, with a corresponding amount due from our insurers. This revision in classification had no impact on our financial condition or results of operations.

Our insurance claims liabilities are determined using actuarial valuations provided by a third party. We use a third party administrator to track and evaluate actual claims experience used in the annual actuarial valuation. Our insurance claim liabilities are recorded on an undiscounted basis.

The following table shows the activity in our insurance claim liabilities for the years ended December 31 (in millions):

	2006	2005
Gross insurance claim liabilities, beginning of year	$ 294.1	$ 294.5
Less amount due from insurers	35.7	45.3
Net insurance claim liabilities, beginning of year	258.4	249.2
Claims payments made during the year	(250.2)	(248.4)
Provision charged to cost of operations	251.9	257.6
Net insurance claim liabilities, end of year	260.1	258.4
Plus amount due from insurers	34.5	35.7
Gross insurance claim liabilities, end of year	294.6	294.1
Less current portion	87.6	89.9
Long-term portion	$ 207.0	$ 204.2

Other Long-Term Obligations

The following table shows the balances included in other long-term obligations as of December 31 (in millions):

	2006	2005
Contingencies	$559.3	$350.4
Self-insurance claim liabilities	207.0	204.2
Non-current portion of non-recurring acquisition accruals	46.6	73.1
Pension liability	16.8	14.8
Other	48.9	48.4
Total	$878.6	$690.9

Litigation

2.257

JACUZZI BRANDS, INC. (SEP)

(In millions)	2006	2005
Total current liabilities	$250.0	$ 335.2
Long-term debt	381.8	383.5
Deferred income taxes	28.3	5.6
Asbestos claims	136.0	153.0
Other liabilities	112.1	127.0
Total liabilities	$908.2	$1,004.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingencies

Litigation (In Part)

We and our subsidiaries are parties to legal proceedings that we believe to be either ordinary, routine litigation incidental to the business of present and former operations or immaterial to our financial condition, results of operations or cash flows.

Certain of our subsidiaries are defendants or plaintiffs in lawsuits that have arisen in the normal course of business. While certain of these matters involve substantial amounts, it is management's opinion, based on the advice of counsel, that the ultimate resolution of such litigation and environmental matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

In June 1998, we acquired Zurn which operates as one of our wholly-owned subsidiaries. At the time of the acquisition, Zurn had itself owned various subsidiaries. Zurn, along with many other unrelated companies, is a co-defendant in numerous asbestos related lawsuits pending in the U.S. Plaintiffs' claims primarily allege personal injuries allegedly caused by exposure to asbestos used primarily in industrial boilers formerly manufactured by a segment of Zurn that has been accounted for as a discontinued operation. Zurn did not manufacture asbestos or asbestos components. Instead, Zurn purchased it from suppliers.

Federal legislation has been proposed that would remove asbestos claims from the current tort system and place them in a trust fund system. This turst would be funded by the insurers and defendant companies. There can be no assurance as to when or if this or any other legislation will be passed and become law or what, if any, the financial impact it could have on Zurn.

New claims filed against Zurn decreased year-over-year. During 2006, approximately 6,400 new asbestos claims were filed against Zurn versus 10,400 in 2005. As of September 30, 2006, the number of asbestos claims pending against Zurn was approximately 46,200 compared to 69,900 as of October 2, 2004. The pending claims against Zurn as of September 30, 2006 were included in approximately 4,900 lawsuits, in which Zurn and an average of 80 other companies are named as defendants, and which cumulatively allege damages of approximately $11.2 billion against all defendants. The claims are handled pursuant to a defense strategy funded by Zurn's insurers. Defense costs currently do not erode the coverage amounts in the insurance policies, although a few policies that will be accessed in the future may count defense costs toward aggregate limits.

During 2006 and as of the end of such period, approximately 16,300 claims were paid and/or pending payment and approximately 24,600 claims were dismissed and/or pending dismissal. During 2005 and as of the end of such period, approximately 17,000 claims were paid and/or pending payment and approximately 13,600 claims were dismissed and/or pending dismissal. Since Zurn received its first asbestos claim in the 1980s, Zurn has paid or dismissed or agreed to settle or dismiss approximately 146,000 asbestos claims including dismissals or agreements to dismiss of approximately 48,900 of such claims through the end of 2006 compared to 115,900 and 23,900 claims, respectively, through the end of 2005.

Zurn uses an independent economic consulting firm with substantial experience in asbestos liability valuations to assist in the estimation of Zurn's potential asbestos liability. At September 30, 2006, that firm estimated that Zurn's potential liability for asbestos claims pending against it and for claims estimated to be filed through 2016 is approximately $136 million, of which Zurn expects to pay approximately $102 million through 2016 on such claims, with the balance of the estimated liability being paid in subsequent years. As discussed below in more detail, Zurn expects all such payments to be paid by its carriers.

This asbestos liability estimate was based on the current and anticipated number of future asbestos claims, the timing and amounts of asbestos payments, the status of ongoing litigation and the potential impact of defense strategies and settlement initiatives. However, there are inherent uncertainities involved in estimating the number of future asbestos claims, future settlement costs, and the effectiveness of Zurn's defense strategies and settlement initiatives. In addition, Zurn's current estimate could be affected due to changes in law and other factors beyond its control. As a result, Zurn's actual liability could differ from Zurn's estimate described herein. Zurn's current estimate of its asbestos liability of $136 million for claims filed through 2016 assumes that (i) its continuous vigorous defense strategy will remain effective; (ii) new asbestos claims filed annually against it will decline modestly through 2016; (iii) the values by disease will remain consistent with past experience; and (iv) its insurers will continue to pay defense costs without eroding the coverage amounts of its insurance policies. While Zurn believes there is evidence, in its claims settlements experience, for such an impact of a successful defense strategy, if the defense strategy ultimately is not successful to the extent assumed by Zurn, the severity and frequency of asbestos claims could increase substantially above Zurn's estimates. Further, while Zurn's current asbestos liability is based on an estimate of claims through 2016, such liability may continue beyond 2016, and such liability could be substantial.

Zurn estimates that its available insurance to cover its potential asbestos liability as of September 30, 2006 is approximately $286 million. Zurn estimated that its available insurance to cover its potential asbestos liability as of October 1, 2005 was approximately $293 million. The decrease in the amount of available insurance reflects the payments made during 2006. Zurn believes, based on its experience in defending and dismissing such claims and the coverage available, that it has sufficient insurance to cover the pending and reasonably estimable future claims. This conclusion was reached after considering Zurn's experience in asbestos litigation, the insurance payments made to date by Zurn's insurance carriers, existing insurance policies, the industry ratings of the insurers and the advice of insurance coverage counsel with respect to applicable insurance coverage law relating to the terms and conditions of those policies. As of September 30, 2006 and October 1, 2005, Zurn recorded a receivable from its insurance carriers of $136 million and $153 million, respectively, which corresponds to the amount of Zurn's potential asbestos liability that is covered by available insurance and is probable of recovery. However, there is no assurance that $286 million of insurance coverage will ultimately be available or that Zurn's asbestos liabilities will not ultimately exceed $286 million. Factors that could cause a decrease in the amount of available coverage include changes in law governing the policies, potential disputes with the carriers on

the scope of coverage, and insolvencies of one or more of Zurn's carriers.

Principally as a result of the past insolvency of certain of Zurn's insurance carriers, coverage analysis reveals that certain gaps exist in Zurn's insurance coverage, but only if and after Zurn uses approximately $216 million of its remaining approximate $286 million of insurance coverage. As noted above, the estimate of Zurn's potential liability for asbestos claims pending against it and for claims estimated to be filed through 2016 is $136 million with the expected amount to be paid through 2016 being $102 million. In order to use approximately $261 million of the $286 million of its insurance coverage from solvent carriers, Zurn estimates that it would need to satisfy approximately $14 million of asbestos claims, with additional gaps of $80 million layered within the final $25 million of the $286 million of coverage. We will pursue, if necessary, any available recoveries on our approximately $148 million of coverage with insolvent carriers, which includes approximately $83 million of coverage attributable to the gaps discussed above. These estimates are subject to the factors noted above.

After review of the foregoing with Zurn and its consultants, we believe that the resolution of Zurn's pending and reasonably estimable asbestos claims will not have a material adverse effect on Zurn's financial condition, results of operations or cash flows.

Asset Retirement Obligations

2.258

VULCAN MATERIALS COMPANY (DEC)

(Amounts in thousands)	2006	2005
Total current liabilities	$ 493,687	$ 579,014
Long-term debt	322,064	323,392
Deferred income taxes	287,905	275,065
Deferred management incentive and other compensation	69,966	61,779
Other postretirement benefits	85,308	69,537
Asset retirement obligations	114,829	105,774
Noncurrent self-insurance reserve	33,519	31,616
Other noncurrent liabilities	15,836	16,166
Total liabilities	$1,423,114	$1,462,343

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Asset Retirement Obligations

SFAS 143, "Accounting for Asset Retirement Obligations" (FAS 143) applies to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets.

FAS 143 requires recognition of a liability for an asset retirement obligation in the period in which it is incurred at its estimated fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability is accreted through charges to operating expenses. If the asset retirement obligation is settled for other than the carrying amount of the liability, we recognize a gain or loss on settlement.

We record all asset retirement obligations for which we have legal obligations for land reclamation at estimated fair value. Essentially all these asset retirement obligations relate to our underlying land parcels, including both owned properites and mineral leases. FAS 143 results in ongoing recognition of costs related to the depreciation of the assets and accretion of the liability. For the years ended December 31, we recognized operating costs related to FAS 143 as follows: 2006–$16,197,000; 2005–$14,867,000, including $447,000 related to discontinued operations; and 2004–$12,076,000, including $1,118,000 related to discontinued operations. FAS 143 operating costs for our continuing operations are reported in cost of goods sold. FAS 143 asset retirement obligations are reported within other noncurrent liabilities in our acccompanying Consolidated Balance Sheets.

A reconciliation of the carrying amount of our asset retirement obligations for the years ended December 31, 2006, 2005 and 2004 is as follows (in thousands of dollars):

Asset retirement obligations as of December 31, 2003	$107,683
Liabilities incurred	173
Liabilities (settled)	(9,291)
Accretion expense	5,375
Revisions up (down)	4,468
Less asset retirement obligations classified as liabilities of assets held for sale	(17,502)
Asset retirement obligations as of December 31, 2004	$ 90,906
Liabilities incurred	3,767
Liabilities (settled)	(12,437)
Accretion expense	4,826
Revisions up (down)	18,712
Asset retirement obligations as of December 31, 2005	$105,774
Liabilities incurred	1,021
Liabilities (settled)	(16,806)
Accretion expense	5,499
Revisions up (down)	19,341
Asset retirement obligations as of December 31, 2006	$114,829

Warranties

2.259

AMERICAN STANDARD COMPANIES INC. (DEC)

(Amounts in millions)	2006	2005
Total current liabilities	$2,568.1	$2,228.9
Long-term debt	1,600.7	1,676.1
Other long-term liabilities:		
Post-retirement benefits	862.9	631.6
Asbestos liability	652.8	673.0
Warranties	283.3	246.7
Deferred tax liabilities	137.4	131.1
Other	384.4	357.9
Total liabilities	$6,489.6	$5,945.3

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Warranties

The Company provides for estimated warranty costs at the time of sale of products sold with a limited warranty. The Company also sells extended warranty contracts on certain products, and the revenues from them are deferred and amortized on a straight-line basis over the terms of the contracts or based upon historical experience. Costs to satisfy extended warranty obligations are charged to cost of sales as incurred. See Note 14 for a summary of warranties.

Note 14 (In Part): Warranties, Guarantees, Commitments and Contingencies

Warranties

Products sold by the Company are covered by a basic limited warranty with terms and conditions that vary depending upon the product and country in which it was sold. The limited warranty covers the equipment, parts and labor (in certain cases) necessary to satisfy the warranty obligation for a period ranging from one to ten years generally, and for the lifetime of certain bath and kitchen faucets. The Company estimates the costs that may be incurred under its warranty obligations and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. At least once a quarter the Company assesses the adequacy of its recorded warrantly liabilities and adjusts the amounts as necessary. Costs to satisfy warranty claims are charged as incurred to the accrued warranty liability.

The Company also sells a variety of extended warranty contracts for up to ten years on certain air conditioning products. Revenues from the sales of extended warranties are deferred and amortized on a straight-line basis over the terms of the contracts or based upon historical experience. Actual costs to satisfy claims on extended warranty contracts are charged to cost of sales as incurred and were $42 million, $41 million and $36 million for 2006, 2005 and 2004, respectively. Total warranty expense was $228 million, $205 million and $199 million for 2006, 2005 and 2004, respectively.

Following is a summary of changes in the Company's product warranty liability for the three years ended December 31, 2006:

(Dollars in millions)	2006	2005	2004
Balance of basic warranty costs accured and deferred income on extended warranty contracts, beginning of year	$428.6	$397.5	$356.0
Warranty costs accrued	188.5	160.0	142.6
Deferred income on extended warranty contracts sold	86.5	73.0	68.2
Warranty claims settled	(171.7)	(143.7)	(142.3)
Amortization of deferred income on extended warranty contracts	(63.8)	(55.3)	(53.2)
Increases (decreases) in warranty estimates made in prior years, including foreign exchange translation effects	4.1	(2.9)	26.2
Balance of basic warranty costs accrued and deferred income on extended warranty contracts, end of year	472.2	428.6	397.5
Current portion included in current liabilities	(188.9)	(181.9)	(155.1)
Long-term warranty liability	$283.3	$246.7	$242.4

Deferred Credits

2.260

CISCO SYSTEMS, INC. (JUL)

(In millions)	2006	2005
Total current liabilities	$11,313	$ 9,511
Long-term debt	6,332	—
Deferred revenue	1,241	1,188
Other long-term liabilities	511	—
Total liabilities	$19,397	$10,699

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

The Company's products are generally integrated with software that is essential to the functionality of the equipment. Additionally, the Company provides unspecified software upgrades and enhancements related to the equipment through its maintenance contracts for most of its products. Accordingly, the Company accounts for revenue in accordance with Statement of Position No. 97-2, "Software Revenue Recognition," and all related interpretations. For sales of products where software is incidental to the equipment, the Company applies the provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" and Staff Accounting Bulletin No. 104, "Revenue Recognition," and all related interpretations.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product,

system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed, which is typically from one to three years. Advanced services revenue is recognized upon delivery or completion of performance.

When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. Fair value for each element is established based on the sales price charged when the same element is sold separately.

The Company uses distributors that stock inventory and typically sell to systems integrators, service providers, and other resellers. In addition, certain products are sold through retail partners. The Company refers to these sales through distributors and retail partners as its two-tier system of sales to the end customer. Revenue from distributors and retail partners is recognized based on a sell-through method using information provided by them. Distributors and retail partners participate in various cooperative marketing and other programs, and the Company maintains estimated accruals and allowances for these programs. The Company accrues for warranty costs, sales returns, and other allowances based on its historical experience.

4 (In Part): Balance Sheet Details

The following tables provide details of selected balance sheet items (in millions):

	2006	2005
Deferred revenue:		
Service	$4,088	$3,618
Product		
Unrecognized revenue on product shipments and other deferred revenue	1,156	1,201
Cash receipts related to unrecognized revenue from two-tier distributors	405	223
Total product deferred revenue	1,561	1,424
Total	$5,649	$5,042
Reported as:		
Current	$4,408	$3,854
Noncurrent	1,241	1,188
Total	$5,649	$5,042

RESERVES—USE OF THE TERM "RESERVE"

2.261 Prior to being superseded by the APB, the Committee on Terminology of the AICPA issued four terminology bulletins. In Accounting Terminology Bulletin No. 1, *Review and Resume*, the Committee recommended that the term *reserve* be applied only to amounts of retained earnings appropriated for general or specific purposes. In practice, the term *reserve* is applied to amounts designated as valuation allowances deducted from assets or as accruals for estimated liabilities. Table 2-32 shows where the term *reserve* appears in the financial statements of the survey companies.

2.262

TABLE 2-32: USE OF TERM "RESERVE"

	Number of Companies			
	2006	**2005**	**2004**	**2003**
To Describe Deductions From Assets for				
Reducing inventories to LIFO cost	46	38	36	26
Inventory obsolescence	42	38	26	14
Doubtful accounts	22	17	13	12
Accumulated depreciation	2	4	3	3
Other—described	13	17	10	4
To Describe Accruals for				
Tax Contingency	77	57	18	1
Estimated expenses relating to property abandonments of discontinued operations	75	80	66	34
Environmental costs	73	60	45	25
Warranty	66	55	49	28
Insurance	56	46	42	21
Litigation	43	40	34	14
Employee benefits or compensation	9	13	10	3
Other—described	24	18	35	12

TITLE OF STOCKHOLDERS' EQUITY SECTION

2.263 Table 2-33 summarizes the titles used by the survey companies to identify the stockholders' equity section of the balance sheet.

2.264

TABLE 2-33: TITLE OF STOCKHOLDERS' EQUITY SECTION

	2006	**2005**	**2004**	**2003**
Stockholders' equity	299	302	300	294
Shareholders' equity	233	228	236	232
Shareowners' equity	16	19	19	21
Shareholders' investment	8	8	7	8
Common stockholders' equity	6	7	6	6
Common shareholders' equity	4	4	2	5
Term deficit or deficiency in title	27	25	19	23
Other or no title	7	7	11	11
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

2.265 SFAS No. 129, *Disclosure of Information about Capital Structure*, states the diclosure requirements for the capital structure of an entity.

2.266 Table 2-34 summarizes the capital structures disclosed on the balance sheets of the survey companies.

2.267

TABLE 2-34: CAPITAL STRUCTURES

	2006	2005	2004	2003
Common Stock With:				
No preferred stock	522	548	537	516
One class of preferred stock	70	42	53	73
Two classes of preferred stock	5	7	8	9
Three or more classes of preferred stock	3	3	2	2
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	58	60	64	62

COMMON STOCK

2.268 Table 2-35 summarizes the reporting bases of common stock. As in prior years, the majority of the survey companies show common stock at par value.

2.269

TABLE 2-35: COMMON STOCK

	2006	2005	2004	2003
Par value stock shown at:				
Par value	579	576	580	570
Amount in excess of par	9	10	15	17
Assigned per share amount	4	2	6	8
No par value stock shown at:				
Assigned per share amount	8	7	10	6
No assigned per share amount	55	54	51	54
Issues Outstanding	**655**	**649**	**662**	**655**

PREFERRED STOCK

2.270 *SFAS No. 129* provides reporting and disclosure requirements for preferred stock. SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, requires that an issuer classify certain financial instruments with characteristics of both liabilities and equity as liabilities. Prior to *SFAS No. 150*, many of these freestanding financial instruments were classified as equity. Some issuances of stock, such as mandatorily redeemable preferred stock, impose unconditional obligations requiring the issuer to transfer assets or issue its equity shares. *SFAS No. 150* requires an issuer to classify such financial instruments as liabilities. Examples of preferred stock issues within the scope of *SFAS No. 150* are included in the Other Noncurrent Liability section.

2.271 Table 2-36 summarizes the reporting bases of preferred stock. As with common stock, many of the survey companies present preferred stock at par value. Examples of preferred stock presentations and disclosures follow.

2.272

TABLE 2-36: PREFERRED STOCK

	Number of Companies			
	2006	2005	2004	2003
Par value stock shown at:				
Par value	18	24	22	30
Liquidation or redemption value	14	16	11	16
Fair value at issuance date	3	2	2	2
Assigned per share amount	—	—	—	1
Other	1	1	—	2
No par value stock shown at:				
Liquidation or redemption value	8	6	11	15
Assigned per share amount	5	3	5	9
Fair value at issuance date	1	1	1	—
No assigned per share amount	4	10	10	19
Number of Companies				
Preferred stock outstanding	49	55	61	88
No preferred stock outstanding	551	545	539	512
Total Companies	**600**	**600**	**600**	**600**

Preferred Stock Extended at Par Value

2.273

ALCOA INC. (DEC)

(In millions)	2006	2005
Shareholders' equity		
Preferred stock (R)	$ 55	$ 55
Common stock	925	925
Additional capital	5,817	5,720
Retained earnings	11,066	9,345
Treasury stock, at cost	(1,999)	(1,899)
Accumulated other comprehensive loss	(1,233)	(773)
Total shareholders' equity	$14,631	$13,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

R (In Part): Preferred and Common Stock

Preferred Stock

Alcoa has two classes of preferred stock. Serial preferred stock has 660,000 shares authorized with a par value of $100 per share and an annual $3.75 cumulative dividend preference per share. There were 546,024 of such shares outstanding at the end of each year presented. Class B serial preferred stock has 10 million shares authorized (none issued) and a par value of $1 per share.

Preferred Stock Extended at Liquidating Value

2.274

CHESAPEAKE ENERGY CORPORATION (DEC)

($ In thousands)	2006	2005
Stockholders' equity:		
Preferred Stock, $.01 par value, 20,000,000 shares authorized:		
6.00% cumulative convertible preferred stock, 0 and 99,310 shares issued and outstanding as of December 31, 2006 and 2005, respectively, entitled in liquidation to $0 and $4,965,500	$ —	$ 4,966
5.00% cumulative convertible preferred stock (Series 2003), 0 and 1,025,946 shares issued and outstanding as of December 31, 2006 and 2005, respectively, entitled in liquidation to $0 and $102,594,600	—	102,595
4.125% cumulative convertible preferred stock, 3,065 and 89,060 shares issued and outstanding as of December 31, 2006 and 2005, respectively, entitled in liquidation to $3,065,000 and $89,060,000	3,065	89,060
5.00% cumulative convertible preferred stock (Series 2005), 4,600,000 shares issued and outstanding as of December 31, 2006 and 2005, entitled in liquidation to $460,000,000	460,000	460,000
4.50% cumulative convertible preferred stock, 3,450,000 shares issued and outstanding as of December 31, 2006 and 2005, entitled in liquidation to $345,000,000	345,000	345,000
5.00% cumulative convertible preferred stock (Series 2005B), 5,750,000 shares issued and outstanding as of December 31, 2006 and 2005, entitled in liquidation to $575,000,000	575,000	575,000
6.25% mandatory convertible preferred stock, 2,300,000 and 0 shares issued and outstanding as of December 31, 2006 and 2005, respectively, entitled in liquidation to $575,000,000 and $0	575,000	—
Common Stock, $.01 par value, 750,000,000 and 500,000,000 shares authorized, 458,600,789 and 375,510,521 shares issued December 31, 2006 and 2005, respectively	4,586	3,755
Paid-in capital	5,873,080	3,803,312
Retained earnings	2,913,722	1,100,841
Accumulated other comprehensive income (loss), net of tax of ($318,889,000) and $112,071,000, respectively	528,321	(194,972)
Unearned compensation	—	(89,242)
Less: treasury stock, at cost; 1,167,007 and 5,320,816 common shares as of December 31, 2006 and 2005, respectively	(26,303)	(25,992)
Total stockholders' equity	$11,251,471	$6,174,323

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Stockholders' Equity, Restricted Stock and Stock Options

The following is a summary of the changes in our preferred shares outstanding for 2006, 2005 and 2004:

(In thousands)	6.75%	6.00%	5.00% (2003)	4.125%	5.00% (2005)	4.50%	5.00% (2005B)	6.25%
Shares outstanding at January 1, 2006	—	99	1,026	89	4,600	3,450	5,750	—
Preferred stock issuances	—	—	—	—	—	—	—	2,300
Conversion/exchange of preferred for common stock	—	(99)	(1,026)	(86)	—	—	—	—
Shares outstanding at December 31, 2006	—	—	—	3	4,600	3,450	5,750	2,300
Shares outstanding at January 1, 2005	—	103	1,725	313	—	—	—	—
Preferred stock issuances	—	—	—	—	4,600	3,450	5,750	—
Conversion/exchange of preferred for common stock	—	(4)	(699)	(224)	—	—	—	—
Shares outstanding at December 31, 2005	—	99	1,026	89	4,600	3,450	5,750	—
Shares outstanding at January 1, 2004	2,998	4,600	1,725	—	—	—	—	—
Preferred stock issuances	—	—	—	313	—	—	—	—
Conversion/exchange of preferred for common stock	(2,998)	(4,497)	—	—	—	—	—	—
Shares outstanding at December 31, 2004	—	103	1,725	313	—	—	—	—

In 2006, shares of our preferred stock were exchanged for or converted into common stock as follows:

- 221,898 shares of 5.0% (Series 2003) cumulative convertible preferred stock were exchanged for or converted into 1,375,670 shares of common stock in privately negotiated exchange transactions or pursuant to conversion rights;
- 804,048 shares of such 5.0% (Series 2003) cumulative convertible preferred stock were exchanged for 4,972,786 shares of common stock pursuant to a tender offer;
- 2,750 shares of 4.125% cumulative convertible preferred stock were exchanged for 172,594 shares of common stock in privately negotiated exchange transactions;
- 83,245 shares of such 4.125% cumulative convertible preferred stock were exchaged for 5,248,126 shares of common stock pursuant to a tender offer; and
- the remaining 99,310 shares of 6.0% cumulative convertible preferred stock were exchanged for or converted into 482,694 shares of common stock in privately negotiated exchange transactions or pursuant to conversion rights.

In 2005, 3,800 shares of 6.00% eumulative convertible preferred stock were converted into 18,468 shares of common stock, 699,054 shares of 5.00% (Series 2003) cumulative convertible preferred stock were exchanged into 4,362,720 shares of common stock and 224,190 shares of 4.125% cumulative convertible preferred stock were exchanged into 14,321,881 shares of common stock.

In 2004, 2,998,000 shares of 6.75% cumulative convertible preferred stock were converted into 19,467,482 shares of common stock, 600,000 shares of 6.0% cumulative convertible preferred stock were exchanged for 3,225,000 shares of common stock in a privately negotiated exchange transaction, and 3,896,890 shares of such 6.0% preferred stock were exchanged for 20,754,817 shares of common stock pursuant to a tender offer.

In connection with the exchanges noted above, we recorded a loss of $10.6 million, $26.9 million and $36.7 million in 2006, 2005 and 2004, respectively. In general, the loss is equal to the excess of the fair value of all common stock exchanged over the fair value of the securities issuable pursuant to the original conversion terms of the preferred stock.

Dividends on our outstanding preferred stock are payable quarterly in cash or, with respect to our 6.25% mandatory convertible preferred stock and our 4.50% cumulative convertible preferred stock, we may pay dividends in cash, common stock or a combination thereof. Following is a summary of our preferred stock, including the primary conversion terms:

Preferred Stock Series	Issue Date	Liquidation Preference per Share	Holder's Conversion Right	Initial Conversion Rate	Conversion Price	Company's Conversion Right From	Company's Market Conversion Trigger
6.25% mandatory convertible[(a)]	June/July 2006	$ 250	Any time	7.1715	$ 34.86	Any time	$52.29[(b)]
5.00% (Series 2005) cumulative convertible	April 2005	$ 100	Any time	3.8811	$25.766	April 15, 2010	$33.50[(c)]
4.50% cumulative convertible	September 2005	$ 100	Any time	2.2639	$44.172	September 15, 2010	$57.42[(c)]
5.00% (Series 2005B) cumulative convertible	November 2005	$ 100	Any time	2.5595	$ 39.07	November 15, 2010	$50.79[(c)]
4.125% cumulative convertible	March/April 2004	$1,000	Market price >$21.65	60.0555	$ 16.65	March 15, 2009	$21.65[(c)]

(a) Each share converts automatically on June 15, 2009 into 7.1715 to 8.6059 shares of common stock, depending on the common stock market price at the time.
(b) Convertible at initial conversion rate plus cash equal to present value of future dividends to June 15, 2009.
(c) Convertible at the Company's option if the Company's common stock equals or exceeds the trigger price for a specified time period.

10 (In Part): Financial Instruments and Hedging Activities

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments.* We have determined the estimated fair values by using available market information and valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying values of financial instruments comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. We estimate the fair value of our long-term fixed-rate debt and

our convertible preferred stock using primarily quoted market prices. Our carrying amounts for such debt, excluding discounts or premiums related to interest rate derivatives, at December 31, 2006 and 2005 were $7.215 billion and $5.429 billion, respectively, compared to approximate fair values of $7.336 billion and $5.582 billion, respectively. The carrying amounts for our convertible preferred stock as of December 31, 2006 and 2005 were $1.958 billion and $1.577 billion, respectively, compared to approximate fair values of $1.949 billion and $1.686 billion, respectively.

Preferred Stock Extended at Redemption Value

2.275

THE WASHINGTON POST COMPANY (DEC)

(In thousands, except share amounts)	2006	2005
Redeemable preferred stock, series A, $1 par value, with a redemption and liquidation value of $1,000 per share; 23,000 shares authorized; 12,120 and 12,267 shares issued and outstanding	$ 12,120	$ 12,267
Preferred stock, $1 par value; 977,000 shares authorized, none issued	—	—
Common shareholders' equity		
Common stock		
Class A common stock, $1 par value; 7,000,000 shares authorized; 1,722,250 shares issued and outstanding	1,722	1,722
Class B common stock, $1 par value; 40,000,000 shares authorized; 18,277,750 shares issued; 7,813,940 and 7,879,281 shares outstanding	18,278	18,278
Capital in excess of par value	205,820	192,672
Retained earnings	4,120,143	3,871,587
Accumulated other comprehensive income, net of taxes		
Cumulative foreign currency translation adjustment	22,689	5,039
Unrealized gain on available-for-sale securities	84,614	58,313
Unrealized gain on pensions and other postretirement plans	270,258	—
Cost of 10,463,810 and 10,398,469 shares of Class B common stock held in treasury	(1,564,010)	(1,509,188)
Total shareholders' equity	$ 3,159,514	$ 2,638,423

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F. Redeemable Preferred Stock

In connection with the acquisition of a cable television system in 1996, the Company issued 11,947 shares of its Series A Preferred Stock. On February 23, 2000, the Company issued an additional 1,275 shares related to this transaction. From 1998 to 2006, 1,102 shares of Series A Preferred Stock were redeemed at the request of Series A Preferred Stockholders.

The Series A Preferred Stock has a par value of $1.00 per share and a liquidation preference of $1,000 per share; it is redeemable by the Company at any time on or after October 1, 2015 at a redemption price of $1,000 per share. In addition, the holders of such stock have a right to require the Company to purchase their shares at the redemption price during an annual 60-day election period; the first such period began on February 23, 2001. Dividends on the Series A Preferred Stock are payable four times a year at the annual rate of $80.00 per share and in preference to any dividends on the Company's common stock. The Series A Preferred Stock is not convertible into any other security of the Company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock.

ADDITIONAL PAID-IN CAPITAL

2.276 Table 2-37 lists the balance sheet captions used to describe additional paid-in capital. Examples of descriptive captions for additional paid-in capital are shown in this section in connection with discussions of the other components of stockholders' equity.

2.277

TABLE 2-37: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	2006	2005	2004	2003
Additional paid-in capital	339	330	327	313
Capital in excess of par or stated value	101	106	105	111
Paid-in capital	57	57	53	59
Additional capital, or other capital	23	23	22	23
Capital surplus	18	18	17	17
Other captions	11	9	16	12
	549	**543**	**540**	**535**
No additional paid-in capital account	51	57	60	65
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

2.278 Table 2-38 indicates that most of the survey companies use the term *retained earnings.* Examples of descriptive captions used for retained earnings are shown in connection with discussions of other components of stockholders' equity.

2.279

TABLE 2-38: RETAINED EARNINGS—CAPTION TITLE

	2006	2005	2004	2003
Retained earnings	474	473	469	461
Retained earnings with additional words	3	4	3	4
Earnings with additional words	22	20	22	24
Income with additional words	6	7	6	8
Retained earnings (deficit)	27	21	18	23
Accumulated deficit	66	72	80	78
Other	2	3	2	2
Total Companies	**600**	**600**	**600**	**600**

ACCUMULATED OTHER COMPREHENSIVE INCOME

2.280 SFAS No. 130, *Reporting Comprehensive Income*, requires that a separate caption for accumulated other comprehensive income be presented in the equity section of a balance sheet. Accumulated balances, by component, included in accumulated other comprehensive income must be disclosed either in the equity section of the balance sheet, or in a statement of changes of stockholders' equity, or in the notes to the financial statements.

2.281 Table 2-39 summarizes the captions used to describe comprehensive income in the stockholders' equity section of the balance sheet.

2.282 Table 2-40 shows where accumulated component balances are presented.

2.283 Examples showing the disclosure of accumulated balances for other comprehensive income items follow.

2.284

TABLE 2-39: ACCUMULATED OTHER COMPREHENSIVE INCOME—BALANCE SHEET CAPTION

	2006	2005	2004	2003
Accumulated other comprehensive loss	227	212	215	245
Accumulated other comprehensive income	173	179	174	99
Accumulated other comprehensive income (loss)	121	116	103	160
Accumulated other non-owner changes in equity	4	6	6	7
Other captions	9	11	18	13
	534	**524**	**516**	**524**
Accumulated balance by component presented	43	53	51	50
	577	**577**	**567**	**574**
No accumulated other comprehensive income	23	23	33	26
Total Companies	**600**	**600**	**600**	**600**
	Number of Companies			
Accumulated Balances by Component Presented				
Defined benefit postretirement plan adjustments	39	41	38	39
Cumulative translation adjustments	33	46	41	47
Unrealized losses/gains on certain investments	24	26	26	25
Changes in fair value of derivatives	20	32	24	29

2.285

TABLE 2-40: ACCUMULATED OTHER COMPREHENSIVE INCOME—PRESENTATION OF COMPONENT BALANCES

	2006	2005	2004	2003
Notes to financial statements	311	327	305	278
Statement of changes in stockholders' equity	140	87	90	113
Stockholders' equity section of the balance sheet	43	53	51	50
Statement of comprehensive income	9	12	9	8
Component balances not presented	74	98	112	125
	577	**577**	**567**	**574**
No accumulated other comprehensive income	23	23	33	26
Total Companies	**600**	**600**	**600**	**600**

Notes to Financial Statements

2.286

ELECTRONIC DATA SYSTEMS CORPORATION (DEC)

(In millions, except share and per share amounts)	2006	2005
Shareholders' equity		
Preferred stock, $.01 par value; authorized 200,000,000 shares; none issued	$ —	$ —
Common stock, $.01 par value; authorized 2,000,000,000 shares; 531,975,655 and 526,199,617 shares issued at December 31, 2006 and 2005, respectively	5	5
Additional paid-in capital	2,973	2,682
Retained earnings	5,630	5,371
Accumulated other comprehensive loss	(182)	(367)
Treasury stock, at cost, 17,658,428 and 2,913,605 shares at December 31, 2006 and 2005, respectively	(530)	(179)
Total shareholders' equity	$7,896	$7,512

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income (Loss) and Shareholders' Equity

Comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by and distributions to owners. For the years ended December 31, 2006, 2005 and 2004, reclassifications from accumulated other comprehensive loss to net income of net gains (losses) recognized on marketable security transactions were $(7) million, $(3) million and $1 million, net of the related tax expense (benefit) of $(4) million, $(1) million and $0.4 million, respectively.

Following is a summary of changes within each classification of accumulated other comprehensive loss for the years ended December 31, 2006 and 2005 (in millions):

	Cumulative Translation Adjustments	Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2004	$ 482	$ (3)	$(538)	$ (59)
Change	(293)	(1)	(14)	(308)
Balance at December 31, 2005	189	(4)	(552)	(367)
Change	313	4	(132)	185
Balance at December 31, 2006	$ 502	$ —	$(684)	$(182)

In connection with its employee stock incentive plans, the Company issued 11.4 million, 4.5 million and 7.6 million shares of treasury stock at a cost of $332 million, $252 million and $458 million during 2006, 2005 and 2004, respectively. The difference between the cost and fair value at the date of issuance of such shares has been recognized as a charge to retained earnings of $107 million, $166 million and $278 million in the consolidated statements of shareholders' equity and comprehensive income (loss) during 2006, 2005 and 2004, respectively.

On February 21, 2006, the Company announced that its Board of Directors has authorized the Company to repurchase up to $1 billion of its outstanding common stock over the next 18 months in open market purchases or privately negotiated transactions. In connection with the share repurchase authorization, on February 23, 2006, the Company entered into a $400 million accelerated share repurchase agreement with a financial institution pursuant to which the Company expected to repurchase approximately 15.0 million shares of its common stock at a price of $26.61 per share. Under the final settlement of the agreement, the financial institution repurchased 15.3 million shares of common stock in the open market during the repurchase period which ended on May 31, 2006. The final amount paid under the arrangement was $26.16 per share, excluding fees and commissions. The Company also repurchased 10.9 million shares in the open market at a cost of $283 million, before commissions, during the year ended December 31, 2006.

During 2006, cumulative translation adjustments of approximately $40 million were transferred from accumulated other comprehensive loss to net income due to the divestitures of certain non-U.S. investments.

2.287

PFIZER INC (DEC)

(Millions, except preferred stock issued and per common share data)	2006	2005
Shareholders' equity		
Preferred stock, without par value, at stated value; 27 shares authorized; issued: 2006–3,497; 2005–4,193	$ 141	$ 169
Common stock, $0.05 par value; 12,000 shares authorized; issued: 2006–8,819; 2005–8,784	441	439
Additional paid-in capital	69,104	67,759
Employee benefit trust	(788)	(923)
Treasury stock, shares at cost; 2006–1,695; 2005–1,423	(46,740)	(39,767)
Retained earnings	49,669	37,608
Accumulated other comprehensive income/(expense)	(469)	479
Total shareholders' equity	$ 71,358	$ 65,764

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other Comprehensive Income/(Expense)

Changes, net of tax, in accumulated other comprehensive income/(expense) follow:

		Net Unrealized Gains/(Losses)		Benefit Plans			
(Millions of dollars)	Currency Translation Adjustment and Other	Derivative Financial Instruments	Available-for-Sale Securities	Actuarial Losses	Prior Service Costs and Other	Minimum Pension Liability	Accumulated Other Comprehensive Income/ (Expense)
Balance, January 1, 2004	$ 580	$ 52	$ 138	$ —	$ —	$(575)	$ 195
Foreign currency translation adjustments	2,013	—	—	—	—	—	2,013
Unrealized holding gains/(losses)	—	(60)	168	—	—	—	108
Reclassification adjustments to income	—	—	(24)	—	—	—	(24)
Minimum pension liability adjustment	—	—	—	—	—	(19)	(19)
Other	1	—	—	—	—	—	1
Income taxes	—	7	(16)	—	—	13	4
Other comprehensive income	2,014	(53)	128	—	—	(6)	2,083
Balance, December 31, 2004	2,594	(1)	266	—	—	(581)	2,278
Foreign currency translation adjustments	(1,476)	—	—	—	—	—	(1,476)
Unrealized holding losses	—	(148)	(68)	—	—	—	(216)
Reclassification adjustments to income	—	(11)	(157)	—	—	—	(168)
Minimum pension liability adjustment	—	—	—	—	—	(33)	(33)
Other	(5)	—	—	—	—	—	(5)
Income taxes	—	53	42	—	—	4	99
Other comprehensive expense	(1,481)	(106)	(183)	—	—	(29)	(1,799)
Balance, December 31, 2005	1,113	(107)	83	—	—	(610)	479
Foreign currency translation adjustments	1,157	—	—	—	—	—	1,157
Unrealized holding gains	—	126	63	—	—	—	189
Reclassification adjustments to income[(a)]	(40)	5	(64)	—	—	—	(99)
Minimum pension liability adjustment	—	—	—	—	—	(16)	(16)
Other	(3)	—	—	—	—	—	(3)
Income taxes	—	(50)	14	—	—	—	(36)
Other comprehensive income	1,114	81	13	—	—	(16)	1,192
Adoption of new accounting standard, net of tax[(b)]	—	—	—	(2,739)	(27)	626	(2,140)
Balance, December 31, 2006	$ 2,227	$ (26)	$ 96	$(2,739)	$(27)	$ —	$ (469)

[(a)] In 2006, the currency translation adjustments reclassified to income resulted from the sale of our Consumer Healthcare business. See also *Note 3. Discontinued Operations.*

[(b)] Includes pre-tax amounts for *Actuarial losses* of $4.3 billion and *Piror service costs and other* of $27 million. See also *Note 13. Pension and Postretirement Benefit Plans and Defined Contribution Plans.*

Income taxes are not provided for foreign currency translation relating to permanent investments in international subsidiaries.

As of December 31, 2006, we estimate that we will reclassify into 2007 income the following pre-tax amounts currently held in *Accumulated other comprehensive income/(expense)*: mostly all of the unrealized holding losses on derivative financial instruments; $266 million of *Actuarial losses* related to benefit plan obligations and plan assets; and $7 million of *Piror service costs and other* related primarily to benefit plan amendments.

Statement of Changes in Stockholders' Equity

2.288

THE DOW CHEMICAL COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

(In millions)	2006	2005	2004
Common stock			
Balance at beginning and end of year	$ 2,453	$ 2,453	$ 2,453
Additional paid-in capital			
Balance at beginning of year	661	274	8
Stock-based compensation	169	387	266
Balance at end of year	830	661	274
Unearned ESOP shares			
Balance at beginning of year	(1)	(12)	(30)
Shares allocated to ESOP participants	1	11	18
Balance at end of year	—	(1)	(12)
Retained earnings			
Balance at beginning of year	14,719	11,527	9,994
Net income	3,724	4,515	2,797
Dividends declared on common stock	(1,438)	(1,292)	(1,264)
Accrued dividends on deferred stock	(18)	(31)	—
Balance at end of year	$16,987	$14,719	$11,527

(continued)

(In millions)	2006	2005	2004
Accumulated other comprehensive loss			
Unrealized gains on investments at beginning of year	$ 11	$ 41	$ 43
Unrealized gains (losses)	31	(30)	(2)
Balance at end of year	42	11	41
Cumulative translation adjustments at beginning of year	(663)	301	(199)
Translation adjustments	651	(964)	500
Balance at end of year	(12)	(663)	301
Minimum pension liability at beginning of year	(1,312)	(1,357)	(1,315)
Adjustments	1,147	45	(42)
Balance at end of year, 2006 prior to adoption of SFAS No. 158	(165)	(1,312)	(1,357)
Reversal of minimum pension liability under SFAS No. 158	165	—	—
Recognition of prior service cost and net loss under SFAS No. 158	(2,192)	—	—
Pension and other postreirement benefit plans at end of year	(2,192)	—	—
Accumulated derivative gain (loss) at beginning of year	15	38	(20)
Net hedging results	(127)	227	107
Reclassification to earnings	39	(250)	(49)
Balance at end of year	(73)	15	38
Total accumulated other comprehensive loss	(2,235)	(1,949)	(977)
Treasury stock			
Balance at beginning of year	(559)	(995)	(1,759)
Purchases	(746)	(68)	(15)
Issuance to employees and employee plans	335	504	779
Balance at end of year	(970)	(559)	(995)
Net stockholders' equity	$17,065	$15,324	$12,270

2.289

HARRIS CORPORATION (JUN)

Consolidated Statement of Comprehensive Income and Shareholders' Equity

					Accumulated Other Comprehensive Income (Loss)			
					Net Unrealized Gain (Loss) From			
(In millions, except per share amounts)	Common Stock	Other Capital	Retained Earnings	Unearned Comp.	Marketable Securities	Hedging Derivatives	Currency Translation	Total
Balance at June 27, 2003	$132.8	$163.3	$ 905.3	$(5.2)	$ 0.1	$(0.1)	$(13.0)	$1,183.2
Net income	—	—	132.8	—	—	—	—	132.8
Foreign currency translation	—	—	—	—	—	—	6.9	6.9
Net unrealized loss on hedging derivatives net of income taxes of $(1.2)	—	—	—	—	—	(1.9)	—	(1.9)
Net unrealized loss on securities net of income taxes of $(0.5)	—	—	—	—	(0.8)	—	—	(0.8)
Comprehensive income								137.0
Shares issued under stock incentive plans (2,375,344 shares)	2.4	34.6	—	—	—	—	—	37.0
Shares granted under stock incentive plans (250,334 shares)	0.2	4.2	—	(4.4)	—	—	—	—
Compensation expense	—	—	—	5.6	—	—	—	5.6
Termination and award of shares granted under stock incentive plans (110,330 shares)	(0.1)	(1.5)	—	0.7	—	—	—	(0.9)
Repurchases and retirement of common stock (2,608,800 shares)	(2.6)	(10.0)	(43.9)	—	—	—	—	(56.5)
Cash dividends ($0.20 per share)	—	—	(26.6)	—	—	—	—	(26.6)
Balance at July 2, 2004	$132.7	$190.6	$ 967.6	$(3.3)	$(0.7)	$(2.0)	$ (6.1)	$1,278.8
Net income	—	—	202.2	—	—	—	—	202.2
Foreign currency translation	—	—	—	—	—	—	2.8	2.8
Net unrealized gain on hedging derivatives net of income taxes of $(0.8)	—	—	—	—	—	1.5	—	1.5
Net unrealized gain on securities net of income taxes of $(0.7)	—	—	—	—	1.2	—	—	1.2
Comprehensive income								207.7
Shares issued under stock incentive plans (1,872,704)	1.9	31.5	—	—	—	—	—	33.4
Shares granted under stock incentive plans (352,112)	0.3	8.7	—	(9.0)	—	—	—	—
Compensation expense	—	—	—	9.0	—	—	—	9.0
Termination and award of shares granted under stock incentive plans (99,352)	(0.1)	(1.4)	—	—	—	—	—	(1.5)
Repurchases and retirement of common stock (1,874,000)	(1.9)	(10.3)	(44.2)	—	—	—	—	(56.4)
Cash dividends ($0.24 per share)	—	—	(31.9)	—	—	—	—	(31.9)
Balance at July 1, 2005	$132.9	$219.1	$1,093.7	$(3.3)	$ 0.5	$(0.5)	$ (3.3)	$1,439.1
Net income	—	—	237.9	—	—	—	—	237.9
Foreign currency translation	—	—	—	—	—	—	15.1	15.1
Net unrealized gain on hedging derivatives net of income taxes of $(0.3)	—	—	—	—	—	0.4	—	0.4
Net unrealized loss on securities net of income taxes of $(0.3)	—	—	—	—	(0.5)	—	—	(0.5)
Comprehensive income								252.9
Shares issued under stock incentive plans (1,583,188)	1.6	36.2	—	—	—	—	—	37.8
Compensation expense	—	18.6	—	—	—	—	—	18.6
Statement 123R transition impact on performance shares (765,222)	(0.7)	(2.6)	—	3.3	—	—	—	—
Debt converted to shares of common stock (20,350)	—	0.5	—	—	—	—	—	0.5
Award of shares granted under stock incentive plans (114,338)	0.1	0.7	—	—	—	—	—	0.8
Repurchases and retirement of common stock (1,050,000)	(1.1)	(7.7)	(36.1)	—	—	—	—	(44.9)
Cash dividends ($0.32 per share)	—	—	(42.7)	—	—	—	—	(42.7)
Balance at June 30, 2006	$132.8	$264.8	$1,252.8	$ —	$ —	$(0.1)	$ 11.8	$1,662.1

Equity Section of Balance Sheet

2.290

MEDIA GENERAL, INC. (DEC)

(In thousands, except shares and per share amounts)	2006	2005
Stockholders' equity:		
Preferred stock ($5 cumulative convertible), par value $5 per share: authorized 5,000,000 shares; none outstanding		
Common stock, per value $5 per share:		
Class A, authorized 75,000,000 shares; issued 23,556,472 and 23,490,696 shares	$117,782	$117,453
Class B, authorized 600,000 shares; issued 555,992 shares	2,780	2,780
Additional paid-in capital	55,173	44,856
Accumulated other comprehensive loss:		
Unrealized loss on equity securities	(706)	(843)
Unrealized loss on derivative contracts	(5,129)	(3,551)
Pension and postretirement	(105,413)	(60,224)
Retained earnings	872,873	815,355
Total stockholders' equity	$937,360	$915,826

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income

The Company's comprehensive income consists of net income, pension and postretirement related adjustments, unrealized gains and losses on certain investments in equity securities (including reclassification adjustments), and changes in the value of derivative contracts as well as the Company's share of Other Comprehensive Income from its investments accounted for under the equity method.

2.291

SCHNITZER STEEL INDUSTRIES, INC. (AUG)

(In thousands, except per share amounts)	2006	2005
Shareholders' equity:		
Preferred stock—20,000 shares authorized, none issued	$ —	$ —
Class A common stock—75,000 shares $1.00 per value authorized, 22,793 and 22,490 shares issued and outstanding	22,793	22,490
Class B common stock—25,000 shares $1.00 par value authorized, 7,986 and 7,986 shares issued and outstanding	7,986	7,986
Additional paid-in capital	137,281	125,845
Retained earnings	564,165	423,178
Accumulated other comprehensive income:		
Foreign currency translation adjustment	1,874	29
Total shareholders' equity	$734,099	$579,528

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accumulated Other Comprehensive Income (Loss)

The Company reports comprehensive income (loss) in its consolidated statement of stockholders' equity. Comprehensive income (loss) consists of net income and other gains and losses affecting stockholders' equity that, under US GAAP are excluded from net income, including the translation effect of foreign currency assets and liabilities, net of tax.

TREASURY STOCK

2.292 APB Opinion No. 6, *Status of Accounting Research Bulletins*, discusses the balance sheet presentation of treasury stock. As shown in Table 2-41, the prevalent balance sheet presentation of treasury stock is to show the cost of treasury stock as a reduction of stockholders' equity.

2.293 Examples of treasury stock presentations follow.

2.294

TABLE 2-41: TREASURY STOCK—BALANCE SHEET PRESENTATION

	2006	**2005**	**2004**	**2003**
Common Stock				
Cost of treasury stock shown as stockholders' equity deduction	381	364	363	370
Cost of treasury stock deducted from stock of the same class	8	9	18	14
Par or stated value of treasury stock deducted from issued stock of the same class	14	9	10	12
Other	2	4	7	2
Total Presentations	**405**	**386**	**398**	**398**
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	3	1	—	2
Par or stated value of treasury stock deducted from issued stock of the same class	—	—	1	—
Other	—	1	1	2
Total Presentations	**3**	**2**	**2**	**4**
Number of Companies				
Disclosing treasury stock	408	388	398	399
Not disclosing treasury stock	192	212	202	201
Total Companies	**600**	**600**	**600**	**600**

Cost of Treasury Stock Shown as Reduction of Stockholders' Equity

2.295

EMERSON ELECTRIC CO. (SEP)

(In millions, except per share amounts)	2005	2006
Stockholders' equity		
Preferred stock of $2.50 par value per share Authorized 5,400,000 shares; issued—none	$ —	$ —
Common stock of $0.50 par value per share Authorized 1,200,000,000 shares; issued 476,677,006 shares; outstanding 410,651,564 shares in 2005 and 402,346,899 shares in 2006	238	238
Additional paid-in capital	120	161
Retained earnings	10,199	11,314
Accumulated other comprehensive income	(65)	306
	10,492	12,019
Less cost of common stock in treasury, 66,025,442 shares in 2005 and 74,330,107 shares in 2006	3,092	3,865
Total stockholders' equity	$7,400	$8,154

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Common Stock

At September 30, 2006, 28,976,471 shares of common stock were reserved, primarily for issuance under the Company's stock-based compensation plans. During 2006, 10,725,600 treasury shares were acquired and 2,420,935 treasury shares were issued.

2.296

IKON OFFICE SOLUTIONS, INC. (SEP)

(In thousands)	2006	2005
Shareholders' equity		
Common stock, no par value	$1,044,633	$1,030,462
Retained earnings	828,255	755,864
Accumulated other comprehensive income (loss)	59,169	(65,426)
Cost of common shares in treasury	(245,924)	(150,556)
Total shareholders' equity	$1,686,133	$1,570,344
Supplemental information		
Shares of common stock authorized	300,000	300,000
Shares of common stock issued	150,624	150,140
Treasury stock	21,695	14,390
Shares of common stock outstanding	128,929	135,750

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Shareholders' Equity

Shares of common and treasury stock were as follows:

	2006	2005	2004
Common stock			
Balance, beginning of year	150,140	149,955	149,982
Stock awards granted	681	458	161
Stock awards earned and issued out of Treasury	(68)	(209)	(138)
Stock awards cancelled	(129)	(64)	(50)
Balance, end of year	150,624	150,140	149,955
	2006	2005	2004
Treasury stock			
Balance, beginning of year	14,390	7,176	2,942
Purchases	10,683	8,453	6,778
Reissued for:			
Exercise of options	(3,305)	(1,030)	(2,406)
Issuance of shares for employee stock plans	(73)	(209)	(138)
Balance, end of year	21,695	14,390	7,176

In March 2004, the Board of Directors authorized the repurchase of up to $250,000 of our outstanding shares of common stock (the "Repurchase Plan"). In February 2006, the Board of Directors authorized a $150,000 increase to the Repurchase Plan, resulting in a new authorization of up to $400,000. During fiscal 2004, we repurchased 6,741 shares of our outstanding common stock for $77,574 under the Repurchase Plan. During fiscal 2005, we repurchased 8,437 shares of our outstanding common stock for $86,616 under the Repurchase Plan. During fiscal 2006, we repurchased 10,677 shares of our outstanding common stock for $130,857 under the Repurchase Plan. At September 30, 2006, we had $104,953 remaining of the $400,000 authorized under the Repurchase Plan. Under terms of the Credit Facility, we are permitted to repurchase shares in an aggregate amount not to exceed (a) $100,000 over the remaining term of the Credit Facility, plus (b) 50% of net income (as defined in the Credit Facility) and (c) an additional aggregate amount of $75,000, as long as we maintain a proforma Leverage Ratio (as defined in the Credit Facility) of no greater than two times at the end of any fiscal quarter. We are subject to similar restrictions on share repurchases under the terms of our 7.75% Notes due 2015. At September 30, 2006, based on the terms of our Credit Facility and our 2015 Notes, we had capacity to spend an additional $82,661 on the repurchase of the Company's common stock. This capacity is increased by a function of future net income (as described above) and reduced by future actual spending on share repurchases.

From time-to-time, our Retirement Savings Plan may acquire shares of our common stock in open market transactions or from our treasury shares.

Par Value of Treasury Stock Deducted From Issued Stock

2.297

WYETH (DEC)

Consolidated Balance Sheets

(In thousands except share and per share amounts)	2006	2005
Stockholders' equity		
$2.00 convertible preferred stock, par value $2.50 per share; 5,000,000 shares authorized	$ 28	$ 37
Common stock, par value $0.33 1/3 per share; 2,400,000,000 shares authorized (1,345,249,848 and 1,343,349,460 issued and outstanding, net of 77,342,696 and 79,112,368 treasury shares at par, for 2006 and 2005, respectively)	448,417	447,783
Additional paid-in capital	6,142,277	5,097,228
Retained earnings	8,734,699	6,514,046
Accumulated other comprehensive income (loss)	(672,666)	(64,725)
Total stockholders' equity	$14,652,755	$11,994,369

Consolidated Statements of Changes in Stockholders' Equity

(In thousands except per share amounts)	$2.00 Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2004	$42	$444,151	$4,764,390	$4,112,285	$ (26,487)	$ 9,294,381
Net income				1,233,997		1,233,997
Currency translation adjustments					451,892	451,892
Unrealized gains on derivative contracts, net					10,354	10,354
Unrealized losses on marketable securities, net					(8,226)	(8,226)
Minimum pension liability adjustments, net					39,619	39,619
Comprehensive income, net of tax						1,727,636
Cash dividends declared:						
Preferred stock (per share: $2.00)				(33)		(33)
Common stock (per share: $0.92)				(1,227,001)		(1,227,001)
Common stock issued for stock options		779	56,694			57,473
Issuance of restricted stock awards		85	9,164			9,249
Tax benefit from exercises of stock options			(13,386)			(13,386)
Other exchanges	(2)	16	162	(592)		(416)
Balance at December 31, 2004	$40	$445,031	$4,817,024	$4,118,656	$ 467,152	$ 9,847,903

(continued)

(In thousands except per share amounts)	$2.00 Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2004	$40	$445,031	$4,817,024	$4,118,656	$ 467,152	$ 9,847,903
Net income				3,656,298		3,656,298
Currency translation adjustments					(492,784)	(492,784)
Unrealized gains on derivative contracts, net					32,518	32,518
Unrealized losses on marketable securities, net					(4,128)	(4,128)
Minimum pension liability adjustments, net					(67,483)	(67,483)
Comprehensive income, net of tax						3,124,421
Cash dividends declared:						
Preferred stock (per share: $2.00)				(30)		(30)
Common stock (per share: $0.94)				(1,259,368)		(1,259,368)
Common stock issued for stock options		2,637	232,355			234,992
Issuance of restricted stock awards		84	11,225			11,309
Tax benefit from exercises of stock options			37,457			37,457
Other exchanges	(3)	31	(833)	(1,510)		(2,315)
Balance at December 31, 2005	$37	$447,783	$5,097,228	$6,514,046	$ (64,725)	$11,994,369
Net income				4,196,706		4,196,706
Currency translation adjustments					565,745	565,745
Unrealized losses on derivative contracts, net					(6,060)	(6,060)
Unrealized gains on markerable securities, net					4,157	4,157
Minimum pension liability adjustments, net					(41,234)	(41,234)
Comprehensive income, net of tax						4,719,314
Adoption of FASB Statement No. 158, net					(1,130,549)	(1,130,549)
Cash dividends declared:						
Preferred stock (per share: $2.00)				(26)		(26)
Common stock (per share: $1.01)				(1,358,743)		(1,358,743)
Common stock acquired for treasury		(4,477)	(42,818)	(617,284)		(664,579)
Common stock issued for stock options		4,372	490,648			495,020
Stock-based compensation expense			393,330			393,330
Issuance of restricted stock awards		688	85,490			86,178
Transfer of restricted stock award accruals to equity			63,171			63,171
Tax benefit from exercises of stock options			55,263			55,263
Other exchanges	(9)	51	(35)			7
Balance at December 31, 2006	$28	$448,417	$6,142,277	$8,734,699	$ (672,666)	$14,652,755

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Capital Stock

There were 2,400,000,000 shares of common stock and 5,000,000 shares of preferred stock authorized at December 31, 2006 and 2005. Of the authorized preferred shares, there is a series of shares (11,084 shares and 14,715 shares outstanding at December 31, 2006 and 2005, respectively), which is designated as $2.00 convertible preferred stock. Each share of the $2.00 series is convertible at the option of the holder into 36 shares of common stock. This series may be called for redemption at $60.00 per share plus accrued dividends.

Changes in outstanding common shares during 2006, 2005 and 2004 were as follows:

(In thousands except shares of preferred stock)	2006	2005	2004
Balance at January 1	1,343,349	1,335,092	1,332,452
Issued for stock options and restricted stock awards	13,152	7,991	2,373
Purchases of common stock for treasury	(13,016)	—	—
Conversions of preferred stock (3,631, 1,407 and 812 shares in 2006, 2005 and 2004, respectively) and other exchanges	1,765	266	267
Balance at December 31	1,345,250	1,343,349	1,335,092

On January 27, 2006, the Company's Board of Directors approved a share repurchase program allowing for the repurchase of up to 15,000,000 shares of the Company's common stock (the Share Repurchase Program). The Company repurchased 13,016,400 shares during 2006. At December 31, 2006, the Company had 1,983,600 shares authorized for repurchase. On January 25, 2007, the Company's Board of Directors amended the previously authorized Share Repurchase Program to allow for future repurchases of up to 30,000,000 shares, inclusive of 1,983,600 shares remaining under the existing program.

Treasury stock is accounted for using the par value method. Shares of common stock held in treasury at December 31, 2006, 2005 and 2004 were 77,342,696, 79,112,368 and 87,319,402, respectively. The Company did not retire any shares held in treasury during 2006 and 2005.

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

2.298 Many of the survey companies present accounts other than Capital Stock, Additional Paid-in Capital, Retained Earnings, Accumulated Other Comprehensive Income, and Treasury Stock in the stockholders' equity section of the balance sheet. Other stockholders' equity accounts appearing on the balance sheets of the survey companies include, but are not limited to, guarantees of ESOP debt, unearned or deferred compensation related to employee stock award plans, and amounts owed to a company by employees for loans to buy company stock.

2.299 Table 2-42 shows the number of survey company balance sheets presenting other stockholders' equity accounts. Cumulative translation adjustments, unrealized losses/gains on certain investments, and changes in the funded status of defined benefit postretirement plans are all *other comprehensive income* items which are included in Table 2-40 under "Accumulated Other Comprehensive Income—Presentation of Component Balances."

2.300 246 survey companies disclosed that certain stock purchase rights have been distributed to common shareholders. A majority of the rights enable the holders to purchase additional equity in a company should an outside party acquire or tender for a substantial minority interest in the subject company. Such rights usually do not appear on the balance sheet. Nine survey companies either adopted a new plan or extended a plan that had or was about to expire. Twelve survey companies either cancelled or chose not to extend a plan that expired.

2.301 Examples showing the presentation of other stockholders' equity accounts follow.

2.302

TABLE 2-42: OTHER STOCKHOLDERS' EQUITY ACCOUNTS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Unearned compensation	73	230	229	194
Warrants	19	21	25	23
Employee benefit trusts	19	19	23	18
Guarantees of ESOP debt	16	20	24	26
Receivables from sale of stock	9	14	21	23

Unearned Compensation Relating to Stock Award Plans

2.303

CARLISLE COMPANIES INCORPORATED (DEC)

(In thousands)	2006	2005
Shareholders' equity:		
Preferred stock, $1 par value. Authorized and unissued 5,000,000 shares	$ —	$ —
Common stock, $1 par value. Authorized 100,000,000 shares; 39,330,624 shares issued; 30,725,259 outstanding in 2006 and 30,357,476 in 2005	39,331	39,331
Additional paid-in capital	69,838	53,081
Unearned compensation—includes restricted shares of 115,170 in 2006 and 108,960 in 2005	(3,437)	(3,420)
Cost of shares of treasury—8,490,195 shares in 2006 and 8,864,188 in 2005	(167,578)	(173,493)
Accumulated other comprehensive income	8,451	2,815
Retained earnings	995,604	811,925
Total shareholders' equity	$942,209	$730,239

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Employee Stock-based Compensation Arrangements (In Part)

Restricted Stock

Compensation expense is recognized over the vesting period based on the closing stock prices on the grant date of the restricted stock. As compensation expense is recognized, Additional paid-in capital is increased in shareholders' equity. The restricted stock receives the same dividend as common shares outstanding.

Note 11 (In Part): Employee and Non-Employee Stock Options & Incentive Plan

The Company maintains an Executive Incentive Program (the "Program") for executives and certain other employees of the Company and its operating divisions and subsidiaries. On April 20, 2004, the Program was amended by shareholder approval to allow for awards of stock options, restricted stock, stock appreciation rights, performance shares and units or other awards based on Company stock. Shares issued under these plans are issued from Treasury. At December 31, 2006, 2,030,170 shares were available for grant under this plan; however, only 1,986,390 of this amount were available for the issuance of restricted and performance shares. The Company also maintains a restricted stock and stock option plan for its non-employee directors. At December 31, 2006, 70,000 and 196,000 shares were available for grant under these plans, respectively. With the exception of certain awards issued December 1, 1999 (the "December 1999 Grant") and certain awards for which vesting was accelerated on September 7, 2005, options issued under both these plans vest one-third upon grant, one-third on the first anniversary of grant and the remaining one-third on the second anniversary of grant. Vesting for the December 1999 Grant was as follows: 10% on March 1, 2001; 30% on March 1, 2002; 60% on March 1, 2003; and 100% on March 1, 2004. All options, including the December 1999 Grant, have a maximum term life of 10 years.

Compensation expense related to the adoption of SFAS 123(R) and stock options granted was $3.5 million before tax, or $2.4 million after tax ($0.08 per share, basic and diluted) for the year ended December 31, 2006. Under SFAS 123(R), excess income tax benefits related to share-based compensation expense that must be recognized directly in equity are considered financing rather than operating cash flow activities. The amount of financing cash flows for these benefits was $3.7 million for the year ended December 31, 2006. There was no stock-based compensation expense related to stock options in 2005 and 2004 because the intrinsic value method was used in accordance with APB 25 to account for stock-based awards. Unrecognized compensation cost related to stock options of $0.9 million at December 31, 2006 is to be recognized over a weighted average period of 1.1 years.

On September 7, 2005, the Compensation Committee of the Company's Board of Directors approved the immediate vesting of 115,533 options originally granted on February 2, 2005 and May 4, 2005. At the time of the vesting, the market value of the Company stock was less than the exercise price of the options.

Restricted shares awarded under the Program are generally released to the recipient after a period of three years. At December 31, 2006, under the Company's restricted stock plan, 115,170 non-vested shares were outstanding. The number and weighted average grant-date fair value of restricted shares issued in each of the last three years was as follows: in 2006, 47,720 shares were issued at a weighted average fair value of $69.61; in 2005, 49,825 shares were issued at a weighted average fair value of $64.38; and in 2004, 33,110 shares were issued at a weighted average fair value of $57.07. Compensation expense related to restricted stock awards of $3.3 million, $2.1 million and $1.0 million were recognized for the years ended December 31, 2006, 2005 and 2004, respectively. Unrecognized compensation cost related to restricted stock awards of $3.4 million at December 31, 2006 is to be recognized over a weighted average period of 2.1 years.

Common Stock Warrants

2.304

PATHMARK STORES, INC. (JAN)

(In millions, except share and per share amounts)	2007	2006
Stockholders' equity		
Preferred stock	$ —	$ —
Authorized: 5,000,000 shares; no shares issued		
Common stock, $0.01 par value	0.5	0.5
Authorized: 100,000,000 shares; issued: 52,226,498 shares at February 3, 2007 and 52,012,553 shares at January 28, 2006		
Common stock warrants	69.7	69.7
Paid-in capital	754.3	743.6
Accumulated deficit	(656.7)	(638.4)
Accumulated other comprehensive loss	(39.4)	(4.1)
Total stockholders' equity	$ 128.4	$ 171.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Yucaipa Investment

On June 9, 2005, the Company, pursuant to a securities purchase agreement dated as of March 23, 2005 (the "Purchase Agreement"), among the Company, The Yucaipa Companies LLC ("Yucaipa") and certain investment funds affiliated with Yucaipa (the "Investors"), issued to the Investors: (i) 20,000,000 shares (the "Shares") of the common stock, par value $0.01 per share, of Pathmark (the "Common Stock"), (ii) Series A warrants (the "Series A Warrants") to purchase 10,060,000 shares of Common Stock at an exercise price of $8.50 per share, and (iii) Series B warrants (the "Series B Warrants") to purchase 15,046,350 shares of Common Stock at an exercise price of $15.00 per share (the Shares, the Series A Warrants and the Series B Warrants are collectively referred to as the "Purchased Securities"; the Series A Warrants and the Series B Warrants are collectively referred to as the "Yucaipa Warrants") for an aggregate purchase price of $150 million in cash. When issued, the shares represented 39.9% of the outstanding Common Stock. Upon issuance, the Series A Warrants and the Series B Warrants will increase Yucaipa's holdings to 48.2% and 58.3%, respectively, of the outstanding Common Stock. The Company received $137.5 million for the Purchased Securities, net of $12.5 million of costs directly attributable to the offering, including a closing fee and transaction expenses of $6.2 million paid to Yucaipa. At closing, the Company used $40.3 million of the net proceeds to pay down its working capital facility borrowings and subsequently used $23.3 million to defease its mortgage borrowings, including a redemption premium of $2.3 million. The remaining net proceeds were invested in short-term investments and have been used for general corporate purposes, including capital expenditures.

Note 19 (In Part): Capital Stock

Common Stock Warrants

As of February 3, 2007 and January 28, 2006, warrants to purchase 5,294,118 shares of Common Stock at $22.31 per share were outstanding and expire on September 19, 2010. As of February 3, 2007 and January 28, 2006, Series A Warrants to purchase 10,060,000 shares of Common Stock at $8.50 per share were outstanding and expire on June 9, 2008 and Series B Warrants to purchase 15,046,350 shares of Common Stock at $15.00 per share were outstanding and expire on June 9, 2015. The Series A Warrants and Series B Warrants were issued under the Purchase Agreement (see Note 2. Yucaipa Investment).

The Company's Common Stock and Common Stock Warrants trade on the NASDAQ Global Market ("NASDAQ") under the ticker symbols "PTMK" and "PTMKW", respectively.

Employee Benefit Trust

2.305

EQUIFAX INC. (DEC)

(In millions, except par values)	2006	2005
Shareholders' equity:		
Preferred stock, $0.01 par value: Authorized shares—10.0; Issued shares—none	$ —	$ —
Common stock, $1.25 par value: Authorized shares—300.0; Issued shares—186.3 and 185.2 at December 31, 2006 and 2005, respectively; outstanding shares—124.7 and 129.2 at December 31, 2006 and 2005, respectively	232.9	231.5
Paid-in capital	609.2	559.0
Retained earnings	1,778.6	1,525.1
Accumulated other comprehensive loss	(232.2)	(157.8)
Treasury stock, at cost, 57.7 shares and 51.7 shares at December 31, 2006 and 2005, respectively	(1,490.9)	(1,274.6)
Stock held by employee benefits trusts, at cost, 3.9 shares and 4.3 shares at December 31, 2006 and 2005, respectively	(59.5)	(62.9)
Total shareholders' equity	$ 838.1	$ 820.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Shareholders' Equity

Employee Benefit Trusts

We maintain three employee benefits trusts for the purpose of satisfying obligations under certain benefit plans. These trusts held 3.9 million and 4.3 million shares of Equifax stock with a value, at cost, of $59.5 million and $62.9 million at December 31, 2006 and 2005, respectively, as well as cash, which was not material for both periods presented. The three employee benefits trusts are as follows:

- The Employee Stock Benefits Trust, which constitutes a funding vehicle for a variety of employee benefit programs. Each year, this trust releases a certain number of shares which are distributed to employees in the course of share option exercises or nonvested share distributions upon vesting. The cash in this trust can also be used to satisfy our obligations under other benefit plans.
- The Executive Life and Supplemental Retirement Benefit Plan Grantor Trust is used to ensure that the insurance premiums due under the Executive Life and Supplemental Retirement Benefit Plan are paid in case we fail to make scheduled payments following a change in control, as defined in this trust agreement.
- The Supplemental Executive Retirement Plans Grantor Trust's assets are dedicated to ensure the payment of benefits accrued under our supplemental Executive Retirement Plans in case of a change in control, as defined in this trust agreement.

The assets in these plans are subject to creditors claims in case of insolvency of Equifax Inc.

Guarantees of ESOP Debt

2.306

PARKER HANNIFIN CORPORATION (JUN)

(Dollars in thousands)	2006	2005
Shareholders' equity (Note 11)		
Serial preferred stock, $.50 par value, authorized 3,000,000 shares; none issued		
Common stock, $.50 par value, authorized 600,000,000 shares; issued 120,683,890 shares in 2006 and 120,437,280 shares in 2005 at par value	$ 60,342	$ 60,219
Additional capital	510,869	478,219
Retained earnings	3,916,412	3,352,888
Unearned compensation related to ESOP (Note 9)	(25,809)	(36,818)
Deferred compensation related to stock options	2,347	2,347
Accumulated other comprehensive (loss)	(194,819)	(470,964)
	4,269,342	3,385,891
Common stock in treasury at cost: 368,695 shares in 2006 and 743,767 shares in 2005	(28,139)	(45,744)
Total shareholders' equity	$4,241,203	$3,340,147

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Debt

	2006	2005
Domestic:		
Debentures		
7.30%, due 2011	$ 100,000	$100,000
Fixed rate medium-term notes		
6.55% to 7.39%, due 2007–2019	195,000	195,000
Fixed rate senior notes		
4.88%, due 2013	225,000	225,000
ESOP loan guarantee		
6.34%, due 2009	30,878	42,785
Variable rate demand bonds		
4.41%, due 2010–2025	20,035	20,035
Foreign:		
Bank loans, including revolving credit		
1.0% to 6.75%, due 2007–2020	24,087	11,976
Euro Notes		
6.25%, due 2006		363,060
Euro Bonds		
3.5%, due 2011	255,840	
4.125%, due 2016	255,840	
Other long-term debt, including capitalized leases	18,764	514
Total long-term debt	1,125,444	958,370
Less long-term debt payable within one year	65,983	19,946
Long-term debt, net	$1,059,461	$938,424

ESOP Loan Guarantee

In 1999 the Company's Employee Stock Ownership Plan (ESOP) was leveraged when the ESOP Trust borrowed $112,000 and used the proceeds to purchase 3,055,413 shares of the Company's common stock from the Company's treasury. The loan is unconditionally guaranteed by the Company and therefore the unpaid balance of the borrowing is reflected on the Consolidated Balance Sheet as Long-term debt. A corresponding amount representing Unearned compensation is recorded as a deduction from Shareholders' equity.

Note 10 (In Part): Retirement Benefits

Employee Savings Plan

The Company sponsors an employee stock ownership plan (ESOP) as part of its existing savings and investment 401(k) plan. The ESOP is available to eligible domestic employees. Parker Hannifin common stock is used to match contributions made by employees to the ESOP up to a maximum of 4.0 percent of an employee's annual compensation. A breakdown of shares held by the ESOP is as follows:

	2006	2005	2004
Allocated shares	8,280,848	9,558,612	9,453,916
Suspense shares	704,094	1,004,423	1,315,814
Total shares held by the ESOP	8,984,942	10,563,035	10,769,730
Fair value of suspense shares	$ 54,638	$ 62,284	$ 78,238

In 1999, the ESOP was leveraged and the loan was unconditionally guaranteed by the Company. The Company's matching contribution and dividends on the shares held by the ESOP are used to repay the loan, and shares are released from the suspense account as the principal and interest are paid. The unreleased portion of the shares in the ESOP suspense account is not considered outstanding for purposes of earnings per share computations. Company contributions to the ESOP, recorded us compensation and interest expense, were $47,533 in 2006, $40,396 in 2005 and $37,208 in 2004. Dividends earned by the suspense shares and interest income within the ESOP totaled $1,017 in 2006, $962 in 2005 and $1,245 in 2004.

In 2004, the Company added to the employee savings plan a new separate account called the retirement income account (RIA). The RIA replaces the defined benefit pension plan for new employees hired at locations that previously offered a salary-based formula under the pension plan. Employees who were already under the salary-based formula in the pension plan were given the choice to stay in the pension plan or participate in the RIA. The Company makes a contribution to the participant's RIA account each year, the amount of which is based on the participant's age and years of service. Participants do not contribute to the RIA. Company contributions to the RIA were $6,479 in 2006 and $2,258 in 2005.

In addition to shares within the ESOP, as of June 30, 2006 employees have elected to invest in 2,135,223 shares of common stock within the Company Stock Fund of the Parker Retirement Savings Plan.

Note 11 (In Part): Shareholders' Equity

Unearned Compensation Related to ESOP

	2006	2005	2004
Balance July 1	$(36,818)	$(48,868)	$(63,418)
Unearned compensation related to ESOP debt guarantee	11,009	12,050	14,550
Balance June 30	$(25,809)	$(36,818)	$(48,868)

Receivables From Sale of Stock

2.307

UNIVERSAL FOREST PRODUCTS, INC. (DEC)

(In thousands, except share data)	2006	2005
Shareholders' equity:		
Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none		
Common stock, no par value; shares authorized 40,000,000; issued and outstanding 18,858,892 and 18,402,648	$ 18,859	$ 18,403
Additional paid-in capital	113,754	97,372
Deferred stock compensation		4,212
Deferred stock compensation rabbi trust		(2,117)
Retained earnings	380,931	312,878
Accumulated other comprehensive earnings	2,451	2,408
	515,995	433,156
Employee stock notes receivable	(1,253)	(1,304)
Total shareholders' equity	$514,742	$431,852

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Employees' Stock Notes Receivable

Notes were obtained by us from certain officers for the purchase of our common stock. Interest on all of the outstanding notes range from fixed rates of five to eleven percent per annum and a variable rate of the prime rate less 10% (minimum 6%, maximum 12%). Each loan is evidenced by a promissory note from the participating officer, and is secured by all of the shares purchased with the loan proceeds. As of August 1, 2002, we no longer issue notes to executive officers under this program.

On March 31, 2006, we sold 3,222 shares of common stock to various employees in exchange for notes receivable totaling approximately $205,000. Interest on the note is fixed at 4.7% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

On March 31, 2005, we sold 1,605 shares of common stock to various employees in exchange for notes receivable totaling approximately $62,000. Interest on the note is fixed at 4.5% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

On March 31, 2004, we sold 195 shares of common stock to an employee in exchange for a note receivable totaling approximately $6,000. Interest on the the note is fixed at 4.8% per annum. The loan is evidenced by a promissory note from the participating employee, and is secured by all of the shares purchased with the loan proceeds.

All loans are recourse loans. On December 30, 2006, payments on the notes are due as follows (in thousands):

2007	$ 79
2008	97
2009	183
2010	204
2011	180
Thereafter	510
	$1,253

Stock Purchase Rights

2.308

H.B. FULLER COMPANY (NOV)

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

Note 9 (In Part): Stockholders' Equity

Shareholder Rights Plan

On July 13, 2006, the Board of Directors of the company approved a new shareholder rights plan. The shareholder rights plan provides each holder of a share of common stock a right to purchase one one-hundredth of a share of preferred stock for $95, subject to adjustment. No fraction of a preferred share (other than fractions in integral multiples of one one-hundredth of a share) will be issued. Preferred shares purchased upon exercise of the rights will not be redeemable. Each preferred share will be entitled to a preferential quarterly dividend payment, a preferential liquidation payment, voting rights, and participation in any merger, consolidation or other transaction in which common shares are exchanged. These rights are not currently exercisable. In the event any person becomes an Acquiring Person (as defined in the rights plan), each holder of a right will thereafter have a right to receive, upon exercise thereof at the then current aggregate exercise price, in lieu of preferred shares, such number of common shares of the company having a current aggregate market price equal to twice the current aggregate exercise price. In the event that at any time after there is an Acquiring Person the company is acquired in certain mergers or other business combination transactions or 50% or more of the assets or earning power of the company and its subsidiaries (taken as a whole) are sold, holders of the rights will thereafter have the right to receive, upon exercise thereof at the then current aggregate exercise price, such number of common shares of the acquiring company (or, in certain cases, one of its affiliates) having a current aggregate market price equal to twice the current aggregate exercise price. Rights held by an acquiring person are void. The company may redeem or exchange the rights in certain instances. Unless extended or redeemed, the rights expire on July 31, 2016.

Section 3: Income Statement

INCOME STATEMENT TITLE

3.01 Table 3-1 summarizes the key words used in statement of income titles. Many of the survey companies which used the term "operations" showed a net loss in one or more of the years presented in the statement of income.

3.02

TABLE 3-1: INCOME STATEMENT TITLE

	2006	2005	2004	2003
Income	260	255	255	242
Operations	252	254	251	261
Earnings	87	86	86	90
Other	1	5	8	7
Total Companies	**600**	**600**	**600**	**600**

INCOME STATEMENT FORMAT

3.03 Either a single-step form or a multi-step form is acceptable for preparing a statement of income. Table 3-2 shows that the survey companies presented a multi-step income statement more frequently than a single-step income statement.

3.04 Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, requires that comprehensive income and its components, as defined in the Statement, be reported in a financial statement. Comprehensive income and its components can be reported in an income statement, a separate statement of comprehensive income, or a statement of changes in stockholders' equity.

3.05 Examples of financial statement reporting comprehensive income and its components are presented in Section 4.

3.06 Occasionally the survey companies disclosed reclassifications of income statement amounts. Examples of such reclassifications follow.

3.07

TABLE 3-2: INCOME STATEMENT FORMAT

	2006	2005	2004	2003
Single-Step Form				
Income tax shown as separate last item	82	105	110	133
Income tax listed among operating items	—	—	—	—
Multi-Step Form				
Costs deducted from sales to show gross margin	294	279	270	256
Costs and expenses deducted from sales to show operating income	224	216	220	211
Total Companies	**600**	**600**	**600**	**600**

Reclassification

3.08

CHEMTURA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassifications

In the third quarter of 2006, the Company reclassified certain amounts relating to operations from other expense, net to SG&A, (gain) loss on sale of businesses, net and income related to the sale of Gustafson joint venture in the consolidated statements of operations. The items reclassified include (a) legacy Witco pension and other post-retirement benefit obligations related to businesses for which the Company has continuing involvement, (b) gain on the settlement of a contractual matter, (c) gains and losses on the sales of businesses which did not meet the criteria to be considered discontinued operations and (d) gains on the sale of equity method investments for which equity income had previously been reported within operating profit. Additionally, in the fourth quarter of 2006, the Company reclassified a gain relating to a government grant, which was reported in the first quarter of 2006, from other expense, net to SG&A. Although the Company properly classified these items within loss from continuing operations, the Company did not properly include these items as a component of operating profit in prior periods.

The following tables represent the effect of these reclassifications on prior period interim financial statements in 2006 and 2005. Additionally, the Company has provided the effect of all such reclassifications on previously reported financial statements for the years ended December 31, 2005 and

2004. The effect of the 2006 reclassification on the consolidated statements of operations for three, six and nine month periods of 2006 is as follows:

	Periods Ended in 2006		
(In thousands) (increase/(decrease)	Three Months March 31	Six Months June 30	Nine Months September 30
SG&A	$(4,170)	$(4,042)	$(4,300)
(Gain) loss on sale of business, net	—	12,475	—
Operating profit (loss)	$ 4,170	$(8,433)	$ 4,300
Other expense, net	$ 4,170	$(8,433)	$ 4,300

The effect of the 2006 reclassification on prior year annual consolidated statements of earnings is as follows:

(In thousands) (increase/(decrease))	2005	2004
SG&A	$ 2,726	$ 2,625
(Gain) loss on sale of businesses, net	(3,199)	(1,302)
Income related to sale of Gustafson joint venture	—	(93,448)
Operating profit	$ 473	$ 92,125
Other expense, net	$ 473	$ 92,125

These reclassifications had no impact on the Company's previously reported loss from continuing operations, earnings from discontinued operations, net loss or basic or diluted loss per share amounts. Additionally, the effect of these changes did not affect the Company's calculations under any debt covenants or for executive compensation plans.

3.09

WEIS MARKETS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

e) (In Part): Reclassifications

The company reclassified "Other income" as originally reported for the fiscal years ended December 31, 2005 and December 25, 2004 in the amount of $16.3 million and $13.8 million, respectively. Prior to the reclassification, "Other income" included net rental income, coupon-handling fees, store service commissions, cardboard salvage, gain or loss on the disposition of fixed assets and interest expense. The majority of items were reclassified as reductions of "Operating, general and administrative expenses." Items which related to distribution were reclassified as "Cost of sales, including warehousing and distribution expenses." An immaterial amount of interest expense was netted with "Investment income."

The following table summarizes the changes to originally reported amounts and subtotals in the 2005 and 2004 Consolidated Statements of Income:

(Dollars in thousands)	As Originally Reported 2005	As Reclassified 2005	As Originally Reported 2004	As Reclassified 2004
Net sales (not reclassified, for presentation only)	$2,222,598	$2,222,598	$2,097,712	$2,097,712
Cost of sales, including warehousing and distribution expenses	1,636,137	1,634,874	1,548,210	1,546,783
Gross profit on sales	586,461	587,724	549,502	550,929
Operating, general and administrative expenses	506,900	491,499	477,317	464,548
Income from operations	79,561	96,225	72,185	86,381
Investment income	3,408	3,081	1,617	1,222
Other income, net	16,337	—	13,801	—
Income before provision for income taxes (not reclassified, for presentation only)	$ 99,306	$ 99,306	$ 87,603	$ 87,603

REVENUES AND GAINS

3.10 Paragraphs 78 and 82 of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements*, define revenues and gains.

> 78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
>
> 82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

3.11 Table 3-3 summarizes the descriptive income statement captions used by the survey companies to describe revenue. Gains most frequently disclosed by the survey companies are listed in Table 3-4. Excluded from Table 3-4 are segment disposals, gains shown after the caption for income taxes (Table 3-17), and extraordinary gains (Table 3-18).

3.12 Examples of revenues and gains follow.

3.13

TABLE 3-3: REVENUE CAPTION TITLE

	2006	2005	2004	2003
Net Sales				
Net sales	259	263	273	285
Net sales and operating revenues	7	10	9	7
Net sales combined with other items	—	1	2	5
Sales				
Sales	71	78	73	76
Sales and operating revenues	12	12	13	14
Sales combined with other items	4	4	6	6
Sales and services	3	1	4	2
Other Captions				
Revenue	242	230	219	204
Shipments, rentals, fees, etc.	2	1	1	1
Total Companies	**600**	**600**	**600**	**600**

3.14

TABLE 3-4: GAINS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Interest	384	380	354	361
Sale of assets	232	224	198	199
Equity in earnings of investees	154	148	135	120
Change in fair value of derivatives	95	77	64	49
Foreign currency transactions	80	78	73	77
Dividends	78	64	63	53
Liability accrual reduced	59	73	73	68
Royalty, franchise and license fees	40	38	39	33
Insurance recoveries	39	24	19	17
Litigation settlements	24	28	38	33
Rentals	18	17	15	22
Employee benefit/pension related	10	3	1	—
Debt extinguishment	6	6	9	13

REVENUES

3.15

AVAYA INC. (SEP)

(Dollars in millions)	2006	2005	2004
Revenue			
Sales of products	$2,510	$2,294	$2,048
Services	2,002	1,971	1,761
Rental and managed services	636	637	260
	5,148	4,902	4,069
Costs			
Sales of products	1,168	1,049	928
Services	1,320	1,297	1,064
Rental and managed services	270	259	132
	2,758	2,605	2,124
Gross margin	$2,390	$2,297	$1,945

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

The Company derives revenue primarily from the sale and service of communications systems and applications. In accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"), revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectibility is reasonably assured, contractual obligations have been satisfied and title and risk of loss have been transferred to the customer.

The Company's products are sold directly through its worldwide sales force and indirectly through its global network of distributors, dealers, value-added resellers and system integrators. The purchase price of the Company's products typically includes installation and a warranty for up to one year. Revenue from the direct sales of products that

include installation services is recognized at the time the products are installed, after satisfaction of all the terms and conditions of the underlying customer contract. When the Company provides a combination of products and services to customers, the arrangement is evaluated under Emerging Issues Task Force Issue ("EITF") No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 addresses certain aspects of accounting by a vendor for arrangements under which the vendor will perform multiple revenue-generating activities.

The Company's indirect sales to distribution partners are generally recognized at the time of shipment if all contractual obligations have been satisfied. The Company accrues a provision for estimated sales returns and other allowances and deferrals relating to inventory levels held by distributors, promotional marketing programs, etc. as a reduction of revenue at the time of revenue recognition, as required by EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer" and SAB 104.

The Company also derives revenue from: (i) supplemental maintenance services, including services provided under contracts to monitor and optimize customers' communications network performance, and on a time-and-materials basis; (ii) professional services for implementation and integration of converged voice and data networks, network security and unified communications; and (iii) managed services provided to customers who have chosen bundled solutions and enhanced services not included in basic maintenance contracts for messaging and other parts of communications systems. Maintenance contracts typically have terms that range from one to five years. Contracts for professional services typically have terms that range from two to four weeks for standard solutions and from six months to one year for customized solutions. Contracts for managed services typically have terms that range from one to seven years. Revenue from services performed under managed services arrangements, professional services and services performed under maintenance contracts is accounted for in accordance with FASB Technical Bulletin No. 90-1 "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts," and is deferred and recognized ratably over the term of the underlying customer contract or at the end of the contract, when obligations have been satisfied. For services performed on a time and materials basis, revenue is recognized upon performance.

The Company also sells proprietary voice application software products. The Company recognizes revenue related to these sales in accordance with AICPA Statement of Position 97-2, "Software Revenue Recognition." In multiple element software arrangements, the Company allocates revenue to each element based on its relative fair value. The fair value of any undelivered element is determined using vendor-specific objective evidence ("VSOE") or, in the absence of VSOE for all elements, the residual method when VSOE exists for all of the undelivered elements. In the absence of fair value for a delivered element, the Company first allocates revenue based on VSOE of the undelivered elements and the residual revenue to the delivered elements. Where VSOE of the undelivered element cannot be determined, the Company defers revenue for the delivered elements until the undelivered elements are delivered.

3.16

AVERY DENNISON CORPORATION (DEC)

(In millions)	2006	2005	2004
Net sales	$5,575.9	$5,473.5	$5,317.0
Cost of products sold	4,047.5	3,997.3	3,890.4
Gross profit	1,528.4	1,476.2	1,426.6
Marketing, general and administrative expense	1,011.1	987.9	957.4
Interest expense	55.5	57.9	58.7
Other expense, net	36.2	63.6	35.2
Income from continuing operations before taxes	$ 425.6	$ 366.8	$ 375.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, and collection is reasonably assured. Furthermore, sales, provisions for estimated returns, and the cost of products sold are recorded at the time title transfers to customers and when the customers assume the risks and rewards of ownership. Sales terms are generally f.o.b. (free on board) shipping point or f.o.b. destination, depending upon local business customs. For most regions in which we operate, f.o.b. shipping point terms are utilized and sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. In certain regions, notably in Europe, f.o.b. destination terms are generally utilized and sales are recorded when the products are delivered to the customer's delivery site, because this is when title and risk of loss are transferred. Actual product returns are charged against estimated sales return allowances. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales.

3.17

ROCKWELL COLLINS, INC. (SEP)

(In millions)	2006	2005	2004
Sales:			
Product sales	$3,482	$3,072	$2,604
Service sales	381	373	326
Total sales	3,863	3,445	2,930
Costs, expenses and other:			
Product cost of sales	2,491	2,242	1,913
Service cost of sales	261	260	231
Selling, general and administrative expenses	441	402	356
Interest expense	13	11	8
Other income, net	(32)	(17)	(8)
Total costs, expenses and other	3,174	2,898	2,500
Income before income taxes	$ 689	$ 547	$ 430

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Revenue Recognition

The Company enters into sales arrangements that may provide for multiple deliverables to a customer. The Company identifies all goods and/or services that are to be delivered separately under a sales arrangement and allocates revenue to each deliverable based on relative fair values. Fair values are generally established based on the prices charged when sold separately by the Company. In general, revenues are separated between hardware, engineering services, maintenance services, and installation services. The allocated revenue for each deliverable is then recognized using appropriate revenue recognition methods.

Sales related to long-term contracts requiring development and delivery of products over several years are accounted for under the percentage-of-completion method of accounting under the American Institute of Certified Public Accountants' Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Sales and earnings under these contracts are recorded either as products are shipped under the units-of-delivery method (for production effort), or based on the ratio of actual costs incurred to total estimated costs expected to be incurred related to the contract under the cost-to-cost method (for development effort). Purchase options and change orders are accounted for either as an integral part of the original contract or separately depending upon the nature and value of the item. Sales and costs related to profitable purchase options are included in estimates only when the options are exercised while sales and costs related to unprofitable purchase options are included in estimates when exercise is determined to be probable. Sales related to change orders are included in estimates only if they can be reliably estimated and collectibility is reasonably assured. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. Changes in estimates of profit or loss on contracts are included in earnings on a cumulative basis in the period the estimate is changed.

Sales related to long-term separately priced product maintenance or warranty contracts are accounted for based on the terms of the underlying agreements. Certain contracts are fixed price contracts with sales recognized ratably over the contractual life, while other contracts have a fixed hourly rate with sales recognized based on actual labor or flight hours incurred. The cost of providing these services is expensed as incurred.

The Company recognizes sales for all other products or services when all of the following criteria are met: an agreement of sale exists, product delivery and acceptance has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured.

GAINS

Interest

3.18

COMPUTER SCIENCES CORPORATION (MAR)

(Dollars in millions)	2006	2005	2004
Revenues	$14,615.6	$14,058.6	$13,447.9
Costs of services	11,719.8	11,315.1	10,828.2
Selling, general and administrative	842.2	807.8	793.7
Depreciation and amortization	1,091.8	1,051.0	966.0
Interest expense	104.2	156.8	169.8
Interest income	(40.8)	(16.1)	(9.2)
Special items	77.3	28.6	22.7
Total costs and expenses	13,794.5	13,343.2	12,771.2
Income from continuing operations before taxes	$ 821.1	$ 715.4	$ 676.7

Sale of Assets

3.19

PHILLIPS-VAN HEUSEN CORPORATION (JAN)

(In thousands)	2006	2005	2004
Net sales	$1,849,172	$1,697,254	$1,460,235
Royalty revenues	182,336	158,804	136,185
Advertising and other revenues	59,140	52,790	45,008
Total revenues	2,090,648	1,908,848	1,641,428
Cost of goods sold	1,060,784	1,017,793	890,437
Gross profit	1,029,864	891,055	750,991
Selling, general and administrative expenses	796,601	684,209	621,855
Gain on sale of investments, net	32,043	—	743
Income before interest and taxes	$ 265,306	$ 206,846	$ 129,879

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

6 (In Part): Sale of Investments

On January 31, 2006, Warnaco, Inc. ("Warnaco") acquired 100% of the shares of the companies that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *ck Calvin Klein* bridge line of sportswear and accessories in Europe. The Company's Calvin Klein, Inc. subsidiary is the licensor of the businesses sold and had minority interests in certain of the entities sold. The Company accounted for the investment in these entities under the cost method and, as such, the investment had a carrying amount of $768 at the time of the sale. The Company received $32,811 in cash

proceeds from the sale of these entities, net of amounts held in escrow and associated fees. The cash proceeds are subject to adjustments, including adjustments based upon the determination of actual working capital as of the closing date. The sale resulted in a pre-tax gain of $32,043, which is net of related fees, amounts held in escrow and the carrying value of the investment. The Company's share of the cash proceeds being held in escrow totaled approximately $5,600 as of February 4, 2007, and represents security for indemnification of certain potential losses incurred by Warnaco, as well as other adjustments to the purchase price. The Company will be entitled to receive distributions of a portion of any amounts remaining in escrow in installments during 2007 and 2008. The Company will record the release of any escrow amounts as additional gains if and when such amounts are released to the Company.

In 2004, the Company sold an investment in marketable securities for $743.

Equity in Earnings of Investee

3.20

LENNOX INTERNATIONAL INC. (DEC)

(In millions)	2006	2005	2004
Net sales	$3,671.1	$3,366.2	$2,982.7
Cost of goods sold	2,515.9	2,258.2	1,985.2
Gross profit	1,155.2	1,108.0	997.5
Operating expenses:			
Selling, general and administrative expenses	973.2	916.6	835.2
(Gains), losses and other expenses, net	(45.7)	(50.2)	—
Restructuring charges	13.3	2.4	—
Goodwill impairment	—	—	208.0
Equity in earnings of unconsolidated affiliates	(8.0)	(14.2)	(9.1)
Operational income (loss) from continuing operations	$ 222.4	$ 253.4	$ (36.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Investments in Affiliates

Investments in affiliates in which the Company does not exercise control and has a 20% or more voting interest are accounted for using the equity method of accounting. If the fair value of an investment in an affiliate is below its carrying value and the difference is deemed to be other than temporary, the difference between the fair value and the carrying value is charged to earnings.

Investments in affiliated companies accounted for under the equity method consist of a 24.5% common stock ownership interest in Alliance Compressor LLC, a joint venture engaged in the manufacture and sale of compressors; a 50% common stock ownership in Frigus-Bohn S.A. de C.V., a Mexican joint venture that produces unit coolers and condensing units; and a 21.75% common stock ownership interest in Kulthorn Kirby Public Company Limited, a Thailand company engaged in the manufacture of compressors for refrigeration applications. The Company had been accounting for its investment in Kulthorn Kirby Public Company Limited as a marketable equity security investment prior to October 2004, when the Company purchased an additional 1.3% common stock interest for approximately $1.5 million. The Company has adjusted prior years information to reflect the change to equity accounting.

As of December 31, 2004, the Company held a 45% common stock ownership interest in Outokumpu Heatcraft, a joint venture engaged in the manufacture and sale of heat transfer components, primarily coils. The Company accounted for its investment in Outokumpu Heatcraft using the equity method. On June 7, 2005, the Company completed the sale of its 45% interest in the heat transfer joint venture to Outokumpu Copper Products OY of Finland ("Outokumpu") for $39.3 million pursuant to which it recorded a pre-tax gain of $9.3 million, which is included in (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations. In connection with the sale, the Company entered into an agreement with Outokumpu related to joint remediation of certain existing environmental matters. In conjunction with the new agreement, the Company updated its estimate of its portion of the on-going remediation costs and recorded expenses of $2.2 million for the year ended December 31, 2005.

The Company has recorded $8.0 million, $14.2 million and $9.1 million of equity in the earnings of these affiliates for the years ended December 31, 2006, 2005 and 2004, respectively, and has included these amounts in Equity in Earnings of Unconsolidated Affiliates in the accompanying Consolidated Statements of Operations. The carrying amount of investments in affiliates as of December 31, 2006 and 2005 is $52.4 million and $46.0 million, respectively, and is included in long-term Other Assets in the accompanying Consolidated Balance Sheets.

Change in Fair Value of Derivatives

3.21

SEQUA CORPORATION (DEC)

(Amounts in thousands)	2006	2005	2004
Sales	$2,183,816	$1,997,558	$1,864,063
Costs and expenses			
Cost of sales	1,804,807	1,626,744	1,538,448
Selling, general and administrative	250,103	249,771	245,742
	2,054,910	1,876,515	1,784,190
Operating income	128,906	121,043	79,873
Other income (expense)			
Interest expense	(72,843)	(72,293)	(72,037)
Interest income	8,178	5,146	4,183
Equity in income of unconsolidated joint ventures	19,420	15,592	9,767
Premium on redemption of Senior Notes	(4,343)	—	—
Other, net	4,480	(9,368)	(9,516)
	(45,108)	(60,923)	(67,603)
Income from continuing operations before income taxes	$ 83,798	$ 60,120	$ 12,270

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial Instruments

Derivative financial instruments are utilized to manage foreign exchange and natural gas price risks. Sequa has established a control environment which assigns senior executives, and in certain instances operational management, responsibility for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Sequa does not buy, hold or sell derivative financial instruments for trading purposes.

Gains and losses on short-term forward foreign exchange contracts and derivatives thereof, used by Sequa to manage its exposure to exchange rate fluctuations on certain recognized assets and liabilities denominated in a currency other than the functional currency, are recorded as offsets to the losses and gains reported in earnings upon remeasurement of such assets or liabilities into the functional currency. Gains and losses on short-term forward foreign exchange contracts used to hedge the fair value of certain firm sales commitments with third parties are recognized in earnings, as are the losses and gains on the related firm commitment.

Forward foreign exchange contracts and derivatives thereof are used to hedge the cash flows of certain forecasted sales and intercompany firm sales commitments. These contracts are primarily short term in nature with the maximum hedge period not exceeding two years. Gains and losses on these contracts, representing the effective portion of the hedging activity are reported in Accumulated Other Comprehensive Income. These deferred gains and losses are recognized in operating income in the period in which the sale is recognized. Gains and losses resulting from the ineffective portion of the hedging activity are included in the Consolidated Statement of Income in the period they occur. Other, net in the Consolidated Statement of Income includes income of $249,000 in 2006, $894,000 in 2005 and expense of $2,514,000 in 2004, related to the fair market valuation of forward foreign exchange contracts and derivatives thereof that did not qualify for cash flow hedge accounting.

Gains and losses on natural gas swaps that are highly effective in hedging the cash flow variability of certain anticipated purchases are deferred and included as a component of Accumulated Other Comprehensive Income until the purchase is consummated and the deferred gains and losses are recognized in operating income. At December 31, 2006, there was one natural gas swap agreement outstanding for 100,000 mmbtu which settled in January 2007. Gains and losses on the fair market value of natural gas swaps that do not qualify for hedge accounting are reported in earnings as a component of Other, net.

Note 20. Other, Net

Other, net includes the following income (expense) items:

(Amounts in thousands)	2006	2005	2004
Gain on sale of assets	$ 5,620	$ 1,407	$ 818
Gain on cash surrender value of corporate-owned life insurance	2,349	659	1,094
Gain on insurance proceeds	3,421	—	—
Amortization of capitalized debt issuance costs	(3,433)	(1,920)	(1,920)
Letters of credit and commitment fees	(1,918)	(1,322)	(1,416)
Minority interest	(1,436)	(2,589)	(2,788)
Loss on the sale of the TAD business	—	—	(2,563)
Losses on TAD business transferred under contractual arrangements	—	(6,195)	—
Fair market valuation of foreign exchange contracts not qualifying for cash flow hedge accounting	249	894	(2,514)
Discount expense on sale of receivables	—	(165)	—
Other	(372)	(137)	(227)
	$ 4,480	$(9,368)	$(9,516)

Foreign Currency Transactions

3.22

THE TORO COMPANY (OCT)

(Dollars in thousands)	2006	2005	2004
Net sales	$1,835,991	$1,779,387	$1,652,508
Cost of sales	1,192,675	1,164,021	1,059,438
Gross profit	643,316	615,366	593,070
Selling, general, and administrative expense	440,440	432,640	427,845
Earnings from operations	202,876	182,726	165,225
Interest expense	(17,672)	(17,733)	(15,523)
Other income, net	7,550	5,279	3,531
Earnings before income taxes	$ 192,754	$ 170,272	$ 153,233

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation and Transactions

The functional currency of the company's foreign operations is the applicable local currency. The functional currency is translated into U.S. dollars for balance sheet accounts using current exchange rates in effect as of the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the fiscal year. The translation adjustments are deferred as a separate component of stockholders' equity, captioned accumulated other comprehensive loss. Gains or losses resulting from transactions denominated in foreign currencies are included in other income, net in the consolidated statements of earnings.

3. Other Income, Net

Other income (expense) is as follows:

(Dollars in thousands)	2006	2005	2004
Interest income	$ 1,433	$1,519	$1,132
Gross finance charge revenue	2,557	2,991	3,266
Retail financing revenue	2,257	2,275	1,770
Royalty and licensing income	—	743	992
Foreign currency exchange rate gain (loss)	961	(791)	(1,198)
Loss on sale of businesses	—	(775)	(853)
Equity losses from investments	(1,559)	(1,468)	(781)
Litigation recovery (settlement)	862	65	(1,400)
Miscellaneous	1,039	720	603
Total	$ 7,550	$5,279	$3,531

Dividends

3.23

BRIGGS & STRATTON CORPORATION (JUN)

(In thousands, except per share data)	2006	2005	2004
Net sales	$2,542,171	$2,654,875	$1,947,364
Cost of goods sold	2,050,487	2,149,984	1,507,492
Gross profit	491,684	504,891	439,872
Engineering, selling, general and administrative expenses	315,718	314,123	205,663
Income from operations	175,966	190,768	234,209
Interest expense	(42,091)	(36,883)	(37,665)
Other income, net	18,491	20,430	8,460
Income before provision for income taxes	$ 152,366	$ 174,315	$ 205,004

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Investments

This caption represents the Company's investment in its 30% and 50% owned joint ventures and preferred stock in a privately held iron castings business. The investments in the joint ventures are accounted for under the equity method.

9. Other Income

The components of other income (expense) are as follows (in thousands):

	2006	2005	2004
Interest income	$ 2,856	$ 1,155	$2,970
Income on preferred stock	12,000	12,492	2,293
Equity in earnings from unconsolidated affiliates	4,174	5,289	5,583
Deferred financing costs	(1,708)	(1,233)	(3,778)
Other items	1,169	2,727	1,392
Total	$18,491	$20,430	$8,460

Liability Accruals Reduced

3.24

VIAD CORP (DEC)

(In thousands)	2006	2005	2004
Revenues:			
Convention show services	$612,598	$560,858	$ 535,527
Exhibit design and construction	164,173	191,463	182,670
Travel and recreation services	79,260	73,933	67,460
Total revenues	856,031	826,254	785,657
Costs and expenses:			
Costs of services	624,478	570,139	541,735
Costs of products sold	165,984	191,902	190,541
Business interruption insurance proceeds	(1,680)	—	—
Corporate activities	12,349	13,052	14,533
Gains on sale of corporate assets	(3,468)	—	—
Interest income	(7,949)	(3,935)	(1,225)
Interest expense	1,559	2,554	2,267
Restructuring charges (recoveries)	(215)	(743)	1,240
Goodwill impairment loss	—	—	80,408
Intangible asset impairment losses	4,560	—	8,291
Other impairment losses (recoveries)	(1,164)	843	—
Total costs and expenses	794,454	773,812	837,790
Income (loss) before income taxes and minority interests	$ 61,577	$ 52,442	$ (52,133)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Restructuring Charges and Recoveries

In 2004, Viad recorded restructuring charges of $853,000 primarily related to planned employee reductions as a result of the MoneyGram spin-off. As of December 31, 2005, all payments had been made and thus the remaining liability of $43,000 was reversed. Viad recorded an additional charge of $850,000 in 2004 as a result of the consolidation of certain leased office space at its corporate headquarters. Viad revised this estimated future obligation during 2006 and 2005 and recorded additional charges of $355,000 and $358,000, respectively. As of December 31, 2006, $1.2 million of the liability remained of which $246,000 was included in the consolidated balance sheets under the caption "Other current liabilities" and $986,000 under the caption "Other deferred items and liabilities."

In 2002, Viad approved a restructuring plan related to Exhibitgroup and recorded a charge totaling $20.5 million. The charge consisted of costs associated with the closure and consolidation of certain facilities, severance and other employee benefits and included a provision for the write-down (net of estimated proceeds) of certain inventories and fixed assets, facility closure and lease termination costs (less estimated sublease income) and other exit costs. Exhibitgroup reversed certain costs that are not expected to be incurred during 2006, 2005 and 2004 of $24,000, $283,000 and $123,000, respectively. In addition, 2005 includes an $87,000 non-cash adjustment to the liability. These amounts were included in the consolidated statements of operations under the caption "Restructuring charges (recoveries)." As of December 31, 2006, there was a remaining liability of $1.3 million, of which $275,000 and $1.0 million were included in the consolidated balance sheets under the captions "Other current liabilities" and "Other deferred items and liabilities," respectively. Viad had substantially completed the restructuring activities by December 31, 2003; however, payments due under the long-term lease obligations will continue to be made over the remaining terms of the lease agreements.

A summary of the change in the 2002 restructuring charge liability balance as of December 31, 2006 is as follows:

(In thousands)	Severance and Benefits	Facility Closure and Lease Termination	Total
Balance at January 1, 2004	$1,164	$ 6,132	$ 7,296
Cash payments	(678)	(4,047)	(4,725)
Adjustment to liability	—	(123)	(123)
Balance at December 31, 2004	486	1,962	2,448
Cash payments	(239)	(265)	(504)
Adjustment to liability	(247)	(123)	(370)
Balance at December 31, 2005	—	1,574	1,574
Cash payments	—	(273)	(273)
Adjustment to liability	—	(24)	(24)
Balance at December 31, 2006	$ —	$ 1,277	$ 1,277

In 2001, Viad approved a plan of restructuring and recorded a charge totaling $65.1 million associated with the closure and consolidation of certain facilities, severance and other employee benefits. As of December 31, 2006, a liability remained of $7.4 million, of which $1.3 million and $6.1 million were included in the consolidated balance sheets under the captions "Other current liabilities" and "Other deferred items and liabilities," respectively. Included in the "Adjustment to liability" amounts in 2006 and 2005 were $546,000 and $775,000, respectively, of certain facilities costs that are not expected to be incurred (the 2005 amount is offset by a $118,000 non-cash adjustment to the liability). Payments due under the long-term lease obligations will continue to be made over the remaining terms of the lease agreements.

A summary of the change in the 2001 restructuring charge liability balance as of December 31, 2006 is as follows:

(In thousands)	Severance and Benefits	Facility Closure and Lease Termination	Total
Balance at January 1, 2004	$ 276	$13,413	$13,689
Cash payments	(276)	(2,626)	(2,902)
Non-cash adjustment	—	739	739
Balance at December 31, 2004	—	11,526	11,526
Cash payments	—	(1,883)	(1,883)
Adjustment to liability	—	(657)	(657)
Balance at December 31, 2005	—	8,986	8,986
Cash payments	—	(1,028)	(1,028)
Adjustment to liability	—	(546)	(546)
Balance at December 31, 2006	$ —	$ 7,412	$ 7,412

Royalty, Franchise and License Fees

3.25

SEALY CORPORATION (NOV)

(In thousands)	2006	2005	2004
Net sales—Non-affiliates	$1,582,843	$1,469,574	$1,306,990
Net sales—Affiliates	—	—	7,030
Total net sales	1,582,843	1,469,574	1,314,020
Cost and expenses:			
Cost of goods sold—Non-affiliates	874,927	817,978	736,074
Cost of goods sold—Affiliates	—	—	4,035
Total cost of goods sold	874,927	817,978	740,109
Gross profit	707,916	651,596	573,911
Selling, general and administrative (including provisions for bad debts of $2,705; $3,231 and $3,149, respectively)	499,614	456,281	430,883
Expenses associated with initial public offering of common stock	28,510	—	—
Recapitalization expense	—	—	133,134
Plant closing and restructuring charges	—	—	624
Amortization of intangibles	5,707	566	1,208
Royalty income, net of royalty expense	(18,855)	(13,220)	(14,171)
Income from operations	$ 192,940	$ 207,969	$ 22,233

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Royalty Income and Expense

The Company recognizes royalty income based on sales of Sealy, Stearns and Foster, and Bassett branded product by various licensees. The Company recognized gross royalty income of $19.2 million, $16.0 million and $15.6 million in fiscal 2006, 2005 and 2004, respectively. The Company also pays royalties to other entities for the use of their names on product produced by the Company. The Company recognized royalty expense of $.4 million, $2.8 million and $1.4 million in fiscal 2006, 2005 and 2004, respectively.

Insurance Recoveries

3.26

GLOBALSANTAFE CORPORATION (DEC)

($ in millions)	2006	2005	2004
Revenues:			
Contract drilling	$2,540.2	$1,640.2	$1,176.9
Drilling management services	718.8	566.6	515.2
Oil and gas	53.6	56.7	31.6
Total revenues	3,312.6	2,263.5	1,723.7
Expenses and other operating items:			
Contract drilling	1,206.3	935.3	811.5
Drilling management services	707.2	535.3	508.5
Oil and gas	17.1	14.8	7.2
Depreciation, depletion and amortization	304.7	275.3	256.8
Involuntary conversion of long-lived assets, net of related recoveries and loss of hire recoveries	(116.5)	6.2	(24.0)
Gain on sale of assets	—	(28.0)	(27.8)
Impairment loss on long-lived assets	—	—	1.2
General and administrative	84.0	60.2	56.5
Total expenses and other operating items	2,202.8	1,799.1	1,589.9
Operating income	$1,109.8	$ 464.4	$ 133.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Involuntary Conversion of Long-Lived Assets and Related Recoveries

During the third quarter of 2005, a number of our rigs were damaged as a result of hurricanes Katrina and Rita. All these rigs returned to work with the exception of the *GSF High Island III* and the *GSF Adriatic VII*. During the second quarter of 2006, we recorded gains of $32.8 million on the *GSF High Island III* and $30.9 million on the *GSF Adriatic VII*, which represent expected recoveries of partial losses under our

insurance policy, less amounts previously recognized when the rigs were written down to salvage value. These amounts were collected in the third quarter of 2006. In December 2006, we sold the *GSF Adriatic VII* to a third party for a net purchase price of approximately $29.4 million, net of selling costs, and recorded a gain of $28 million, which represents the selling price less the $1.4 million salvage value. In addition, we increased the gain recognized in the second quarter of 2006 related to the *GSF Adriatic VII* by $3.2 million to include additional costs reimbursable under the insurance policy. We collected the $29.4 million during the fourth quarter of 2006. Subsequent to December 31, 2006 we entered into a contract to sell the *GSF High Island III* to a third party for approximately $26.3 million and expect to complete the sale during the first quarter of 2007. Any gain recorded on the sale will be equal to the proceeds from the sale, net of expenses, less the rig salvage value of $1.2 million. As of December 31, 2006, we have collected a total of $138.7 million in insurance recoveries and proceeds from the rig sale related to hurricanes Katrina and Rita, including the amounts collected on the *GSF High Island III* and the *GSF Adriatic VII* discussed above.

All of the rigs that were damaged in the hurricanes were covered for physical damage under the hull and machinery provision of our insurance policy, which carried a deductible of $10 million per occurrence. In addition, three rigs damaged in Hurricane Katrina, the *GSF Arctic I*, the *GSF Development Driller I*, and *GSF Development Driller II*, were covered by loss of hire insurance under which we are reimbursed for 100 percent of their contracted dayrate for up to a maximum of 270 days following 60 days (the “waiting period”) of lost revenue.

Our insurance policy provided that if claims for a single event are filed under both the hull and machinery and loss of hire sections of the policy, we would bear only a single deductible from that occurrence of no more than the highest deductible from any individual section. Hurricanes Katrina and Rita are each considered to be a separate occurrence. Based on remediations completed for the three rigs covered under the loss of hire insurance, the amount of revenue we lost during the waiting period was higher than the $10 million hull and machinery deductible. Therefore, the 60-day waiting period under our loss of hire insurance will serve as the only deductible for the Hurricane Katrina event. The application of the 60-day waiting period provision with regard to the *GSF Development Driller I*, the only rig that was still out of service after the 60-day waiting period, is complicated by the fact that at the time of the hurricane, the rig was undergoing thruster remediations and, accordingly, we had already put our underwriters on notice as to a claim under the loss of hire section of the policy. As discussed in Note 6 of Notes to Consolidated Financial Statements—“Commitments and Contingencies,” we recorded $21.6 million for loss of hire recoveries in the first half of 2006 with respect to the *GSF Development Driller I*. None of the jackup rigs damaged during Hurricane Rita was insured for loss of hire and, therefore, a single $10 million hull and machinery deductible applied for damage to the rigs caused by Hurricane Rita and was recognized as a loss in the third quarter of 2005.

A summary of the effects that the estimates of rig damages and estimated insurance recoveries had on our financial statements for the periods indicated are as follows:

(In millions)	2005	2006	Cumulative to Date
Amounts affecting income statement:			
Effects of estimated rig damage:			
Estimated recoveries	$ 117.0	$ 94.9	$ 211.9
Losses recognized	(127.0)	—	(127.0)
Net effect of rig damage—gain (loss)	(10.0)	94.9	84.9
Estimated insurance recoveries—loss of hire	3.8	21.6	25.4
Net pretax gain (loss)	$ (6.2)	$ 116.5	$ 110.3
Amounts affecting balance sheet:			
Accounts receivable from insurers, balance at beginning of period	$ —	$ 120.8	$ —
Additions	120.8	123.6	244.4
Collections	—	(109.3)	(109.3)
Accounts receivable from insurers attributable to hurricanes, balance at end of period	120.8	135.1	135.1
Add: Other receivables from insurers, at end of period	2.8	3.8	3.8
Total accounts receivable from insurers, as reported, at end of period	$ 123.6	$ 138.9	$ 138.9

Additions to accounts receivable from insurers in the table above includes additions due to revised estimates of rig damages and anticipated loss of hire recoveries, both of which affected pretax income as shown in the table. Capital costs incurred to remediate damage to the rigs were added to the capitalized value of the rigs. Also included in additions to accounts receivable from insurers for 2006 in the table above are anticipated reimbursements for cash outlays to salvage the *GSF High Island III* and the *GSF Adriatic VII*, necessitated by the significant damage suffered by those rigs during Hurricane Rita, which did not affect pretax income, totaling $35.2 million for 2006.

In August 2004, the jackup *GSF Adriatic IV* encountered well control problems, caught fire and sank while drilling in the Mediterranean Sea off the coast of Egypt. All of our personnel on board the rig were evacuated safely, although the rig was a total loss. We received insurance proceeds totaling $40.0 million, net of our deductible, and recorded a gain of $24.0 million, net of taxes, in the third quarter of 2004.

Note 6 (In Part): Commitments and Contingencies

Capital Commitments (In Part)

During the second quarter of 2005, we discovered a defect and resulting damage in the thruster nozzles on our two new ultra-deepwater semisubmersibles, the *GSF Development Driller I* and *GSF Development Driller II*. Both rigs were being remediated for the thruster defect and resulting damage

when they sustained additional damage as a result of Hurricane Katrina. This additional damage further delayed the start of the initial drilling contracts for the *GSF Development Driller I* and the *GSF Development Driller II*. Remediations of the *GSF Development Driller II* were completed and the rig went on contract in November 2005. The thruster defect and damage from Hurricane Katrina further delayed the start of the initial drilling contract for the *GSF Development Driller I* until June 2006.

We have made claims under our hull and machinery and loss of hire insurance for the *GSF Development Driller I* and *GSF Development Driller II* for the periods required to remediate the damage arising from both the thruster defect and Hurricane Katrina. Under our loss of hire insurance, we are entitled to reimbursement for our full dayrate for up to 270 days after a 60-day waiting period. Significant unresolved issues remain as to the proper application of the loss of hire waiting period, which could lead to substantial differences in the amount of the loss of hire recovery. The underwriters have formally reserved their rights to decline coverage for the thruster damage claims on the rigs in respect of both the hull and machinery and loss of hire coverage. As of December 31, 2006, we have recorded estimated loss of hire insurance recoveries equal to $25.4 million ($3.8 million in 2005 and $21.6 million in 2006) with respect to the *GSF Development Driller I*, which is the amount we deem to be probable under the assumption that the rig will bear two consecutive 60-day waiting periods, one for the thruster damage claim and one for the hurricane damage claim. The *GSF Development Driller II* was not out of service longer than the combined 120-day waiting period and therefore no loss of hire recoveries have been recorded for this rig. When the loss of hire claims are resolved with the underwriters, the amount of loss of hire recoveries could be different than the amount currently recorded.

Litigation Settlements

3.27

SUN MICROSYSTEMS, INC. (JUN)

(In millions)	2006	2005	2004
Net revenues:			
Products	$ 8,371	$ 7,126	$ 7,355
Services	4,697	3,944	3,830
Total net revenues	13,068	11,070	11,185
Cost of sales:			
Cost of sales—products, including stock-based compensation expense of $10	4,827	4,174	4,290
Cost of sales—services, including stock-based compensation expense of $29	2,612	2,307	2,379
Total cost of sales	7,439	6,481	6,669
Gross margin	5,629	4,589	4,516
Operating expenses:			
Research and development, including stock-based compensation expense of $74	2,046	1,785	1,926
Selling, general and administrative, including stock-based compensation expense of $112	4,039	2,919	3,317
Restructuring and related impairment of long-lived assets	284	262	344
Impairment of goodwill and other intangible assets	70	—	49
Purchased in-process research and development	60	—	70
Total operating expenses	6,499	4,966	5,706
Operating loss	(870)	(377)	(1,190)
Gain (loss) on equity investments, net	27	6	(64)
Interest and other income, net	114	133	94
Settlement income	54	54	1,597
Income (loss) before income taxes	$ (675)	$ (184)	$ 437

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Settlement Income

On March 8, 2002, we filed suit against Microsoft Corporation (Microsoft) in the United States District Court for the Northern District of California, pursuant to United States and State of California antitrust and other laws. In our complaint and as modified in subsequent filings, we alleged that Microsoft had engaged in illegal conduct, including efforts to acquire, maintain and expand a number of illegal monopolies; illegal tying arrangements; illegal exclusive dealings; copyright infringement; unreasonable restraints of trade; and unfair competition. In February 2003, Microsoft filed four counterclaims against Sun alleging unfair competition and breach of a settlement agreement regarding our Java technology. The presiding judge dismissed two of those counterclaims.

On April 1, 2004, Sun and Microsoft entered into several agreements including an agreement to settle all pending

litigation between the two companies. Pursuant to the settlement agreement, Sun agreed to dismiss its litigation against Microsoft with prejudice and agreed to not initiate further steps to participate in the proceedings pending against Microsoft instituted by the Commission of the European Communities, and each party entered into a release of claims with respect to such matters. Microsoft also agreed to pay to Sun the amount of $700 million under this settlement agreement.

Pursuant to a patent covenant and stand-still agreement, the parties agreed not to sue each other for past damages for patent infringement with respect to the other party's products and technologies (the Covenant Not to Sue for Damages). Each year until 2014, Microsoft has the option of extending the Covenant Not to Sue for Damages to apply to the preceding year in exchange for an annual extension payment, so long as Microsoft has made all previous annual extension payments and so long as Microsoft has not sued Sun or authorized licensees of its commercial products for patent infringement prior to such time. At the end of the ten-year term, if Microsoft has made all such payments and not brought any such suits, then each party will automatically grant to the other party irrevocable, non-exclusive, perpetual licenses under all of its patents and patent applications existing at the end of such period in order to allow such other party to continue to commercialize its products shipping at the end of such period and any related successor products. In addition, the parties agreed, for a period of six months, not to bring any patent infringement suit (including a suit for injunctive relief) against the other party or authorized licensees of its commercial products relating to such other party's products. Microsoft also agreed to pay to Sun the amount of $900 million under this patent covenant and standstill agreement.

Pursuant to a technical collaboration agreement, each party agreed to provide the other party with access to aspects of its desktop and server-based technology for use in developing interoperable server products. Microsoft also agreed to pay to Sun the amount of $350 million as a prepaid nonrefundable royalty under this technical collaboration agreement.

Based on the agreements with Microsoft described above, we recognized $54 million, $54 million and $1,597 million in settlement income during fiscal 2006, 2005 and 2004, respectively, and deferred $350 million in fiscal 2004 as other non-current obligations until the earlier of usage of the royalties by Microsoft or such time as all our obligations have been met. In fiscal 2004, we also deferred $3 million in connection with our obligation to provide technical support under the terms of the technical collaboration agreement, which is being recognized to income over the 10 year term of the agreement.

Rentals

3.28

BJ SERVICES COMPANY (SEP)

(In thousands)	2006	2005	2004
Revenue	$4,367,864	$3,243,186	$2,600,986
Operating expenses:			
Cost of sales and services	2,895,749	2,334,198	1,951,022
Research and engineering	63,875	54,197	47,287
Marketing	103,319	92,255	82,105
General and administrative	132,011	111,285	78,978
Loss on long-lived assets	1,174	14,192	3,209
Total operating expenses	3,196,128	2,606,127	2,162,601
Operating income	1,171,736	637,059	438,385
Interest expense	(14,558)	(10,951)	(16,389)
Interest income	14,916	11,281	6,073
Other (expense) income, net	(11)	15,958	92,668
Income before income taxes	$1,172,083	$ 653,347	$ 520,737

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Our revenue is composed of product sales, rental, service and other revenue. Products, rentals, and services are generally sold based on fixed or determinable priced purchase orders or contracts with the customer and do not include the right of return. We recognize revenue from product sales when title passes to the customer, the customer assumes risks and rewards of ownership, and collectibility is reasonably assured. Rental, service and other revenue is recognized when the services are provided and collectibility is reasonably assured.

12 (In Part): Supplemental Financial Information

Other (expense) income, net for the years ended September 30 is summarized as follows (in thousands):

	2006	2005	2004
Rental income	$ 620	$ 159	$ 214
Minority interest	(3,970)	(3,725)	(2,286)
Non-operating net foreign exchange gain/(loss)	(1,800)	746	(146)
Gain on insurance recovery	1,099	239	272
Gain (loss) from equity method investments	432	1,546	(6,605)
Refund of indirect taxes	—	85	705
Halliburton award	—	—	86,413
Recovery of misappropriated funds	2,791	9,020	—
Reversal of excess liabilities in Asia Pacific	—	9,484	12,206
Other, net	817	(1,596)	1,895
Other (expense) income, net	$ (11)	$15,958	$92,668

Employee Benefit/Pension Related

3.29

ANDREW CORPORATION (SEP)

(In thousands)	2006	2005	2004
Sales	$2,146,093	$1,961,234	$1,828,362
Cost of products sold	1,672,714	1,524,446	1,385,087
Gross profit	473,379	436,788	443,275
Operating expenses			
Research and development	112,985	107,850	110,245
Sales and administrative	255,210	222,830	217,591
Merger costs	13,476	—	—
Pension termination gain	(14,228)	—	—
Intangible amortization	19,011	22,100	37,583
Restructuring	7,729	5,304	11,132
Asset impairment	3,874	—	—
(Gain) loss on sale of assets	(8,008)	1,202	10,164
	390,049	359,286	386,715
Operating income	$ 83,330	$ 77,502	$ 56,560

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Benefit Plans

Allen Telecom Plan and Other Plans

With the acquisition of Allen Telecom on July 15, 2003, the company assumed the Allen noncontributory defined benefit plan as well as supplemental pension benefit, post-retirement medical and life insurance plans. The Allen defined benefit pension plan was frozen following the completion of the acquisition and covered the majority of the full-time domestic salaried and hourly employees of the former Allen Telecom. At the time this plan was frozen, the pension benefit provided to salaried employees was based on years of service and compensation for up to a ten-year period prior to the date the plan was frozen, while the benefit provided to hourly employees was based on specified amounts for each year of service prior to the date the plan was frozen.

In fiscal 2005 the company initiated the process of terminating the frozen defined benefit plan assumed as part of the Allen Telecom acquisition. The company fully funded and terminated the plan during fiscal 2006 when the company purchased from John Hancock Life Insurance Company ("John Hancock") a non-participating group annuity contract for all participants of the Allen Telecom Plan and John Hancock assumed the full responsibility for all benefit obligations of the Allen Telecom Plan. The company made additional contributions of $9.5 million to fully fund the plan and recognized a gain of $14.2 million when the plan was terminated. The remaining pension benefit obligations as of September 30, 2006 are related to the individual employment contracts for certain former executives of Allen Telecom.

Debt Extinguishment

3.30

VISTEON CORPORATION (DEC)

(Dollars in millions)	2006	2005	2004
Net sales			
Products	$10,871	$16,812	$18,657
Services	547	164	—
	11,418	16,976	18,657
Cost of sales			
Products	10,142	16,279	17,769
Services	542	163	—
	10,684	16,442	17,769
Gross margin	734	534	888
Selling, general and administrative expenses	716	946	980
Restructuring expenses	95	26	82
Reimbursement from Escrow Account	106	51	—
Impairment of long-lived assets	22	1,511	314
Gain on ACH Transactions	—	1,832	—
Operating income (loss)	7	(66)	(488)
Interest expense	190	156	104
Interest income	31	24	19
Debt extinguishment gain/(loss)	8	—	(11)
Equity in net income of non-consolidated affiliates	33	25	45
Loss before income taxes, minority interests, change in accounting and extraordinary item	$ (111)	$ (173)	$ (539)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Debt

The Company had $100 million and $2,128 million of outstanding short-term debt and long-term debt, respectively, at December 31, 2006. Short-term debt and long-term debt at December 31, including the fair market value of related interest rate swaps, was as follows:

		Weighted Average Interest Rate		Carrying Value	
(Dollars in millions)	Maturity	2006	2005	2006	2005
Short-term debt					
Revolving credit		—	8.5%	$ —	$ 347
Current portion of long-term debt		6.3%	4.3%	39	31
Other—short-term		6.3%	5.8%	61	107
Total short-term debt				100	485
Long-term debt					
Five-year term loan retired June 13, 2006		—	6.3%	—	241
8.25% notes due August 1, 2010	2010	8.4%	8.1%	550	701
Seven-year term loan due June 13, 2013	2013	8.5%	—	1,000	—
7.00% notes due March 10, 2014	2014	7.4%	6.5%	439	442
Other	2008–2025	5.4%	4.9%	139	125
Total long-term debt				2,128	1,509
Total debt				$2,228	$1,994

2006 Debt Transactions

On January 9, 2006 the Company closed on an 18-month secured term loan (the "18-Month Term Loan") in the amount of $350 million to replace the Company's $300 million secured short-term revolving credit agreement that expired on December 15, 2005. The 18-Month Term Loan was made a part of the Company's existing Five-Year Revolving Credit Facility agreement, which was to expire in June 2007.

On June 13, 2006 the Company entered into a credit agreement with a syndicate of third-party lenders to provide for an $800 million seven-year secured term loan. The proceeds from that loan were used to repay borrowings and interest under the $350 million 18-Month Term Loan, the $241 million five-year term loan, and amounts outstanding under the Five-Year Revolving Credit Facility. Subsequent to closing on the new term loan, the Company initiated open market purchases of its 8.25% notes due 2010. The Company purchased $150 million of the 8.25% notes at an all-in weighted cost of 94.16% of par, resulting in a gain on early extinguishment of approximately $8 million.

EXPENSES AND LOSSES

3.31 Paragraphs 80 and 83 of FASB *SFAC No. 6* define expenses and losses.

> 80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
>
> 83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

3.32 Table 3–5 reveals that most of the survey companies show a single caption and amount for cost of goods sold. Table 3–6 summarizes the nature of expenses, other than cost of goods sold. Excluded from Table 3–6 are rent (Table 2–30), employee benefits, depreciation (Table 3–14), and income taxes (Table 3–15). Table 3–7 lists losses most frequently disclosed by the survey companies. Excluded from Table 3–7 are losses shown after the caption for income taxes (Table 3–17), segment disposals, and extraordinary losses (Table 3–18).

3.33 Examples of expenses and losses follow.

3.34

TABLE 3-5: EXPENSES—COST OF GOODS SOLD CAPTIONS

	2006	2005	2004	2003
Single Amount				
Cost of sales	219	214	217	230
Cost of goods sold	92	90	91	95
Cost of products sold	72	68	73	74
Cost of revenues	38	33	33	38
Elements of cost	11	10	8	4
Other captions	79	98	107	102
	511	**513**	**529**	**543**
More than one amount	89	87	71	57
Total Companies	**600**	**600**	**600**	**600**

3.35

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	2006	2005	2004	2003
Selling, general and administrative	348	347	345	344
Selling and administrative	107	104	109	110
General and/or administrative	109	112	101	103
Selling	39	45	38	37
Interest	548	540	549	543
Research, development, engineering, etc.	289	294	296	302
Advertising	209	220	215	207
Warranty	137	103	52	N/C*
Provision for doubtful accounts	116	99	82	54
Shipping	61	65	72	59
Taxes other than income taxes	19	20	21	19
Maintenance and repairs	13	16	14	10
Exploration, dry holes, abandonments	10	10	14	14

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

3.36

TABLE 3-7: LOSSES

	Number of Companies			
	2006	2005	2004	2003
Intangible asset amortization	296	323	249	205
Restructuring of operations	238	249	227	219
Write-down of assets	197	211	194	205
Foreign currency transactions	95	97	101	82
Change in fair value of derivatives	86	54	60	55
Impairment of intangibles	83	72	62	72
Litigation settlements	69	59	60	47
Sale of assets	66	73	71	80
Debt extinguishment	65	77	84	59
Minority interests	57	57	58	54
Environmental cleanup	47	36	33	23
Sale of receivables	41	25	36	32
Equity in losses of investees	24	28	31	50
Purchased R&D	21	20	18	14
Merger costs	16	16	14	12
Royalties	16	13	13	9
Start-up costs	10	11	7	6
Distributions on preferred securities of subsidiary trust	1	2	6	4

EXPENSES

Cost of Goods Sold

3.37

DEL MONTE FOODS COMPANY (APR)

(In millions)	2006	2005	2004
Net sales	$2,998.6	$2,899.3	$2,856.3
Cost of products sold	2,213.9	2,155.5	2,085.9
Gross profit	$ 784.7	$ 743.8	$ 770.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

Note 2 (In Part): Significant Accounting Policies

Trade Promotions

Accruals for trade promotions are recorded primarily at the time a product is sold to the customer based on expected levels of performance. Settlement of these liabilities typically occurs in subsequent periods primarily through an authorized process for deductions taken by a customer from amounts otherwise due to the Company. Deductions are offset against related trade promotion accruals. Evaluations of the trade promotion liability are performed monthly and adjustments are made where appropriate to reflect changes in the Company's estimates. Trade promotion expense is recorded as a reduction to net sales.

Cost of Products Sold

Cost of products sold represents expenses incurred that are directly connected with bringing the products to a salable condition. These costs include raw material, packaging, labor, certain transportation and warehousing costs and overhead expenses.

3.38

RITE AID CORPORATION (FEB)

(In thousands)	2006	2005	2004
Revenues	$17,270,968	$16,816,439	$16,600,449
Costs and expenses:			
Cost of goods sold	12,571,860	12,202,894	12,163,735
Selling, general and administrative expenses	4,307,421	4,127,536	4,029,220
Store closing and impairment charges	68,692	35,655	22,074
Interest expense	277,017	294,871	313,498
Loss on debt modifications and retirements, net	9,186	19,229	35,315
(Gain) loss on sale of assets and investments, net	(6,462)	2,247	2,023
	17,227,714	16,682,432	16,565,865
Income before income taxes	$ 43,254	$ 134,007	$ 34,584

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Cost of Goods Sold

Cost of goods sold includes the following: the cost of inventory sold during the period, including related vendor rebates and allowances, costs incurred to return merchandise to vendors, inventory shrink costs, purchasing costs and warehousing costs which include inbound freight costs from the vendor, distribution payroll and benefit costs, distribution center occupancy costs and depreciation expense and delivery expenses to the stores.

Research and Development

3.39

AMERON INTERNATIONAL CORPORATION (NOV)

(Dollars in thousands)	2006	2005	2004
Sales	$ 549,180	$ 494,767	$ 406,230
Cost of sales	(416,791)	(369,557)	(314,021)
Gross profit	132,389	125,210	92,209
Selling, general and administrative expenses	(94,689)	(90,283)	(83,553)
Pension plan curtailment/settlement	—	—	(12,817)
Other income, net	11,397	2,137	14,832
Income from continuing operations before interest, income taxes and equity in earnings of joint venture	$ 49,097	$ 37,064	$ 10,671

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Research and Development Costs

Research and development costs, which relate primarily to the development, design and testing of products, are expensed as incurred. Such costs, which are included in selling, general and administrative expenses, were $5,790,000 in 2006, $4,567,000 in 2005, and $3,667,000 in 2004.

3.40

WYETH (DEC)

(In thousands)	2006	2005	2004
Net revenue	$20,350,655	$18,755,790	$17,358,028
Cost of goods sold	5,587,851	5,431,200	4,947,269
Selling, general and administrative expenses	6,501,976	6,117,706	5,799,791
Research and development expenses	3,109,060	2,749,390	2,460,610
Interest (income) expense, net	(6,646)	74,756	110,305
Other income, net	(271,490)	(397,851)	(330,100)
Diet drug litigation charges	—	—	4,500,000
Income (loss) before income taxes	$ 5,429,904	$ 4,780,589	$ (129,847)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Research and Development Expenses

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with research and development collaborations are expensed as incurred up to the point of regulatory approval. Mileston payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the respective intangible asset. Amounts capitalized for such payments are included in *Other intangibles, net of accumulated amortization*.

Advertising

3.41

ADMINISTAFF, INC. (DEC)

(In thousands)	2006	2005	2004
Revenues (gross billings of $8.055 billion, $6.633 billion and $5.377 billion less worksite employee payroll cost of $6.666 billion, $5.463 billion, and $4.407 billion, respectively)	$1,389,464	$1,169,612	$969,527
Direct costs:			
Payroll taxes, benefits and workers' compensation costs	1,106,735	933,856	771,833
Gross profit	282,729	235,756	197,694
Operating expenses:			
Salaries, wages and payroll taxes	119,963	99,562	88,298
Stock-based compensation	3,411	2,079	—
General and administrative expenses	57,409	52,960	49,283
Commissions	10,968	10,121	10,447
Advertising	13,975	12,100	10,021
Depreciation and amortization	15,438	15,167	17,514
	221,164	191,989	175,563
Operating income	$ 61,565	$ 43,767	$ 22,131

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Advertising

The Company expenses all advertising costs as incurred.

Warranty

3.42

HOVNANIAN ENTERPRISES, INC. (OCT)

(In thousands)	2006	2005	2004
Revenues:			
Homebuilding:			
Sale of homes	$5,903,387	$5,177,655	$4,082,263
Land sales and other revenues	155,250	98,391	11,339
Total homebuilding	6,058,637	5,276,046	4,093,602
Financial services	89,598	72,371	60,288
Total revenues	6,148,235	5,348,417	4,153,890
Expenses:			
Homebuilding:			
Cost of sales, excluding interest	4,633,081	3,865,125	3,044,274
Cost of sales interest	108,329	86,819	73,423
Inventory impairment loss and land option write-offs	336,204	5,360	6,990
Total cost of sales	5,077,614	3,957,304	3,124,687
Selling, general and administrative	593,860	441,943	330,583
Total homebuilding expenses	5,671,474	4,399,247	3,455,270
Financial services	58,586	48,347	34,782
Corporate general and administrative	96,781	90,628	63,423
Other interest	3,615	2,902	1,619
Expenses related to extinguishment of debt			9,597
Other operations	45,237	15,663	15,295
Intangible amortization	54,821	46,084	28,923
Total expenses	5,930,514	4,602,871	3,608,909
Income from unconsolidated joint ventures	15,385	35,039	4,791
Income before income taxes	$ 233,106	$ 780,585	$ 549,772

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Summary of Significant Accounting Policies

Warranty Costs

Based upon historical experience, we accrue warranty costs as part of cost of sales for repair costs over $1,000 to homes, community amenities and land development infrastructure. Repair costs under $1,000 per occurrence are expensed as incurred. In addition, we accrue for warranty costs under our general liability insurance deductible as part of Selling, general and administrative costs. As previously stated, the deductible for our general liability insurance for homes delivered in fiscal 2006 was $20 million per occurrence with an aggregate $20 million for premise liability claims, and an aggregate $21.5 million for construction defect claims. See Note 16 for further detail on warranty costs.

16 (In Part): Warranty Costs

We provide a warranty accrual for warranty costs over $1,000 to homes, community amenities, and land development infrastructure. Repair costs under $1,000 per occurence are expensed as incurred. We accrue for warranty costs not covered by our global liability insurance at the time each home is closed and title and possession have been transferred to the homebuyer as part of cost of sales. In addition, we accrue for warranty costs under our general liability insurance deductible and for our recently introduced owner controlled insurance program that we offer to certain subcontractors as part of selling, general and administrative costs. Changes in the warranty accrual and general liability reserve for the years ended October 31, 2006 and 2005 are as follows:

(In thousands)	2006	2005
Balance, beginning of year	$ 86,706	$ 64,922
Company acquisitions during year	186	1,406
Additions during year	43,138	47,170
Charges incurred during year	(36,514)	(26,792)
Balance, end of year	$ 93,516	$ 86,706

Warranty accruals are based upon historical experience. We engage a third party actuary that uses our historical warranty data to estimate our reserves for unpaid-claims, claim adjustment expenses and incurred but not reported claims for the risks that we are assuming under the general liability and workers compensation programs. The estimates include provisions for inflation, claims handling and legal fees.

Provision for Doubtful Accounts

3.43

MONSANTO COMPANY (AUG)

(Dollars in millions)	2006	2005	2004
Net sales	$7,344	$6,294	$5,423
Cost of goods sold	3,796	3,290	2,896
Gross profit	3,548	3,004	2,527
Operating expenses:			
Selling, general and administrative expenses	1,601	1,334	1,128
Bad-debt expense	47	67	106
Research and development expenses	725	588	509
Acquired in-process research and development	—	266	—
Impairment of goodwill	—	—	69
Restructuring charges (reversals)—net	(2)	7	112
Total operating expenses	2,371	2,262	1,924
Income from operations	$1,177	$ 742	$ 603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Accounts Receivable

The company provides an allowance for doubtful trade receivables equal to the estimated uncollectible amounts. That estimate is based on historical collection experience, current economic and market conditions, and a review of the current status of each customer's trade accounts receivable.

Note 6. Trade Receivables

The following table displays a roll forward of the allowance for doubtful trade receivables for fiscal years 2006, 2005, and 2004.

(Dollars in millions)	
Balance Sept. 1, 2003	$ 254
Additions—charged to expense	106
Deductions and other	(110)
Balance Aug. 31, 2004	$ 250
Additions—charged to expense	67
Deductions and other	(42)
Balance Aug. 31, 2005	$ 275
Additions—charged to expense	47
Deductions and other	(24)
Balance Aug. 31, 2006	$ 298

In fiscal year 2004, Monsanto increased its allowance for doubtful trade receivables by approximately $45 million for exposures related to potentially uncollectible Argentine accounts receivable. The increase in deductions for fiscal 2004 is also primarily attributable to Argentine trade receivables. See Note 22—Commitments and Contingencies—for further discussion of trade receivables.

Note 22 (In Part): Commitments and Contingencies

Customer Concentrations in Gross Trade Receivables

The following table sets forth Monsanto's gross trade receivables as of Aug. 31, 2006, and Aug. 31, 2005, by significant customer concentrations:

(Dollars in millions)	2006	2005
U.S. agricultural product distributors	$ 504	$ 483
European agricultural product distributors	413	357
Argentina[1]	126	149
Brazil[1]	315	364
Mexico[1]	63	77
Asia-Pacific[1]	125	103
Canada[1]	80	95
Other	127	120
Gross trade receivables	1,753	1,748
Less: allowance for doubtful accounts	(298)	(275)
Net trade receivables	$1,455	$1,473

[1] Represents customer receivables within the specified geography.

In fiscal year 2006, trade receivables related to European agricultural product distributors increased primarily because of higher fourth quarter sales and lower customer collections and prepayments. For further details on the allowance for doubtful trade receivables, see Note 6—Trade Receivables. The company's receivables focus continues to be on the key agricultural markets of Argentina and Brazil. Net trade receivables in Argentina and Brazil were as follows:

(Dollars in millions)	2006	2005
Argentina	$ 77	$ 92
Brazil	198	271

In fiscal year 2005, the allowance for doubtful trade receivables in Argentina was increased by $45 million for potential uncollectible Argentine accounts receivable as the redesign of the Argentine business model, coupled with the continued economic and business challenges, led to increased credit exposure. The company continues to pursue customer collections aggressively to minimize exposure. Management's current assessment of the situation is that the allowance balance for Argentine receivables is adequate.

The combination of poor growing conditions, the appreciation of the Brazilian real, and lower commodity prices continued to negatively impact the Brazilian agricultural economy and farmer liquidity in 2006 which resulted in increases in past-due trade receivables and the related allowance for doubtful trade receivables as of Aug. 31, 2006, compared with Aug. 31, 2005. To mitigate the associated credit risks, Monsanto has further tightened its credit policy, implemented a grain-based collection system, and increased cash sales. Our net receivables as a percent of sales have improved from 49% in 2005 to 36% in 2006.

Shipping

3.44

BOWATER INCORPORATED (DEC)

(In millions)	2006	2005	2004
Sales	$3,529.8	$3,483.8	$3,190.3
Costs and expenses:			
Cost of sales, excluding depreciation, amortization and cost of timber harvested	2,683.3	2,540.5	2,346.4
Depreciation, amortization and cost of timber harvested	323.2	329.4	335.2
Distribution costs	333.6	340.3	324.9
Lumber duties refund	(92.5)	—	—
Selling and administrative expenses	174.2	158.0	161.2
Impairment and other related charges	252.5	82.6	—
Net gain on disposition of assets	(185.7)	(65.8)	(6.9)
Operating income	$ 41.2	$ 98.8	$ 29.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Distribution Costs

Bowater's shipping and handling costs are classified as distribution costs and presented separately on the Consolidated Statements of Operations, in accordance with the Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs."

LOSSES

Intangible Asset Amortization

3.45

ABM INDUSTRIES INCORPORATED (OCT)

(In thousands)	2006	2005	2004
Revenues			
Sales and other income	$2,712,668	$2,586,566	$2,375,149
Gain on insurance claim	80,000	1,195	—
	2,792,668	2,587,761	2,375,149
Expenses			
Operating expenses and cost of goods sold	2,421,552	2,312,687	2,157,637
Selling, general and administrative	207,116	204,131	166,981
Intangible amortization	5,764	5,673	4,519
Interest	495	884	1,016
	2,634,927	2,523,375	2,330,153
Income from continuing operations before income taxes	$ 157,741	$ 64,386	$ 44,996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Other Intangible Assets Other Than Goodwill

The Company engages a third party valuation firm to independently appraise the value of intangible assets acquired in larger sized business combinations. For smaller acquisitions, the Company performs an internal valuation of the intangible assets using the discounted cash flow technique. Acquired customer relationship intangible assets are being amortized using the sum-of-the-years-digits method over their useful lives consistent with the estimated useful life considerations used in the determination of their fair values. The accelerated method of amortization reflects the pattern in which the economic benefits of the customer relationship intangible asset are expected to be realized. Trademarks and trade names are being amortized over their useful lives using the straight-line method. Other intangible assets, consisting principally of contract rights, are being amortized over the contract periods using the straight-line method. At least annually, in the fourth quarter, the Company evaluates the remaining useful lives of its intangible assets to determine whether events and circumstances warrant a revision to the remaining period of

amortization. If the estimate of an asset's remaining useful life changes, the remaining carrying amount of the intangible asset would be amortized over the revised remaining useful life. In addition, the remaining unamortized book value of intangibles is reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." The first step of an impairment test under SFAS No. 144 is a comparison of the future cash flows, undiscounted, to the remaining book value of the intangible. If the future cash flows are insufficient to recover the remaining book value, a fair value of the asset, depending on its size, will be independently or internally determined and compared to the book value to determine if an impairment exists.

4 (In Part): Goodwill and Other Intangibles

Other Intangibles

The changes in the gross carrying amount and accumulated amortization of intangibles other than goodwill for the years ended October 31, 2006 and 2005 were as follows:

	Gross Carrying Amount				Accumulated Amortization			
(In thousands)	October 31, 2005	Additions	Retirements and Other	October 31, 2006	October 31, 2005	Additions	Retirements and Other	October 31, 2006
Customer contracts and related relationships	$28,267	$5,446	$ —	$33,713	$ (7,540)	$(4,741)	$ —	$(12,281)
Trademark and trade names	3,050	—	—	3,050	(1,227)	(540)	—	(1,767)
Other (contract rights, etc.)	6,624	27	(3,983)	2,668	(4,711)	(483)	3,692	(1,502)
Total	$37,941	$5,473	$(3,983)	$39,431	$(13,478)	$(5,764)	$3,692	$(15,550)

	Gross Carrying Amount				Accumulated Amortization			
(In thousands)	October 31, 2004	Additions	Retirements and Other	October 31, 2005	October 31, 2004	Additions	Retirements and Other	October 31, 2005
Customer contracts and related relationships	$21,217	$7,050	$ —	$28,267	$(3,546)	$(3,994)	$ —	$ (7,540)
Trademarks and trade names	3,000	50	—	3,050	(570)	(657)	—	(1,227)
Other (contract rights, etc.)	6,061	746	(183)	6,624	(3,872)	(1,022)	183	(4,711)
Total	$30,278	$7,846	$(183)	$37,941	$(7,988)	$(5,673)	$183	$(13,478)

The weighted average remaining lives as of October 31, 2006 and the amortization expense for the years ended October 31, 2006, 2005 and 2004 of intangibles other than goodwill, as well as the estimated amortization expense for such intangibles for each of the five succeeding fiscal years are as follows:

		Amortization Expense			Estimated Amortization Expense				
(In thousands)	Weighted Average Remaining Life (Years)	2006	2005	2004	2007	2008	2009	2010	2011
Customer contracts and related relationships	9.6	$4,741	$3,994	$2,680	$4,329	$3,788	$3,246	$2,705	$2,163
Trademarks and trade names	2.4	540	657	537	540	540	202	—	—
Other (contract rights, etc.)	8.3	483	1,022	1,302	190	181	165	135	135
Total	9.1	$5,764	$5,673	$4,519	$5,059	$4,509	$3,613	$2,840	$2,298

The customer relationship intangible assets are being amortized using the sum-of-the-years-digits method over their useful lives consistent with the estimated useful life considerations used in the determination of their fair values. The accelerated method of amortization reflects the pattern in which the economic benefits of the customer relationship intangible assets are expected to be realized. Trademarks and trade names are being amortized over their useful lives using the straight-line method. Other intangible assets, consisting principally of contract rights, are being amortized over the contract periods using the straight-line method.

3.46

OXFORD INDUSTRIES, INC. (MAY)

($ in thousands)	2006	2005	2004
Net sales	$1,109,116	$1,056,787	$818,687
Cost of goods sold	677,429	653,538	515,481
Gross profit	431,687	403,249	303,206
Selling, general and administrative	339,073	314,413	228,293
Amortization of intangible assets	7,642	8,622	6,670
	346,715	323,035	234,963
Royalties and other operating income	13,144	12,060	5,114
Operating income	$ 98,116	$ 92,274	$ 73,357

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible Assets, Net

At acquisition, we estimate and record the fair value of purchased intangible assets, which primarily consist of trademarks and trade names, license agreements and customer relationships. The fair values of these intangible assets are estimated based on management's assessment as well as independent third-party appraisals in some cases. Such valuation may include a discounted cash flow analysis of anticipated revenues or cost savings resulting from the acquired intangible asset.

Amortization of intangible assets with finite lives, which consist of license agreements, customer relationships and covenants not to compete, is recognized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. Asset lives used for our intangible assets range from 0 to 15 years. Intangible assets with finite lives are reviewed for impairment periodically if events or changes in circumstances indicate that the carrying amount may not be recoverable. If expected future undiscounted cash flows from operations are less than their carrying amounts, an asset is determined to be impaired and a loss is recorded for the amount by which the carrying value of the asset exceeds its fair value. No impairment charges for intangible assets with finite lives related to continuing operations were recognized during fiscal 2006, 2005 or 2004.

Trademarks and other intangible assets with indefinite lives are not amortized but instead evaluated for impairment annually or more frequently if events or circumstances indicate that the intangible asset might be impaired. The evaluation of the recoverability of intangible assets with indefinite lives includes valuations based on a discounted cash flow analysis. The fair values of trademarks are estimated on an annual basis utilizing the relief from royalty method. If this analysis indicates an impairment of an intangible asset with an indefinite useful life, the amount of the impairment is recognized in the consolidated financial statements.

In fiscal 2006 and 2005, we tested intangible assets with indefinite lives for impairment as of the first day of the fourth quarter, which coincides with the timing of our annual budgeting process, which is used in estimating future cash flows for the analysis. In fiscal 2004, we tested for impairment on the last day of the first quarter. No impairment of intangible assets with indefinite lives was identified during fiscal 2006, 2005 or 2004.

Note 7 (In Part): Goodwill and Intangible Assets

Intangible assets by category related to continuing operations are summarized below (in thousands):

	2006	2005
Intangible assets with finite lives:		
Gross carrying amount:		
License agreements	$ 21,114	$ 20,683
Customer relationships	19,603	19,500
Covenant not to compete	460	460
Subtotal	41,177	40,643
Accumulated amortization:		
License agreements	(12,207)	(7,941)
Customer relationships	(10,677)	(7,418)
Covenant not to compete	(345)	(230)
Subtotal	(23,229)	(15,589)
Total intangible assets with finite lives, net	17,948	25,054
Unamortized intangible assets:		
Trademarks	216,505	209,800
Total intangible assets, net	$234,453	$234,854

Based on the current estimated useful lives assigned to our intangible assets, amortization expense for fiscal 2007, 2008, 2009, 2010, and 2011 is projected to total $6.1 million, $4.3 million, $2.0 million, $1.6 million and $1.3 million, respectively.

Restructuring of Operations

3.47

THE SERVICEMASTER COMPANY (DEC)

(In thousands)	2006	2005	2004
Operating revenue	$3,429,145	$3,239,478	$3,068,068
Operating costs and expenses:			
Cost of services rendered and products sold	2,145,123	2,011,978	1,919,220
Selling and administrative expenses	924,809	881,963	818,534
Amortization expense	11,243	5,454	6,006
Restructuring charges[1]	21,648	—	—
Total operating costs and expenses	3,102,823	2,899,395	2,743,760
Operating income	$ 326,322	$ 340,083	$ 324,308

[1] The 2006 results include restructuring charges for severance, as well as costs associated with Project Accelerate, the Company's initiative to improve the effectiveness and efficiency of its functional support areas, and accruals for employee retention and severance to be paid in future periods that are related to the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its current headquarters in Downers Grove, Illinois. The restructuring charges totaled $21.6 million pretax, $6.9 million after-tax and $0.02 per diluted share. The after-tax impact of the restructuring charges includes approximately $6 million of non-recurring net operating loss carryforward benefits which became realizable to the Company as a result of its decision to consolidate its corporate headquarters in Memphis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Restructuring Charges

The 2006 results include restructuring charges for severance, as well as costs associated with Project Accelerate, the Company's initiative to improve the effectiveness and efficiency of its functional support areas. They also include costs related to the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its current headquarters in Downers Grove, Illinois. These combined restructuring charges totaled $21.6 million pretax, $6.9 million after-tax and $.02 per diluted share in 2006. The after-tax impact of the restructuring charges includes $6 million of non-recurring net operating loss carryforward benefits which became realizable to the Company as a result of its decision to consolidate its corporate headquarters in Memphis. These pretax charges are reported in the "Restructuring Charges" line in the Consolidated Statements of Operations and are recorded in the Other Operations and Headquarters business segment.

The Company has implemented certain organizational changes focused on increasing the speed and intensity of executing its strategic initiatives and accelerating the growth of the Company. Early in 2006, the Company launched Project Accelerate, an internal, multi-phase restructuring project designed to improve the effectiveness and efficiency of all functional support areas. In the second quarter, Jonathan P. Ward resigned as Chairman and Chief Executive Officer of the Company and the Company appointed J. Patrick Spainhour to serve as Chairman and Chief Executive Officer. Related to these organizational changes, the Company recorded restructuring charges of $11.2 million in 2006. These charges included severance ($4.4 million for the former Chief Executive Officer and $3.2 million for other individuals), and third-party professional fees and other expenses ($3.6 million) directly related to implementing the organizational changes.

In October, 2006, the Board of Directors of the Company approved a plan to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its current headquarters in Downers Grove, Illinois. The transition to Memphis is targeted to be completed by November 2007. In connection with the corporate headquarters consolidation plan, the Company expects to incur incremental costs in the range of $30 to $35 million through the end of 2007. Such costs include employee retention and severance costs of approximately $21 to $24 million, lease termination costs of approximately $5 million, and recruiting costs of approximately $4 to $6 million. Almost all such costs will be cash expenditures. The Downers Grove, Illinois office currently employs approximately 150 individuals, virtually all of which will be impacted by the decision to consolidate headquarters. The Downers Grove functions affected by the consolidation include corporate accounting, treasury and finance, tax and portions of the legal, information technology, marketing, and mergers and acquisitions functions. In accordance with U.S. GAAP, these costs are being expensed throughout the transition period. The Company recognized approximately $10.4 million of these charges in the fourth quarter of 2006 and the remaining charges will be recognized over the first ten months of 2007. The 2006 charge consisted of $6.9 million of employee retention and severance, $2.3 million of lease termination costs and $1.2 million of recruiting costs.

In addition to the charges noted above, the Company expects to incur certain other cash charges throughout the consolidation process. These additional charges include training of replacement employees, the costs related to headcount overlap during a transitional training period, and temporary employee staffing, should the need arise. While the estimate of these costs, in total, is not yet final, the Company currently expects that they will total approximately $3 million pretax, with virtually all occurring during the first nine months of 2007.

Write-Down of Assets

3.48

VISTEON CORPORATION (DEC)

(Dollars in millions)	2006	2005	2004
Net sales			
Products	$10,871	$16,812	$18,657
Services	547	164	—
	11,418	16,976	18,657
Cost of sales			
Products	10,142	16,279	17,769
Services	542	163	—
	10,684	16,442	17,769
Gross margin	734	534	888
Selling, general and administrative expenses	716	946	980
Restructuring expenses	95	26	82
Reimbursement from Escrow Account	106	51	—
Impairment of long-lived assets	22	1,511	314
Gain on ACH Transactions	—	1,832	—
Operating income (loss)	$ 7	$ (66)	$ (488)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Long-Lived Assets and Certain Identifiable Intangibles

Long-lived assets, such as property and equipment and definite-lived intangible assets are stated at cost or fair value for impaired assets. Depreciation and amortization is computed principally by the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes in certain jurisdictions.

Asset impairment charges are recorded for long-lived assets and intangible assets subject to amortization when events and circumstances indicate that such assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts. If estimated future undiscounted cash flows are not sufficient to recover the carrying value of the assets, an impairment charge is recorded for the amount by which the carrying value of the assets exceeds its fair value. Fair value is determined using appraisals, management estimates or discounted cash flow calculations. Asset impairment charges of $22 million, $1,511 million and $314 million were recorded for the years ended December 31, 2006, 2005 and 2004, respectively.

Note 5. Asset Impairments

Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") requires that long-lived assets and intangible assets subject to amortization are reviewed for impairment when certain indicators of impairment are present. Impairment exists if estimated future undiscounted cash flows associated with long-lived assets are not sufficient to recover the carrying value of such assets. Generally, when impairment exists the long-lived assets are adjusted to their respective fair values.

In assessing long-lived assets for an impairment loss, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Asset grouping requires a significant amount of judgment. Accordingly, facts and circumstances will influence how asset groups are determined for impairment testing. In assessing long-lived assets for impairment, management considered the Company's product line portfolio, customers and related commercial agreements, labor agreements and other factors in grouping assets and liabilities at the lowest level for which identifiable cash flows are largely independent. The Company considers projected future undiscounted cash flows, trends and other factors in its assessment of whether impairment conditions exist. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such factors as future automotive production volumes, customer pricing, economics and productivity and cost saving initiatives, could significantly affect its estimates. In determining fair value of long-lived assets, management uses appraisals, management estimates or discounted cash flow calculations.

The Company recorded asset impairment charges of $22 million, $1,511 million and $314 million for the years ended December 31, 2006, 2005 and 2004, respectively, to adjust certain long-lived assets to their estimated fair values.

2006 Impairment Charges

During the second quarter of 2006 the Company announced the closure of a European Interiors facility. In connection with this action, the Company recorded an asset impairment of $10 million to reduce the net book value of certain long-lived assets to their estimated fair value. Also during the second quarter of 2006 and in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," the Company determined that an "other than temporary" decline in the fair market value of its investment in Vitro Flex, S.A. de C.V. ("Vitro Flex") had occurred. Consequently, the Company reduced the carrying value of its investment in Vitro Flex by approximately $12 million to its estimated fair market value at June 30, 2006.

2005 Impairment Charges

During 2005 the Company recorded impairment charges of $1,511 million to reduce the net book value of certain long-lived assets to their estimated fair value. Approximately $591 of this amount was recorded pursuant to impairment indicators including lower than anticipated current and near term future vehicle production volumes and the related impact on the Company's current and projected operating results and cash flows. Additionally, the Company recorded an impairment charge of $920 million to write-down certain assets considered "held for sale" pursuant to the ACH Transactions to their aggregate estimated fair value less cost to sell.

2004 Impairment Charges

During 2004, the Company recorded an impairment charge of $314 million to reduce the net book value of certain long-lived assets to their estimated fair value. This impairment was recorded pursuant to impairment indicators including

the impact of lower than anticipated current and near term future Ford North American vehicle production volumes and the related impact on the Company's projected operating results and cash flows.

Foreign Currency Transactions

3.49

CROWN HOLDINGS, INC. (DEC)

(In millions)	2006	2005	2004
Net sales	$6,982	$6,675	$6,285
Cost of products sold, excluding depreciation and amortization	5,863	5,535	5,244
Depreciation and amortization	227	237	247
Gross profit	892	903	794
Selling and administrative expense	316	339	307
Provision for asbestos	10	10	35
Provision for restructuring	15	13	6
Provision for asset impairments and loss/gain on sale of assets	(64)	(18)	31
Loss from early extinguishments of debt		383	39
Interest expense	286	361	361
Interest income	(12)	(9)	(8)
Translation and exchange adjustments (Note S)	6	94	(98)
Income/(loss) from continuing operations before income taxes, minority interests and equity earnings	$ 335	$ (270)	$ 121

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

A (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

For non-U.S. subsidiaries which operate in a local currency environment, assets and liabilities are translated into U.S. dollars at year-end exchange rates. Income, expense and cash flow items are translated at average exchange rates prevailing during the year. Translation adjustments for these subsidiaries are accumulated as a separate component of accumulated other comprehensive income in shareholders' equity. For non-U.S. subsidiaries that use a U.S. dollar functional currency, local currency inventories and property, plant and equipment are translated into U.S. dollars at approximate rates prevailing when acquired; all other assets and liabilities are translated at year-end exchange rates. Inventories charged to cost of sales and depreciation are remeasured at historical rates; all other income and expense items are translated at average exchange rates prevailing during the year. Gains and losses which result from remeasurement are included in earnings.

S (In Part): Debt

During 2006, 2005 and 2004, the Company recorded pre-tax foreign exchange losses of $6 and $94, and gains of $98, respectively, primarily for certain European subsidiaries that had unhedged currency exposure arising from external and intercompany debt obligations. The gains and losses are included in translation and exchange adjustments in the Consolidated Statements of Operations.

Change in Fair Value of Derivatives

3.50

BOYD GAMING CORPORATION (DEC)

(In thousands)	2006	2005	2004
Revenues			
Gaming	$1,811,716	$1,772,053	$1,435,445
Food and beverage	304,864	311,119	241,495
Room	172,781	172,617	120,215
Other	145,560	146,140	104,928
Gross revenues	2,434,921	2,401,929	1,902,083
Less promotional allowances	242,287	240,844	194,876
Net revenues	2,192,634	2,161,085	1,707,207
Costs and expenses			
Gaming	836,675	783,863	678,677
Food and beverage	187,908	193,961	147,824
Room	55,052	51,012	36,221
Other	110,106	128,028	98,900
Selling, general and administrative	311,551	313,410	273,356
Maintenance and utilities	100,659	94,072	75,295
Depreciation and amortization	188,539	170,660	134,104
Corporate expense	54,229	44,101	33,338
Preopening expenses	20,623	7,690	1,953
Write-downs and other charges, net	8,838	64,615	1,225
Total costs and expenses	1,874,180	1,851,412	1,480,893
Operating income from Borgata	86,196	96,014	77,965
Operating income	404,650	405,687	304,279
Other income (expense)			
Interest income	112	224	186
Interest expense, net of amounts capitalized	(145,545)	(126,312)	(100,728)
Decrease in value of derivative instruments	(1,801)	—	—
Loss on early retirements of debt	—	(17,529)	(4,344)
Other non-operating expenses from Borgata, net	(10,577)	(11,718)	(12,554)
Total	(157,811)	(155,335)	(117,440)
Income from continuing operations before provision for income taxes and cumulative effect of a change in accounting principle	$ 246,839	$ 250,352	$ 186,839

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Instruments and Other Comprehensive Income (Loss)

Generally accepted accounting principles, or GAAP, require all derivative instruments to be recognized on the balance sheet at fair value. Derivatives that are not designated as hedges for accounting purposes must be adjusted to fair value through income. If the derivative qualifies and is designated as a hedge, depending on the nature of the hedge, changes in its fair value will either be offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. During the three years in the period ended December 31, 2006, we utilized derivative instruments to manage interest rate risk on certain of our borrowings. In addition, Borgata, our joint venture, utilized derivative financial instruments to comply with the requirements of its bank credit agreement. For further information, see Note 7, "*Derivative Instruments*."

Note 7 (In Part): Derivative Instruments

Floating-to-Fixed Interest Rate Swaps (In Part)

In the third quarter 2006, we entered into three floating-to-fixed interest rate swaps with a forward start date of June 30, 2008, with a combined notional amount of $200 million. We determined that these derivative instruments did not meet the requirements for hedge accounting during 2006 and have therefore recorded a $1.8 million charge for the change in fair value of these derivative instruments in our consolidated statements of operations for year ended December 31, 2006. We have also recorded a corresponding liability of $1.8 million included as part of other liabilities on our accompanying consolidated balance sheet at December 31, 2006. Effective January 1, 2007, these forward starting swaps met the requirements to qualify for hedge accounting.

Impairment of Intangibles

3.51

ALLIANCE ONE INTERNATIONAL, INC. (MAR)

(In thousands)	2006	2005	2004
Sales and other operating revenues	$2,112,685	$1,300,118	$797,525
Cost of goods and services sold	1,888,000	1,105,501	691,417
Gross profit	224,685	194,617	106,108
Selling, administrative and general expenses	164,087	124,416	87,860
Other income	(2,501)	(5,285)	—
Goodwill impairment	256,916	—	—
Restructuring and asset impairment charges	85,411	2,836	16,398
Operating income (loss)	$ (279,228)	$ 72,650	$ 1,850

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Note A (In Part): Significant Accounting Policies

Goodwill and Other Intangibles

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not subject to systematic amortization, but rather is tested for impairment annually and whenever events and circumstances indicate that an impairment may have occurred. Impairment testing compares the carring amount of the goodwill with its fair value. Fair value is estimated based on discounted cash flows. When the carrying amount of goodwill exceeds its fair value, an impairment charge is recorded.

The Company analyzed data collected and reviewed by its Chief Operating Decision Makers and determined that it has five geographical operating segments instead of one operating segment as reported in prior years. After determining that it had five operating segments, the Company reevaluated its previous conclusions on reporting units and determined that the Company had five reporting units for goodwill evaluation. Goodwill was assigned to certain reporting units and tested for impairment at the reporting unit level in accordance with SFAS No. 142.

The Company has no intangible assets with indefinite useful lives. It does have other intangible assets, production and supply contracts and a $33,700 customer relationship intangible recorded in connection with the merger. Supply contracts are amortized primarily on a straight-line basis over the term of the contract ranging from three to five years. Production contracts are amortized on a straight-line basis ranging from five to ten years. The customer relationship intangible is being amortized on a straight-line basis over twenty years. The amortization period is the term of the contract or, if no term is specified in the contract, management's best estimate of the useful life based on past experience. Events and changes in circumstance may either result in a revision in the estimated useful life or impairment of the intangible resulting in revaluation of the asset value to its fair value. See Note E "Goodwill and Other Intangible Assets" to the "Notes to Consolidated Financial Statements" for further information.

Note E. Goodwill and Other Intangibles

Effective July 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase accounting method for business combinations and broadens the criteria for recording intangible assets separate from goodwill. SFAS No. 142 stipulates a non-amortization approach to account for purchased goodwill and certain intangible assets with indefinite useful lives. It also requires at least an annual assessment for impairment by applying a fair-value-based test. Intangible assets with finite useful lives continue to be amortized over the useful lives.

The Company tests the carrying amount of goodwill for each operating segment annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. The testing is based on a discounted cash flow approach for each operating segment to determine fair value (Step 1). The Company also tests the sensitivities of these fair value estimates to changes in our earnings growth rate and discount rate. When a possible impairment for an operating segment is indicated, the implied fair value of goodwill is tested by comparing the carrying amount of the net assets of the operating segment excluding goodwill to the total fair value (Step 2). When the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recorded.

As discussed in Note N "Segment Information" in fiscal 2006 the Company changed from one to five operating segments which required the Company to re-evaluate its historical SFAS No. 142 assumption of only one reporting unit. SFAS No. 142 states that the reporting unit is considered as an operating segment or one level below an operating segment (i.e. a component of an operating segment). A component of an operating segment can be a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. SFAS No. 142 does provide that two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics.

The Company has the following five operating segments: Africa, Asia, Europe, North America and South America. Each operating segment has multiple components referred to as origins (i.e. local countries within that region). The Company has concluded that each of the components of the operating segments met the aggregation criteria thus the Company's reporting units are at the operating segment level. As a result the Company undertook the following measures in accordance with the provisions of SFAS No. 142:

- Assigned the previously reported enterprise goodwill existing at the adoption date of SFAS No. 142, July 1, 2002, to certain of the reporting units. While the majority of goodwill arose from the Intabex acquisition in 1997, the composition of the Company was significantly different from that date, therefore, the allocation of goodwill was based on the valuation of the Company's operating segments at the adoption date. Goodwill was allocated based on the excess of each of the reporting units' present value of discounted cash flows over its net assets as defined by the Company's structure on July 1, 2002. Therefore, operating segments were defined without regard to the reorganization of regional segments in 2006 or reclassifications of discontinued operations.
- Performed the Step 1 impairment test for each of the applicable reporting units as of the adoption date of SFAS No. 142 and annually for the fiscal years 2003, 2004 and 2005. All of the reporting units passed Step 1 of the goodwill impairment test as required by SFAS No. 142 for each of these years.
- In conjunction with the acquisition of Standard the Company assigned the goodwill generated in this transaction to certain of the reporting units and completed the Step 1 test as of the annual goodwill testing date which is January 1.
- As a result of the North America and South America reporting units failing Step 1 the Company completed Step 2 to measure the impairment loss, if any, by comparing the implied fair value of the reporting unit with the carrying amount of goodwill. The fair value of the reporting unit was estimated using the expected present value of future cash flows. Based on this analysis the Company recorded a total goodwill impairment charge of $256,916 during the fourth quarter of fiscal 2006.
- Of the total goodwill impairment charge, $75,742 related to North America. Prior to the merger with Standard, no goodwill was previously allocated to the former DIMON operating segment in North America. As a result of declines in the U.S. market share due to unanticipated decreased customer demand and reduced crop size, indicators of impairment were present in the fourth quarter. Accordingly, Step 2 testing was required resulting in the related goodwill impairment charge.
- Of the total goodwill impairment charge, $181,174 related to South America. Prior to the merger, all previous goodwill of $151,772 was allocated to the South America operating region. Merger related goodwill of $29,402 was allocated to South America. As stated above management completed the annual impairment test for each of the preceding years without any impairment. There are several changes in the South America region that have significantly impacted operations in 2006. First is the impact of the absorption of local intrastate trade taxes resulting from a change in local laws. Second is the effect of the strong local currency on prices paid to growers and related tobacco conversion costs. Third is the impact of the poor quality of the 2005 crop. These factors negatively impacted the operating segment's future cash flow projections. Some of these factors are expected to continue to affect cash flow projections which indicated impairment in the fourth quarter of 2006. Accordingly, Step 2 was required and the related impairment charge was recorded.

The carrying value of other intangible assets as of March 31, 2006, after consideration of fully amortized intangibles, is $44,515 gross and $33,756 net and represent customer relationship and production and supply contracts. These intangible assets were determined by management to meet the criterion for recognition apart from goodwill and have finite lives. The Company did not have any indefinite-lived intangible assets, other than goodwill, as of the July 1, 2002 adoption date or the March 31, 2006 balance sheet date. The Company uses judgment in assessing whether the carrying amount of its intangible assets is not expected to be recoverable over their estimated remaining useful lives. The factors considered include but are not limited to the expected cash flows generated from the business or assets, economic

factors and changes in the marketplace. Based on test results of all pertinent factors, an adjustment of $5,111 related to a supply contract was recorded in 2006. Amortization expense associated with these intangible assets was $3,543, $2,681 and $1,967 for the years ended March 31, 2006 and 2005 and the nine months ended March 31, 2004, respectively.

Goodwill and Intangible Asset Rollforward

	Unamortizable Goodwill			Amortizable Intangibles		
	South America Segment	Other Regions Segment	Total	Customer Relationship Intangible	Production and Supply Contract Intangibles	Total
Weighted average remaining useful life in years	—	—	—	20	3	
March 31, 2005 balance:						
Gross carrying amount	$ 151,772	$ —	$ 151,772	$ —	$ 19,662	$ 171,434
Accumulated amortization	—	—	—	—	(10,952)	(10,952)
Net balance	151,772	—	151,772	—	8,710	160,482
Purchase goodwill and intangibles	29,402	79,928	109,330	33,700	—	143,030
Amortization expense	—	—	—	(1,474)	(2,069)	(3,543)
SFAS No. 142 goodwill impairment	(181,174)	(75,742)	(256,916)	—	—	(256,916)
SFAS No. 144 intangible asset impairment	—	—	—	—	(5,111)	(5,111)
March 31, 2006 balance	$ —	$ 4,186	$ 4,186	$32,226	$ 1,530	$ 37,942

Estimated Intangible Asset Amortization Expense

	Customer Relationship Intangible	Production and Supply Contract Intangibles	Total
For year ended 2007	$ 1,685	$1,144	$ 2,829
For year ended 2008	$ 1,685	$ 386	$ 2,071
For year ended 2009	$ 1,685	—	$ 1,685
For year ended 2010	$ 1,685	—	$ 1,685
For year ended 2011	$ 1,685	—	$ 1,685
Later years	$23,801	—	$23,801
	$32,226	$1,530	$33,756

Litigation Settlement

3.52

CDW CORPORATION (DEC)

(In thousands)	2006	2005	2004
Net sales	$6,785,473	$6,291,845	$5,737,774
Cost of sales	5,715,630	5,324,215	4,867,650
Gross profit	1,069,843	967,630	870,124
Selling and administrative expenses	530,120	433,482	386,563
Advertising expense	118,324	114,514	90,802
Litigation settlement	25,000	—	—
Income from operations	$ 396,399	$ 419,634	$ 392,759

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Use of Estimates (In Part)

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make use of certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant estimates in these financial statements include allowances for doubtful accounts receivable, sales returns and pricing disputes, net realizable value of inventories, vendor transactions, loss contingencies and intangible assets. Actual results could differ from those estimates.

Loss Contingencies

We accrue for contingent obligations when a loss is probable and the amount can be reasonably estimated. As facts concerning contingencies become known, we reassess our position and make appropriate adjustments to the financial statements.

15 (In Part): Contingencies

On September 9, 2003, CDW completed the purchase of certain assets of Bridgeport Holdings, Inc., Micro Warehouse, Inc., Micro Warehouse, Inc. of Ohio, and Micro Warehouse Gov/Ed, Inc. (collectively, "Micro Warehouse"). On September 10, 2003, Micro Warehouse filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The Bankruptcy Court confirmed a plan of distribution with respect to Micro Warehouse which became effective on October 14, 2004. On March 3, 2005, the Bridgeport Holdings, Inc. Liquidating Trust (the "Liquidating Trust") filed a civil action in the Bankruptcy Court entitled Bridgeport Holdings Liquidating Trust, Inc. vs. CDW Corporation and CDW SAC, Inc. alleging that CDW did not pay reasonably equivalent value for the assets it acquired from Micro Warehouse and seeking to have CDW's "purchase of Micro Warehouse" set aside and an amount of damages, to be determined at trial, paid to it. On February 1, 2007, CDW entered into a settlement agreement (the "Settlement Agreement") to resolve the above referenced action pursuant to which CDW agreed to pay $25 million to the Liquidating Trust in return for a full release and complete dismissal of the litigation, with prejudice. While CDW believed it had good defenses to the claims by the Liquidating Trust, it agreed to settle the case in order to avoid the substantial costs and uncertainties involved with further litigation. The Settlement Agreement represents the compromise of a disputed claim and does not constitute an admission of liability on behalf of CDW. A Motion to Approve the Settlement Agreement was filed in the Bankruptcy Court by the Liquidating Trust on February 1, 2007. No objections were filed with the Bankruptcy Court, and the time for filing objections has expired. An order approving the Settlement Agreement was entered by the Bankruptcy Court on February 21, 2007. That order becomes final and nonappealable on March 5, 2007. CDW's settlement payment, included in other current liabilities on the Consolidated Balance Sheet as of December 31, 2006, and a motion by the Liquidating Trust to dismiss the litigation with prejudice, are both due on March 12, 2007.

Sale of Assets

3.53

JONES APPAREL GROUP, INC. (DEC)

(All amounts in millions)	2006	2005	2004
Net sales	$4,669.9	$5,014.6	$4,592.6
Licensing income (net)	51.8	59.6	57.1
Service and other revenue	21.1	—	—
Total revenues	4,742.8	5,074.2	4,649.7
Cost of goods sold	3,031.3	3,243.8	2,944.4
Gross profit	1,711.5	1,830.4	1,705.3
Selling, general and administrative expenses	1,341.7	1,333.2	1,176.7
Loss on sale of Polo Jeans Company business	45.1	—	—
Trademark impairments	50.2	—	0.2
Goodwill impairment	441.2	—	—
Operating (loss) income	$ (166.7)	$ 497.2	$ 528.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sale of Polo Jeans Company Business

In October 1995, we acquired an exclusive license to manufacture and market women's shirts, blouses, skirts, jackets, suits, sweaters, pants, vests, coats, outerwear and hats under the Lauren by Ralph Lauren trademark in the United States, Canada and Mexico pursuant to license and design service agreements with Polo, which were to expire on December 31, 2006. In May 1998, we acquired an exclusive license to manufacture and market women's dresses, shirts, blouses, skirts, jackets, suits, sweaters, pants, vests, coats, outerwear and hats under the Ralph by Ralph Lauren trademark in the United States, Canada and Mexico pursuant to license and design service agreements with Polo. The Ralph License was scheduled to end on December 31, 2003.

During the course of the discussions concerning the Ralph License, Polo asserted that the expiration of the Ralph License would cause the Lauren License agreements to end on December 31, 2003, instead of December 31, 2006. We believed that this was an improper interpretation and that the expiration of the Ralph License did not cause the Lauren License to end.

On June 3, 2003, we announced that our discussions with Polo regarding the interpretation of the Lauren License had reached an impasse and that, as a result, we had filed a complaint in the New York State Supreme Court against Polo and its affiliates and our former President, Jackwyn Nemerov. The complaint alleged that Polo breached the Lauren License agreements by claiming that the license ends at the end of 2003. The complaint also alleged that Ms. Nemerov breached

the confidentiality and non-compete provisions of her employment agreement with us. Additionally, Polo was alleged to have induced Ms. Nemerov to breach her employment agreement and Ms. Nemerov was alleged to have induced Polo to breach the Lauren License agreements. We asked the court to enter a judgment for compensatory damages of $550 million, as well as punitive damages, and to enforce the confidentiality and non-compete provisions of Ms. Nemerov's employment agreement.

These matters were resolved by settlement dated January 22, 2006, which closed on February 3, 2006. In connection with this settlement, we entered into a Stock Purchase Agreement with Polo and certain of its subsidiaries with respect to the sale to Polo of all outstanding stock of Sun. We received gross proceeds of $355.0 million in connection with the sale and the settlement. Sun's assets and liabilities on the closing date primarily related to the *Polo Jeans Company* business, which Sun operated under long-term license and design agreements entered into with Polo in 1995. We retained distribution and product development facilities in El Paso, Texas, along with certain working capital items, including accounts receivable and accounts payable. In addition, as part of the agreements, we provided certain support services to Polo (including manufacturing, distribution and information technology) until January 2007 and we will continue to provide certain financial and administrative functions until March 2007. Service revenue related to these agreements recognized in the statement of operations is based on negotiated monthly amounts according to the terms of the agreements.

We recorded a pre-tax loss of approximately $145.1 million after allocating $356.7 million of goodwill to the business sold and a pre-tax gain of $100.0 million related to the litigation settlement. Approximately $3.7 million in state and local taxes have been accrued related to the litigation settlement, resulting in a combined after tax loss of approximately $48.8 million. The combined loss created federal and state capital loss carryforwards that we do not expect to be realizable and, as a result, we increased our deferred tax valuation allowance to offset the deferred tax benefit recorded as a result of the combined loss.

Long-lived assets included in the sale include $2.0 million of net property, plant and equipment and $5.5 million of unamortized long-term prepaid marketing expenses. Net sales for the *Polo Jeans Company* business, which are reported under the wholesale better apparel segment, were $24.6 million, $303.5 million and $336.5 million for 2006, 2005 and 2004, respectively.

Debt Extinguishment

3.54

NEWMARKET CORPORATION (DEC)

(In thousands)	2006	2005	2004
Net sales	$1,263,297	$1,075,544	$894,109
Cost of goods sold	999,211	875,286	715,809
Gross profit	264,086	200,258	178,300
Operating profit from TEL marketing agreements services	8,181	23,154	33,226
Selling, general, and administrative expenses	109,191	96,810	96,855
Research, development, and testing expenses	70,263	65,394	65,356
Special item income	14,825	11,668	13,245
Operating profit	107,638	72,876	62,560
Interest and financing expenses, net	15,403	16,849	18,254
Loss on early extinguishment of debt	11,209	—	—
Other income, net	7,117	925	324
Income before income taxes	$ 88,143	$ 56,952	$ 44,630

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in thousands)

12 (In Part): Long-Term Debt

	2006	2005
Senior notes—7.125% due 2016	$150,000	$ —
Senior notes—8.875% due 2010	250	150,000
Capital lease obligations	3,189	3,829
	153,439	153,829
Current maturities	(691)	(640)
	$152,748	$153,189

Senior Notes (In Part)

On November 21, 2006, we commenced a cash tender offer for any and all $150 million aggregate principal amount of our then outstanding 8.875% senior notes due 2010. Upon the expiration of the tender offer on December 21, 2006, we accepted for purchase and purchased $149.75 million aggregate principal amount of our 8.875% senior notes. As a result of this transaction, we recognized a loss of $11 million on the early extinguishment of debt. The loss included the write-off of $2.6 million in unamortized deferred financing costs and cash paid of $8.6 million related to the premium and other costs of the purchase. We redeemed the remaining outstanding $250 thousand aggregate principal amount of our 8.875% senior notes on February 7, 2007.

On December 12, 2006, we issued $150 million aggregate principal amount of our 7.125% senior notes due 2016. The purchase of our 8.875% senior notes in the tender offer was financed with net proceeds from the issuance of the 7.125% senior notes, as well as cash on hand.

Minority Interest

3.55

CITIZENS COMMUNICATIONS COMPANY (DEC)

($ in thousands)	2006	2005	2004
Revenue	$2,025,367	$2,017,041	$2,022,378
Operating expenses:			
Cost of services (exclusive of depreciation and amortization)	171,247	156,822	160,914
Other operating expenses	733,143	751,047	761,150
Depreciation and amortization	476,487	520,204	549,381
Management succession and strategic alternatives expenses	—	—	90,632
Total operating expenses	1,380,877	1,428,073	1,562,077
Operating income	644,490	588,968	460,301
Investment income	83,570	14,340	32,766
Other income (loss), net	(1,127)	(1,361)	(53,465)
Interest expense	336,446	338,735	378,291
Income from continuing operations before income taxes	$ 390,487	$ 263,212	$ 61,311

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Recent Accounting Literature and Changes in Accounting Principles

Partnerships

In June 2005, the FASB issued EITF No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," which provides new guidance on how general partners in a limited partnership should determine whether they control a limited partnership. EITF No. 04-5 is effective for fiscal periods beginning after December 15, 2005. We are the managing partner and have a 33% ownership position in a wireless voice business, Mohave Cellular Limited Partnership (Mohave).

The Company has applied the provisions of EITF No. 04-5 retrospectively and consolidated Mohave for all periods presented.

Selected data for the Mohave partnership is as follows:

($ in thousands)	2006	2005	2004
Revenues	$18,458	$16,151	$12,084
Depreciation expense	2,022	2,053	1,864
Operating income	6,035	3,599	817

14) (In Part): Investment Income and Other Income (Loss), Net

The components of other income (loss), net for the years ended December 31, 2006, 2005 and 2004 are as follows:

($ in thousands)	2006	2005	2004
Legal contingencies	$(1,000)	$(7,000)	$ —
Gain on expiration/settlement of customer advances	3,539	681	25,345
Loss on exchange of debt	(2,433)	(3,175)	—
Premium on debt repurchases	—	—	(66,480)
Minority share of Mohave Cellular net income	(4,164)	(3,599)	(817)
Gain on forward rate agreements	430	1,851	—
Loss on sale of assets	—	—	(1,945)
Other, net	2,501	9,881	(9,568)
Total other income (loss), net	$(1,127)	$(1,361)	$(53,465)

Environmental Clean-Up

3.56

OCCIDENTAL PETROLEUM CORPORATION (DEC)

(In millions)	2006	2005	2004
Revenues			
Net sales	$17,661	$14,597	$10,879
Interest, dividends and other income	381	181	144
Gains on disposition of assets, net	118	870	1
	18,160	15,648	11,024
Costs and other deductions			
Cost of sales (excludes depreciation, depletion and amortization of $2,011 in 2006, $1,383 in 2005 and $1,213 in 2004)	6,284	5,425	4,418
Selling, general and administrative and other operating expenses	1,371	1,324	936
Total depreciation, depletion and amortization	2,042	1,422	1,251
Environmental remediation	47	62	59
Exploration expense	295	314	214
Interest and debt expense, net	291	293	260
	10,330	8,840	7,138
Income before taxes and other items	$ 7,830	$ 6,808	$ 3,886

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental Liabilities and Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Reserves for estimated costs that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are recorded when environmental remedial efforts are probable and the costs can be reasonably estimated. In determining the reserves and the reasonably

possible range of loss, Occidental refers to currently available information, including relevant past experience, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. The environmental reserves are based on management's estimate of the most likely cost to be incurred and are reviewed periodically and adjusted as additional or new information becomes available. Environmental reserves are recorded on a discounted basis only when a reserve is initially established and the aggregate amount of the estimated costs for a specific site and the timing of cash payments are reliably determinable. The reserve methodology for a specific site is not modified once it has been established. Recoveries and reimbursements are recorded in income when receipt is probable. As of December 31, 2006 and 2005, Occidental has not accrued any reimbursements or indemnification recoveries for environmental remediation matters as assets.

Many factors could result in changes to Occidental's environmental reserves and reasonably possible range of loss. The most significant are:

- The original cost estimate may have been inaccurate.
- Modified remedial measures might be necessary to achieve the required remediation results. Occidental generally assumes that the remedial objective can be achieved using the most cost-effective technology reasonably expected to achieve that objective. Such technologies may include air sparging or phyto-remediation of shallow groundwater, or limited surface soil removal or in-situ treatment producing acceptable risk assessment results. Should such remedies fail to achieve remedial objectives, more intensive or costly measures may be required.
- The remedial measure might take more or less time than originally anticipated to achieve the required contaminant reduction. Site-specific time estimates can be affected by factors such as groundwater capture rates, anomalies in subsurface geology, interactions between or among water-bearing zones and non-water-bearing zones, or the ability to identify and control contaminant sources.
- The regulatory agency might ultimately reject or modify Occidental's proposed remedial plan and insist upon a different course of action.

Additionally, other events might occur that could affect Occidental's future remediation costs, such as:

- The discovery of more extensive contamination than had been originally anticipated. For some sites with impacted groundwater, accurate definition of contaminant plumes requires years of monitoring data and computer modeling. Migration of contaminants may follow unexpected pathways along geologic anomalies that could initially go undetected. Additionally, the size of the area requiring remediation may change based upon risk assessment results following site characterization or interim remedial measures.
- Improved remediation technology might decrease the cost of remediation. In particular, for groundwater remediation sites with projected long-term operation and maintenance, the development of more effective treatment technology, or acceptance of alternative and more cost-effective treatment methodologies such as bioremediation, could significantly affect remediation costs.
- Laws and regulations might change to impose more or less stringent remediation requirements.

At sites involving multiple parties, Occidental provides environmental reserves based upon its expected share of liability. When other parties are jointly liable, the financial viability of the parties, the degree of their commitment to participate and the consequences to Occidental of their failure to participate are evaluated when estimating Occidental's ultimate share of liability. Based on these factors, Occidental believes that it will not be required to assume a share of liability of other potentially responsible parties, with whom it is alleged to be jointly liable, in an amount that would have a material effect on Occidental's consolidated financial position, liquidity or results of operations.

Most cost sharing arrangements with other parties fall into one of the following three categories:

- Category 1: Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) or state-equivalent sites wherein Occidental and other alleged potentially responsible parties share the cost of remediation in accordance with negotiated or prescribed allocations;
- Category 2: Oil and gas joint ventures wherein each joint venture partner pays its proportionate share of remedial cost; and
- Category 3: Contractual arrangements typically relating to purchases and sales of property wherein the parties to the transaction agree to methods of allocating the costs of environmental remediation.

In all three of these categories, Occidental records as a reserve its expected net cost of remedial activities, as adjusted by recognition for any nonperforming parties.

In addition to the costs of investigating and implementing remedial measures, which often take in excess of ten years at CERCLA sites, Occidental's reserves include management's estimates of the cost of operation and maintenance of remedial systems. To the extent that the remedial systems are modified over time in response to significant changes in site-specific data, laws, regulations, technologies or engineering estimates, Occidental reviews and changes the reserves accordingly on a site-specific basis.

Note 8. Environmental Liabilities and Expenditures

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations relating to improving or maintaining environmental quality. Costs associated with environmental compliance have increased over time and are expected to rise in the future. Environmental expenditures related to current operations are factored into the overall business planning process and are considered an integral part of production in manufacturing quality products responsive to market demand.

Environmental Remediation

The laws that require or address environmental remediation may apply retroactively to past waste disposal practices and releases of substances to the environment. In many cases, the laws apply regardless of fault, legality of the original activities or current ownership or control of sites. OPC or certain of its subsidiaries are currently participating in environmental assessments and cleanups under these laws at federal Superfund sites, comparable state sites and other domestic and foreign remediation sites, including currently owned facilities and previously owned sites. Also, OPC or certain of its subsidiaries have been involved in a substantial number

of governmental and private proceedings involving historical practices at various sites including, in some instances, having been named in proceedings under CERCLA and similar federal, state and local environmental laws. These proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages and civil penalties.

Occidental manages its environmental remediation efforts through a wholly owned subsidiary, Glenn Springs Holdings, Inc., which reports its results directly to Occidental's corporate management. The following table presents Occidental's environmental remediation reserves, the current portion of which is included in accrued liabilities ($79 million in 2006, $83 million in 2005 and $76 million in 2004) and the remainder in deferred credits and other liabilities—other ($333 million in 2006, $335 million in 2005 and $299 million in 2004). The reserves are grouped by three categories of environmental remediation sites:

	2006		2005		2004	
($ amounts in millions)	Number of Sites	Reserve Balance	Number of Sites	Reserve Balance	Number of Sites	Reserve Balance
CERCLA & equivalent sites	105	$226	128	$236	125	$239
Active facilities	21	116	18	114	16	75
Closed or sold facilities	40	70	39	68	39	61
Total	166	$412	185	$418	180	$375

The following table shows environmental reserve activity for the past three years:

(In millions)	2006	2005	2004
Balance—beginning of year	$418	$375	$372
Remediation expenses and interest accretion	48	63	60
Changes from acquisitions/dispositions	17	45	6
Payments	(71)	(71)	(63)
Other	—	6	—
Balance—end of year	$412	$418	$375

Occidental expects to expend funds equivalent to about half of the current environmental reserve over the next three years and the balance over the next ten or more years. Occidental believes it is reasonably possible that it will continue to incur additional liabilities beyond those recorded for environmental remediation at these sites. The range of reasonably possible loss for existing environmental remediation matters could be up to $430 million beyond the amount accrued. For management's opinion, refer to Note 9.

CERCLA and Equivalent Sites

As of December 31, 2006, OPC or certain of its subsidiaries have been named in 105 CERCLA or state equivalent proceedings, as shown below.

($ amounts in millions)	Number of Sites	Reserve Balance
Minimal/No exposure[a]	85	$ 6
Reserves between $1–10 MM	14	55
Reserves over $10 MM	6	165
Total	105	$226

[a] Includes 32 sites for which Maxus Energy Corporation has retained the liability and indemnified Occidental, 5 sites where Occidental has denied liability without challenge, 15 sites where Occidental's reserves are less than $50,000 each, and 33 sites where reserves are between $50,000 and $1 million each.

The six sites with individual reserves over $10 million in 2006 include a former copper mining and smelting operation in Tennessee, two closed landfills in western New York and groundwater treatment facilities at three closed chemical plants (Montague, Michigan, western New York and Tacoma, Washington).

Active Facilities

Certain subsidiaries of OPC are currently addressing releases of substances from past operations at 21 active facilities. Five facilities—a chemical plant in Louisiana, a phosphorous recovery operation in Tennessee, a chemical plant in Texas, a chemical plant in Kansas and certain oil and gas properties in the southwestern United States—account for 69 percent of the reserves associated with these facilities.

Closed or Sold Facilities

There are 40 sites formerly owned or operated by certain subsidiaries of OPC that have ongoing environmental remediation requirements in which OPC or its subsidiaries are involved. Five sites account for 70 percent of the reserves associated with this group. The five sites are: an active refinery in Louisiana where Occidental indemnifies the current owner and operator for certain remedial actions, a water treatment facility at a former coal mine in Pennsylvania, a closed Occidental Chemical Corporation (OCC) chemical plant in Pennsylvania, a closed landfill in western New York and a water-treatment facility at a former OCC chemical plant in North Carolina.

Environmental Costs

Occidental's costs, some of which may include estimates, relating to compliance with environmental laws and regulations are shown below for each segment:

(In millions)	2006	2005	2004
Operating expenses			
Oil and gas	$ 95	$ 65	$ 51
Chemical	73	67	59
	$168	$132	$110
Capital expenditures			
Oil and gas	$ 55	$ 43	$ 44
Chemical	25	21	12
	$ 80	$ 64	$ 56
Remediation expenses			
Corporate	$ 47	$ 62	$ 59

Operating expenses are incurred on a continual basis. Capital expenditures relate to longer-lived improvements in currently operating facilities. Remediation expenses relate to existing conditions caused by past operations and do not contribute to current or future revenue generation. Although total costs may vary in any one year, over the long term, segment operating and capital expenditures for environmental compliance generally are expected to increase.

Note 9 (In Part): Lawsuits, Claims, Commitments, Contingencies and Related Matters

OPC or certain of its subsidiaries have been named in many lawsuits, claims and other legal proceedings. These actions seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. OPC or certain of its subsidiaries also have been named in proceedings under CERCLA and similar federal, state, local and foreign environmental laws. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages and civil penalties; however, Occidental is usually one of many companies in these proceedings and has to date been successful in sharing response costs with other financially sound companies. With respect to all such lawsuits, claims and proceedings, including environmental proceedings, Occidental accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

It is impossible at this time to determine the ultimate liabilities that OPC and its subsidiaries may incur resulting from any lawsuits, claims and proceedings, audits, commitments, contingencies and related matters or the timing of these liabilities. If these matters were to be ultimately resolved unfavorably at amounts substantially exceeding Occidental's reserves, an outcome not currently anticipated, it is possible that such outcome could have a material adverse effect upon Occidental's consolidated financial position or results of operations. However, after taking into account reserves, management does not expect the ultimate resolution of any of these matters to have a material adverse effect upon Occidental's consolidated financial position or results of operations.

Sale of Receivables

3.57

HUNTSMAN CORPORATION (DEC)

(Dollars in millions)	2006	2005	2004
Revenues:			
Trade sales, services and fees	$10,543.7	$10,570.7	$9,506.9
Related party sales	79.9	106.2	55.6
Total revenues	10,623.6	10,676.9	9,562.5
Cost of goods sold	9,084.1	9,061.5	8,358.7
Gross profit	1,539.5	1,615.4	1,203.8
Operating expenses:			
Selling, general and administrative	795.3	660.6	638.8
Research and development	115.4	95.5	96.2
Other operating (income) expense	(127.7)	30.2	(77.0)
Restructuring, impairment and plant closing costs	20.0	114.1	282.9
Total expenses	803.0	900.4	940.9
Operating income	736.5	715.0	262.9
Interest expense, net	(350.7)	(426.6)	(607.2)
Interest expense—affiliate	—	—	(5.4)
Loss on accounts receivable securitization program	(16.1)	(9.0)	(13.3)
Equity in income of investment in unconsolidated affiliates	3.6	8.2	4.0
Loss on early extinguishment of debt	(27.1)	(322.5)	(25.6)
Other income (expense)	1.3	(0.1)	(0.2)
Income (loss) from continuing operations before income taxes and minority interest	$ 347.5	$ (35.0)	$ (384.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Securitization of Accounts Receivable

In connection with our A/R Securitization Program, we securitize certain trade receivables. The A/R Securitization Program is structured so that we grant a participating undivided interest in certain of our trade receivables to a qualified off-balance sheet entity, which is recognized as a sale of accounts receivable. We retain the servicing rights and a retained interest in the securitized receivables. Losses are recorded on the sale and are based on the carrying value of the receivables as allocated between the receivables sold and the retained interests and their relative fair value at the date of the transfer. Retained interests are subsequently carried at fair value which is estimated based on the present value of expected cash flows, calculated using management's best estimates of key assumptions including credit losses and discount rates commensurate with the risks involved. For more information, see "Note 16. Securitization of Accounts Receivable."

16 (In Part): Securitization of Accounts Receivable

Under our A/R Securitization Program, we grant an undivided interest in certain of our trade receivables to the Receivables Trust, a qualified off-balance sheet entity, at a discount. This undivided interest serves as security for the issuance by the Receivables Trust of commercial paper. The A/R Securitization Program currently provides for financing through a commercial paper conduit program (in both U.S. dollars and euros). On April 18, 2006, we completed an amendment and expansion of our A/R Securitization Program and added certain additional U.S. subsidiaries as additional receivables originators under the A/R Securitization Program. In connection with this amendment and expansion, the Receivables Trust redeemed in full all of the ˚ 90.5 million ($109.8 million) and $85.0 million in principal amount of the medium-term notes outstanding under the A/R Securitization Program. The amended A/R Securitization Program currently provides for financing through a commercial paper conduit program (in both U.S. dollars and euros). We expanded the size of the commercial paper conduit program to a committed amount of approximately $500 million U.S. dollar equivalents for three years. Interest costs to the Receivables Trust on amounts drawn under the commercial paper conduit are LIBOR and/or EURIBOR, as applicable, plus 60 basis points per annum based upon a pricing grid (which is dependent upon our credit rating). Transfers of accounts receivable to the Receivables Trust continue to be accounted for as sales under the amended A/R Securitization Program. At December 31, 2006, our capacity under the A/R Securitization Program was approximately $446 million.

As of December 31, 2006 and 2005, our retained interest in receivables (including servicing assets) subject to the program was approximately $157.9 million and $164 million, respectively. The value of the retained interest is subject to credit and interest rate risk. For the years ended December 31, 2006, 2005 and 2004, new sales of accounts receivable sold into the program totaled approximately $7,492 million, $5,585 million and $5,071 million, respectively, and cash collections from receivables sold into the program that were reinvested totaled approximately $7,395 million, $5,589 million and $5,017 million, respectively. Servicing fees received during the years ended December 31, 2006, 2005 and 2004 were approximately $8 million, $6 million and $6 million, respectively.

We incur losses on the A/R Securitization Program for the discount on receivables sold into the program and fees and expenses associated with the program. For the years ended December 31, 2006, 2005 and 2004, losses on the A/R Securitization Program were $16.1 million, $9.0 million and $13.3 million, respectively. We also retain responsibility for the economic gains and losses on forward contracts mandated by the terms of the program to hedge the currency exposures on the collateral supporting the off-balance sheet debt issued. Gains and losses on forward contracts included as a component of the loss on the A/R Securitization Program were nil, nil and a loss of $2.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. As of each of December 31, 2006 and 2005, the fair value of the open forward currency contracts was nil.

The key economic assumptions used in valuing the residual interest are presented below:

	2006	2005
Weighted average life (in days)	35–40	35 to 40
Credit losses (annual rate)	Less than 1%	Less than 1%
Discount rate (weighted average life)	Less than 1%	Less than 1%

A 10% and 20% adverse change in any of the key economic assumptions would not have a material impact on the fair value of the retained interest. Total receivables over 60 days past due as of December 31, 2006 and 2005 were $24.7 million and $22.5 million, respectively.

Equity in Losses of Investee

3.58

LENNAR CORPORATION (NOV)

(Dollars in thousands)	2006	2005	2004
Revenues:			
Homebuilding	$15,623,040	$13,304,599	$10,000,632
Financial services	643,622	562,372	500,336
Total revenues	16,266,662	13,866,971	10,500,968
Costs and expenses:			
Homebuilding	14,677,565	11,215,244	8,629,767
Financial services	493,819	457,604	389,605
Corporate general and administrative	193,307	187,257	141,722
Total costs and expenses	15,364,691	11,860,105	9,161,094
Equity in earnings (loss) from unconsolidated entities	(12,536)	133,814	90,739
Management fees and other income, net	66,629	98,952	97,680
Minority interest expense, net	13,415	45,030	10,796
Loss on redemption of 9.95% senior notes	—	34,908	—
Earnings from continuing operations before provision for income taxes	$ 942,649	$ 2,159,694	$ 1,517,497

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and variable interest entities in which Lennar Corporation is deemed the primary beneficiary (the "Company"). The Company's investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in variable interest entities in which the Company is not deemed to be the primary beneficiary are accounted for by the equity method. All significant intercompany transactions and balances have been eliminated in consolidation.

6 (In Part): Investments in Unconsolidated Entities

Summarized condensed financial information on a combined 100% basis related to unconsolidated entities in which the Company has investments that are accounted for primarily by the equity method was as follows:

(In thousands)	2006	2005
Assets:		
Cash	$ 276,501	$ 334,530
Inventories	8,955,567	7,615,489
Other assets	868,073	875,741
	$10,100,141	$8,825,760
Liabilities and equity:		
Accounts payable and other liabilities	$ 1,387,745	$1,004,940
Notes and mortgages payable	5,001,625	4,486,271
Equity of:		
The Company	1,447,178	1,282,686
Others	2,263,593	2,051,863
	$10,100,141	$8,825,760

(In thousands)	2006	2005	2004
Revenues	$2,651,932	$2,676,628	$1,641,018
Costs and expenses	2,588,196	2,020,470	1,199,243
Net earnings of unconsolidated entities	$ 63,736	$ 656,158	$ 441,775
The Company's share of net earnings (loss)—recognized[1]	$ (12,536)	$ 133,814	$ 90,739

[1] For the year ended November 30, 2006, the Company's share of net loss recognized from unconsolidated entities includes $126.4 million of valuation adjustments to the Company's investments in unconsolidated entities.

The Company's partners generally are unrelated homebuilders, land owners/developers and financial or other strategic partners. The unconsolidated entities follow accounting principles generally accepted in the United States of America. The Company shares in the profits and losses of these unconsolidated entities generally in accordance with its ownership interests. In many instances, the Company is appointed as the day-to-day manager of the unconsolidated entities and receives management fees and/or reimbursement of expenses for performing this function. During 2006, 2005 and 2004, the Company received management fees and reimbursement of expenses from the unconsolidated entities totaling $72.8 million, $58.6 million and $40.6 million, respectively.

Purchased R&D

3.59

AMGEN INC. (DEC)

(In millions)	2006	2005	2004
Revenues:			
Product sales	$13,858	$12,022	$ 9,977
Other revenues	410	408	573
Total revenues	14,268	12,430	10,550
Operating expenses:			
Cost of sales (excludes amortization of acquired intangible assets presented below)	2,095	2,082	1,731
Research and development	3,366	2,314	2,028
Write-off of acquired in-process research and development	1,231	—	554
Selling, general and administrative	3,366	2,790	2,556
Amortization of acquired intangible assets	370	347	333
Other	—	49	—
Total operating expenses	10,428	7,582	7,202
Operating income	$ 3,840	$ 4,848	$ 3,348

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Acquired In-Process Research and Development

The fair value of acquired in-process R&D ("IPR&D") projects and technologies which have no alternative future use and which have not reached technological feasibility at the date of acquisition are immediately expensed. In 2006, we expensed $1,101 million and $130 million of acquired IPR&D related to the Abgenix and Avidia acquisitions (see Note 7, "Acquisitions"), respectively. In 2004, we expensed $554 million of acquired IPR&D associated with the Tularik Inc. ("Tularik") acquisition (see Note 7, "Acquisitions"). Acquired IPR&D is considered part of total R&D expense.

Acquisitions

Avidia, Inc.

On October 24, 2006, we completed the acquisition of Avidia, which was accounted for as a business combination. Avidia was a privately held company focused on the discovery and development of a new class of human therapeutic known as Avimer™ proteins. Pursuant to the merger agreement, we paid cash of $275 million, net of cash acquired and our existing equity stake in Avidia, and may be subject to pay additional amounts upon the achievement of certain future events. The purchase price, including cash paid to the former shareholders, the fair value of stock options assumed and transaction costs, was preliminarily allocated to IPR&D of $130 million and other net assets acquired of $30 million, primarily intangible assets associated with R&D technology rights, based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired of approximately $125 million was assigned to goodwill. The estimated fair values of the IPR&D and the identifiable intangible asset were determined based upon discounted after-tax cash flows adjusted for the probabilities of successful development and commercialization. The amount allocated to IPR&D was immediately expensed in the Consolidated Statement of Operations during the three months ended December 31, 2006 (see Note 1, "Summary of significant accounting policies—Acquired in-process research and development"). The results of Avidia's operations have been included in the consolidated financial statements commencing October 25, 2006. Pro forma results of operations for the year ended December 31, 2006 assuming the acquisition of Avidia had taken place at the beginning of 2006 would not differ significantly from actual reported results.

Abgenix, Inc.

On April 1, 2006, we acquired all of the outstanding common stock of Abgenix, a company with expertise in the discovery and development of monoclonal antibodies. We paid cash consideration of $22.50 per share in this transaction that was accounted for as a business combination. Additionally, we issued 1.9 million stock options in exchange for Abgenix stock options assumed in the acquisition, 1.4 million of which were vested at the date of acquisition. The purchase price was as follows (in million):

Cash paid for shares	$2,103
Other, principally fair value of vested options assumed	96
Total	$2,199

The purchase price was allocated to all of the tangible and intangible assets acquired, including acquired IPR&D, and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was assigned to goodwill. The following table summarizes the allocation of the purchase price (in millions):

In-process research and development	$1,101
Identifiable intangible asset	320
Cash	252
Deferred tax assets, net	266
Property, plant and equipment	220
Other assets	75
Liabilities, principally debt	(738)
Goodwill	703
Net assets acquired	$2,199

The estimated fair values of IPR&D, the identifiable intangible asset and property, plant and equipment were determined with the assistance of an independent valuation firm. The estimated fair values of the IPR&D and the identifiable intangible asset were determined based upon discounted after-tax cash flows adjusted for the probabilities of successful development and commercialization. The identifiable intangible asset consists of Abgenix's XenoMouse® technology that has alternative future uses in our R&D activities and will be amortized over its 5-year estimated useful life. The amount allocated to IPR&D was immediately expensed in the Consolidated Statement of Operations during the three months ended June 30, 2006 (see Note 1, "Summary of significant accounting policies—Acquired in process-research and development"). The results of Abgenix's operations have been included in the consolidated financial statements commencing

April 1, 2006. Pro forma results of operations for the year ended December 31, 2006 assuming the acquisition of Abgenix had taken place at the beginning of 2006 would not differ significantly from actual reported results.

Tularik Inc.

On August 13, 2004, we acquired all of the outstanding common stock of Tularik in a transaction accounted for as a business combination. Tularik was a company engaged in drug discovery related to cell signaling and the control of gene expression. We issued 24 million shares of our common stock in the acquisition. Additionally, we issued 4 million stock options in exchange for Tularik stock options assumed in the acquisition. The purchase price of $1.5 billion, which included the carrying value of our existing ownership interest in Tularik of approximately 21% or $82 million, was allocated to IPR&D of $554 million, other net assets acquired of $188 million and goodwill of $755 million. The amount allocated to IPR&D was immediately expensed in the Consolidated Statement of Operations during the three months ended September 30, 2004 (see Note 1, "Summary of significant accounting policies—Acquired in-process research and development"). The estimated fair value of these R&D projects was determined with the assistance of an independent valuation firm and was based on discounted after-tax cash flows adjusted for the probabilities of successful development and commercialization. The results of Tularik's operations have been included in our consolidated financial statements commencing August 14, 2004. Pro forma results of operations for the year ended December 31, 2004 assuming the acquisition of Tularik had taken place at the beginning of 2004 would not differ significantly from actual reported results.

Merger Costs

3.60

FEDERATED DEPARTMENT STORES, INC. (JAN)

(Millions)	2006	2005	2004
Net sales	$ 26,970	$ 22,390	$15,776
Cost of sales	(16,019)	(13,272)	(9,382)
Inventory valuation adjustments— May integration	(178)	(25)	—
Gross margin	10,773	9,093	6,394
Selling, general and administrative expenses	(8,678)	(6,980)	(4,994)
May integration costs	(450)	(169)	—
Gains on the sale of accounts receivable	191	480	—
Operating income	$ 1,836	$ 2,424	$1,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisition

On August 30, 2005, the Company completed the acquisition of The May Department Stores Company ("May"). The results of May's operations have been included in the Consolidated Financial Statements since that date. The acquired May operations include approximately 500 department stores and approximately 800 bridal and formalwear stores nationwide. Most of the acquired May department stores were converted to the Macy's nameplate in September 2006, resulting in a national retailer with stores in almost all major markets. As a result of the acquisition and the integration of the acquired May operations, the Company's continuing operations operate over 850 stores in 45 states, the District of Columbia, Guam and Puerto Rico. The Company has previously announced its intention to divest certain locations of the combined Company's stores and certain duplicate facilities, including distribution centers, call centers and corporate offices. The stores identified for divestiture accounted for approximately $2.2 billion of annual 2005 sales on a pro forma basis. As of February 3, 2007, the Company had sold approximately 65 of these stores.

The aggregate purchase price for the acquisition of May (the "Merger") was approximately $11.7 billion, including approximately $5.7 billion of cash and approximately 200 million shares of Company common stock and options to purchase an additional 18.8 million shares of Company common stock valued at approximately $6.0 billion in the aggregate. The value of the approximately 200 million shares of Company common stock was determined based on the average market price of the Company's stock from February 24, 2005 to March 2, 2005 (the merger agreement was entered into on February 27, 2005). In connection with the Merger, the Company also assumed approximately $6.0 billion of May debt.

Pro forma adjustments have been made to reflect depreciation and amortization using estimated asset values recognized after applying purchase accounting adjustments and interest expense on borrowings used to finance the acquisition. Certain non-recurring charges of $194 million recorded by May prior to August 30, 2005 directly related to the acquisition, including $114 million of accelerated stock compensation expense triggered by the approval of the acquisition by May's stockholders and the subsequent completion of the acquisition, and approximately $66 million of direct transaction costs, have been excluded from the pro forma information presented above.

The pro forma information for 2005 includes a $480 million pre-tax gain recognized on the sale of the proprietary and non-proprietary credit card accounts and $194 million of May integration costs and related inventory valuation adjustments.

3. May Integration Costs

May integration costs represent the costs associated with the integration of the acquired May businesses with the Company's pre-existing businesses and the consolidation of certain operations of the Company. The Company had announced that it planned to divest certain store locations and distribution center facilities as a result of the acquisition of May.

During 2006, the Company recorded $628 million of integration costs associated with the acquisition of May, including $178 million of inventory valuation adjustments associated with the combination and integration of the Company's and May's merchandise assortments. The remaining $450 million of May integration costs incurred during the year included store and distribution center closing-related costs, re-branding-related marketing and advertising costs,

severance, retention and other human resource-related costs, EDP system integration costs and other costs, partially offset by approximately $55 million of gains from the sale of certain Macy's locations.

During 2006, approximately $780 million of property and equipment for approximately 75 May and Macy's locations was transferred to assets held for sale upon store or facility closure. Property and equipment totaling approximately $730 million for approximately 65 store and other facility locations were subsequently disposed of, approximately $190 million of which was exchanged for other long-term assets. Assets held for sale are included in other assets on the Consolidated Balance Sheets.

During 2005, the Company recorded $194 million of integration costs associated with the acquisition of May, including $25 million of inventory valuation adjustments associated with the combination and integration of the Company's and May's merchandise assortments. $125 million of these costs related to impairment charges of certain Macy's locations planned to be disposed of. The remaining $44 million of May integration costs incurred in 2005 represented expenses associated with the preliminary planning activities in connection with the consolidation and integration of May's businesses with the Company's pre-existing businesses and included consulting fees, EDP system integration costs, travel and other costs.

The impairment charges for the Macy's locations to be disposed of were calculated based on the excess of historical cost over fair value less costs to sell. The fair values were determined based on prices of similar assets.

In connection with the allocation of the May purchase price in 2005, the Company recorded a liability for termination of May employees in the amount of $358 million, of which $69 million had been paid as of January 28, 2006.

During 2006, the Company recorded additional severance and relocation liabilities for May employees and severance liabilities for certain Macy's employees in connection with the integration of the acquired May businesses. Severance and relocation liabilities for May employees recorded prior to the one-year anniversary of the acquisition of May were allocated to goodwill and subsequent severance and relocation liabilities recorded for May employees and all severance liabilities for Macy's employees were charged to May integration costs.

The following table shows, for 2006, the beginning and ending balance of, and the activity associated with, the severance and relocation accrual established in connection with the May integration:

(Millions)	January 28, 2006	Allocated to Goodwill	Charged to May Integration Costs	Payments	February 3, 2007
Severance and relocation costs	$289	$76	$35	$(327)	$73

The Company expects to pay out the accrued severance and relocation costs, which are included in accounts payable and accrued liabilities on the Consolidated Balance Sheets, over the next two years.

Nonrecurring/Unusual Losses

3.61

THE ESTEE LAUDER COMPANIES INC. (JUN)

(In millions)	2006	2005	2004
Net sales	$6,463.8	$6,280.0	$5,741.5
Cost of sales	1,686.6	1,602.8	1,464.3
Gross profit	4,777.2	4,677.2	4,277.2
Operating expenses:			
Selling, general and administrative	4,065.5	3,950.4	3,609.5
Special charges related to cost savings initiative	92.1	—	—
Related party royalties	—	—	18.8
	4,157.6	3,950.4	3,628.3
Operating income	$ 619.6	$ 726.8	$ 648.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Cost Savings Initiative

During fiscal 2006, the Company recorded special charges associated with a cost savings initiative that was designed to support its long-term financial objectives. As part of this multi-faceted initiative, the Company has identified savings opportunities that include streamlined processes and organizational changes. The principal component of the initiative is a voluntary separation program offered primarily to North America-based employees. During the fourth quarter of fiscal 2006, involuntary separations were communicated to certain employees. Under this initiative, the Company incurred expenses related to one-time termination benefits for 494 employees, of which 28 were involuntary, which benefits were based principally upon years of service.

In addition, the Company identified other cost savings opportunities to improve efficiencies in the Company's distribution network and product offerings and to eliminate other nonessential costs. These charges primarily related to employee severance for facilities that are closing, contract cancellations, counter and door closings and product returns.

For the year ended June 30, 2006, aggregate expenses of $92.1 million were recorded as special charges related to the cost savings initiative in the accompanying consolidated statement of earnings. At June 30, 2006, $40.7 million and $28.2 million related to the cost savings initiative were recorded in other accrued liabilities and other noncurrent liabilities, respectively, in the accompanying consolidated balance sheet.

The following table summarizes the cost savings initiative, which impacted, and will continue to impact, the Company's operating expenses and cost of sales:

(In millions)	Fiscal 2006 Expense	Fiscal 2006 Payments	Accrued at June 30, 2006
Employee separation expenses	$75.9	$20.7	$55.2
Facility closures and product/distribution rationalization	12.5	—	12.5
Advertising and promotional effectiveness	3.7	2.5	1.2
	$92.1	$23.2	$68.9

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

3.62 SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, states the disclosure requirements for pensions and other postretirement benefits. *SFAS No. 132* does not supersede SFAS No. 87, *Employers' Accounting for Pensions*, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments and for Termination Benefits*, or SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, with respect to the measurement or recognition of pensions and other postretirement benefits. In December 2003, the FASB issued SFAS No. 132 (Revised), *Employers' Disclosures about Pensions and Other Postretirement Benefits—Revised. SFAS No. 132 (Revised)* retains the disclosure requirements contained in *SFAS No. 132*, which it replaces. The revised Statement requires additional disclosures to those contained in the original *SFAS No. 132* about the assets, obligations, cash flows, investment strategy, and net periodic benefit cost of defined pension and postretirement plans. *SFAS No. 132 (Revised)* is effective for financial statements with fiscal years ending after December 15, 2003.

3.63 The disclosure requirements of *SFAS No. 132* include, but are not limited to, disclosing the actuarial assumption rates used in accounting for pensions and other postretirement benefits. *SFAS No. 132* also requires disclosure of the assumed health care cost trend rate for other postretirement benefits. In addition, *SFAS No. 132 (Revised)*, requires disclosure of the allocation by major category of plan assets. Tables 3–8, 3–9 and 3–10 show the actuarial assumption rates used by the survey companies in accounting for pension benefits. Table 3–11 shows the health care cost trend rate used by the survey companies in 2006 to account for other postretirement benefits. Table 3–12 shows the asset allocations in 2006 of the 428 survey companies that disclosed the plan asset allocation of their defined benefit pension plan.

3.64 SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, amends the recognition, measurement date, and disclosure requirements of *SFAS No. 87, SFAS No. 106*, and *SFAS No. 132 (Revised). SFAS No. 158* requires that a business entity recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position, recognize changes in that funded status in comprehensive income, and disclose in the notes to financial statements additional information about net periodic benefit cost. *SFAS No. 158* requires a business entity to recognize as components of other comprehensive income the gains or losses and prior service costs or credits that arise during a period but are not recognized in the income statement as components of net periodic benefit cost of a period pursuant to *SFAS No. 87* or *SFAS No. 106*. Those amounts recognized in accumulated other comprehensive income, including the transition asset or obligation remaining from the initial application of *SFAS No. 87* and *SFAS No. 106*, are adjusted as they are subsequently recognized in the income statement as components of net periodic benefit cost pursuant to the recognition and amortization provisions of *SFAS No. 87* and *SFAS No. 106*. Additionally, *SFAS No. 158* requires that a business entity measure plan assets and benefit obligations as of the date of its fiscal year-end statement of financial position. An employer whose equity securities are traded publicly is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures for their financial statements issued for fiscal years ending after December 15, 2006. The measurement-date requirement is effective for fiscal years ending after December 15, 2008, and shall not be applied retrospectively. Examples of pension and other postretirement benefit presentations follow. Examples of the funded status of a benefit plan recognized under *SFAS No. 158* as an asset or liability in the statement of financial position are presented in Section 2 under "Other Noncurrent Assets," "Employee-Related Liabilities," and "Other Noncurrent Liabilities."

3.65 Examples of pension and other postretirement benefit presentations follow. Examples of the funded status of a benefit plan recognized under *SFAS No. 158* as an asset or liability in the statement of financial position are presented in Section 2 under "Other Noncurrent Assets," "Employee-Related Liabilities," and "Other Noncurrent Liabilities."

3.66

TABLE 3-8: ASSUMED DISCOUNT RATE

%	2006	2005	2004	2003
4.5 or less	13	10	7	4
5	43	29	10	7
5.5	283	182	42	11
6	90	185	339	145
6.5	5	13	28	210
7	—	1	4	46
7.5	—	—	—	—
8	1	—	—	—
8.5	—	—	—	—
9	1	—	—	—
9.5	—	—	—	—
10	—	—	—	—
10.5	—	—	—	—
11 or greater	—	—	—	—
Not disclosed	5	8	4	7
Companies Disclosing Defined Benefit Plans	**441**	**428**	**434**	**430**

3.67

TABLE 3-9: ASSUMED RATE OF COMPENSATION INCREASE

%	2006	2005	2004	2003	2002
4.5 or less	336	345	334	339	317
5	26	25	44	40	52
5.5	8	7	7	9	11
6	8	7	7	7	8
6.5	2	—	—	1	1
7	—	—	—	—	—
7.5	1	1	1	2	3
8	—	—	1	—	—
8.5	—	2	3	1	—
9	—	—	—	—	—
9.5	—	—	—	—	1
10	—	—	1	1	—
10.5	—	—	—	—	—
11 or greater	—	—	—	—	1
Not disclosed	60	41	36	30	28
Companies Disclosing Defined Benefit Plans	**441**	**428**	**434**	**430**	**422**

3.68

TABLE 3-10: EXPECTED RATE OF RETURN

%	2006	2005	2004	2003
4.5 or less	4	2	8	4
5	1	1	2	2
5.5	4	1	2	1
6	8	10	8	3
6.5	10	4	9	7
7	24	22	21	18
7.5	46	37	29	25
8	124	98	89	80
8.5	157	175	172	157
9	36	52	70	101
9.5	5	5	7	12
10	—	1	1	3
10.5	—	—	—	1
11 or greater	—	—	—	1
Not disclosed	22	20	16	15
Companies Disclosing Defined Benefit Plans	**441**	**428**	**434**	**430**

3.69

TABLE 3-11: HEALTH CARE COST TREND RATE—2006

%	All Participants	Participants Under Age 65	Participants Age 65 and Over
5.5 or less	10	—	—
6–6.5	5	1	1
7–7.5	15	2	1
8–8.5	49	6	4
9–9.5	116	16	4
10–10.5	81	4	11
11–11.5	22	3	7
12–12.5	6	—	2
13–13.5	3	—	—
14 or greater	—	—	—
Fixed amount (not subject to escalation)	10	—	2
Companies Disclosing Rate	**317**	**32**	**32**

3.70

TABLE 3-12: PLAN ASSET ALLOCATION—2006

%	Equity	Debt	Real Estate	Cash & Equivalents	Other
			Asset Category		
81–100	8	6	—	1	1
61–80	283	2	—	—	—
41–60	104	35	—	3	3
21–40	17	298	1	6	14
1–20	3	76	129	95	181
None	13	11	298	323	229
Companies Disclosing Asset Allocation	**428**	**428**	**428**	**428**	**428**

Defined Benefit Plans

3.71

AK STEEL HOLDING CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Pension and Other Postretirement Benefits Accounting

Under its method of accounting for pension and other postretirement benefit plans, the Company recognizes into income, as a non-cash fourth quarter adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the "corridor". Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. The Company adopted this method of accounting for pension and other postretirement benefit obligations as a result of its merger with Armco Inc. in 1999. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rates, which affect the discount rates used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year. For other postretirement benefit plans, increases in healthcare trend rates that outpace discount rates could cause unrecognized net losses to increase to the point that an outside-the-corridor charge would be necessary. By immediately recognizing net gains and losses outside the corridor, the Company's accounting method limits the amounts by which balance sheet assets and liabilities differ from economic net assets or obligations related to the plans. In 2006, a significant number of retirements at the Company's Middletown Works, higher health care costs and change in assumptions led the Company to record a fourth quarter corridor charge of $133.2, which related to its other postretirement benefit plans. The fourth quarter non-cash corridor charges were $54.2 and $330.8 in 2005 and 2004, respectively. In September 2006, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)", ("FAS 158") which requires the Company to fully recognize and disclose an asset or liability for the overfunded or underfunded status of its benefit plans in financial statements as of December 31, 2006. The adoption of FAS 158 resulted in a reduction of $32.9 in intangible assets, a decrease in pension and other postretirement benefit liabilities of $159.8 and an increase to equity of $142.7, net of tax. FAS 158 will require the Company to change its measurement date from October 31 to December 31 effective December 31, 2008.

During 2005, higher health care costs and change in assumptions resulted in a net actuarial loss in excess of the corridor for other postretirement benefit plans and led to the charge of $54.2.

Pension and Other Postretirement Benefits

The Company provides a noncontributory pension and various healthcare and life insurance benefits to most employees and retirees. The major pension plans are not fully funded and, based on current assumptions, $180.0 in contributions to the qualified pension plan trusts are required in 2007. Of this total of $180.0 in required contributions, $75.0 was made in the first quarter of 2007, leaving $105.0 to be made during the remainder of 2007. The Company made $209.0 in contributions during 2006. In 2007, the Company expects approximately $173.8 in other postretirement benefit payments. These payments will be offset by an estimate of $13.5 in Medicare Part D Employer Subsidy. The schedules below

include amounts for the Company's continuing operations as well as its discontinued operations, based on a benefit obligation and asset valuation measurement date of October 31.

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Change in benefit obligations:				
Benefit obligations at beginning of year	$ 3,738.0	$ 3,830.1	$ 2,243.9	$ 2,329.5
Service cost	28.4	29.3	15.2	18.2
Interest cost	208.7	210.6	124.1	129.4
Plan participants' contributions	—	—	28.6	30.4
Actuarial loss	99.1	5.1	132.6	60.7
Amendments	12.2	2.3	(254.8)	(140.1)
Curtailment	(2.4)	(9.7)	—	—
Benefits paid	(340.1)	(329.7)	(186.0)	(184.2)
Benefit obligations at end of year	$ 3,743.9	$ 3,738.0	$ 2,103.6	$ 2,243.9
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 2,519.4	$ 2,484.3	$ 25.0	$ 25.2
Actual gain on plan assets	343.8	212.1	—	—
Employer contributions	214.9	152.7	157.0	153.6
Plan participants' contributions	—	—	28.6	30.4
Benefits paid	(340.1)	(329.7)	(186.0)	(184.2)
Fair value of plan assets at end of year	$ 2,738.0	$ 2,519.4	$ 24.6	$ 25.0
Funded status	$(1,005.9)	$(1,218.6)	$(2,079.0)	$(2,218.9)
Amounts recognized in the consolidated balance sheets as of December 31, 2006:				
Current liabilities	$ (2.4)	—	$ (154.9)	—
Noncurrent liabilities	(1,003.5)	—	(1,924.1)	—
Net amount recognized	$(1,005.9)	—	$(2,079.0)	—
Funded status and net amounts recognized in the consolidated balance sheets as of December 31, 2005:				
Plan assets less than benefit obligation	—	$(1,218.6)	—	$(2,218.9)
Unrecognized net actuarial loss	—	345.2	—	224.4
Unrecognized prior service cost (benefit)	—	39.9	—	(182.9)
Net amount recognized	—	$ (833.5)	—	$(2,177.4)
Amounts recognized in the consolidated balance sheets as of December 31, 2005:				
Accrued benefit liability	—	$(1,175.3)	—	$(2,177.4)
Intangible asset	—	39.6	—	—
Accumulated other comprehensive income	—	302.2	—	—
Net amount recognized	—	$ (833.5)	—	$(2,177.4)
Amounts recognized in accumulated other comprehensive income as of December 31, 2006:				
Net loss	$ 282.1	—	$ 210.4	$ —
Prior service cost (credit)	36.4	—	(401.2)	—
Net amount recognized	$ 318.5	—	$ (190.8)	$ —

In September 2006, the FASB issued FAS 158 which requires the Company to fully recognize and disclose as asset or liability for the overfunded or underfunded status of its benefit plans in financial statements as of December 31, 2006. The adoption of FAS 158 resulted in a reduction of $32.9 in intangible assets, a decrease in pension and other postretirement benefit liabilities of $159.8 and an increase to equity of $142.7, net of tax. FAS 158 will require the Company to change its measurement date from October 31 to December 31 effective December 31, 2008.

The following table presents the incremental effect of applying FAS 158 on individual line items in the consolidated statement of financial position at December 31, 2006:

	Before Application of FAS 158	Adjustments	After Application of FAS 158
Deferred tax asset	$ 421.6	$ 15.8	$ 437.4
Other intangible assets	33.2	(32.9)	0.3
Total assets	5,534.7	(17.1)	5,517.6
Pension and other postretirement benefit obligations	3,087.4	(159.8)	2,927.6
Total liabilities	5,260.4	(159.8)	5,100.6
Accumulated other comprehensive income	(147.8)	142.7	(5.1)
Total stockholders' equity	274.3	142.7	417.0

The accumulated benefit obligation for all defined benefit pension plans was $3,698.9 and $3,685.1 at December 31, 2006 and 2005, respectively.

The curtailment in 2006 relates to the new labor contract negotiated recently with the UAW represented employees at the Company's Zanesville and Butler Works. Under that agreement, the existing defined benefit pension was "locked and frozen" as of July 31, 2006 and November 30, 2006, respectively, with subsequent Company pension contributions being made to Defined Contribution plans. The curtailment in 2005 relates to the labor contract negotiated with the United Steelworkers' represented employees at the Company's Ashland Works in October 2005. Under this agreement, the existing defined benefit pension was "locked and frozen" as of January 1, 2006, with subsequent pension contributions being made to the Steelworkers Pension Trust.

The following table presents future benefit payments to beneficiaries:

	Pension Plans	Other Benefits	Medicare Subsidy
2007	$ 336.7	$ 173.8	$ (13.5)
2008	328.1	180.5	(14.4)
2009	319.5	185.6	(15.5)
2010	311.0	185.2	(16.5)
2011	302.8	183.4	(17.4)
2012 through 2016	1,408.3	859.9	(87.1)
Total	$3,006.4	$1,768.4	$(164.4)

Year-end assumptions used to value current year assets and liabilities and determine subsequent year expenses are as follows:

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Expected return on plan assets	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Subsequent year healthcare cost trend rate	—	—	—	9.00%	9.00%	10.00%
Ultimate healthcare cost trend rate	—	—	—	4.50%	4.50%	4.50%
Year ultimate healthcare cost trend rate begins	—	—	—	2012	2011	2011

For measurement purposes, healthcare costs are assumed to increase 9% during 2007, after which this rate decreases 1% per year until reaching the ultimate trend rate of 4.5% in 2012.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. The fixed-income data as of the measurement date was obtained from Bloomberg. Constraints were applied with respect to callability (callable bonds with explicit call schedules were excluded; bonds with "make-whole" call provisions were included), and credit quality (rated Aa or better by Moody's Investor Service).

The following relates to pension plans with an accumulated benefit obligation in excess of plan assets.

	2006	2005
Projected benefit obligation	$3,743.9	$3,738.0
Accumulated benefit obligation	3,698.9	3,685.1
Fair value of plan assets	2,738.0	2,519.4

Pension and other postretirement benefit plan assets are invested in master trusts comprised primarily of investments in indexed and enhanced index funds. A fiduciary committee establishes the target asset mix and monitors asset performance. The expected rate of return on assets includes the determination of a real rate of return for equity and fixed income investments applied to the portfolio based on their relative weighting, increased by an underlying inflation rate. In 2006 and 2005, other postretirement benefit plan assets included 100% fixed income securities.

The current target and actual allocation of pension plan assets by major investment category as of the end of 2006 and 2005 were as follows:

		Actual at October 31	
	Target	2006	2005
Domestic and international equities	60%	59%	59%
Fixed income securities	39%	36%	39%
Other	1%	5%	2%
Total	100%	100%	100%

The components of net periodic benefit costs for the years 2006, 2005 and 2004 are as follows:

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Components of net periodic benefit cost:						
Service cost	$ 28.4	$ 29.3	$ 32.1	$ 15.2	$ 18.2	$ 15.3
Interest cost	208.7	210.6	222.1	124.1	129.4	121.9
Expected return on plan assets	(207.4)	(207.6)	(204.5)	(0.1)	—	—
Amortization of prior service cost	5.3	8.9	12.6	(36.5)	(12.3)	(9.8)
Recognized net actuarial loss						
Annual amortization	22.9	30.3	45.0	13.2	15.0	6.6
Fourth quarter corridor charge	—	—	132.6	133.2	54.2	198.2
Settlement/curtailment loss	10.8	12.9	5.4	—	—	—
Net periodic benefit cost	$ 68.7	$ 84.4	$ 245.3	$249.1	$204.5	$332.2

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $16.7 and $5.1, respectively. The estimated net loss and prior service credit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $13.0 and $53.8, respectively.

The fourth quarter corridor charges were recorded to recognize net actuarial losses outside the 10% corridor under the Company's method of accounting for pensions and other postretirement benefits as described in Note 1.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one-percentage-point change in the assumed healthcare cost trend rates would have the following effects:

	One Percentage Point	
	Increase	Decrease
Effect on total service cost and interest cost components	$ 14.6	$ (12.1)
Effect on postretirement benefit obligation	164.8	(140.0)

In addition to defined benefit pension plans, most employees are eligible to participate in various defined contribution plans. Total expense related to these plans was $5.0 in 2006, $6.6 in 2005 and $5.8 in 2004.

On December 8, 2003, the United States government enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act"). Among other

provisions, the Medicare Act provides a federal subsidy to sponsors of retiree healthcare benefit plans that include a qualified prescription drug benefit. The Company sponsors such a plan. Because its benefit plan's measurement date preceded the effective date of the Medicare Act, the Company was not permitted to recognize the effects of the Medicare Act until February 8, 2004. The Company recognized a reduction in net periodic benefit costs related to these savings of approximately $35.6 in 2006 and $23.0 in 2005.

On November 20, 2006, members of the United Steelworkers (USW) ratified a new four-year labor agreement covering approximately 300 hourly production and maintenance employees at the Company's Mansfield, OH Works. Under the agreement, the existing defined benefit pension plan was "locked and frozen" as of January 1, 2007 with subsequent contributions to the Steelworker's Pension Trust fund. As a result, the Company is required to recognize the past service pension expense that previously would have been amortized. A $15.1 pre-tax charge related to this past service pension expense will be recognized in the first quarter of 2007. The new contract expires on March 31, 2011.

On July 21, 2006, members of the United Auto Workers (UAW) ratified a new six-year labor agreement covering approximately 1,400 hourly production and maintenance employees at its Butler, PA Works. The new agreement provides work force flexibility, no minimum workforce guarantee, current and future retiree healthcare cost sharing, competitive wage increases and a "lock and freeze" of the traditional defined benefit plan, which will be replaced by a per-hour contribution to a defined contribution plan. As a result of the pension plan change, the Company was required to recognize the past service pension expense that previously would have been amortized.

On May 9, 2006, members of the United Auto Workers (UAW) ratified a new six-year labor agreement covering approximately 200 hourly production and maintenance employees at its Zanesville, OH Works. The new agreement provides work force flexibility, no minimum workforce guarantee, current and future retiree healthcare cost sharing, competitive wage increases and a "lock and freeze" of the traditional defined benefit plan, which will be replaced by a per-hour contribution to a defined contribution plan. As a result of the pension plan change, the Company was required to recognize the past service pension expense that previously would have been amortized.

As a result of the ratification of the new labor contracts at Zanesville Works and Butler Works, the Company incurred one-time charges in the third quarter of 2006 of $15.8. The principal component of these charges was a non-cash curtailment charge of $10.8 resulting from the "lock and freeze" of the traditional defined benefit plan at Butler Works and Zanesville Works.

On September 26, 2005, members of United Steelworkers of America ("USW") Local 1865 ratified a new five-year labor agreement covering about 750 hourly production and maintenance employees at the Company's Ashland Works in Kentucky. The 2005 results were negatively affected by approximately $7.0 in charges associated with the implementation of this new collective bargaining agreement. These charges related primarily to the establishment of a voluntary employees' beneficiary association ("VEBA"). Under the agreement, the Company's contribution for retiree health care is capped at the 2008 amount. Also, under that agreement, the existing defined benefit pension plan was "locked and frozen" as of January 1, 2006, with subsequent Company pension contributions being made to the Steelworkers Pension Trust. As a result, the Company is required to recognize the past service pension expense that previously would have been amortized. The fourth quarter pre-tax charge related to this past service pension expense was $12.9. Also included in the agreement is a provision for increased active and retiree healthcare cost-sharing.

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BRISTOL-MYERS SQUIBB COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Recently Issued Accounting Standards (In Part)

In September 2006, the FASB issued Statement SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This pronouncement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. This pronouncement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The pronouncement does not require prior periods to be restated to reflect the impact of SFAS No. 158. The Company adopted SFAS No. 158 in the fiscal year ended December 31, 2006 and the adoption of this accounting pronouncement resulted in a $1,064 million reduction of accumulated OCI in stockholders' equity, a $767 million reduction in total assets and a $297 million increase in total liabilities. The adoption of SFAS No. 158 did not impact the Company's results of operations or cash flows.

Note 20 (In Part): Pension and Other Postretirement Benefit Plans

The Company and certain of its subsidiaries have defined benefit pension plans, defined contribution plans, and termination indemnity plans for regular full-time employees. The principal pension plan is the Bristol-Myers Squibb Retirement Income Plan in the U.S. The funding policy is to contribute amounts to provide for current service and to fund past service liability. Plan benefits are based primarily on the participant's years of credited service and compensation. Plan assets consist principally of equity and fixed-income securities.

The Company also provides comprehensive medical and group life benefits for substantially all U.S. retirees who elect to participate in its comprehensive medical and group life plans. The medical plan is contributory. Contributions are adjusted periodically and vary by date of retirement and the original retiring Company. The life insurance plan is noncontributory. Plan assets consist principally of equity and fixed-income securities. Similar plans exist for employees in certain countries outside of the U.S.

The Company adopted SFAS No. 158 in the fiscal year ended December 31, 2006, resulting in a $1,064 million

reduction of accumulated OCI in stockholders' equity, a $767 million reduction in total assets and a $297 million increase in total liabilities. The impact of the adoption is summarized as follows:

		SFAS No. 158 Adjustments			
(Dollars in millions)	Pre SFAS No. 158	Pre-Tax	Tax	Net	Post SFAS No. 158
Current assets:					
Deferred income taxes	$ 573	$ —	$ 76	$ 76	$ 649
Non-current assets:					
Deferred income taxes	2,139	—	438	438	2,577
Prepaid pension	1,324	(1,324)	—	(1,324)	—
Other assets	299	43	—	43	342
Current liabilities:					
Accrued expenses	2,251	81	—	81	2,332
U.S. and foreign income taxes payable	445	—	(1)	(1)	444
Non-current liabilities:					
Other liabilities	327	269	(52)	217	544
Stockholders' equity:					
Accumulated other comprehensive loss	(581)	(1,631)	567	(1,064)	(1,645)

Cost of the Company's deferred benefits and postretirement benefit plans included the following components:

	Pension Benefits			Other Benefits[(a)]		
(Dollars in millions)	2006	2005	2004	2006	2005	2004
Service cost—benefits earned during the year	$ 238	$ 223	$ 180	$ 9	$ 9	$ 8
Interest cost on projected benefit obligation	326	314	295	34	36	37
Expected return on plan assets	(410)	(361)	(355)	(22)	(20)	(18)
Net amortization and deferral	179	216	157	1	3	—
Net periodic benefit cost	333	392	277	22	28	27
Curtailments and settlements	(1)	—	(1)	—	—	—
Total net periodic benefit cost	$ 332	$ 392	$ 276	$ 22	$ 28	$ 27

(a) The Company has recognized the impact of the Medicare Prescription Drug Improvement and Modernization Act of 2003 in 2006, 2005 and 2004, and in accordance with FSP No. 106-2, recorded $11 million, $11 million and $8 million in 2006, 2005 and 2004, respectively, as a reduction in net periodic benefit costs.

The estimated net actuarial loss and prior service cost that will be amortized from accumulated OCI into net periodic benefit cost in 2007 are:

(Dollars in millions)	Pension Benefits	Other Benefits
Amortization of net actuarial loss	$133	$ 6
Amortization of prior service cost	11	(3)
	$144	$ 3

Changes in benefit obligations, plan assets, funded status and amounts recognized on the balance sheet as of and for the years ended December 31, 2006 and 2005, for the Company's defined benefit and postretirement benefits plans, were as follows:

	Pension Benefits		Other Benefits	
(Dollars in millions)	2006	2005	2006	2005
Benefit obligation at beginning of year	$5,918	$5,481	$ 643	$ 646
Service cost—benefits earned during the year	238	223	9	9
Interest cost on projected benefit obligation	326	314	34	36
Plan participants' contributions	3	3	12	8
Curtailments and settlements	(2)	(2)	—	—
Actuarial losses/(gains)	10	400	27	17
Plan amendments	7	—	—	—
Retiree drug subsidy received	—	—	6	—
Benefits paid	(432)	(386)	(81)	(73)
Exchange rate (gains)/losses	118	(115)	1	—
Benefit obligation at end of year	$6,186	$5,918	$ 651	$ 643
Fair value of plan assets at beginning of year	$5,017	$4,602	$ 253	$ 230
Actual return on plan assets	649	469	38	23
Employer contribution	325	423	63	65
Plan participants' contributions	3	3	12	8
Settlements	—	(1)	—	—
Retiree drug subsidy received	—	—	6	—
Benefits paid	(432)	(386)	(81)	(73)
Exchange rate (losses)/gains	96	(93)	—	—
Fair value of plan assets at end of year	$5,658	$5,017	$ 291	$ 253
Funded status	$ (528)	$ (901)	$(360)	$(390)
Unamortized net obligation at adoption	—	2	—	—
Unrecognized prior service cost	—	61	—	(27)
Unrecognized net actuarial loss	—	2,067	—	108
Net amount recognized	$ (528)	$1,229	$(360)	$(309)
Amounts recognized in the balance sheet consist of:				
Prepaid pension (prepaid benefit cost)	$ —	$1,324	$ —	$ —
Other assets	45	2	—	—
Accrued expenses	(25)	—	(56)	—
Pension and other postretirement liabilities (accrued benefit cost)	(548)	(423)	(304)	(309)
Accumulated other comprehensive loss	—	326	—	—
Net amount recognized	$ (528)	$1,229	$(360)	$(309)
Amounts recognized in accumulated other comprehensive loss				
Net actuarial loss	$1,711	$ —	$ 117	$ —
Net obligation at adoption	2	—	—	—
Prior service cost	55	—	(24)	—
	$1,768	$ —	$ 93	$ —

Several plans had underfunded accrued benefit obligations that exceeded their accrued benefit liabilities at December 31, 2006 and 2005. Additional minimum liabilities were established to increase the accrued benefit liabilities to the values of the underfunded accrued benefit obligations. The additional minimum liabilities totaled $232 million at December 31, 2006 prior to the adoption of SFAS No. 158, which were for a U.S. unfunded benefit equalization plan and several international plans. These liabilities were reversed upon the adoption of SFAS No. 158. The additional minimum liabilities totaled $328 million at December 31, 2005, which were offset by intangible assets of $2 million and charges to accumulated OCI included in stockholders' equity of $326 million.

The accumulated benefit obligation for all defined benefit pension plans was $5,422 million and $5,209 million at December 31, 2006 and 2005, respectively.

Information for pension plans with accumulated benefit obligations in excess of plan assets were as follows:

(Dollars in millions)	2006	2005
Projected benefit obligation	$1,328	$1,343
Accumulated benefit obligation	1,137	1,148
Fair value of plan assets	795	748

This is attributable primarily to an unfunded U.S. benefit equalization plan and several plans in the international markets. The unfunded U.S. benefit equalization plan provides pension benefits for employees with compensation above IRS limits and cannot be funded in a tax-advantaged manner.

Additional information pertaining to the Company's pension and postretirement plans were as follows:

	Pension Benefits			Other Benefits		
(Dollars in millions)	2006	2005	2004	2006	2005	2004
(Decrease)/Increase in minimum liability, including the impact of foreign currency fluctuations, included in other comprehensive income	$(96)	$(20)	$153	$—	$—	$—

Weighted-average assumptions used to determine benefit obligations at December 31, were as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5.74%	5.49%	5.73%	5.49%
Rate of compensation increase	3.63%	3.60%	3.60%	3.61%

Weighted-average actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, were as follows:

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.49%	5.57%	6.08%	5.49%	5.52%	6.01%
Expected long-term return on plan assets	8.39%	8.41%	8.73%	8.75%	8.75%	9.00%
Rate of compensation increase	3.60%	3.59%	3.57%	3.61%	3.59%	3.58%

At December 31, 2006, the Company's expected long-term rate of return on U.S. pension plan assets was 8.75%. The target asset allocation is 70% public equity (58% U.S., 12% international), 8% private equity and 22% fixed income. The 8.75% was approximated by applying expected returns of 9% on public equity, 15% on private equity and 6% on fixed income to the target allocation. The actual historical returns are also relevant. Annualized returns for periods ended December 31, 2006 were 9.3% for 10 years, 10.1% for 15 years and 10.5% for 20 years.

U.S. pension plan assets represented approximately 80% of total Company pension plan assets at December 31, 2005. The 8.39% disclosed above for total Company expected return on assets for 2006 is below the 8.75% for U.S. pension plans, due to the impact of international pension plans, which typically employ a less aggressive asset allocation.

An 8.75% expected return is disclosed for Other Benefits in 2006 as the relevant assets are invested in the same manner as U.S. pension plan assets and there are no international plan assets.

Assumed health care cost trend rates at December 31, were as follows:

	2006	2005	2004
Health care cost trend rate assumed for next year	9.87%	7.93%	8.93%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.49%	4.42%	4.51%
Year that the rate reaches the ultimate trend rate	2018	2012	2012

Assumed health care cost trend rates do have an effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point	
(Dollars in millions)	Increase	Decrease
Effect on total of service and interest cost	$1	$(1)
Effect on postretirement benefit obligation	25	(23)

The Company's asset allocation for pension and postretirement benefits at December 31, 2006 and 2005, were as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Public equity securities	67.2%	67.3%	69.2%	67.7%
Debt securities (including cash)	26.9	26.8	23.3	25.0
Private equity	5.6	5.6	7.2	7.1
Other	0.3	0.3	0.3	0.2
Total	100.0%	100.0%	100.0%	100.0%

The Company's investment strategy emphasizes equities in order to achieve high expected returns and, in the long run, low expense and low required cash contributions. For the U.S. pension plans, a target asset allocation of 70% public equity (58% U.S., 12% international), 8% private equity and 22% fixed income is maintained and cash flow (i.e., cash contributions, benefit payments) is used to rebalance back to the targets as necessary. Investments are very well diversified within each of the three major asset categories. About 40% of the U.S. equity is passively managed. Otherwise, all investments are actively managed.

Investment strategies for international pension plans are typically similar, although the asset allocations are usually more conservative.

Bristol-Myers Squibb Company common stock represents less than 1% of the plan assets at December 31, 2006 and 2005.

Assets for postretirement benefits are commingled with U.S. pension plan assets and, therefore, the investment strategy is identical to that described above for U.S. pension plans.

Contributions

Although no minimum contributions were required, the Company made cash contributions to the U.S. pension plans of $235 million, $318 million and $225 million in 2006, 2005 and 2004, respectively. The Company also plans to make a cash contribution to the U.S. pension plans in 2007.

When contributions are made to the U.S. pension plans, the Company may make tax-deductible contributions to the 401(h) account for retiree medical benefits equal to a portion of the pension normal cost.

Contributions to the international pension plans were $90 million, $105 million and $142 million in 2006, 2005 and 2004, respectively. Contributions to the international plans are now expected to be $70 to $90 million in 2007.

Estimated Future Benefit Payments

The following benefit payments for mainly the U.S. pension plans, which reflect expected future service, as appropriate, are expected to be paid:

		Other Benefits		
(Dollars in millions)	Pension Benefits	Gross	Medicare Subsidy	Net
2007	$ 309	$ 67	$ 8	$ 59
2008	328	67	9	58
2009	386	67	10	57
2010	391	67	11	56
2011	408	66	11	55
Years 2012–2016	2,493	313	57	256

3.73

THE HERSHEY COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Items Affecting Comparability (In Part)

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132 (R) ("SFAS No. 158"). SFAS No. 158 requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to:

- Recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other post-retirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated post-retirement benefit obligation.
- Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost.

- Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position.
- Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

We adopted the recognition and related disclosure provisions of SFAS No. 158 as of December 31, 2006. The impact of the adoption of SFAS No. 158 was as follows:

Incremental Effect of Applying SFAS No. 158 on Individual Line Items in the Consolidated Balance Sheet as of December 31, 2006

(In thousands of dollars)	Before Application of SFAS No. 158	Adjustments Increase (Decrease)	After Application of SFAS No. 158
Prepaid expenses and other current assets	$ 100,224	$ (12,406)	$ 87,818
Other assets	590,124	(143,940)	446,184
Total assets	4,313,911	(156,346)	4,157,565
Accrued liabilities	450,982	3,041	454,023
Other long-term liabilities	398,703	87,770	486,473
Deferred income taxes	395,188	(109,185)	286,003
Total liabilities	3,492,516	(18,374)	3,474,142
Accumulated other comprehensive loss	(217)	(137,972)	(138,189)
Total stockholders' equity	821,395	(137,972)	683,423

Pension and Other Post-Retirement Benefit Plans

We sponsor a number of defined benefit pension plans. Our policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 ("ERISA") and Federal income tax laws. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those plans.

We have two post-retirement benefit plans: health care and life insurance. The health care plan is contributory, with participants' contributions adjusted annually. The life insurance plan is non-contributory.

Effective December 31, 2006, we adopted SFAS No. 158. The provisions of SFAS No. 158 require that the funded status of our pension plans and the benefit obligations of our post-retirement benefit plans be recognized in our balance sheet. The provisions of SFAS No. 158 also revise employers' disclosures about pension and other post-retirement benefit plans. SFAS No. 158 does not change the measurement or recognition of these plans, although it does require that plan assets and benefit obligations be measured as of the balance sheet date. We have historically measured the plan assets and benefit obligations as of our balance sheet date.

Obligations and Funded Status

A summary of the changes in benefit obligations and plan assets is as follows:

	Pension Benefits		Other Benefits	
(In thousands of dollars)	2006	2005	2006	2005
Change in benefit obligation				
Projected benefits obligation at beginning of year	$1,116,214	$ 972,073	$ 355,878	$ 328,799
Service cost	55,759	49,065	5,718	5,149
Interest cost	58,586	55,181	19,083	18,115
Plan amendments	(32,471)	2,275	—	960
Actuarial (gain) loss	(39,506)	79,903	(12,308)	15,221
Special termination benefits	269	22,790	(50)	1,910
Curtailment (gain) loss	30	(6,319)	—	8,092
Medicare drug subsidy	—	—	1,540	—
Other	(345)	3,598	—	780
Benefits paid	(93,194)	(62,352)	(24,745)	(23,148)
Benefits obligation at end of year	1,065,342	1,116,214	345,116	355,878
Change in plan assets				
Fair value of plan assets at beginning of year	1,273,227	974,045	—	—
Actual return on plan assets	190,440	81,494	—	—
Employer contribution	23,570	277,492	23,205	23,148
Settlement	(288)	—	—	—
Medicare drug subsidy	—	—	1,540	—
Other	(454)	(2,548)	—	—
Benefits paid	(93,194)	(62,352)	(24,745)	(23,148)
Fair value of plan assets at end of year	1,393,301	1,273,227	—	—
Funded status at end of year	$ 327,959	157,013	$(345,116)	(355,878)
Unrecognized transition asset		48		—
Unrecognized prior service cost		37,582		(2,653)
Unrecognized net actuarial loss		314,071		84,704
Intangible asset		(1,447)		—
Accumulated other comprehensive loss—minimum pension liability		(5,395)		—
Net amount recognized		$ 501,872		$(273,827)

The accumulated benefit obligation for all defined benefit pension plans was $1.0 billion as of December 31, 2006 and $1.1 billion as of December 31, 2005.

We made total contributions of $23.6 million to the pension plans during 2006. In 2005, we contributed $277.5 million to the plans, primarily to improve the funded status. For 2007, there will be no minimum funding requirements for the domestic plans and minimum funding requirements for the non-domestic plans will not be material.

Amounts recognized in the Consolidated Balance Sheets consisted of the following:

	Pension Benefits		Other Benefits	
(In thousands of dollars)	2006	2005	2006	2005
Prepaid expenses and other	$ —	$ 14,867	$ —	$ —
Other assets	401,199	552,402	—	—
Accrued liabilities	(8,416)	(8,872)	(28,746)	(26,992)
Other long-term liabilities	(64,824)	(51,130)	(316,401)	(246,835)
Total	$327,959	$507,267	$(345,147)	$(273,827)

Amounts recognized in accumulated other comprehensive loss, net of tax, consisted of the following:

	Pension Benefits		Other Benefits	
(In thousands of dollars)	2006	2005	2006	2005
Actuarial net loss	$(104,959)	$ —	$(34,173)	$—
Net prior service (cost) credit	(611)	—	1,771	—
Minimum pension liability	—	(3,360)	—	—
Total	$(105,570)	$(3,360)	$(32,402)	$—

Plans with accumulated benefit obligations in excess of plan assets were as follows:

(In thousands of dollars)	2006	2005
Projected benefit obligation	$69,633	$187,911
Accumulated benefit obligation	61,542	149,840
Fair value of plan assets	15,275	91,140

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

Net periodic benefit cost for our pension and other post-retirement plans consisted of the following:

	Pension Benefits			Other Benefits		
(In thousands of dollars)	2006	2005	2004	2006	2005	2004
Service cost	$ 55,759	$ 49,065	$ 43,296	$ 5,718	$ 5,149	$ 4,898
Interest cost	58,586	55,181	52,551	19,083	18,115	18,335
Expected return on plan assets	(106,066)	(90,482)	(76,438)	—	—	—
Amortization of prior service cost (credit)	3,981	4,380	4,245	192	(1,279)	(1,507)
Amortization of unrecognized transition balance	59	392	139	—	—	—
Amortization of net loss	12,128	10,611	9,812	3,705	2,639	2,554
Administrative expenses	889	782	773	—	—	—
Net periodic benefit cost	25,336	29,929	34,378	28,698	24,624	24,280
Special termination benefits	269	22,792	—	—	1,910	—
Curtailment loss	49	785	—	113	7,874	—
Settlement loss	28	—	—	—	—	—
Total amount reflected in earnings	$ 25,682	$ 53,506	$ 34,378	$28,811	$34,408	$24,280

The Special Termination benefits charge and Curtailment Loss recorded during 2006 and 2005 were primarily associated with the Voluntary Workforce Reduction Programs, which we describe in more detail in Note 3, Business Realignment Initiatives.

Other amounts recognized in other comprehensive income and net periodic benefit cost before tax for our pension and other post-retirement plans consisted of the following:

	Pension Benefits			Other Benefits		
(In thousands of dollars)	2006	2005	2004	2006	2005	2004
Actuarial net loss	$175,148	$ —	$ —	$56,955	$ —	$ —
Prior service cost (credit)	1,018	—	—	(2,951)	—	—
Minimum pension liability	—	(5,395)	(1,878)	—	—	—
Total recognized in other comprehensive income	$176,166	$ (5,395)	$(1,878)	$54,004	$ —	$ —
Total recognized in net periodic benefit cost and other comprehensive income	$201,502	$24,534	$32,500	$82,702	$24,624	$24,280

The estimated amounts for the defined benefit pension plans and the post-retirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are as follows (in thousands):

	Pension Plans	Post-Retirement Benefit Plans
Amortization of net actuarial loss	$2,385	$2,192
Amortization of prior service cost (credit)	$2,227	$ (145)

Assumptions

Certain weighted-average assumptions used in computing the benefit obligations as of December 31, 2006 were as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5.7%	5.4%	5.7%	5.4%
Rate of increase in compensation levels	4.8%	4.8%	N/A	N/A

For measurement purposes as of December 31, 2006, we assumed a 9.0% annual rate of increase in the per capita cost of covered health care benefits for 2007, grading down to 5.25% by 2010. For measurement purposes as of December 31, 2005, we assumed a 10.5% annual rate of increase in the per capita cost of covered health care benefits for 2006, grading down to 5.25% by 2010.

Certain weighted-average assumptions used in computing net periodic benefit cost are as follows:

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.4%	5.7%	6.0%	5.4%	5.7%	6.0%
Expected long-term return on plan assets	8.5%	8.5%	8.5%	N/A	N/A	N/A
Rate of compensation increase	4.8%	4.8%	4.9%	N/A	N/A	N/A

We based the asset return assumption of 8.5% for 2006, 2005 and 2004 on current and expected asset allocations, as well as historical and expected returns on the plan asset categories. The historical geometric average return over the 19 years prior to December 31, 2006, was approximately 9.9%.

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

(In thousands of dollars)	One-Percentage Point Increase	One-Percentage Point (Decrease)
Impact of assumed health care cost trend rates		
Effect on total service and interest cost components	$ 2,896	$ (1,892)
Effect on post-retirement benefit obligation	12,636	(10,600)

Plan Assets

The following table sets forth the actual asset allocation and weighted-average target asset allocation for our U.S. and non-U.S. pension plan assets:

		Percentage of Plan Assets as of December 31,	
Asset Category	Target Allocation 2007	2006	2005
Equity securities	50–85%	75%	74%
Debt securities	15–50	23	24
Other	0–5	2	2
Total		100%	100%

Investment objectives for our domestic plan assets are:

- To optimize the long-term return on plan assets at an acceptable level of risk;
- To maintain a broad diversification across asset classes;
- To maintain careful control of the risk level within each asset class; and
- To focus on a long-term return objective.

Our Company complies with ERISA rules and regulations and we prohibit investments and investment strategies not allowed by ERISA. We do not permit direct purchases of our Company's securities or the use of derivatives for the purpose of speculation. We invest the assets of non-domestic plans in compliance with laws and regulations applicable to those plans.

Cash Flows

Information about the expected cash flows for our pension and other post-retirement benefit plans is as follows:

	Expected Benefit Payments					
(In thousands of dollars)	2007	2008	2009	2010	2011	2012–2016
Pension benefits	$85,494	$64,043	$59,706	$62,176	$60,665	$475,058
Other benefits	28,740	28,762	27,880	28,143	28,265	130,055

Defined Contribution Plans

3.74

THE COCA-COLA COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Pension and Other Postretirement Benefit Plans

Defined Contribution Plans

Our Company sponsors a qualified defined contribution plan covering substantially all U.S. employees. Under this plan, we match 100 percent of participants' contributions up to a maximum of 3 percent of compensation. Company contributions to the U.S. plan were approximately $25 million, $21 million and $18 million in 2006, 2005 and 2004, respectively. We also sponsor defined contribution plans in certain locations outside the United States. Company contributions to those plans were approximately $18 million, $16 million and $13 million in 2006, 2005 and 2004, respectively.

Supplemental Retirement Plans

3.75

NORDSTROM, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 10. Post-Retirement Benefits

We have an unfunded Supplemental Executive Retirement Plan ("SERP"), which provides retirement benefits to certain officers and select employees. This plan is non-qualified and does not have a minimum funding requirement.

We adopted Statement No. 158. *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"), effective February 3, 2007. The impact of the adoption of SFAS 158 is reflected within our consolidated financial statements as of February 3, 2007. SFAS 158 requires the recognition of a plan's overfunded or underfunded status as an asset or liability in the balance sheet and the recognition of changes in that funded status in the year in which the changes occur through comprehensive income. The incremental effect of applying SFAS 158 is disclosed as part of this footnote.

The following table reflects the effects of the adoption of SFAS 158 on our consolidated balance sheet as of February 3, 2007.

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Other assets	$ 184,449	$ 2,007	$ 186,456
Total assets	4,819,571	2,007	4,821,578
Other liabilities	228,564	11,636	240,200
Accumulated other comprehensive earnings (loss), net	1,049	(9,629)	(8,580)
Total shareholders' equity	2,178,150	(9,629)	2,168,521
Total liabilities and shareholders' equity	$4,819,571	$ 2,007	$4,821,578

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive earnings (pretax) as of February 3, 2007, included prior service cost of $(4,149) and accumulated loss of $(38,699). The amount included in accumulated other comprehensive income at January 28, 2006 was $32,032.

The change in benefit obligation and plan assets for 2006 and 2005 are as follows:

	2007	2006
Change in benefit obligation:		
Benefit obligation at end of prior year	$ 91,036	$ 69,598
Change in assumption	—	11,559
Benefit obligation at beginning of year	91,036	81,157
Participant service cost	2,270	1,763
Interest cost	5,331	4,748
Amendments	—	893
Benefits paid	(3,295)	(2,850)
Actuarial loss	2,394	5,325
Benefit obligation at end of year	$ 97,736	$ 91,036
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	$ 3,295	$ 2,850
Distributions	(3,295)	(2,850)
Fair value of plan assets at end of year	—	—
Underfunded status	$(97,736)	$(91,036)
Unrecognized prior service cost		5,198
Unrecognized net loss		39,258
Additional minimum liability		(37,230)
Net amount recognized		$(83,810)

The accumulated benefit obligation was $86,100 at February 3, 2007 and $83,810 at January 28, 2006.

Amounts recognized in the consolidated balance sheets consist of:

	2007	2006
Current liabilities	$ 4,425	$ 2,982
Noncurrent liabilities	93,311	43,598
Intangible asset included in other assets	—	5,198
Deferred tax asset	—	12,492
Accumulated other comprehensive loss, net of tax	—	19,540
Net amount recognized	$97,736	$83,810

The components of SERP expense and a summary of significant assumptions are as follows:

	2006	2005	2004
Participant service cost	$ 2,270	$ 1,763	$1,489
Interest cost	5,331	4,747	3,965
Amortization of net loss	2,953	2,615	1,543
Amortization of prior service cost	1,049	962	962
Total expense	$11,603	$10,087	$7,959
Assumption percentages:			
Discount rate	6.00%	6.00%	6.25%
Rate of compensation increase	4.00%	4.00%	4.00%
Measurement date	10/31/06	10/31/05	10/31/04

Beginning in fiscal 2008, we will measure our benefit obligation as of the fiscal year-end.

We used a discount rate for 2006 that was determined by constructing a hypothetical bond portfolio based on bonds available on October 31, 2006 rated "AA" or better by either Moody's or Standard & Poor's. This assumption was built to match the expected benefit payments under the SERP.

In 2005, we updated the post-retirement mortality table to better anticipate future experience and granted additional years of service for purposes of enhancing the SERP benefit for certain mid-career new hires. In addition, we updated our assumptions relating to bonus payments.

As of October 31, 2006, the expected future benefit payments based upon the assumptions described above and including benefits attributable to future employee service for the following periods are as follows:

2007	$ 4,425
2008	4,434
2009	4,474
2010	4,734
2011	4,879
2012–2016	32,494

In 2007, we expect $4,135 of costs currently in accumulated other comprehensive earnings to be recognized as components of net periodic benefit cost. This cost includes $1,049 for prior service cost and $3,086 for accumulated loss. We expect to make contributions to the plan of $4,425.

Multiemployer Plans

3.76

SCHNITZER STEEL INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Employee Benefits

Multiemployer Pension Plans

In accordance with collective bargaining agreements, the Company contributed to multiemployer pension plans $3 million per year during fiscal 2006, 2005, and 2004. The Company is not the sponsor or administrator of these multiemployer plans. Contributions were determined in accordance with provisions of negotiated labor contracts.

The Company learned during fiscal 2004 that one of the multiemployer plans of the Steel Manufacturing Business would not meet Employee Retirement Incentive Security Act of 1974 ("ERISA") minimum funding standards for the plan year ending September 30, 2004. The trustees of that plan applied to the Internal Revenue Service for certain relief from this minimum funding standard. The Internal Revenue Service ("IRS") indicated a willingness to consider granting the relief provided the plan's contributing employers, including the Company, agree to increased contributions. The increased contributions were estimated to average 6% per year, compounded annually, until the plan reaches the funded status required by the IRS. These increases were based on the Company's current contribution level to the plan of approximately $2 million per year. Based on commitments from the majority of employers participating in the Plan to make the increased contributions, the Plan Trustees proceeded with the relief request, and in August 2006 received formal approval from the IRS. Based on this approval, in the fourth fiscal quarter of 2006, the Company reversed approximately $1 million in charges that had been accrued in fiscal 2004 for the Company's estimated share of additional contributions or excise taxes that would have been required had the IRS approval not been received.

Amendment of Plan

3.77

GENERAL MOTORS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19 (In Part): Pensions and Other Postretirement Benefits

GM sponsors a number of defined benefit pension plans covering substantially all U.S. and Canadian employees as well as certain other non-U.S. employees. Plans covering U.S. and Canadian represented employees generally provide benefits of negotiated, stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age. The benefits provided by the plans covering U.S. and Canadian salaried employees and employees in certain other non-U.S. locations are generally based on years of service and compensation history. GM also has certain nonqualified pension plans covering executives that are based on targeted wage replacement percentages and are unfunded.

GM also sponsors defined contribution retirement savings plans for hourly and salaried employees. GM matches contributions for U.S. salaried employees up to certain predefined limits based upon eligible base salary. GM suspended the Corporation's match effective January 1, 2006. GM reinstated the match for U.S. salaried employees effective January 1, 2007. In addition to the GM Matching Contribution, GM makes a contribution equal to 1% of eligible base salary for U.S. salaried employees with a service date on or after January 1, 1993 to cover certain benefits in retirement that are different from U.S. salaried employees with a service date prior to January 1, 1993. The charge to expense for these U.S. salaried contributions was $11.7 million in 2006, $65.2 million in 2005, and $112.8 million in 2004. In addition, GM established a new GM contribution to its Savings Stock Purchase Program (S-SPP) for U.S. salaried employees with a length of service date on or after January 1, 2001 effective January 1, 2007. GM will automatically contribute an amount equal to 4% of eligible base salary under this program. GM also provides contributions to certain international defined contribution plans. These contributions are immaterial for all periods presented.

Additionally, GM maintains hourly and salaried benefit plans that provide postretirement medical, dental, vision, and life insurance to most U.S. and Canadian retirees and eligible dependents. The cost of such benefits is recognized in the consolidated financial statements during the period employees provide service to GM. Certain non-U.S. subsidiaries have postretirement benefit plans, although most participants are covered by government sponsored or administered programs. The cost of such programs generally is not significant to GM.

GM also provides post-employment extended disability benefits comprised of income security, health care, and life insurance to U.S. and Canadian employees who become disabled and can no longer actively work. The cost of such benefits is recognized during the period employees provide service.

In September 2006, the FASB issued SFAS No. 158, which requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements as of the year ending after December 15, 2006. GM recognized the funded status of its benefit plans at December 31, 2006. SFAS No. 158 also requires the measurement date for plan assets and liabilities to coincide with the sponsor's year end. GM has elected to early adopt the measurement-date provisions of SFAS No. 158, which requires new measurement dates coinciding with GM's year end for all plans, in 2007 using the "two-measurement" approach. Under this approach, GM will perform a measurement using the prior year year-end reporting covering the period between the previous measurement date and December 31, 2006, with the net benefit expense/income for that period recorded as an adjustment to beginning retained earnings at January 1, 2007. GM will then perform another measurement at January 1, 2007 to determine the net benefit expense/income that will be recorded in 2007. The changes in fair value of plan assets and benefit obligations between the prior measurement date and January 1, 2007 will be recorded as an adjustment to accumulated other comprehensive income, net of taxes at January 1, 2007. In adopting the

measurement date provisions in 2007. GM will record an adjustment to retained earnings of $0.7 billion and accumulated other comprehensive income of $2.1 billion as of January 1, 2007.

The incremental effect of applying the recognition provisions of SFAS No. 158 on the individual line items in the consolidated balance sheet as of December 31, 2006 are as follows:

(Dollars in millions)	Prior to Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes and other current assets	$ 1,122	$ 10,835	$ 11,957
Intangible assets, net	1,578	(460)	1,118
Prepaid pension	33,949	(16,583)	17,366
Total assets	192,400	(6,208)	186,192
Accrued expenses	38,842	(3,617)	35,225
Postretirement benefits other than pensions	36,050	14,036	50,086
Pensions	11,541	393	11,934
Other liabilities and deferred income taxes	16,031	(74)	15,957
Total liabilities	179,705	10,738	190,443
Accumulated other comprehensive loss	(5,108)	(16,946)	(22,126)
Total stockholders' equity	11,505	(16,946)	(5,441)
Total liabilities, minority interests and stockholders' equity	$192,400	$ (6,208)	$186,192

GM's funding policy with respect to its qualified pension plans is to contribute annually not less than the minimum required by applicable law and regulations, or to directly pay benefit payments where appropriate. GM made pension contributions to the U.S. hourly and salaried, other U.S., and non-U.S. pension plans, or made direct payments where appropriate, as follows:

(Dollars in millions)	2006	2005	2004
U.S. hourly and salaried	$ 2	$ —	$ —
Other U.S.	78	125	117
Non-U.S.	889	708	802

In 2007, GM does not have any contributions due for its U.S. hourly or salaried pension plans. GM does not expect to make any discretionary contributions into the U.S. hourly and salaried pension plans in 2007. GM expects to contribute or pay benefits of approximately $100 million to its other U.S. pension plans and $600 million to its primary non-U.S. pension plans, which include GM of Canada Limited, Adam Opel, and Vauxhall.

GM contributes to its U.S. hourly and salaried Voluntary Employees Beneficiary Association (VEBA) trusts for OPEB plans. There were no contributions made by GM to the VEBA trust during 2006 and 2005. Contributions by participants to the other OPEB plans were $129 million, $89 million and $87 million for 2006, 2005 and 2004, respectively. GM withdrew a total of $4.1 billion and $3.2 billion from plan assets of its VEBA trusts for OPEB plans in 2006 and 2005, respectively.

GM uses a December 31 measurement date for the majority of its U.S. pension plans and a September 30 measurement date for U.S. OPEB plans. GM's measurement dates for its Canadian, Adam Opel and Vauxhall Motors primary pension plans are November 30, September 30 and September 30, respectively. GM's measurement dates for its Canadian and South African OPEB plans are December 31. As discussed above, with the adoption of the measurement-date provisions of SFAS No. 158 in 2007, all plans will have a December 31 measurement date which coincides with GM's year-end.

	U.S. Plans Pension Benefits		Non-U.S. Plans Pension Benefits		U.S. Other Benefits		Non-U.S. Other Benefits*	
(Dollars in millions)	2006	2005	2006	2005	2006	2005	2006	2005
Change in benefit obligations								
Benefit obligation at beginning of year	$ 89,133	$90,760	$ 20,850	$ 18,056	$ 81,181	$ 73,772	$ 3,760	$ 3,702
Service cost	727	1,117	484	345	551	702	53	50
Interest cost	4,965	4,883	967	965	3,929	4,107	190	218
Plan participants' contributions	19	22	30	27	129	88	—	1
Amendments	(1,950)	(65)	(669)	113	(15,091)	—	—	—
Actuarial (gains) losses	(3,682)	(975)	524	2,233	(6,468)	6,720	(145)	(200)
Benefits paid	(7,013)	(6,695)	(1,049)	(922)	(3,945)	(4,208)	(133)	(118)
Exchange rate movements	—	—	1,250	(942)	—	—	—	—
Curtailments, settlements, and other	3,233	86	151	975	4,012	—	(18)	107
Benefit obligation at end of year	85,422	89,133	22,538	20,850	64,298	81,181	3,707	3,760
Change in plan assets								
Fair value of plan assets at beginning of year	95,250	90,886	10,063	9,023	20,282	16,016	—	—
Actual return on plan assets	13,384	10,924	1,280	1,382	1,834	2,258	—	—
Employer contributions	80	125	810	645	(5,177)	2,008	—	—
Plan participants' contributions	19	22	30	27	—	—	—	—
Benefits paid	(7,013)	(6,695)	(1,049)	(922)	—	—	—	—
Exchange rate movements	—	—	435	(119)	—	—	—	—
Curtailments, settlements, and other	(328)	(12)	(63)	27	—	—	—	—
Fair value of plan assets at end of year	101,392	95,250	11,506	10,063	16,939	20,282	—	—
Funded status[1]	15,970	6,117	(11,032)	(10,787)	(47,359)	(60,899)	(3,707)	(3,760)
Unrecognized actuarial loss	—	25,538	—	6,554	—	30,592	—	1,698
Unrecognized prior service cost (credit)	—	4,616	—	770	—	(714)	—	(584)
Unrecognized transition obligation	—	—	—	28	—	—	—	—
Employer contributions/withdrawals in fourth quarter	—	—	142	63	(60)	(1,176)	—	—
Benefits paid in fourth quarter	—	—	—	—	755	846	—	—
Curtailments and settlements in fourth quarter	—	—	17	—	—	—	—	—
Net amount recognized	$ 15,970	$36,271	$(10,873)	$ (3,372)	$(46,654)	$(31,351)	$(3,707)	$(2,646)

(continued)

	U.S. Plans Pension Benefits		Non-U.S. Plans Pension Benefits		U.S. Other Benefits		Non-U.S. Other Benefits*	
(Dollars in millions)	2006	2005	2006	2005	2006	2005	2006	2005
Amounts recognized in the consolidated balance sheet consist of:								
Prepaid benefit cost		$37,280		$ 296		$ —		$ —
Accrued benefit liability		(1,177)		(10,138)		(31,351)		(2,646)
Intangible asset		—		743		—		—
Accumulated other comprehensive income		168		5,727		—		—
Net amount recognized		$36,271		$ (3,372)		$(31,351)		$(2,646)
Noncurrent asset	$ 17,150		$ 216		$ —		$ —	
Current liability	(85)		(250)		(134)		(141)	
Noncurrent liability	(1,095)		(10,839)		(46,520)		(3,566)	
	$ 15,970		$(10,873)		$(46,654)		$(3,707)	
Amounts recognized in accumulated other comprehensive income consist of:								
Net actuarial loss	$ 15,483		$ 6,478		$ 21,957		$ 1,406	
Net prior service cost (credit)	1,165		13		(12,450)		(501)	
Transition obligation (asset)	—		25		—		—	
	$ 16,648		$ 6,516		$ 9,507		$ 905	

* Table does not include extended disability plans with a total APBO of $866 million at December 31, 2006 and $1.1 billion at December 31, 2005 due to materiality.

(1) Includes overfunded status of the combined U.S. hourly and salaried pension plans of $17.1 billion and $7.5 billion as of December 31, 2006 and 2005.

The total accumulated benefit obligation, the accumulated benefit obligation and fair value of plan assets for GM's pension plans with accumulated benefit obligations in excess of plan assets, and the projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets are as follows:

	U.S. Plans		Non-U.S. Plans	
(Dollars in millions)	2006	2005	2006	2005
Accumulated benefit obligation	$85,422	$86,885	$21,926	$19,923
Plans with ABO in excess of plan assets				
ABO	$ 1,180	$ 1,207	$21,429	$19,441
Fair value of plan assets	—	30	10,769	9,387
Plans with PBO in excess of plan assets				
PBO	$ 1,180	$ 1,703	$22,270	$20,724
Fair value of plan assets	—	295	11,155	9,759

The components of pension and OPEB expense along with the assumptions used to determine benefit obligations are as follows:

	U.S. Plans Pension Benefits			Non-U.S. Plans Pension Benefits		
(Dollars in millions)	2006	2005	2004	2006	2005	2004
Components of expense						
Service cost	$ 727	$ 1,117	$ 1,097	$ 484	$ 345	$ 247
Interest cost	4,965	4,883	5,050	966	965	892
Expected return on plan assets	(8,167)	(7,898)	(7,823)	(842)	(740)	(669)
Amortization of prior service cost (credit)	785	1,164	1,279	78	102	93
Amortization of transition obligation/(asset)	—	—	—	7	6	7
Recognized net actuarial loss	1,126	2,065	1,857	399	281	188
Curtailments, settlements, and other	4,260	115	34	140	114	204
Net expense	$ 3,696	$ 1,446	$ 1,494	$1,232	$1,073	$ 962
Weighted-average assumptions used to determine benefit obligations at December 31(1)						
Discount rate	5.90%	5.70%	5.60%	4.76%	4.72%	5.61%
Rate of compensation increase	5.00%	4.9%	5.0%	3.0%	3.1%	3.2%
Weighted-average assumptions used to determine net expense for years ended December 31(2)						
Discount rate	5.70%	5.60%	6.00%	4.72%	5.61%	6.12%
Expected return on plan assets	9.0%	9.0%	9.0%	8.4%	8.5%	8.4%
Rate of compensation increase	4.9%	5.0%	5.0%	3.1%	3.2%	3.4%

	U.S. Other Benefits*			Non-U.S. Other Benefits*		
Components of expense						
Service cost	$ 551	$ 702	$ 566	$ 53	$ 50	$ 39
Interest cost	3,929	4,107	3,726	190	218	201
Expected return on plan assets	(1,593)	(1,684)	(1,095)	—	—	—
Amortization of prior service cost (credit)	(1,071)	(70)	(87)	(82)	8	8
Amortization of transition obligation/(asset)	—	—	—	—	—	—
Recognized net actuarial loss	1,986	2,250	1,138	133	88	62
Curtailments, settlements, and other	(505)	—	—	(9)	2	—
Net expense	$ 3,297	$ 5,305	$ 4,248	$ 285	$ 366	$ 310
Weighted-average assumptions used to determine benefit obligations at December 31(1)						
Discount rate	5.90%	5.45%	5.75%	5.00%	5.00%	6.00%
Rate of compensation increase	4.6%	4.2%	3.9%	4.0%	4.0%	4.0%
Weighted-average assumptions used to determine net expense for years ended December 31(2)						
Discount rate	5.45%	5.75%	6.25%	5.00%	6.00%	6.75%
Expected return on plan assets	8.8%	8.8%	8.0%	—	—	—
Rate of compensation increase	4.2%	3.9%	4.2%	4.0%	4.0%	4.0%

* Table does not include extended disability plans with a total net expense of $105 million (excluding curtailments) in 2006, $79 million in 2005, and $64 million in 2004 due to materiality.

(1) Determined as of end of year.

(2) Determined as of beginning of year. Appropriate discount rates were used during 2006 to measure the effects of curtailments and plan amendments on various plans.

The following are estimated amounts to be amortized from accumulated comprehensive income into net periodic benefit cost during 2007 based on December 31, 2006 and January 1, 2007 plan measurements (dollars in millions):

	U.S. Plans Pension Benefits	Non-U.S. Plans Pension Benefits	U.S. Other Benefits	Non-U.S. Other Benefits
Amortization of prior service cost (credit)	$ 519	$ 27	$(1,845)	$(82)
Amortization of transition obligation (asset)	—	7	—	—
Recognized net actuarial loss (gain)	810	329	1,357	115
	$1,329	$363	$ (488)	$ 33

On February 7, 2006, GM announced it would increase the U.S. salaried workforce's participation in the cost of health care, capping GM's contributions to salaried retiree health care at the level of 2006 expenditures. The remeasurement of the U.S. salaried OPEB plans as of February 9, 2006 as a result of these benefit modifications generated a $0.5 billion reduction in OPEB expense for 2006 and is reflected in the components of expense table above. This remeasurement reduced the U.S. accumulated postretirement benefit obligation (APBO) by $4.7 billion.

On March 7, 2006, GM announced it would modify the terms of the U.S. salaried pension plan to freeze benefits under the current plan as of December 31, 2006 and implement a new plan using a new pension formula thereafter. The remeasurement of GM's U.S. salaried pension plans as of March 31, 2006 as a result of these benefit modifications generated a $0.4 billion reduction in pension expense for 2006 and is reflected in the components of expense table above. This remeasurement reduced the U.S. projected benefit obligation (PBO) by $2.8 billion.

Effective March 31, 2006, the U.S. District Court for the Eastern District of Michigan approved the tentative settlement agreement with the UAW (UAW Settlement Agreement) related to reductions in hourly retiree health care; this approval is now under appeal. The UAW Settlement Agreement will remain in effect until at least September 2011, after which either GM or the UAW may cancel the agreement upon 90 days written notice. Similarly, GM's contractual obligations to provide health care benefits to UAW hourly retirees extends to at least September 2011 and will continue thereafter until terminated by either GM or the UAW. As a result, the provisions of the UAW Settlement Agreement will continue in effect for the UAW retirees beyond the expiration in September 2007 of the current collective bargaining agreement between GM and the UAW.

Given the significance of the effect of the UAW Settlement Agreement, the plans were remeasured. The remeasurement of the U.S. hourly OPEB plans as of March 31, 2006 due to the UAW Settlement Agreement generated a $1.3 billion reduction in OPEB expense for 2006 and is reflected in the components of expense table above. This remeasurement reduced the U.S. APBO by $14.5 billion.

GM accounted for the reduced health care coverage provisions of the UAW Settlement Agreement as an amendment of GM's Health Care Program for Hourly Employees (Modified Plan). GM previously estimated that the reduced health care coverage provisions of the UAW Settlement Agreement would result in an approximately $15 billion reduction of GM's OPEB obligations related to the Modified Plan. In conjunction with the measurement of the Modified Plan as of March 31, 2006, the estimated reduction of GM's OPEB obligations increased from $15 billion to $17.4 billion attributable primarily to an increase in the discount rate utilized in the March 31, 2006 measurement. The Modified Plan APBO reduction of $17.4 billion is being amortized on a straight-line basis over the remaining service lives of active UAW hourly employees (7.4 years) as a reduction of OPEB expense. This reduction of expense will be partially offset by the amortization over the same period of $2.9 billion related to capped benefits expected to be paid from contributions to the Mitigation Plan as discussed below, and the expense related to previously negotiated wage increases for active employees now diverted to the Mitigation Plan.

As mentioned above, the UAW Settlement Agreement also provides that GM make contributions to a new independent VEBA (Mitigation Plan). The assets of the Mitigation Plan will be used to mitigate the effect of reduced GM health care coverage on individual UAW retirees and, depending on the level of mitigation, are expected to be available for a number of years. The new independent Mitigation Plan is being partially funded by GM contributions of $1 billion in each of 2006, 2007 and 2011. The 2011 contribution may be accelerated under specified circumstances. GM will also make future contributions subject to provisions of the UAW Settlement Agreement that relate to profit sharing payments, increases in the value of a notional number of shares of GM's $1 2/3 par value common stock (collectively, the Supplemental Contributions), as well as wage deferral payments and dividend payments.

GM's obligation to make contributions to the Mitigation Plan are fixed or determined by a formula as defined in the UAW Settlement Agreement. GM's obligations are limited to these contributions. GM is not obligated to provide incremental funding in the event of an asset shortfall in the Mitigation Plan and the UAW Settlement Agreement further provides that the ability of the assets in the Mitigation Plan to mitigate retiree health care costs is not guaranteed by GM. Furthermore, the Mitigation Plan is completely independent of GM and is administered by an independent trust committee (the Committee) which shall not include any GM representatives. The assets of the independent VEBA trust for UAW retirees of GM are the responsibility of the Committee, which has full fiduciary responsibility for the investment strategy, safeguarding of assets and execution of the benefit plan as designed.

GM accounted for the Mitigation Plan as a defined benefit plan, with a cap on GM's OPEB obligation under the plan limited to the present value of the three $1 billion cash payments and minimum Supplemental Contributions required by the Settlement Agreement. The present value of GM's obligation to the Mitigation plan of $2.9 billion will be amortized on a straight-line basis over the remaining service lives of active UAW hourly employees (7.4 years) as OPEB expense. Payments from GM to the Mitigation Plan related to wage deferrals, dividends or changes in the estimate of Supplemental Contributions will be recorded as an expense in the quarter that the hours are worked, the dividend is declared, or the change in estimate occurs, respectively. GM will recognize the expense for the wage deferrals as the future services are rendered, since the active-UAW represented-hourly-employees elected to forgo contractual wage increases and have those amounts contributed to the Mitigation Plan. During 2006, as required in the UAW Settlement Agreement, GM made a $1 billion contribution to the Mitigation Plan.

As of the measurement date, the Mitigation Plan had a benefit obligation totaling $2.8 billion and plan assets totaling $0.9 billion, as detailed in the table below. The ($1.9) billion net underfunded status of the Mitigation Plan is reflected GM's financial statements and in the Changes in Benefit Obligation (under "U.S. Other Benefits") in the table above. The

following represent the changes in plan assets and benefit obligation of the Mitigation Plan for the year ended December 31, 2006 (dollars in millions):

Changes in benefit obligation	
Benefit obligation at beginning of year	$ —
Interest cost	56
Amendments	2,876
Actuarial (gains)/losses	7
Benefits paid	(119)
Other	(15)
Benefit obligation at end of year	$2,805
Changes in plan assets	
Fair value at beginning of year	$ —
GM contributions	1,000
Wage deferral contributions	4
Mitigation payments on behalf of GM retirees	(119)
Actual return on plan assets	29
Fair value at end of year	$ 914

As detailed in Note 6, GM, Delphi, and the UAW reached an agreement on March 22, 2006 intended to reduce the number of U.S. hourly employees through the Attrition Program. As a result of the Attrition Program, GM has recognized curtailment losses under SFAS No. 88 and SFAS No. 106 due to the significant reduction in the expected aggregate years of future service of the employees in the U.S. hourly pension, OPEB and extended disability plans, respectively. The curtailment losses include recognition of the change in the PBO or APBO and a portion of the previously unrecognized prior service cost reflecting the reduction in expected future service. GM recognized a curtailment loss related to the U.S. hourly pension plan of approximately $4.4 billion at April 30, 2006. GM recognized a curtailment loss of $23 million in 2006 related to the U.S. hourly OPEB plans measured at May 31, 2006. GM recognized a curtailment gain of $132 million related to the U.S. hourly extended disability plan measured at June 30, 2006. The impacts for the pension and OPEB plans are reflected in the components of expense table above.

The remeasurement of GM's U.S. hourly pension plan as of April 30, 2006 as a result of the Attrition Program generated a $0.7 billion reduction in pension expense for 2006. This remeasurement reduced the U.S. pension PBO by $1.2 billion. The remeasurement of the U.S. hourly OPEB plans as of May 31, 2006 as a result of the Attrition Program generated an approximate $143 million reduction in OPEB expense for 2006. This remeasurement reduced the U.S. OPEB APBO by $0.7 billion. The effects of these restatements are reflected in the components of expense table above.

In October 2006, the GM Board of Directors approved a reduction in the levels of coverage for corporate-paid life insurance for salaried retirees. For eligible salaried employees who retire on or after May 1, 2007, coverage will reduce by 50% on the tenth anniversary of their retirement date, and salaried employees who retire before May 1, 2007 will have their coverage reduced by 50% on January 1, 2017. This change reduced GM's year-end U.S. OPEB APBO by $0.5 billion and will be reflected in 2007 OPEB expense.

On November 30, 2006, GM sold a 51% controlling interest in GMAC. As a result of the sale, GMAC salaried employees will have their pension benefits frozen under the current GM pension plans. The remeasurement of GM's U.S. salaried pension plans as of November 30, 2006 as a result of this benefit modification generated a $0.1 billion curtailment gain and $8 million reduction in pension expense for 2006. This remeasurement increased the U.S. PBO by $0.2 billion. GM will also maintain the salaried OPEB obligation for current GMAC retirees and OPEB eligible employees. GMAC employees who were non-OPEB eligible were offered a cash lump sum payment based on credited service in lieu of GM provided OPEB at their date of retirement. The remeasurement of the U.S. and non-U.S. OPEB plans as of November 30, 2006 as a result of these modifications generated a $563 million curtailment gain, $27 million settlement loss, and $536 million reduction in OPEB expense for 2006. This remeasurement reduced the U.S. and Non-U.S. APBO by $0.1 billion. The impact to extended disability benefits generated a curtailment gain of $14 million.

GM sets the discount rate assumption annually for each of its retirement-related U.S. benefit plans at their respective measurement dates to reflect the yield of a portfolio of high quality, fixed-income debt instruments that would produce cash flows sufficient to defease projected future benefits. GM has established for its U.S. pension plans and U.S. OPEB plans a discount rate of 5.90% for year-end 2006.

The following benefit payments, which includes assumptions related to estimated future employee service, as appropriate, are expected to be paid in the future:

	Pension Benefits*		Other Benefits		Non-U.S. Other Benefits	
(Dollars in millions)	U.S. Plans	Primary Non-U.S. Plans	Gross Benefit Payments	Gross Medicare Part D Receipts	Gross Benefit Payments	Gross Medicare Part D Receipts
2007	$ 7,270	$ 956	$ 3,994	$ 243	$ 146	—
2008	7,142	1,027	4,163	268	157	—
2009	7,037	1,056	4,327	292	167	—
2010	6,959	1,097	4,475	314	177	—
2011	6,890	1,140	4,589	335	187	—
2012–2016	$33,356	$6,161	$24,050	$1,966	$1,087	—

* Benefits for most U.S. pension plans and certain non-U.S. pension plans are paid out of plan assets rather than cash.

Medicare Adjustment

3.78

NORTHROP GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Retirement Benefits

Medical and Life Benefits

The company provides a portion of the costs for certain health care and life insurance benefits for a substantial number of its active and retired employees. Covered employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Qualifying dependents are also eligible for medical coverage. Approximately 65 percent of the company's current retirees participate in the medical plans. The company reserves the right to amend or terminate the plans at any time. In November 2006, the company adopted plan amendments and communicated to plan participants that it would cap the amount of its contributions to substantially all of its remaining post retirement medical and life benefit plans that were previously not subject to limits on the company's contributions. Premiums charged for medical coverage are based on age and years of service and are adjusted annually for changes in the cost of the plans as determined by an independent actuary.

In addition to this medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, conformance to a schedule of reasonable fees, the use of managed care providers, and maintenance of benefits with other plans. The plans also provide for a Medicare carve-out, and a maximum lifetime benefit of $2 million per covered individual. It is the policy of the company to fund the maximum amount deductible for income tax purposes utilizing Voluntary Employees' Beneficiary Association (VEBA) trusts for payment of benefits. The change in benefits announced in November 2006 reduced benefit costs by approximately $17 million in 2006. In addition, this change reduced the company's aggregate benefit obligation by approximately $465 million at December 31, 2006. Subsequent to January 1, 2005 (or earlier at some sectors), newly hired employees are not eligible for post employment medical and life benefits.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. During the third quarter of 2004, the company recorded the effects of the Act retroactively to January 1, 2004, in accordance with the guidelines of FSP FAS 106-2—*Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.* The effect of the Medicare prescription drug subsidy on the company's net periodic postretirement benefit cost for the years ended December 31, 2006, 2005, and 2004, was a reduction of $26 million, $36 million and $17 million, respectively. The reduction in the accumulated postretirement benefit obligation as a result of the subsidy is $76 million as of December 31, 2006, and $225 million as of December 31, 2005, based on the impact of the subsidy on the eligible plans.

Summary Plan Results

The cost to the company of its retirement benefit plans in each of the three years ended December 31 is shown in the following table:

	Pension Benefits			Medical and Life Benefits		
($ in millions)	2006	2005	2004	2006	2005	2004
Components of net periodic benefit cost						
Service cost	$ 755	$ 675	$ 564	$ 69	$ 66	$ 56
Interest cost	1,159	1,091	1,050	183	183	175
Expected return on plan assets	(1,572)	(1,468)	(1,378)	(52)	(49)	(46)
Amortization of						
Prior service cost	35	53	51	(16)	(1)	
Net loss from previous years	91	59	55	31	27	7
Curtailment gain					(13)	
Special termination benefits cost			1			8
Other			7			
Net periodic benefit cost	$ 468	$ 410	$ 350	$215	$213	$200

POSTEMPLOYMENT BENEFITS

3.79 SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, requires that entities providing postemployment benefits to their employees accrue the cost of such benefits. *SFAS No. 112* does not require that the amount of postemployment benefits be disclosed. Accordingly, many of the survey companies make little or no disclosure about postemployment benefits.

3.80 An example of a disclosure for postemployment benefits follows.

3.81

KELLOGG COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Employee Postretirement and Postemployment Benefits

The Company sponsors a number of U.S. and foreign plans to provide pension, health care, and other welfare benefits to retired employees, as well as salary continuance, severance, and long-term disability to former or inactive employees. Refer to Notes 9 and 10 for further information on these benefits and the amount of expense recognized during the periods presented.

In order to improve the reporting of pension and other postretirement benefit plans in the financial statements, in September 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which is effective at the end of fiscal years ending after December 15, 2006. Prior periods are not restated. The standard generally requires company plan sponsors to measure the net over- or under-funded position of a defined postretirement benefit plan as of the sponsor's fiscal year end and to display that position as an asset or liability on the balance sheet. Any unrecognized prior service cost, experience gains/losses, or transition obligation are reported as a component of other comprehensive income, net of tax, in shareholders' equity. In contrast, under pre-existing guidance, these unrecognized amounts were generally disclosed only in financial statement footnotes, often resulting in a disparity between plan balance sheet positions and the funded status. Furthermore, plan measurement dates could occur up to three months prior to year end.

The Company adopted SFAS No. 158 as of the end of its 2006 fiscal year. The Company had previously applied postretirement accounting concepts for purposes of recognizing its postemployment benefit obligations; accordingly, the adoption of SFAS No. 158 as of December 30, 2006, affected the balance sheet display of both the Company's postretirement and postemployment benefit obligations, as follows:

(Millions)	Before Application of SFAS No. 158[a]	Adjustments	After Application of SFAS No. 158
Other assets:			
Other intangibles—pension	$ 9.5	$ (9.5)	$ —
Pension	855.5	(502.9)	352.6
	$865.0	$(512.4)	$ 352.6
Total assets	$865.0	$(512.4)	$ 352.6
Other current liabilities:			
Pension, postretirement, and postemployment benefits	53.0	(34.2)	18.8
	$ 53.0	$ (34.2)	$ 18.8
Other liabilities:			
Pension, postretirement, and postemployment benefits[a]	287.2	412.6	699.8
Deferred income taxes[b]	(6.8)	(298.9)	(305.7)
	$280.4	$ 113.7	$ 394.1
Total liabilities	$333.4	$ 79.5	$ 412.9
Accumulated other comprehensive income (loss)[a]	$ (12.2)	$(591.9)	$(604.1)

[a] Includes additional minimum pension liability adjustment under pre-existing guidance of $28.5, which reduced accumulated other comprehensive income by $12.2 on an after-tax basis.
[b] Represents an asset component of deferred tax liabilities, which are presented on a net basis at the jurisdiction level.

The Company's net earnings, cash flow, liquidity, debt covenants, and plan funding requirements were not affected by this change in accounting principle. The Company has historically used its fiscal year end as the measurement date for its company-sponsored defined benefit plans.

Note 10 (In Part): Nonpension Postretirement and Postemployment Benefits

Postemployment

Under certain conditions, the Company provides benefits to former or inactive employees in the United States and several foreign locations, including salary continuance, severance, and long-term disability. The Company recognizes an obligation for any of these benefits that vest or accumulate with service. Postemployment benefits that do not vest or accumulate with service (such as severance based solely on annual pay rather than years of service) or costs arising from actions that offer benefits to employees in excess of those specified in the respective plans are charged to expense when incurred. The Company's postemployment benefit plans are unfunded. Actuarial assumptions used are generally

consistent with those presented for pension benefits on page 46. The Company previously applied postretirement accounting concepts for purposes of recognizing its postemployment benefit obligations. Accordingly, the Company's adoption of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" as of the end of its 2006 fiscal year impacted its presentation of postemployment benefits as discussed in Note 1. The aggregate change in accumulated postemployment benefit obligation and the net amount recognized were:

(Millions)	2006	2005
Change in accumulated benefit obligation		
Beginning of year	$ 42.2	$ 37.9
Service cost	4.3	4.5
Interest cost	2.0	2.0
Actuarial loss (gain)	(.8)	7.4
Benefits paid	(8.6)	(9.0)
Foreign currency adjustments	.4	(.6)
End of year	$ 39.5	$ 42.2
Funded status	$(39.5)	$(42.2)
Unrecognized net loss	—	19.1
Accrued postemployment benefit cost	$(39.5)	$(23.1)
Amounts recognized in the consolidated balance sheet consist of		
Current liabilities	$ (7.8)	
Noncurrent liabilities	(31.7)	
Total liabilities	$(39.5)	$(23.1)
Amounts recognized in accumulated other comprehensive income consist of		
Net experience loss	$ 16.0	$ —
Net amount recognized	$ 16.0	$ —

Components of postemployment benefit expense were:

(Millions)	2006	2005	2004
Service cost	$4.3	$ 4.5	$3.5
Interest cost	2.0	2.0	1.9
Recognized net loss	2.4	3.5	4.5
Postemployment benefit expense	$8.7	$10.0	$9.9

All gains and losses are recognized over the average remaining service period of active plan participants. The estimated net experience loss that will be amortized from accumulated other comprehensive income into postemployment benefit expense over the next fiscal year is approximately $2 million.

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(Millions)	Postretirement	Postemployment
2007	$ 64.0	$ 8.0
2008	67.7	7.3
2009	71.2	7.0
2010	73.9	7.3
2011	76.5	7.7
2012–2016	397.5	44.4

EMPLOYEE COMPENSATORY PLANS

3.82 SFAS No. 123, *Share-Based Payment*, establishes accounting and reporting standards for stock-based compensation plans. As originally issued, *SFAS No. 123* encouraged entities to use a fair-value-based method in accounting for employee stock-based compensation plans but allowed the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees. SFAS No. 123*, as revised, eliminates for public entities the intrinsic value method accounting for share-based payment transactions, thereby requiring that such transactions be accounted for using a fair-value-based method. Thus public entities are required to recognize the cost of employee services received in exchange for award of equity instruments based on the grant-date fair value of those awards. In addition, *SFAS No. 123* (*Revised*) provides clarification and expanded guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods.

3.83 Table 3-13 lists the types of employee compensatory plans disclosed by the survey companies. Compensatory plans may consist of stock awards or cash payments. The "stock award" caption in Table 3-13 represents restricted stock awards, performance awards, and bonuses paid by issuing stock.

3.84 Examples of employee compensatory plan disclosures follow.

3.85

TABLE 3-13: EMPLOYEE COMPENSATORY PLANS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Stock options	584	589	587	590
Stock award	401	406	381	318
Savings/investment	377	357	379	358
Stock purchase	179	203	226	189
Deferred compensation	146	137	100	108
Employee stock ownership	71	92	92	93
Profit-sharing	67	54	66	81
Incentive compensation	58	46	74	66

Stock Option Plans

3.86

JLG INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

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

Stock-Based Compensation

Prior to August 1, 2005, we applied Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. See Note 16 of

the Notes to Consolidated Financial Statements for information regarding our stock-based incentive plan, options outstanding and options exercisable. No stock-based compensation expense was recognized in our Consolidated Statements of Income prior to fiscal 2006 for stock option grants, as the exercise price was equal to the market price of the underlying stock on the date of grant. In addition, previously we recorded unearned stock-based compensation for nonvested restricted stock awards as "unearned compensation" in the shareholders' equity section of our Consolidated Balance Sheets.

On August 1, 2005, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected the modified prospective transition method as permitted by SFAS No. 123R. Under this transition method, stock-based compensation expense for fiscal 2006 included: (a) compensation expense related to restricted stock awards, (b) compensation expense for all stock options granted prior to, but not yet vested as of July 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and (c) compensation expense for awards granted subsequent to August 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. In accordance with the modified prospective transition method of SFAS No. 123R, financial results for prior periods have not been restated.

SFAS No. 123R requires that cash flows from tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards ("excess tax benefits") be classified as financing cash flows prospectively from January 1, 2006. Prior to the adoption of SFAS No. 123R, such excess tax benefits were presented as operating cash flows.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. The following table illustrates the effect on net income and income per share if we had applied the fair value recognition provisions of SFAS No. 123 for the years ended July 31:

	2005	2004
Net income, as reported	$57.2	$26.6
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2.3)	(2.9)
Pro forma net income	$54.9	$23.7
Earnings per share:		
Earnings per common share—as reported	$ .61	$ .31
Earnings per common share—pro forma	.59	.28
Earnings per common share—assuming dilution—-as reported	.60	.30
Earnings per common share—assuming dilution—pro forma	.57	.27

The weighted-average fair values at date of grant for options granted during fiscal 2006, 2005 and 2004 were $9.65, $7.04 and $3.68, respectively, and were estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2006	2005	2004
Expected volatility	48.1%	51.5%	59.1%
Expected life in years	6.0	5.0	5.0
Dividend yield	.07%	.07%	.14%
Risk free interest rate	4.98%	4.03%	3.68%

Note 16 (In Part): Stock-Based Incentive Plan

During November 2005, shareholders approved our 2005 Long Term Incentive Plan which authorizes, up to a maximum of 12.4 million shares, the granting of awards to key employees and directors in the form of options to purchase capital stock, restricted shares, stock appreciation rights, bonus shares, performance units and performance shares that can be settled in shares of capital stock or cash. The Compensation Committee of our Board of Directors determines the number of shares, the term, the frequency and date, the type, the exercise periods, any performance criteria pursuant to which awards may be granted and the restrictions and other terms and conditions of each grant of restricted shares in accordance with the terms of our Plan. Options granted have a maximum term of 10 years and vest in periods ranging from one year to five years. Restricted shares granted vest in periods ranging from one year to five years. To date, performance shares granted are based upon our performance over a three-year period. For all options currently outstanding, the option price is the fair market value of the shares on their date of grant.

We recognize compensation expense for stock option awards and nonvested restricted share awards that vest based on time or market parameters on a straight-line basis over the requisite service period for vesting of the award or to an employee's eligible retirement date, if earlier and applicable. Performance-based nonvested share awards are recognized as compensation expense based on the fair value on the date of grant, the number of shares ultimately expected to vest and the vesting period. At July 31, 2006, achievement of the performance factor is believed to be probable. Total stock-based compensation expense included in our Consolidated Statements of Income for fiscal 2006, 2005 and 2004 was $8.7 million ($5.4 million net of tax), $3.5 million ($2.1 million net of tax) and $3.1 million ($1.9 million net of tax), respectively.

As a result of adopting SFAS No. 123R on August 1, 2005, our income before taxes, net income and basic and diluted earnings per share for fiscal 2006 were $3.6 million, $2.2 million and $0.02 lower, respectively, than if we had continued to account for stock-based compensation under APB Opinion No. 25 for our stock option grants.

Prior to the adoption of SFAS No. 123R, we reported all tax benefits resulting from the exercise of stock options as operating cash flows in our Consolidated Statements of Cash Flows. In accordance with SFAS No. 123R, for fiscal 2006, we revised our Consolidated Statements of Cash Flows presentation to report the excess tax benefits from the exercise of stock options as financing cash flows. For fiscal 2006, $20.4 million of excess tax benefits were reported as financing cash flows rather than operating cash flows. For fiscal 2005 and

2004, the excess tax benefits of $7.9 million and $0.7 million, respectively, were included in operating cash flows.

Net cash proceeds from the exercise of stock options were $18.6 million, $19.8 million and $2.5 million for fiscal 2006, 2005 and 2004, respectively. The actual income tax benefit realized from stock option exercises total $20.5 million, $7.9 million and $0.7 million, respectively, for those same periods.

Information related to our equity compensation plan in effect as of July 31, 2006 is as follows (in thousands, except weighted average exercise price):

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	3,261	$8.52	4,853
Equity compensation plans not approved by security holders	—	—	—
Total	3,261	$8.52	4,853

A summary of our stock option activity is as follows (in thousands, except weighted average exercise price) for the years ended July 31:

	2006		2005		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding options at the beginning of the year	6,032	$ 6.57	9,614	$ 5.87	9,358	$5.58
Options granted	406	18.53	508	14.52	1,152	6.96
Options forfeited or expired	(83)	8.83	(64)	6.39	(234)	5.67
Options exercised	(3,094)	6.01	(4,026)	5.90	(662)	3.80
Outstanding options at the end of the year	3,261	$ 8.52	6,032	$ 6.57	9,614	$5.87
Exercisable options at the end of the year	2,216	$ 6.07	3,740	$ 6.06	6,274	$6.21

We continue to use the Black-Scholes valuation model to value stock options. We used our historical stock prices as the basis for our volatility assumption. The assumed risk-free rates were based on U.S. Treasury rates in effect at the time of grant. The expected option life represents the period of time that the options granted are expected to be outstanding and were based on historical experience.

As of July 31, 2006, we had $7.2 million of unrecognized compensation expense related to outstanding stock options, which will be recognized over a weighted-average period of 2.0 years.

Our information with respect to stock options outstanding at July 31, 2006 is as follows (in thousands, except weighted average exercise price and aggregate intrinsic value):

	Options Outstanding			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$3.95 to $5.46	1,369	6	$ 4.43	$18.8
5.65 to 7.38	898	7	6.93	10.0
8.49 to 8.85	78	3	8.73	0.7
9.05 to 22.76	916	5	16.17	1.9
	3,261	7	$ 8.52	$31.4

Our information with respect to stock options vested or expected to vest at July 31, 2006 is as follows (in thousands, except weighted average exercise price and aggregate intrinsic value):

	Options Vested or Expected to Vest			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$3.95 to $5.46	1,369	6	$ 4.43	$18.8
5.65 to 7.38	869	7	6.93	9.6
8.49 to 8.85	77	3	8.73	0.7
9.05 to 22.76	882	9	16.14	1.9
	3,197	7	$ 8.45	$31.0

Our information with respect to stock options exercisable at July 31, 2006 is as follows (in thousands, except weighted average exercise price and aggregate intrinsic value):

	Options Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$3.95 to $5.46	1,369	6	$ 4.43	$18.8
5.65 to 7.38	566	7	6.90	6.3
8.49 to 8.85	72	2	8.75	0.7
9.05 to 22.76	209	7	13.58	0.9
	2,216	6	$ 6.07	$26.7

The aggregate intrinsic value in the tables above represents the total pre-tax intrinsic value (difference between our closing stock price on the last trading day of fiscal 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on July 31, 2006. This amount changes based on the fair market value of our stock. Total intrinsic value of options exercised for fiscal 2006, 2005 and 2004 was $55.7 million, $17.9 million and $2.1 million, respectively.

3.87

JOHNSON CONTROLS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

New Accounting Pronouncements (In Part)

Effective October 1, 2005, the Company adopted SFAS No. 123(R), "Share Based Payment" (SFAS No. 123(R)), using the modified prospective method. See Note 12 for additional information regarding stock-based compensation.

12 (In Part): Stock-Based Compensation

Effective October 1, 2002, the Company voluntarily adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of SFAS 123."

Effective October 1, 2005, the Company adopted SFAS No. 123(R) using the modified prospective method. The modified prospective method requires compensation cost to be recognized beginning on the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. As such, prior periods will not reflect restated amounts. The cumulative impact of adopting SFAS 123(R) was not significant to the Company's operating results since the Company had previously adopted SFAS No. 123. Pro forma net income and basic and diluted earnings per share have not been disclosed as the impact of applying the fair value based method to all outstanding and unvested awards is not material to the Company's consolidated results of operations.

The Company has two share-based compensation plans, which are described below. The compensation cost charged against income for those plans was approximately $67 million, $38 million and $35 million for the years ended September 30, 2006, 2005 and 2004, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately $27 million, $15 million and $14 million for the years ended September 30, 2006, 2005 and 2004, respectively.

Prior to the adoption of SFAS No. 123(R), the Company applied a nominal vesting approach for employee stock-based compensation awards with retirement eligible provisions. Under the nominal vesting approach, the Company recognized compensation cost over the vesting period and, if the employee retired before the end of the vesting period, the Company recognized any remaining unrecognized compensation cost at the date of retirement. For stock-based payments issued after the adoption of SFAS No. 123(R), the Company applies a non-substantive vesting period approach whereby expense is accelerated for those employees that receive awards and are eligible to retire prior to the award vesting. Had the Company applied the non-substantive vesting period approach prior to the adoption of SFAS No. 123(R), an approximate $11 million and $5 million reduction of pre-tax compensation cost would have been recognized for the years ended September 30, 2006 and 2005, respectively. For the year ended September 30, 2004, the impact of applying the non-substantive vesting period approach is not significant.

Stock Option Plan

Stock Options

The Company's 2000 Stock Option Plan, as amended (Plan), which is shareholde-approved, permits the grant of stock options to its employees for up to approximately 13 million shares of new common stock (approximately 5 million shares of common stock remained available to be granted at September 30, 2006). Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards vest between two and three years after the grant date and expire 10 years from the grant date.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods during the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2006	2005	2004
Expected life of option (years)	4.75	5.00	5.00
Risk-free interest rate	4.46%	3.48%	3.00%
Expected volatility of the Company's stock	22.00%	20.00%	23.00%
Expected dividend yield on the Company's stock	1.70%	1.76%	1.75%
Expected forfeiture rate	12.75%	8.00%	7.00%

A summary of stock option activity at September 30, 2006, and changes for the year then ended, is presented below:

	Weighted Average Option Price	Shares Subject to Option	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In millions)
Outstanding, September 30, 2005	$45.62	10,524,494		
Granted	67.76	2,880,641		
Exercised	35.97	(2,809,405)		
Forfeited or expired	58.93	(254,412)		
Outstanding, September 30, 2006	$54.08	10,341,318	7.2	$187

The weighted-average grant-date fair value of options granted during the years ended September 30, 2006, 2005 and 2004 was $15.35, $13.92 and $10.99, respectively.

The total intrinsic-value of options exercised during the years ended September 30, 2006, 2005 and 2004 was approximately $106 million, $57 million and $62 million, respectively.

In conjunction with the exercise of stock options granted, the Company received cash payments for the years ended September 30, 2006, 2005, and 2004 of approximately $97 million, $66 million and $59 million, respectively.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes computational guidance to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee stock-based compensation, and a simplified method to determine the subsequent impact on the APIC Pool for employee stock-based compensation awards that are vested and outstanding upon adoption of SFAS 123(R). The tax benefit from the exercise of stock options, which is recorded in additional paid-in-capital, was $33 million, $28 million and $19 million, respectively, for the years ended September 30, 2006, 2005 and 2004. The Company does not settle equity instruments granted under share-based payment arrangements for cash.

At September 30, 2006, the Company had approximately $27 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 0.9 years.

Stock Appreciation Rights (SARs)

The Plan also permits SARs to be separately granted to certain employees. SARs vest under the same terms and conditions as option awards; however, they are settled in cash for the difference between the market price on the date of exercise and the exercise price. As a result, SARs are recorded in the Company's consolidated statements of financial position as a liability until the date of exercise.

The fair value of each SAR award is estimated using a similar method described for option awards. In accordance with SFAS No. 123(R), the fair value of each SAR award is recalculated at the end of each reporting period and the liability and expense adjusted based on the new fair value. Prior to the effective date of SFAS No. 123(R), the SAR liability and expense was determined based on the intrinsic value of each award at the end of each reporting period. The difference between the fair value and intrinsic value of SAR awards on the date of adoption of SFAS No. 123(R) was not material to the Company's consolidated results of operations.

The assumptions used to determine the fair value of the SAR awards at September 30, 2006 were as follows:

Expected life of SAR (years)	0.5–3.0
Risk-free interest rate	4.62–5.02%
Expected volatility of the Company's stock	22.00%
Expected dividend yield on the Company's stock	1.70%
Expected forfeiture rate	0–20%

A summary of SAR activity at September 30, 2006, and changes for the year then ended, is presented below:

	Weighted Average SAR Price	Shares Subject to SAR	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In millions)
Outstanding, September 30, 2005	$39.05	999,165		
Granted	67.69	287,643		
Exercised	37.22	(255,047)		
Forfeited or expired	61.22	(34,255)		
Outstanding, September 30, 2006	$54.16	997,506	7.2	$18
Exerciseable, September 30, 2006	$39.93	378,499	5.2	$12

In conjunction with the exercise of SARs granted, the Company made payments of $10 million and $6 million during the years ended September 30, 2006 and 2005, respectively.

3.88

KELLY SERVICES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars except share and per share items)

1 (In Part): Summary of Significant Accounting Policies

Stock-Based Compensation

On January 2, 2006, the first day of the 2006 fiscal year, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123R supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") beginning in fiscal 2006. The Company adopted SFAS 123R using the modified prospective transition method. Accordingly, the Company's consolidated financial statements for prior fiscal years have not been restated to reflect the impact of SFAS 123R.

SFAS 123R requires companies to estimate the fair value of stock option awards on the date of grant using an option-pricing model. The value of awards that are ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statements of Earnings. Prior to the adoption of SFAS 123R, the Company accounted for incentive and nonqualified stock options awarded to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no compensation expense had been recognized by the Company because the exercise prices of those stock options equaled the fair market value of the underlying stock at the date of grant.

Because stock-based compensation expense recognized in the Statement of Earnings for fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

13 (In Part): Stock-Based Compensation

Under the Equity Incentive Plan (the "Plan"), which became effective in May 2005, the Company may grant stock options (both incentive and nonqualified), stock appreciation rights (SARs), restricted stock awards and performance awards to key employees utilizing the Company's Class A stock. The Plan provides that the maximum number of shares available for grants is 10 percent of the outstanding Class A stock, adjusted for Plan activity over the preceding five years. This plan replaced the Performance incentive Plan, which was terminated upon approval of the Equity Incentive Plan by the Board of Directors. Shares available for future grants at December 31, 2006 under the Equity Incentive Plan were 2,863,000. The Company issues shares out of treasury stock to satisfy stock-based awards. The Company has no intent to repurchase additional shares for the purpose of satisfying stock-based awards.

On January 2, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal 2006.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 2, 2006, the first day of the Company's 2006 fiscal year. The Company's consolidated financial statements as of and for the year ended December 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). The adjustment in the current period for the cumulative effect of change in accounting principle associated with the adoption of FAS 123(R) was less than $10 and was recorded in selling, general and administrative expenses in the first quarter of 2006.

In 2006, 2005 and 2004, the Company recognized stock-based compensation cost of $6,745, $4,499 and $2,900, respectively, as well as related tax benefits of $2,195, $1,710 and $1,047, respectively. As a result of the adoption of SFAS 123(R) effective January 2, 2006, the Company's earnings from continuing operations before income taxes and net earnings for the year ended December 31, 2006, are $1,195 and $1,032 lower, respectively, than if the Company had continued to account for the stock-based compensation programs under APB 25. Accordingly, the reported basic and diluted earnings per share for the year ended December 31, 2006 are $0.03 lower than would have been reported had the Company not adopted FAS 123(R) effective January 2, 2006.

FAS 123(R) requires the disclosure of pro-forma information for periods prior to the adoption. The following table illustrates the effect on net income and earnings per share for prior years as if the Company had applied the fair value recognition provisions of SFAS 123(R) to stock-based employee compensation:

	2005	2004
Net earnings, as reported	$39,263	$21,211
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects	2,789	1,853
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(4,105)	(3,973)
Pro forma net earnings	$37,947	$19,091
Earnings per share:		
Basic—as reported	$ 1.10	$ .60
Basic—pro forma	1.06	.54
Diluted—as reported	1.09	.60
Diluted—pro forma	1.06	.54

Stock Options

Under the terms of the Plan, stock options may not be granted at prices less than the fair market value on the date of grant, nor for a term exceeding 10 years, and typically vest over 3 years. The Company expenses the fair value of stock option grants on a straight-line basis over the vesting period. The Company used a binomial option pricing model to estimate the fair value of stock options granted in 2006. The inputs for expected volatility, post-vest termination activity and exercise factor of the options were primarily based on historical information. The following weighted average assumptions were used to estimate the fair values of options granted during the year ended December 31, 2006:

	2006
Grant price	$27.24
Risk-free interest rate	5.0%
Dividend yield	1.4%
Expected volatility	21.3%
Post-vest termination activity	2.7%
Exercise factor	1.21

The Company used a Black-Scholes option pricing model to estimate the fair value of stock options granted prior to January 2, 2006. The inputs for expected volatility and expected term of the options were primarily based on historical

information. The following weighted average assumptions were used to estimate the fair values of options granted in prior years:

	2005	2004
Risk-free interest rate	4.0%	3.3%
Dividend yield	1.4%	1.4%
Expected volatility	27.0%	30.0%
Expected lives	5 yrs	5 yrs

A summary of the status of stock option grants under the Plan as of the year ended December 31, 2006 and changes during this period is presented as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2006	2,235,000	$26.70		
Granted	15,000	27.24		
Exercised	(445,000)	25.61		
Forfeited	(12,000)	26.86		
Expired	(163,000)	29.45		
Outstanding at December 31, 2006	1,630,000	$26.72	4.61	$5,158
Options exercisable at December 31, 2006	1,504,000	$26.63	4.35	$5,018
Options expected to vest at December 31, 2006	122,000	$27.85	7.77	$ 136

The table above includes 95,000 of non-employee director shares outstanding at December 31, 2006.

As of December 31, 2006, unrecognized compensation cost related to unvested stock options totaled $414. The weighted average period over which this cost is expected to be recognized is approximately one year. The weighted average grant date fair value of options granted during 2006, 2005 and 2004 was $5.36, $7.38 and $7.78, respectively. The total intrinsic value of options exercised during 2006, 2005 and 2004 was $1,500, $1,271 and $3,377, respectively.

Windfall tax benefits arising from the vesting of restricted shares and exercise of stock options in the 2006 totaled $257 and are included in the "Other financing activities" component of net cash from financing activities in the Statement of Cash Flows.

Stock Award Plans

3.89

EMCOR GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Valuation of Share-Based Compensation Plans

We have various types of share-based compensation plans and programs which are administered by our Board of Directors or its Compensation and Personnel Committee. See Note I—Stock Options and Stock Plans for additional information regarding the share-based compensation plans and programs.

On January 1, 2006, we adopted FASB Statement No. 123(R), "Share-Based Payment" ("Statement 123(R)"). With the adoption of Statement 123(R), all share-based payments to our employees and non-employee directors, including grants of stock options, have been recognized in the income statement based on their fair values, on a straight-line basis over the requisite service period, which is generally the vesting period, utilizing the modified prospective method of accounting. The impact of the adoption of Statement 123(R) resulted in $4.0 million of compensation expense for the year ended December 31, 2006. As a result, net income was adversely impacted in this period by $2.4 million, and basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS") were both adversely impacted by $0.07. Approximately $1.2 million of compensation expense, net of income taxes, will be recognized over the approximate 15 month remaining vesting period for stock options outstanding at December 31, 2006. Prior to January 1, 2006, we applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("Opinion 25") and related interpretations in accounting for stock options. Accordingly, no compensation expense has been recognized in the accompanying Consolidated Statements of Operations for the years ended December 31, 2005 and 2004 in respect of stock options granted during that period inasmuch as we granted stock options at fair market value. Had compensation expense for the options for the years ended December 31, 2005 and 2004 been determined consistent with FASB Statement No. 123, "Accounting for Stock-Based Compensation" and FASB Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure", our net income, Basic EPS and Diluted EPS would have been reduced from the "as reported amounts" below to the

"pro forma amounts" below (in thousands, except per share amounts):

	2005	2004
Income from continuing operations:		
As reported	$61,153	$33,265
Less: Total stock-based compensation expense determined under fair value based method, net of related tax effects	2,112	2,981
Pro Forma	$59,041	$30,284
Basic EPS:		
As reported	$ 1.96	$ 1.09
Pro Forma	1.90	1.00
Diluted EPS:		
As reported	1.92	1.07
Pro Forma	1.85	0.97

Note 1. Stock Options and Stock Plans

We have stock option plans and programs under which employees may receive stock options, and certain executives have a stock bonus plan and a long-term incentive plan pursuant to which they receive restricted stock units. EMCOR also has stock option plans under which non-employee directors may receive stock options. A summary of the general terms of the grants under stock option plans and programs and stock plans are as follows (adjusted for the February 10, 2006 2-for-1 stock split):

	Authorized Shares	Vesting	Expiration	Valuation Date
1994 Management Stock Option Plan (the "1994 Plan")	2,000,000	Generally, 33⅓% on each anniversary of grant date	Ten years from grant date	Fair market value of common stock on grant date
1995 Non-Employee Directors' Non-Qualified Stock Option Plan (the "1995 Plan")	400,000	100% on grant date	Ten years from grant date	Fair market value of common stock on grant date
1997 Non-Employee Directors' Non-Qualified Stock Option Plan (the "1997 Directors' Stock Option Plan")	600,000	(1)	Five years from grant date	Fair market value of common stock on grant date(3)
1997 Stock Plan for Directors (the "1997 Directors' Stock Plan")	300,000	(2)	Five years from grant date	Fair market value of common stock on grant date(3)
2003 Non-Employee Directors' Non-Qualified Stock Option Plan (the "2003 Directors' Stock Option Plan")	240,000	100% on grant date	Ten years from grant date	Fair market value of common stock on grant date
2003 Management Stock Incentive Plan ("2003 Management Plan")	660,000	To be determined by the Compensation Committee	Ten years from grant date	Fair market value of common stock on grant date
Executive Stock Bonus Plan ("ESBP")	440,000	100% on grant date	Ten years from grant date	Fair market value of common stock on grant date
2005 Management Stock Incentive Plan ("2005 Management Plan")	900,000	To be determined by the Compensation Committee	Ten years from grant date	Fair market value of common stock on grant date
2005 Stock Plan for Directors (the "2005 Directors' Stock Plan")	52,000	50% on grant or award date, 50% on the first anniversary of grant date	Ten years from grant date	Fair market value of common stock on grant date
Other stock option grants	Not applicable	Generally, either 100% on first anniversary of grant date or 25% on grant and 25% on each anniversary of grant date	Ten years from grant date	Fair market value of common stock on grant date

(1) Unitl July 2000, non-employee directors could elect to receive one-third, two-thirds or all of their retainer for a calendar year in the form of stock options. Since then such directors have received all of their retainer in the form of stock options. All options under this plan become exercisable quarterly over the calendar year in which they are granted. In addition, each director received additional stock options equal to the product of 0.5 times the amount of stock options otherwise issued.
(2) The plan terminated during 2003.
(3) Generally, the grant date was the first business day of a calendar year.

The following table summarizes our stock option and restricted stock unit activity since December 31, 2003:

Stock Options

	Shares	Weighted Average Price
Balance, December 31, 2003	3,298,394	$13.48
Granted	556,096	$21.65
Forfeited	(14,000)	$12.03
Exercised	(342,982)	$ 4.69
Balance, December 31, 2004	3,497,508	$15.65
Granted	762,904	$22.84
Forfeited	—	—
Exercised	(610,484)	$ 4.45
Balance, December 31, 2005	3,649,928	$19.03
Granted	79,060	$42.77
Forfeited	—	—
Exercised	(662,124)	$15.92
Balance, December 31, 2006	3,066,864	$20.31

Restricted Stock Units

	Shares
Balance, December 31, 2003	261,212
Granted	85,276
Forfeited	—
Issued	(113,414)
Balance, December 31, 2004	233,074
Granted	31,276
Forfeited	—
Issued	(98,138)
Balance, December 31, 2005	166,212
Granted	148,141
Forfeited	(15,284)
Issued	(99,660)
Balance, December 31, 2006	199,409

In addition, 4,140 shares were issued to certain non-employee directors pursuant to annual retainer arrangements. As a result of stock option exercises, $10.4 million of proceeds were received during the year ended December 31, 2006. The income tax benefit derived in 2006 as a result of such exercises and share-based compensation was $8.9 million, of which $6.8 million represented excess tax benefits. This compares to $1.7 million of proceeds from stock option exercises for the year ended December 31, 2005. The income tax benefit from the stock option exercises and other share-based compensation for the year ended December 31, 2005 was $3.9 million.

The director shares and restricted stock units were awarded to directors and employees pursuant to non-employee director and key-person long-term incentive plans and a separation agreement for which $1.9 million and $0.9 million of compensation expense was recognized for the years ended December 31, 2006 and 2005, respectively. We also have outstanding phantom equity units for which $2.8 million of expense was recognized for the year ended December 31, 2006 due to changes in the market price of our common stock from the award date.

The total intrinsic value of options (the amounts by which the stock price exceeded the exercise price of the option on the date of exercise) that was exercised during 2006, 2005 and 2004 was $23.7 million, $12.3 million and $5.5 million, respectively.

At December 31, 2006, 2005 and 2004 approximately 2,620,000, 2,700,000 and 2,920,000 options were exercisable, respectively. The weighted average exercise price of exercisable options at December 31, 2006, 2005 and 2004 was approximately $19.93, $17.73 and $14.17, respectively.

The following table summarizes information about our stock options at December 31, 2006 (adjusted for the February 10, 2006 2-for-1 stock split):

	Stock Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ 8.10–$10.00	610,666	1.28 Years	$ 9.57	610,666	$ 9.57
$10.97–$13.57	170,000	3.68 Years	$12.48	170,000	$12.48
$18.93–$21.15	388,466	5.40 Years	$20.63	368,466	$20.71
$21.92–$23.18	1,312,968	6.72 Years	$22.43	926,037	$22.39
$23.63–$27.75	505,702	6.28 Years	$26.64	466,369	$26.86
$35.58–$45.05	79,062	8.14 Years	$42.77	79,062	$42.77

The total aggregate intrinsic value of options outstanding as of December 31, 2006, 2005 and 2004 was approximately $112.1 million, $53.8 million and $24.4 million, respectively. The total aggregate intrinsic value of options exerciseable as of December 31, 2006, 2005 and 2004 was approximately $96.8 million, $43.3 million and $24.7 million, respectively.

The pro forma effect on our net income, Basic EPS and Diluted EPS, had compensation costs been determined consistent with the recognition of compensation costs provisions of Statement No. 123, is presented in Note B—Summary of Significant Accounting Policies. The associated pro forma compensation costs related to the provisions of Statement No. 123, net of tax effects, were $2.1 million and $3.0 million for the years ending December 31, 2005 and 2004, respectively.

The fair value on the date of grant was calculated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants during the periods indicated:

	2006	2005	2004
Dividend yield	0%	0%	0%
Expected volatility	34.0%	36.8%	28.4%
Risk-free interest rate	4.9%	3.9%	3.2%
Expected life of options in years	5.8	6.3	4.5
Weighted average grant date fair value	$18.72	$9.97	$6.33

Forfeitures of stock options have been historically insignificant to the calculation and are estimated to be zero in all periods presented.

During 2004, 455,854 of out-of-the-money stock options were vested in full in anticipation of a change in accounting rules requiring the expensing of stock options beginning as of January 1, 2006 (see "Valuation of Share-Based Compensation Plans" in Note B—Summary of Significant Accounting Policies of the notes to consolidated financial statements for additional information).

Savings/Investment Plans

3.90

EMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

L (In Part): Retirement Plans and Retiree Medical Benefits

401(k) Plan

We have established a deferred compensation program for certain employees that is qualified under Section 401(k) of the Code. EMC will match pre-tax employee contributions up to 6% of eligible compensation during each pay period (subject to the $750 maximum match each quarter). Matching contributions are immediately 100% vested. Our contributions amounted to $48.6 million in 2006, $36.8 million in 2005 and $30.5 million in 2004.

Employees may elect to invest their contributions in a variety of funds, including an EMC stock fund. The deferred compensation program limits an employee's maximum investment allocation in the EMC stock fund to 30% of their total contribution. Our matching contribution mirrors the investment allocation of the employee's contribution.

Stock Purchase Plans

3.91

EBAY INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Stock-Based Plans

Employee Stock Purchase Plan

We have an employee stock purchase plan for all eligible employees. Under the plan, shares of our common stock may be purchased over an offering period with a maximum duration of two years at 85% of the lower of the fair market value on the first day of the applicable offering period or on the last day of the six-month purchase period. Employees may purchase shares having a value not exceeding 10% of their gross com-

pensation during an offering period. During the years ended December 31, 2004, 2005, and 2006, employees purchased approximately 1.2 million, 1.4 million, and 1.6 million shares at average prices of $20.66, $25.55 and $27.32 per share, respectively. At December 31, 2006, approximately 5.6 million shares of common stock were reserved for future issuance. Our employee stock purchase plan contains an "evergreen" provision that automatically increases, on each January 1, the number of shares reserved for issuance under the employee stock purchase plan by the number of shares purchased under this plan in the preceding calendar year.

Deferred Compensation Plans

3.92

CHESAPEAKE ENERGY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Employee Benefit Plans

We also maintain a 401(k) make-up plan and a deferred compensation plan, both of which are nonqualified deferred compensation plans. To be eligible to participate in the 401(k) make-up plan, an employee must receive annual compensation (base salary and bonus combined) of at least $100,000 ($95,000 in 2005 and $90,000 in 2004), have a minimum of five years of service as a company employee and have made the maximum contribution allowable under the 401(k) plan. The company matches employee contributions to the 401(k) make-up plan in Chesapeake common stock dollar for dollar for up to 15% of the employee's annual cash compensation. We contributed $2.4 million, $1.6 million and $1.4 million to the 401(k) make-up plan during 2006, 2005 and 2004, respectively.

Employees with at least one year of service receiving an annual base salary of at least $95,000 ($100,000 in 2004) during the 12 months prior to the enrollment date are eligible to participate in our deferred compensation plan. In addition, non-employee directors are able to defer up to 100% of director fees. The maximum compensation that can be deferred by employees under all company deferred compensation plans, including the Chesapeake 401(k) plan, is a total of 75% of base salary and 100% of performance bonus. Chesapeake has made no matching or other contributions to the deferred compensation plan, although the plan permits the company to make discretionary contributions.

Any assets placed in trust by Chesapeake to fund future obligations of the 401(k) make-up plan and the deferred compensation plan are subject to the claims of creditors in the event of insolvency or bankruptcy, and participants are general creditors of the company as to their deferred compensation in the plans.

Employee Stock Ownership Plans

3.93

COLGATE-PALMOLIVE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

9. Employee Stock Ownership Plan

In 1989, the Company expanded its Employee Stock Ownership Plan (ESOP) through the introduction of a leveraged ESOP that funds certain benefits for employees who have met eligibility requirements. The ESOP issued $410.0 of long-term notes due through 2009 bearing an average interest rate of 8.7%. The remaining balance of the long-term notes, which are guaranteed by the Company, is reflected in the accompanying Consolidated Balance Sheets. The ESOP used the proceeds of the notes to purchase 6.3 million shares of Preference Stock from the Company. The Preference Stock, which is convertible into eight shares of common stock, has a minimum redemption price of $65 per share and pays semi-annual dividends equal to the higher of $2.44 or the current dividend paid on eight common shares for the comparable six-month period. During 2000, the ESOP entered into a loan agreement with the Company under which the benefits of the ESOP may be extended through 2035.

Dividends on the Preference Stock, as well as on the common shares also held by the ESOP, are paid to the ESOP trust and, together with cash contributions and advances from the Company, are used by the ESOP to repay principal and interest on the outstanding notes. Preference Stock is released for allocation to participants based upon the ratio of the current year's debt service to the sum of total principal and interest payments over the life of the loans. As of December 31, 2006, 1,452,030 shares were released and allocated to participant accounts and 1,974,707 shares were available for future allocation.

Dividends on the Preference Stock are deductible for income tax purposes and, accordingly, are reflected net of their tax benefit in the Consolidated Statements of Retained Earnings, Comprehensive Income and Changes in Capital Accounts.

Annual expense related to the leveraged ESOP, determined as interest incurred on the original notes, plus the higher of either principal payments or the historical cost of Preference Stock allocated, less dividends received on the shares held by the ESOP and advances from the Company, was $14.1 in 2006, $11.9 in 2005 and $14.9 in 2004. Unearned compensation, which is shown as a reduction in shareholders' equity, represents the amount of ESOP debt outstanding reduced by the difference between the cumulative cost of Preference Stock allocated and the cumulative principal payments.

Interest incurred on the ESOP's notes was $17.9 in 2006, $21.7 in 2005 and $24.7 in 2004. The Company paid dividends on the shares held by the ESOP of $37.0 in 2006, $36.9 in 2005 and $34.4 in 2004. Company contributions to the ESOP were $14.1 in 2006, $11.9 in 2005 and $14.5 in 2004.

Profit Sharing Plans

3.94

HERMAN MILLER, INC. (MAY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Employee Benefit Plans

Profit Sharing and 401(k) Plan

Domestically, Herman Miller, Inc., has a trusteed profit sharing plan that includes substantially all employees. These employees are eligible to begin participating at the beginning of the quarter following their date of hire. The plan provides for discretionary contributions (payable in the company's common stock) of not more than 6.0 percent of employees' wages based on the company's financial performance. The cost of the company's profit sharing contributions charged against operations in fiscal 2006, 2005, and 2004, was $13.9 million, $8.8 million, and $3.8 million, respectively.

The company matches 50 percent of employee contributions to their 401 (k) accounts up to 6.0 percent of their pay. The cost of the company's matching contributions charged against operations was approximately $6.7 million, $6.0 million, and $5.6 million, in fiscal 2006, 2005, and 2004, respectively.

Incentive Compensation Plans

3.95

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Employee Benefit Plans

Executive Incentive Compensation Plan

The amended 1995 Executive Incentive Compensation Plan provides the basis for determination of annual incentive compensation awards under a performance-based Economic Value Added (EVA®) plan. Actual cash awards are usually paid in January or February of the following year. The Company accrues amounts reflecting the estimated value of incentive compensation anticipated to be earned for the year. Total executive incentive compensation expense was $7.7 million, $6.1 million and $4.5 million in 2006, 2005 and 2004, respectively. The 2006 and 2005 expenses included performance-based restricted stock units ("RSUs") that were granted to certain officers and key employees of the Company. There were no RSUs granted to officers or employees in 2004.

Phantom Stock

3.96

CIRCUIT CITY STORES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Stock-Based Incentive Plans

C) Phantom Stock Program

In fiscal 2006, the company issued phantom stock units through a long-term incentive program. The employee does not receive rights of a shareholder, nor is any stock transferred. The units will be paid out in cash at the end of the two year vesting period. The value of one unit is based on the market value of one share of common stock on the vesting date. The cost of the grants is recognized over the vesting period and is included in stock-based compensation expense on the consolidated statement of operations. A total of 0.3 million units was granted in fiscal 2006. Compensation expense related to these units was $1.7 million in fiscal 2006.

DEPRECIATION EXPENSE

3.97 Paragraph 5 of APB Opinion No. 12, *Omnibus Opinion—1967*, stipulates that both the amount of depreciation expense and method or methods of depreciation should be disclosed in the financial statements or in notes thereto. Paragraph 5 of Accounting Research Bulletin (ARB) No. 43, Chapter 9C, *Emergency Facilities: Depreciation, Amortization, and Income Taxes*, defines depreciation accounting (the process of allocating the cost of productive facilities over the expected useful lives of the facilities) as a "system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation."

3.98 Under APB No. 20, *Accounting Changes*, a change in depreciation method for previously recorded assets, such as from double declining balance method to straight line method, is accounted for as a change in accounting principle. Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, SFAS No. 154, *Accounting Changes and Error Corrections*, replaces *APB No. 20* and changes the requirements for the accounting for and reporting of certain accounting changes including a change in depreciation method. *SFAS No. 154* requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. Changes in accounting estimate are accounted for

prospectively, not retrospectively as is required for changes in accounting principle.

3.99 Table 3-14 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

3.100

TABLE 3-14: DEPRECIATION METHODS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Straight-line	592	592	586	580
Declining-balance	16	14	16	22
Sum-of-the-years'-digits	5	4	6	5
Accelerated method—not specified	27	30	32	41
Units-of-production	23	24	22	30
Group/composite	9	10	8	4

Straight-Line Method

3.101

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

Consolidated Statements of Cash Flows

(In millions)	2006	2005	2004
Cash flows from operating activities:			
Net (loss) income	$(330)	$ 228	$ 115
Adjustments to reconcile net (loss) income to cash flows from operating activities:			
Depreciation and amortization	675	630	629
Amortization of debt issuance costs	19	76	74
Deferred tax provision	(48)	(19)	(4)
Net rationalization charges	319	11	56
Net (gains) losses on asset sales	(40)	36	4
Net insurance settlement gains	(3)	(79)	(149)
Minority interest and equity earnings	106	91	53
Cumulative effect of accounting change	—	11	—
Pension contributions	(714)	(526)	(265)
Rationalization payments	(124)	(43)	(97)
Insurance recoveries	46	228	175

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Properties and Plants

Properties and plants are stated at cost. Depreciation is computed using the straight-line method. Additions and improvements that substantially extend the useful life of properties and plants, and interest costs incurred during the construction period of major projects, are capitalized. Repair and maintenance costs are expensed as incurred. Properties and plants are depreciated to their estimated residual values over their estimated useful lives, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Note 9. Properties and Plants

	2006			2005		
(In millions)	Owned	Capltal Leases	Total	Owned	Capital Leases	Total
Properties and plants, at cost:						
Land and improvements	$ 442	$ 5	$ 447	$ 415	$ 9	$ 424
Buildings and improvements	1,902	84	1,986	1,856	91	1,947
Machinery and equipment	10,408	108	10,516	9,885	110	9,995
Construction in progress	442	—	442	445	—	445
	13,194	197	13,391	12,601	210	12,811
Accumulated depreciation	(8,064)	(99)	(8,163)	(7,635)	(94)	(7,729)
	5,130	98	5,228	4,966	116	5,082
Spare parts	149	—	149	149	—	149
	$ 5,279	$ 98	$ 5,377	$ 5,115	$116	$ 5,231

The range of useful lives of property used in arriving at the annual amount of depreciation provided are as follows: buildings and improvements, 8 to 45 years; machinery and equipment, 3 to 30 years.

Note 19. Change in Estimate

Effective April 1, 2006, we increased the estimated useful lives of our tire mold equipment for depreciation purposes. The change was due primarily to improved practices related to mold maintenance and handling in our tire manufacturing facilities and the completion of a review, in the second quarter of 2006, of current and forecasted product lives. The change resulted in a benefit to pretax income in 2006 of $28 million ($23 million after-tax or $0.13 per share). Prior periods have not been adjusted for this change.

3.102

TEXAS INSTRUMENTS INCORPORATED (DEC)

Consolidated Statements of Cash Flows

(Millions of dollars)	2006	2005	2004
Cash flows from operating activities:			
Net income	$4,341	$2,324	$1,861
Adjustments to reconcile net income to cash provided by operating activities of continuing operations:			
Income from discontinued operations	(1,703)	(151)	(170)
Depreciation	1,052	1,346	1,449
Stock-based compensation	332	175	18
Amortization of capitalized software	110	126	119
Amortization of acquisition-related intangibles	59	55	69
Deferred income taxes	(200)	(194)	70

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies and Practices

Property, Plant and Equipment and Other Capitalized Costs

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives. In 2006, these assets were depreciated using the straight-line method. Prior to 2006, these assets were depreciated primarily using the 150 percent declining-balance method (see Change in Depreciation Method below). Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Acquisition-related costs are amortized on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Change in Depreciation Method

Effective January 1, 2006, as a result of a study made of the pattern of usage of our long-lived depreciable assets, we adopted the straight-line method of depreciation for all property, plant and equipment. Under the provisions of SFAS No. 154, "*Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3,*" which became effective as of January 1, 2006, a change in depreciation method is treated on a prospective basis as a change in estimate. Prior period results have not been restated. We believe that the change from the 150 percent declining-balance method to the straight-line method better reflects the pattern of consumption of the future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets' estimated useful lives. The effect of the change in depreciation method for the year ended December 31,2006, was to reduce depreciation expense by $156 million and increase both income from continuing operations and net income by $77 million ($0.05 per share).

15 (In Part): Supplemental Financial Information

Property, Plant and Equipment at Cost

	Depreciable Lives	2006	2005
Land	—	$ 82	$ 79
Buildings and improvements	5–40 years	2,890	2,930
Machinery and equipment	3–10 years	4,779	5,365
Total		$7,751	$8,374

Authorizations for property, plant and equipment expenditures in future years were $341 million at December 31, 2006.

Accelerated Methods

3.103

GENCORP INC. (NOV)

(In millions)	2006	2005	2004
Net sales	$621.1	$622.4	$495.4
Costs and expenses			
Cost of products sold	565.0	737.3	444.2
Selling, general and administrative	28.8	29.5	49.3
Depreciation and amortization	27.2	28.4	31.3
Interest expense	27.2	23.6	35.0
Other (income) expense, net	8.1	1.9	(15.9)
Unusual items			
Loss on repayment of debt	—	18.1	8.8
Legal settlements and estimated loss on legal matters	8.5	31.1	—
Gain on settlements and recoveries	—	(11.8)	—
Total costs and expenses	664.8	858.1	552.7
Loss from continuing operations before income taxes and cumulative effect of changes in accounting principles	$(43.7)	$(235.7)	$(57.3)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

g. Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Refurbishment costs are capitalized in the property accounts, whereas ordinary maintenance and repair costs are expensed as incurred. Depreciation is computed principally by accelerated methods. Depreciable lives on buildings and improvements, and machinery and equipment, range from five years to 45 years, and three years to 15 years, respectively.

5. Property, Plant and Equipment, Net

(In millions)	2006	2005
Land	$ 29.3	$ 29.3
Buildings and improvements	140.3	135.3
Machinery and equipment	352.6	346.5
Construction-in-progress	9.1	10.9
	531.3	522.0
Less: accumulated depreciation	(394.5)	(382.0)
Property, plant and equipment, net	$ 136.8	$ 140.0

Depreciation expense for fiscal 2006, fiscal 2005, and fiscal 2004 was $23.4 million, $24.7 million, and $23.2 million, respectively.

3.104

LEE ENTERPRISES, INCORPORATED (SEP)

Consolidated Balance Sheets

(Thousands)	2006	2005
Total current assets	$ 184,412	$ 245,950
Investments:		
Associated companies	198,266	203,731
Restricted cash and investments	96,060	81,060
Other	20,825	23,539
Total investments	315,151	308,330
Property and equipment:		
Land and improvements	31,778	31,437
Buildings and improvements	181,517	177,067
Equipment	301,162	283,533
Construction in process	13,260	13,885
	527,717	505,922
Less accumulated depreciation	200,465	175,699
Property and equipment, net	327,252	330,223
Goodwill	1,498,830	1,499,622
Other intangible assets	980,912	1,038,963
Other	23,252	22,112
Total assets	$3,329,809	$3,445,200

Consolidated Statements of Income and Comprehensive Income

(Thousands)	2006	2005	2004
Operating revenue:			
Advertising	$ 874,568	$624,109	$474,873
Circulation	205,718	153,571	130,023
Other	48,362	41,210	38,381
Total operating revenue	1,128,648	818,890	643,277
Operating expenses:			
Compensation	435,836	325,959	260,827
Newsprint and ink	120,191	79,331	58,153
Depreciation	33,903	23,754	19,141
Amortization of intangible assets	62,167	35,495	24,789
Other operating expenses	280,018	190,768	147,886
Early retirement program	8,654	9,124	—
Transition costs	4,589	8,929	—
Total operating expenses	945,358	673,360	510,796
Equity in earnings of associated companies	20,739	12,784	8,523
Operating income	$ 204,029	$158,314	$141,004

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Property and Equipment

Property and equipment are carried at cost. Equipment, except for printing presses and mailroom equipment, is depreciated primarily by declining-balance methods. The straight-line method is used for all other assets. The estimated useful lives are as follows:

	Years
Building and improvements	5–54
Printing presses and mailroom equipment	2–28
Other	1–14

The Company capitalizes interest as a component of the cost of constructing major facilities. At September 30, 2006, capitalized interest was not significant.

Beginning in 2006, the Company recognizes the fair value of a liability for a legal obligiation to perform an assest retirement activity, when such activity is a condition of a future event, and the fair value of the liability can be estimated.

Units-of-Production Method

3.105

SEQUA CORPORATION (DEC)

Consolidated Statement of Cash Flows

(Amounts in thousands)	2006	2005	2004
Cash flows from operating activities			
Income from continuing operations	$62,167	$37,020	$12,670
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization	82,374	80,103	89,566
Provision for losses on business transferred	—	6,195	—
Provision for losses on receivables	474	8,861	229
Premium on redemption of Senior Notes	4,343	—	—
Stock compensation expense amortization	1,678	—	—
Loss on sale of businesses	—	—	2,563
Gain on sale of assets and insurance recoveries	(9,041)	(1,407)	(818)
Equity in income of unconsolidated joint ventures, net of earnings distributions	(5,013)	(7,912)	(2,922)
Other items not providing cash	(1,003)	1,930	2,824

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment, Net (In Part)

For financial reporting purposes, Sequa computes depreciation using a units-of-production method for automotive airbag inflator component production lines. Sequa uses a straight-line method for its remaining assets over the estimated useful lives of such assets as follows: land improvements, 20 years; buildings and improvements, 20 to 40 years; and machinery and equipment, 2 to 12 years. Leasehold improvements are amortized over their estimated useful lives or the terms of the leases, whichever is shorter. Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized at cost.

Note 6. Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following:

(Amounts in thousands)	2006	2005
Land and improvements	$ 26,374	$ 28,164
Buildings and improvements	237,848	243,099
Machinery and equipment	1,054,346	979,425
Construction in progress	44,051	36,624
	1,362,619	1,287,312
Accumulated depreciation	(907,078)	(860,211)
	$ 455,541	$ 417,101

Depreciation expense for the full year ended December 31 was $76,314,000 in 2006, $74,566,000 in 2005 and $82,795,000 in 2004.

Composite Method

3.106

VERIZON COMMUNICATIONS INC. (DEC)

(Dollars in millions)	2006	2005	2004
Operating revenues	$88,144	$69,518	$65,751
Operating expenses			
Cost of services and sales (exclusive of items shown below)	34,994	24,200	22,032
Selling, general & administrative expense	25,232	19,652	19,346
Depreciation and amortization expense	14,545	13,615	13,503
Sales of businesses, net	—	(530)	—
Total operating expenses	74,771	56,937	54,881
Operating income	$13,373	$12,581	$10,870

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Plant and Depreciation

We record plant, property and equipment at cost. Our local telephone operations' depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used by our Wireline operations are presented in the following table:

(In years)	Average Lives
Buildings	15–42
Central office equipment	5–11
Outside communications plant	
Copper cable	13–18
Fiber cable	11–20
Microwave towers	30
Poles and conduit	30–50
Furniture, vehicles and other	3–20

When we replace or retire depreciable plant used in our local telephone network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation.

Plant, property and equipment of our other subsidiaries are generally depreciated on a straight-line basis over the following estimated useful lives: buildings, 8 to 40 years; plant equipment, 3 to 15 years; and other equipment, 3 to 5 years.

When the depreciable assets of our other subsidiaries are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

We capitalize network software purchased or developed along with related plant assets. We also capitalize interest associated with the acquisition or construction of network-related assets. Capitalized interest is reported as part of the cost of the network-related assets and as a reduction in interest expense.

In connection with our ongoing review of the estimated remaining useful lives of plant, property and equipment and associated depreciation rates, we determined that, effective January 1, 2005, the remaining useful lives of three categories of telephone assets would be shortened by 1 to 2 years. These changes in asset lives were based on Verizon's plans, and progress to date on those plans, to deploy fiber optic cable to homes, replacing copper cable. While the timing and extent of current deployment plans are subject to modification, Verizon management believes that current estimates of reductions in impacted asset lives is reasonable and subject to ongoing analysis as deployment of fiber optic lines continues. The asset categories impacted and useful life changes are as follows:

	Average Lives	
(In years)	From	To
Central office equipment		
Digital switches	12	11
Circuit equipment	9	8–9
Outside plant		
Copper cable	15–19	13–18

In connection with our ongoing review noted above, we determined that, effective January 1, 2006, the remaining useful lives of circuit equipment would be shortened from 8–9 years to 8 years.

Note 6. Plant, Property and Equipment

The following table displays the details of plant, property and equipment, which is stated at cost:

(Dollars in millions)	2006	2005
Land	$ 959	$ 706
Buildings and equipment	19,207	16,312
Network equipment	163,580	152,409
Furniture, office and data processing equipment	12,789	12,272
Work in progress	2,315	1,475
Leasehold improvements	3,061	2,297
Other	2,198	2,290
	204,109	187,761
Accumulated depreciation	(121,753)	(114,774)
Total	$ 82,356	$ 72,987

Note 19 (In Part): Additional Financial Information

The tables that follow provide additional financial information related to our consolidated financial statements:

(Dollars in millions)	2006	2005	2004
Income statement information			
Depreciation expense	$13,122	$12,171	$12,169
Interest cost incurred	2,811	2,481	2,513
Capitalized interest	(462)	(352)	(177)
Advertising expense	2,271	1,844	1,617

Depletion

3.107

POTLATCH CORPORATION (DEC)

(Dollars in thousands)	2006	2005	2004
Revenues	$1,607,827	$1,501,881	$1,356,371
Costs and expenses:			
Depreciation, depletion and amortization	91,021	83,210	80,659
Materials, labor and other operating expenses	1,347,250	1,259,389	1,098,093
Selling, general and administrative expenses	91,652	85,103	83,697
Restructuring charges	—	—	1,193
	1,529,923	1,427,702	1,263,642
Income from Canadian lumber settlement	39,320	—	—
Earnings from operations	$ 117,224	$ 74,179	$ 92,729

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Principal Accounting Policies (In Part)

Properties (In Part)

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

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

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

Since timber, timberlands and related logging facilities are generally considered to be long-term productive assets, we classify these expenditures as investing activities in our Consolidated Statements of Cash Flows. Depletion, amortization and cost of permit timber harvested associated with timber, timberlands and related logging facilities are non-cash adjustments to net earnings in the operating activities section of the Consolidated Statements of Cash Flows.

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

Note 5. Timber, Timberlands and Related Logging Facilities

(Dollars in thousands)	2006	2005
Timber and timberlands	$341,427	$351,391
Related logging facilities	50,150	49,204
	$391,577	$400,595

Depletion from company-owned lands amounted to $17.4 million in 2006 ($12.0 million in 2005 and $9.6 million in 2004). Amortization of logging roads and related facilities amounted to $2.1 million in 2006 ($2.2 million in 2005 and $1.8 million in 2004).

In December 2006, we entered into a definitive agreement to acquire 76,000 acres of prime timberland in Wisconsin for $64.5 million from Tomahawk Timberlands, LLC, and Tomahawk Highlands, LLC. The transaction closed in January 2007. This was our first significant purchase of timberland in more than a decade.

INCOME TAXES

PRESENTATION OF INCOME TAXES

3.108 SFAS No. 109, *Accounting for Income Taxes*, is the authoritative pronouncement on accounting for and reporting income tax liabilities and expense. Paragraphs 41–49 of *SFAS No. 109* set forth standards for financial presentation and disclosure of income tax liabilities and expense. Effective for fiscal years beginning after December 15, 2006 with earlier application encouraged, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. *FIN No.* 48 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. In addition, *FIN No.* 48 provides guidance on derecognition, classification, disclosure and transition. Under *FIN No.* 48, tax

positions accounted for in accordance with *SFAS No. 109* will be evaluated for recognition, derecognition, and measurement using consistent criteria. Finally, the disclosure provision of *FIN No. 48* will provide more information about the uncertainty in income tax assets and liabilities.

3.109 Table 3-15 summarizes the descriptive captions used by the survey companies to identify income tax expense. Examples of income tax expense presentation and disclosure follow.

3.110

TABLE 3-15: INCOME TAX EXPENSE

	2006	2005	2004	2003
Descriptive Terms				
Income taxes	589	589	588	585
Federal income taxes	7	8	8	10
United States (U.S.) income taxes	2	1	1	1
	598	**598**	**597**	**596**
Other or no current year amount	2	2	3	4
Total Companies	**600**	**600**	**600**	**600**

Expense Provision

3.111

HILLENBRAND INDUSTRIES, INC. (SEP)

(Dollars in millions)	2006	2005	2004
Net revenues			
Health Care sales	$ 862.6	$ 810.9	$ 736.9
Health Care rentals	425.7	467.8	452.1
Funeral Services sales	674.6	659.4	640.3
Total revenues	1,962.9	1,938.1	1,829.3
Cost of revenues			
Health Care cost of goods sold	501.1	481.5	410.8
Health Care rental expenses	217.2	222.7	187.1
Funeral Services cost of goods sold	394.8	393.4	376.5
Total cost of revenues	1,113.1	1,097.6	974.4
Gross profit	849.8	840.5	854.9
Other operating expenses	529.1	555.7	528.9
Litigation (credits) charge	(2.3)	358.6	—
Special charges	5.4	36.3	5.5
Operating profit (loss)	317.6	(110.1)	320.5
Other (expense) income, net:			
Interest expense	(21.3)	(18.4)	(15.2)
Investment income and other	42.7	12.6	2.5
Income (loss) from continuing operations before income taxes	339.0	(115.9)	307.8
Income tax expense (benefit)	117.5	(19.6)	119.6
Income (loss) from continuing operations	$ 221.5	$ (96.3)	$ 188.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company and its eligible domestic subsidiaries file a consolidated U.S. income tax return. Foreign operations file income tax returns in a number of jurisdictions. Deferred income taxes are computed in accordance with SFAS No. 109, "Accounting for Income Taxes" and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. We have a variety of deferred tax assets in numerous tax jurisdictions. These deferred tax assets are subject to periodic assessment as to recoverability and if it is determined that it is more likely than not that the benefits will not be realized, valuation allowances are recognized. In evaluating whether it is more likely than not that we would recover these deferred tax assets, future taxable Income, the reversal of existing temporary differences and tax planning strategies are considered.

9. Income Taxes

Income taxes are computed in accordance with SFAS No. 109. The significant components of income (loss) from continuing operations before income taxes and the consolidated income tax provision from continuing operations for fiscal years 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Income (loss) from continuing operations before income taxes:			
Domestic	$335.4	$(104.6)	$322.7
Foreign	3.6	(11.3)	(14.9)
Total	$339.0	$(115.9)	$307.8
Income tax expense (benefit) from continuing operations:			
Current provision:			
Federal	$ 2.2	$ 43.9	$ 79.7
State	(7.9)	3.9	(0.4)
Foreign	3.4	2.7	2.9
Total current provision	(2.3)	50.5	82.2
Deferred provision:			
Federal	109.6	(63.0)	27.8
State	9.5	(8.1)	4.6
Foreign	0.7	1.0	5.0
Total deferred provision	119.8	(70.1)	37.4
Income tax expense (benefit) from continuing operations	$117.5	$ (19.6)	$119.6

Differences between income tax expense (benefit) from continuing operations reported for financial reporting purposes and that computed based upon the application of the statutory U.S. Federal tax rate to the reported income (loss) from continuing operations before income taxes for fiscal years 2006, 2005 and 2004 were as follows:

	2006		2005		2004	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Loss
Federal income tax[a]	$118.7	35.0	$(40.6)	35.0	$107.7	35.0
State income tax[b]	1.3	0.4	(12.7)	11.0	2.7	0.9
Foreign income tax[c]	1.0	0.3	3.5	(3.0)	0.5	0.2
Application of tax credits	(1.0)	(0.3)	(3.5)	3.0	(3.3)	(1.1)
Adjustment of estimated income tax accruals	(1.4)	(0.4)	(2.9)	2.5	11.0	3.6
Valuation of foreign net operating losses and other tax attributes	(0.1)	—	21.4	(18.5)	17.2	5.6
Impact from foreign restructuring	—	—	16.0	(13.8)	(16.0)	(5.2)
Other, net	(1.0)	(0.3)	(0.8)	0.7	(0.2)	(0.1)
Income tax expense (benefit) from continuing operations	$117.5	34.7	$(19.6)	16.9	$119.6	38.9

[a] At statutory rate.
[b] Net of Federal benefit.
[c] Federal tax rate differential.

The tax effect of temporary differences that gave rise to the deferred tax balance sheet accounts were as follows:

	2006	2005
Deferred tax assets:		
Employee benefit accruals	$ 16.7	$ 21.0
Reserve for bad debts	22.2	11.4
Litigation and legal accruals	8.3	141.6
Capital loss carryforwards	54.0	63.7
Net operating loss carryforwards	6.8	14.5
Tax credit carryforwards	9.8	10.6
Foreign loss carryforwards and other tax attributes	29.2	27.6
Other, net	43.2	43.5
	190.2	333.9
Less: valuation allowance for capital losses, foreign loss and other tax attributes	(90.6)	(112.4)
Total deferred tax assets	99.6	221.5
Deferred tax liabilities:		
Depreciation	68.7	65.8
Amortization	51.6	60.7
Other, net	8.1	9.3
Total deferred tax liabilities	128.4	135.8
Deferred tax (liability) asset—net	(28.8)	85.7

At September 30, 2006, we had $29.2 million of deferred tax assets related to operating loss carryforwards and other tax attributes in foreign jurisdictions. These tax attributes are subject to various carryforward periods ranging from 1 year to an unlimited period. We also had $54.0 million of deferred tax assets related to capital loss carryforwards, which expire between 2008 and 2009; $6.8 million of deferred tax assets related to domestic net operating loss carryforwards, primarily for state income tax purposes, which expire between 2006 and 2025; $3.7 million of deferred tax assets related to foreign tax credit carryforwards, which expire between 2011 and 2015; and $5.6 million of deferred tax assets related to alternative minimum tax credit carryforwards, with no expiration date; and $0.5 million of deferred tax assets related to state credits, which expire between 2010 and 2020.

The gross deferred tax assets as of September 30, 2006 were reduced by valuation allowances of $90.6 million, relating to foreign operating loss carryforwards, foreign tax credit carryforwards, capital loss carryforwards and state income tax operating loss carryforwards, as it is more likely than not that some portion or all of these tax attributes will not be realized. The valuation allowance was reduced by $21.8 million during fiscal 2006 due to limited releases of valuation allowances on deferred tax assets realized or expected to be utilized and to a larger extent resulting from the elimination of deferred tax assets on which full valuation allowances were previously recorded. The elimination of these gross deferred tax assets related primarily to the final accounting for state tax operating losses associated with our litigation settlement and the impacts of audit adjustments on capital loss carryforwards.

As of September 30, 2004, we had developed a strategy to restructure our French operations. The restructuring involved the creation of a new French entity and the conversion of the existing French entities into a new operating structure. This resulted in the recognition of a related deferred tax asset of $16.0 million. When this strategy was abandoned in 2005 as part of the profit improvement initiatives being undertaken in France, the deferred tax asset was written off.

Our income tax return filings are subject to audit by various taxing authorities. In fiscal 2006, we recorded both benefits to income and additional accruals related to audit activity by the Internal Revenue Service and various states. The net effect of these adjustments was the recognition of $1.4 million of tax benefit for fiscal 2006.

In evaluating whether it is more likely than not that we would recover our deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies were considered. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

3.112

KAMAN CORPORATION (DEC)

(In thousands)	2006	2005	2004
Net sales	$1,206,154	$1,101,196	$ 995,192
Costs and expenses			
Cost of sales	873,868	814,385	770,285
Selling, general and administrative expense	275,110	256,241	239,368
Net (gain) loss on sale of assets	52	27	(199)
Other operating income	(2,253)	(2,214)	(1,731)
Interest expense, net	6,179	3,046	3,580
Other expense, net	919	860	1,053
	1,153,875	1,072,345	1,012,356
Earnings (loss) before income taxes	52,279	28,851	(17,164)
Income tax benefit (expense)	(20,493)	(15,823)	5,342
Net earnings (loss)	$ 31,786	$ 13,028	$ (11,822)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled.

Income Taxes

The components of income tax expense (benefit) are as follows:

	2006	2005	2004
Current:			
Federal	$15,254	$ 8,558	$ 2,370
State	2,062	1,646	1,770
Foreign	3,181	2,451	1,935
	20,497	12,655	6,075
Deferred:			
Federal	39	3,083	(9,359)
State	(30)	74	(1,918)
Foreign	(13)	11	(140)
	(4)	3,168	(11,417)
Total	$20,493	$15,823	$ (5,342)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are presented below:

	2006	2005
Deferred tax assets:		
Long-term contracts	$ 4,539	$ 7,383
Deferred employee benefits	29,800	27,116
Inventory	9,227	8,077
Tax loss and credit carry-forwards	4,298	3,484
Accrued liabilities and other items	5,966	6,612
Total deferred tax assets	53,830	52,672
Deferred tax liabilities:		
Depreciation and amortization	(4,225)	(5,756)
Intangibles	(5,473)	(3,666)
Other items	(1,222)	(1,183)
Total deferred tax liabilities	(10,920)	(10,605)
Net deferred tax asset before valuation allowance	42,910	42,067
Valuation allowance	(3,740)	(2,883)
Net deferred tax asset after valuation allowance	$ 39,170	$ 39,184

Foreign current deferred tax liabilities of $95 are included in other accruals and payables on the Consolidated Balance Sheet as of December 31, 2006. Foreign long-term deferred tax liabilities of $160 and $376 are included in Other Long-Term Liabilities as of December 31, 2006 and 2005, respectively. Valuation allowances of $3,740 and $2,883 at December 31, 2006 and 2005, respectively, reduced the deferred tax asset attributable to foreign loss and state loss and credit carry-forwards to an amount that, based upon all available information, is more likely than not to be realized. Reversal of the valuation allowance is contingent upon the recognition of future taxable income in the respective jurisdiction or changes in circumstances which cause the recognition of the benefits of the loss carry-forwards to become more likely than not. The net increase in the valuation allowance of $857 is due to the generation of $1,162 in state loss and tax credit carry-forwards, offset by $305 of current and anticipated utilization of Canadian and state carry-forwards. Canadian tax loss carry-forwards are approximately $2,165 and could expire between 2007 and 2010. State carry-forwards are in numerous jurisdictions with varying lives.

No valuation allowance has been recorded against the other deferred tax assets because the company believes that these deferred tax assets will, more likely than not, be realized. This determination is based largely upon the company's anticipated future income, as well as its ability to carry-back reversing items within two years to offset taxes paid. In addition, the company has the ability to offset deferred tax assets against deferred tax liabilities created for such items as depreciation and amortization.

Pre-tax income from foreign operations amounted to $6,787, $4,358 and $3,227 in 2006, 2005 and 2004, respectively. Income taxes have not been provided on undistributed earnings of $12,349 from foreign subsidiaries since it is the company's intention to permanently reinvest such earnings or to distribute them only when it is tax efficient to do so. It is impracticable to estimate the total tax liability, if any, which would be created by the future distribution of these earnings.

The provision for income taxes differs from that computed at the federal statutory corporate tax rate as follows:

	2006	2005	2004
Federal tax (benefit) at 35% statutory rate	$18,298	$10,098	$(6,007)
State income taxes, net of federal benefit	1,320	1,118	(127)
Tax effect of:			
Compensation	1,311	3,467	617
Recapitalization costs	—	1,169	93
Meals and entertainment	478	424	413
Other, net	(914)	(453)	(331)
Income taxes (benefit)	$20,493	$15,823	$(5,342)

Cash payments for income taxes, net of refunds, were $17,703, $8,934, and $2,198 in 2006, 2005 and 2004, respectively.

3.113

OMNICOM GROUP INC. (DEC)

(Dollars in millions)	2006	2005	2004
Revenue	$11,376.9	$10,481.1	$9,747.2
Operating expenses:			
Salary and service costs	8,087.8	7,412.9	6,846.8
Office and general expenses	1,805.6	1,728.4	1,685.0
	9,893.4	9,141.3	8,531.8
Operating profit	1,483.5	1,339.8	1,215.4
Net interest expense:			
Interest expense	124.9	78.0	51.1
Interest income	(33.3)	(18.8)	(14.5)
	91.6	59.2	36.6
Income before income taxes	1,391.9	1,280.6	1,178.8
Income taxes	466.9	435.3	396.3
Income after income taxes	$ 925.0	$ 845.3	$ 782.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

We file a consolidated U.S. income tax return and tax returns in various state and local jurisdictions. Our subsidiaries also file tax returns in various foreign jurisdictions. The principal foreign jurisdictions include the United Kingdom, France and Germany. We have not provided U.S. deferred income taxes on cumulative earnings of non-U.S. affiliates that have been reinvested indefinitely. A provision has been made for income and withholding taxes on the earnings of international subsidiaries and affiliates that will be distributed. Interest and penalties related to tax positions taken in our tax returns are recorded in income tax expense in our consolidated statement of income.

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, as amended ("SFAS 109"). Deferred income taxes are provided for the temporary difference between the financial reporting basis and tax basis of our assets and liabilities. Deferred income taxes are measured using the enacted tax rates that are assumed to be in effect when the differences reverse. Deferred tax assets result principally from recording certain expenses in the financial statements which are not currently deductible for tax purposes, including employee stock-based compensation expense and from differences between the tax and book basis of assets and liabilities recorded in connection with acquisitions, as well as tax loss and credit carryforwards. Deferred tax liabilities result principally from expenses arising from financial instruments which are currently deductible for tax purposes but have not been expensed in the financial statements and basis differences arising from tangible and deductible intangible assets, as well as investments and capital transactions.

We maintain valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate factors such as prior earnings history, expected future earnings, carry-back and carry-forward periods and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset.

8. Income Taxes

We file a consolidated U.S. income tax return and tax returns in various state and local jurisdictions. Our subsidiaries also file tax returns in various foreign jurisdictions. The principal foreign jurisdictions include the United Kingdom, France and Germany. Income before income taxes and the provision for taxes on income consisted of the amounts shown below:

(Dollars in millions)	2006	2005	2004
Income before income taxes:			
Domestic	$ 684.0	$ 665.5	$ 646.7
International	707.9	615.1	532.1
Total	$1,391.9	$1,280.6	$1,178.8
Provision for taxes on income:			
Current:			
Federal	$ 171.4	$ 133.5	$ 161.0
State and local	15.9	10.5	11.8
International	189.8	186.7	160.2
Total current	377.1	330.7	333.0
Deferred:			
Federal	62.4	82.0	72.4
State and local	3.9	1.8	1.6
International	23.5	20.8	(10.7)
Total deferred	89.8	104.6	63.3
Total	$ 466.9	$ 435.3	$ 396.3

Our effective income tax rate varied from the statutory federal income tax rate as a result of the following factors:

	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local taxes on income, net of federal income tax benefit	0.9	0.6	0.7
International subsidiaries' tax rate differentials	(2.3)	(0.7)	(2.6)
Other	(0.1)	(0.9)	0.5
Effective rate	33.5%	34.0%	33.6%

Included in income tax expense is $1.6 million, $(1.8) million and $3.4 million of interest and penalties related to tax positions taken on our tax returns for the years ended December 31, 2006, 2005 and 2004, respectively. At December 31, 2006 and 2005, the combined amount of accrued interest and penalties related to tax positions taken on our tax returns was $5.6 million and $4.9 million, respectively.

Deferred income taxes are provided for the temporary differences between the financial reporting basis and tax basis of our assets and liabilities. Deferred tax assets result principally from recording certain expenses in the financial statements which are not currently deductible for tax purposes, including employee stock-based compensation expense and from differences between the tax and book basis of assets and liabilities recorded in connection with acquisitions, as well as tax loss and credit carryforwards. Deferred tax liabilities result principally from expenses arising from financial instruments which are currently deductible for tax purposes but have not been expensed in the financial statements, and basis differences arising from tangible and deductible intangible assets, as well as investments and capital transactions.

Deferred tax assets and liabilities as of December 31, 2006 and 2005 consisted of the amounts shown below (dollars in millions):

	2006	2005
Deferred tax assets:		
Compensation and severance	$333.8	$297.5
Tax loss and credit carryforwards	172.2	135.4
Basis differences arising from acquisitions	65.9	84.3
Basis differences from short-term assets and liabilities	31.5	31.2
Basis differences arising from investments	14.6	—
Other	4.6	(0.7)
Total deferred tax assets	622.6	547.7
Valuation allowance	(72.2)	(105.3)
Total deferred tax assets net of valuation allowance	$550.4	$442.4
Deferred tax liabilities:		
Financial instruments	$281.0	$262.5
Basis differences arising from tangible and deductible intangible assets	156.7	118.1
Basis differences arising from investments and capital transactions	—	61.4
Total deferred tax liabilities	$437.7	$442.0

Net current deferred tax assets as of December 31, 2006 and 2005 were $141.9 million and $133.3 million, respectively, and were included in prepaid expenses and other current assets. At December 31, 2006, we had non-current deferred tax assets of $408.5 million and long-term deferred tax liabilities of $437.7 million. At December 31, 2005, we had non-current deferred tax assets of $309.1 million and long-term deferred tax liabilities of $442.0 million. We have concluded that it is more likely than not that we will be able to realize our net deferred tax assets in future periods.

In 2006, we reduced our valuation allowance by $33.1 million principally relating to prior tax loss carryforwards at entities that were previously acquired. As a result of tax elections made in 2006, we concluded that the valuation allowance was no longer required. Because the valuation allowance was established with respect to entities with tax loss carryforwards that were previously acquired, the reduction in 2006 was allocated to reduce goodwill. Accordingly, the change in our valuation allowance did not impact our effective tax rate for the year ended December 31, 2006.

Our tax loss and credit carryforwards are available to us for in excess of 15 years from December 31, 2006. Upon recognition of the tax benefits of certain of these tax loss carryforwards in the future, approximately $10 million of our valuation allowance at December 31, 2006 would be allocated to reduce goodwill.

We have not provided U.S. deferred income taxes on cumulative earnings of non-U.S. affiliates that have been reinvested indefinitely. A provision has been made for income and withholding taxes on the earnings of international subsidiaries and affiliates that will be distributed.

The American Jobs Creation Act of 2004 (the "Jobs Act"), enacted on October 22, 2004, created a temporary incentive for U.S. multinational corporations to repatriate accumulated income earned outside the United States by providing an 85% dividends received deduction on certain foreign earnings repatriated prior to December 31, 2005. The deduction results in a 5.25% federal tax rate on the identified extraordinary dividend (as defined in the Jobs Act). As required by the Jobs Act, our CEO and Board of Directors approved a domestic reinvestment plan to repatriate $47.9 million in foreign earnings in 2005, and we repatriated this amount. We recorded tax expense in 2005 of $2.7 million related to this $47.9 million extraordinary dividend under the Jobs Act. The additional tax expense consists of federal taxes of $2.5 million, and state taxes, net of federal benefits, of $0.2 million.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 ("FIN 48"), that clarifies the accounting and recognition for income tax positions taken or expected to be taken in our tax returns. We will adopt FIN 48 on January 1, 2007, and will record the cumulative effect of a change in accounting principle by recording a decrease in the liability for unrecognized tax benefits of $1.3 million, that will be accounted for as a credit to opening retained earnings.

Credit Provision

3.114

COCA-COLA ENTERPRISES INC. (DEC)

(In millions)	2006	2005	2004
Net operating revenues	$19,804	$18,743	$18,190
Cost of sales	11,986	11,185	10,771
Gross profit	7,818	7,558	7,419
Selling, delivery, and administrative expenses	6,391	6,127	5,983
Franchise impairment charge	2,922	—	—
Operating (loss) income	(1,495)	1,431	1,436
Interest expense, net	633	633	619
Other nonoperating income (expense), net	10	(8)	1
(Loss) income before income taxes	(2,118)	790	818
Income tax (benefit) expense	(975)	276	222
Net (loss) income	$ (1,143)	$ 514	$ 596

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Income Taxes

We recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of our assets and liabilities. We establish valuation allowances if we believe that it is more likely than not that some or all of our deferred tax assets will not be realized (refer to Note 10).

Note 10. Income Taxes

The following table summarizes our (loss) income before income taxes for the years ended December 31, 2006, 2005, and 2004 (in millions):

	2006	2005	2004
United States[(A)]	$(2,186)	$288	$294
Non-U.S.[(A)]	68	502	524
(Loss) income before income taxes	$(2,118)	$790	$818

[(A)] Our 2006 U.S. and non-U.S. (loss) income before income taxes included a non-cash franchise impairment charge of $2,538 million and $384 million, respectively. For additional information about the non-cash franchise impairment charge, refer to Note 1.

The current income tax provision represents the estimated amount of income taxes paid or payable for the year, as well as changes in estimates from prior years. The deferred income tax (benefit) provision represents the change in deferred tax liabilities and assets and, for business combinations, the change in tax liabilities and assets since the date of acquisition. The following table summarizes the significant components of our provision for income taxes for the years ended December 31, 2006, 2005, and 2004 (in millions):

	2006	2005	2004
Current:			
United States:			
Federal	$ (7)	$ 36	$ —
State and local	13	9	7
European and Canadian	92	153	91
Total current	98	198	98
Deferred:			
United States:			
Federal[(A)]	(766)	171	107
State and local[(A)]	(102)	(6)	21
European and Canadian[(A)]	(125)	(47)	16
Rate changes	(80)	(40)	(20)
Total deferred	(1,073)	78	124
Income tax (benefit) expense	$ (975)	$276	$222

[(A)] Our 2006 U.S. federal, U.S. state and local, and European and Canadian amounts included an income tax benefit of $888 million, $99 million, and $122 million, respectively, related to the $2.9 billion non-cash franchise impairment charge recorded during 2006. These income tax benefits do not impact our current or future cash taxes. For additional information about the non-cash franchise impairment charge, refer to Note 1.

Our effective tax rate was a benefit of 46 percent, a provision of 35 percent, and a provision of 27 percent for the years ended December 31, 2006, 2005, and 2004, respectively. The following table provides a reconciliation of our income tax (benefit) provision at the statutory federal rate to our actual income tax (benefit) provision for the years ended December 31, 2006, 2005, and 2004 (in millions):

	2006	2005	2004
U.S. federal statutory (benefit) expense	$(741)	$276	$286
U.S. state (benefit) expense, net of federal benefit	(85)	7	12
Taxation of European and Canadian operations, net	(74)	(73)	(71)
Rate and law change benefit	(80)	(40)	(20)
Repatriation of non-U.S. earnings	—	128	—
Valuation allowance provision	4	(3)	13
Nondeductible items	14	12	12
Revaluation of income tax obligations	(16)	(33)	(10)
Other, net	3	2	—
Income tax (benefit) expense	$(975)	$276	$222

As of December 31, 2006, our non-U.S. subsidiaries had $104 million in undistributed earnings. These earnings are exclusive of amounts that would result in little or no tax under current tax laws if remitted in the future. The earnings from our non-U.S. subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been made in our Consolidated Financial Statements. A distribution of these non-U.S. earnings in the form of dividends or otherwise, would subject us to both U.S. federal and state income taxes, as adjusted for non-U.S. tax credits, and withholding taxes payable to the various non-U.S. countries. Determination of the amount of any unrecognized deferred income tax liability on these undistributed earnings is not practicable.

As of December 31, 2005, our non-U.S. subsidiaries did not have any undistributed earnings due to the repatriation that was completed in connection with the unique provisions of the American Jobs Creation Act of 2004 ("Tax Act"). The Tax Act contained, among other things, a repatriation provision that provided a special, one-time tax deduction of 85 percent of certain non-U.S., earnings that were repatriated prior to December 31, 2005, provided certain criteria were met. As such, in December 2005, we repatriated a total of $1.6 billion in previously undistributed non-U.S. earnings and basis. The total income tax provision associated with the repatriation was $128 million.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The following table summarizes the significant components of our deferred tax liabilities and assets as of December 31, 2006 and 2005 (in millions):

	2006	2005
Deferred tax liabilities:		
Franchise license and other intangible assets	$3,956	$4,940
Property, plant, and equipment	681	723
Total deferred tax liabilities	4,637	5,663
Deferred tax assets:		
Net operating loss and other carryforwards	(150)	(316)
Employee and retiree benefit accruals	(486)	(374)
Alternative minimum tax and other credits	(81)	(68)
Deferred revenue	(94)	(123)
Other, net	(77)	(63)
Total deferred tax assets	(888)	(944)
Valuation allowances on deferred tax assets	78	74
Net deferred tax liabilities	3,827	4,793
Current deferred income tax assets	230	313
Long-term deferred income tax liabilities	$4,057	$5,106

We recognize valuation allowances on deferred tax assets reported if, based on the weight of the evidence, we believe that it is more likely than not that some or all of our deferred tax assets will not be realized. We believe the majority of our deferred tax assets will be realized because of the reversal of certain significant temporary differences and anticipated future taxable income from operations.

As of December 31, 2006 and 2005, we had valuation allowances of $78 million and $74 million, respectively. The net increase in our valuation allowances in 2006 was primarily due to increases resulting from the generation of certain non-U.S. net operating losses and state income tax credits, offset partially by the release of net operating losses and credits upon utilization and expirations, and from modifications as a result of state law changes. Included in our valuation allowances as of December 31, 2006 and 2005 was $1 million for net operating loss carryforwards of acquired companies.

As of December 31, 2006, we had U.S. federal tax operating loss carryforwards totaling $200 million. These carryforwards are available to offset future taxable income until they expire at varying dates through 2024. We also had U.S. state operating loss carryforwards totaling $1.7 billion, which expire at varying dates through 2026. The following table summarizes the estimated amount of our U.S. federal and U.S. state tax operating loss carryforwards that expire each year (in millions):

	U.S. Federal	U.S. State
2007	$ —	$ 235
2008	3	141
2009	—	108
2010	—	106
2011	—	67
Thereafter	197	1,054
Total tax operating loss carryforwards	$200	$1,711

OPERATING LOSS AND TAX CREDIT CARRYFORWARDS

3.115 Paragraph 48 of *SFAS No. 109* states that amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes should be disclosed. Examples of operating loss and tax credit carryforward disclosures follow.

3.116

DOVER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The provision for income taxes on continuing operations includes federal, state, local and foreign taxes. Tax credits, primarily for research and experimentation and foreign earnings and export programs, are recognized as a reduction of the provision for income taxes on continuing operations in the year in which they are available for tax purposes. Deferred taxes are provided on temporary differences between assets and liabilities for financial and tax reporting purposes as measured by enacted tax rates expected to apply when temporary differences are settled or realized. Future tax benefits are recognized to the extent that realization of those benefits is considered to be more likely than not. A valuation allowance is established for deferred tax assets for which realization is not assured. The Company has not provided for any residual U.S. income taxes on unremitted earnings of foreign subsidiaries as such earnings are currently intended to be indefinitely reinvested.

During 2005, the Company recorded a net U.S. tax provision of $9.5 million related to the repatriation of $373.7 million of foreign dividends under the provisions of the American Jobs Creation Act of 2004, which provides for a favorable income tax rate on repatriated earnings, provided the criteria of the law are met.

11 (In Part): Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2006	2005
Deferred tax assets:		
Accrued insurance	$ 14,718	$ 11,672
Accrued compensation, principally postretirement benefits and other employee benefits	125,914	78,546
Accrued expenses, principally for interest and warranty	25,673	19,394
Long-term liabilities, principally warranty, environmental, and exit costs	3,400	292
Inventories, principally due to reserves for financial reporting purposes and capitalization for tax purpose	21,435	20,014
Net operating loss and other carryforwards	106,129	80,676
Accounts receivable, principally due to allowance for doubtful accounts	6,861	6,620
Other assets	19,835	9,161
Total gross deferred tax assets	323,965	226,375
Valuation allowance	(57,767)	(51,856)
Total deferred tax assets	$ 266,198	$ 174,519
Deferred tax liabilities:		
Accounts receivable	$ (17,572)	$ (19,476)
Plant and equipment, principally due to differences in depreciation	(39,785)	(28,390)
Intangible assets, principally due to different tax and financial reporting bases and amortization lives	(505,129)	(379,833)
Prepaid pension assets	(1,977)	(54,365)
Other liabilities		
Total gross deferred tax liabilities	$(564,463)	$(482,064)
Net deferred tax liability	$(298,265)	$(307,545)

The components of the net deferred tax liability are classified as follows in the consolidated balance sheets:

Net current deferred tax asset	$ 65,769	$ 46,881
Net non-current deferred tax liability	(364,034)	(354,426)

The Company has loss carryovers for federal and foreign purposes as of December 31, 2006 of $81.8 million and $123.4 million, respectively, and as of December 31, 2005 $46.3 million and $147.6 million, respectively. The federal loss carryovers are available for use against the Company's consolidated federal taxable income and expire in 2024 and 2025. The entire balance of the foreign losses is available to be carried forward, with $13.6 million of these losses beginning to expire during the years 2007 through 2013. The remaining $109.8 million of such losses can be carried forward indefinitely.

The Company has foreign tax credit carryovers of $30.5 million at December 31, 2006 and $26.4 million at December 31, 2005 that are available for use by the Company between 2007 and 2015.

The Company has research and development credits of $3.7 million at December 31, 2006 and $1.7 million at December 31, 2005 that are available for use by the Company between 2007 and 2026.

At December 31, 2006 the Company had available alternative minimum tax credits of $3.1 million, which are available for use by the Company indefinitely, and alternative minimum tax foreign tax credits of $11.7 million, that are available for use by the Company between 2007 and 2026.

The Company maintains valuation allowances by jurisdiction against the deferred tax assets related to certain of these carryforwards as utilization of these tax benefits are not assured for certain jurisdictions.

The Company has not provided for U.S. federal income taxes or tax benefits on the undistributed earnings of its international subsidiaries because such earnings are reinvested and it is currently intended that they will continue to be reinvested indefinitely. At December 31, 2006, the Company has not provided for federal income taxes on earnings of approximately $387.8 million from its international subsidiaries.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. During the second half of 2005, the Company recorded a net U.S. tax provision of $9.5 million related to the repatriation of $373.7 million of foreign dividends under the provisions of the Act.

3.117

SMURFIT-STONE CONTAINER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in millions)

1 (In Part): Significant Accounting Policies

Income Taxes

The Company accounts for income taxes in accordance with the liability method of accounting for income taxes. Under the liability method, deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases (See Note 14).

14 (In Part): Income Taxes

Significant components of the Company's deferred tax assets and liabilities at December 31 are as follows:

	2006	2005
Deferred tax liabilities		
Property, plant and equipment and timberland	$(1,140)	$(1,320)
Inventory	(41)	(61)
Timber installment sale	(134)	(134)
Other	(63)	(29)
Total deferred tax liabilities	(1,378)	(1,544)
Deferred tax assets		
Employee benefit plans	313	310
Net operating loss, alternative minimum tax and tax credit carryforwards	583	925
Purchase accounting liabilities	13	6
Restructuring	16	17
Other	144	94
Total deferred tax assets	1,069	1,352
Valuation allowance for deferred tax assets	(36)	(208)
Net deferred tax assets	1,033	1,144
Net deferred tax liabilities	$ (345)	$ (400)

At December 31, 2006, the Company had $943 million of net operating loss ("NOL") carryforwards for U.S. federal income tax purposes that expire from 2018 through 2025, with a tax value of $330 million. The Company had NOL carryforwards for state purposes with a tax value of $87 million, which expire from 2007 to 2023. A valuation allowance of $36 million exists for a portion of these deferred tax assets. Substantially all of the valuation allowance was recorded in connection with a prior purchase business combination and a reduction in the valuation allowance would result principally in a corresponding reduction to goodwill. Further, the Company had $206 million of NOL carryforwards for Canadian tax purposes that expire from 2007 to 2013, with a tax value of $68 million, and Canadian investment tax credits that expire from 2013 to 2016, with a tax value of $5 million. The Company had $84 million of alternative minimum tax credit carryforwards for U.S. federal income tax purposes, which are available indefinitely. In addition, the Company had other tax carryforwards of $9 million at December 31, 2006, which can be carried forward indefinitely. Deferred income taxes related to NOL carryforwards have been classified as noncurrent to reflect the expected utilization of the carryforwards.

The sale of the Consumer Packaging division (See Note 2) generated a taxable gain for U.S. income tax purposes that was offset by available NOL carryforwards, a portion of which was subject to valuation allowances previously established in a prior purchase business combination. Due to the utilization of these NOL carryforwards, the related valuation allowance was reduced by $157 million in the second quarter of 2006 with a corresponding reduction in goodwill related to the prior business combination. Due to the expiration and non-utilization of state NOL carryforwards, the related valuation allowance was reduced by an additional $15 million in 2006.

In October 2004, the American jobs Creation Act (the "AJCA") was signed into law. The AJCA includes a temporary incentive for U.S. multinationals to repatriate foreign earnings by providing an elective 85% dividends received deduction for certain cash dividends from controlled foreign corporations. Under this law, in December 2005, the Company repatriated dividends of $483 million from earnings of foreign subsidiaries previously considered indefinitely reinvested. The income tax expense associated with the repatriation was $34 million. Excluding the repatriation discussed above, through December 31, 2006, no provision has been made for income taxes on the remaining undistributed earnings of the Company's foreign subsidiaries, as the Company intends to indefinitely reinvest such earnings in its foreign subsidiaries.

TAXES ON UNDISTRIBUTED EARNINGS

3.118 *SFAS No. 109* requires, except in certain specified situations, that undistributed earnings of a subsidiary included in consolidated income be accounted for as a temporary difference. If a deferred tax liability is not recognized, paragraph 44 of *SFAS No. 109* specifies what information should be disclosed. Examples of disclosures concerning undistributed earnings follow.

3.119

BMC SOFTWARE, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6) (In Part): Income Taxes

Aggregate unremitted earnings of certain foreign subsidiaries for which U.S. federal income taxes have not been provided, totaled approximately $770.0 million and $82.6 million at March 31, 2005 and 2006, respectively. Deferred income taxes have not been provided on these earnings because the Company considered them to be indefinitely re-invested. If these earnings were repatriated to the United States or they were no longer determined to be indefinitely re-invested under APB Opinion No. 23, the Company would have to record a potential deferred tax liability for these earnings of approximately $27.6 million, assuming full utilization of the foreign tax credit associated with these earnings. At March 31, 2006, the Company had a deferred tax asset of $2.8 million related to excess foreign tax credits that are available to offset its U.S. income taxes on the earnings it does not consider indefinitely re-invested under APB Opinion No. 23.

The American Jobs Creation Act of 2004 (the Act) was enacted on October 24, 2004, and provides for a special one-time tax deduction of 85% of certain foreign earnings that are repatriated. In June 2005, the Company's Board of Directors approved a plan to repatriate approximately $717.0 million of foreign earnings. During fiscal 2006, the Company executed this plan and repatriated $708.8 million of qualified earnings under the Act. The Company recorded a federal and state income tax provision of $35.5 million associated with these repatriated earnings.

3.120

BROWN-FORMAN CORPORATION (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars expressed in millions)

11 (In Part): Taxes on Income

Deferred tax liabilities were not provided on undistributed earnings of certain foreign subsidiaries ($265 and $150 at April 30, 2005 and 2006, respectively) because we expect these undistributed earnings to be reinvested indefinitely overseas. If these amounts were not considered permanently reinvested, additional deferred tax liabilities of approximately $45 and $26 would have been provided as of April 30, 2005 and 2006, respectively.

The American Jobs Creation Act (the "Act"), which was enacted in October 2004, provided a special one-time opportunity to deduct from taxable income 85% of certain qualifying foreign dividends repatriated to the United States from controlled foreign corporations, subject to various limitations and restrictions, including qualified U.S. reinvestment of such earnings. During 2006, we repatriated $277 of foreign earnings that represented qualified dividends under the Act. This reduced our deferred income tax liability related to undistributed foreign earnings by $17.

3.121

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company and its U.S. subsidiaries file a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based upon their respective taxable income or loss. Deferred income taxes are provided for temporary differences between financial and tax reporting. The principal differences are described in Note 8, Income Taxes. Benefits from tax credits are reflected currently in earnings. The Company provides for taxes on unremitted earnings of foreign subsidiaries, except for CMCZ and its operations in Australia, which it considers to be permanently invested.

8 (In Part): Income Taxes

The Company provides United States taxes on unremitted foreign earnings except for its operations in CMCZ and Australia, which it considers to be permanently invested. The amounts of these permanently invested earnings at August 31, 2006 were $88.0 million and $54.1 million for CMCZ and Australia, respectively. In the event that the Company repatriated these earnings, incremental U.S. taxes may be incurred. The Company has determined that it is not practicable to determine the amount of these incremental U.S. taxes. Net operating losses consist of $42.3 million of state net operating losses that expire during the tax years ending from 2008 to 2026. These assets will be reduced as tax expense is recognized in future periods.

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On October 22, 2004, the American Jobs Creation Act of 2004 ("the AJCA") was signed into law. The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. On August 28, 2006, our Chief Executive Officer approved our domestic reinvestment plan pursuant to the Foreign Earnings Repatriation Provision of the AJCA which was ratified by the Board of Directors on August 31, 2006. As a result, we repatriated $18.7 million in

unremitted foreign earnings net of Swiss withholding tax from a Swiss subsidiary during the fourth quarter of fiscal 2006, the majority of which was eligible to be taxed at a reduced effective tax rate (as reflected in the statutory rate reconciliation table above). Accordingly, the Company recognized a related income tax expense for federal and state taxes of $1.4 million. Moreover, there was a $1.0 million foreign withholding tax expense pursuant to the dividend payment. In adopting the plan, which was implemented in fiscal year 2006, we considered the goals of the AJCA, and we have invested the repatriated funds consistent with the requirements of the AJCA and in a manner that we believe will achieve the benefits intended under the AJCA. Among the types of permissible investments of these repatriated funds are capital expenditures, worker hiring, training and non-executive compensation in the US.

LONG-TERM CONTRACTS

3.122 Accounting and disclosure requirements for long-term contracts are discussed in ARB No. 43, Chapter 11, *Government Contracts*, ARB No. 45, *Long-Term Construction-Type Contracts*, American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and FASB's Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables.*

3.123 Table 3–16 shows that usually the percentage of completion method or a modification of this method, the units-of-delivery method, is used to recognize revenue on long-term contracts. 13 companies used both of the aforementioned methods. Examples of disclosure for long-term contracts follow.

3.124

TABLE 3-16: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Percentage-of-completion	81	84	77	78
Units-of-delivery	55	41	39	32
Completed contract	9	6	9	9

3.125

EASTMAN KODAK COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Revenue (In Part)

Revenue from the sale of integrated solutions, which includes transactions that require significant production, modification or customization of software, is recognized in accordance with contract accounting. Under contract accounting, revenue is recognized by utilizing either the percentage-of-completion or completed-contract method. The Company currently utilizes the completed-contract method for all solution sales, as sufficient history does not currently exist to allow the Company to accurately estimate total costs to complete these transactions. Revenue from other long-term contracts, primarily government contracts, is generally recognized using the percentage-of-completion method.

3.126

GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

e. Accounts Receivable

Accounts receivable associated with long-term contracts consist of billed and unbilled amounts. Billed amounts include invoices presented to customers that have not been paid. Unbilled amounts relate to revenues that have been recorded and billings that have not been presented to customers. Amounts for overhead disallowances are reflected in unbilled receivables and primarily represent estimates of overhead costs which may not be successfully negotiated and collected.

Other receivables represent amounts billed where revenues were not derived from long-term contracts.

f. Inventories

Inventories are stated at the lower of cost or market, generally using the average cost method. Costs on long-term contracts and programs in progress represent recoverable costs incurred for production, contract-specific facilities and equipment, allocable operating overhead, advances to suppliers, environmental expenses and, in the case of contracts with the U.S. government, bid and proposal, research and development, and general and administrative expenses. Pursuant to contract provisions, agencies of the U.S. government and certain other customers have title to, or a security interest in, inventories related to such contracts as a result of performance-based and progress payments. Such progress payments are reflected as an offset against the related inventory balances.

l. Revenue Recognition

The Company accounts for sales derived from long-term development and production contracts in conformity with the American Institute of Certified Public Accountants (AICPA) Audit and Accounting guide, *Audits of Federal Government Contracts*, and the AICPA's Statement of Position No. 81-1 (SOP 81-1), *Accounting for Performance of Construction-Type and Certain Production Type Contracts.* The Company considers the nature of the individual underlying contract and the type of products and services provided in determining the proper accounting for a particular contract. Each method is applied consistently to all contracts having similar characteristics, as described below. The Company

typically accounts for these contracts using the percentage-of-completion method, and progress is measured on a cost-to-cost or units-of-delivery basis. Sales are recognized using various measures of progress, as allowed by SOP 81-1, depending on the contractual terms and scope of work of the contract. The Company recognizes revenue on a units-of-delivery basis when contracts require unit deliveries on a frequent and routine basis. Sales using this measure of progress are recognized at the contractually agreed upon unit price. Where the scope of work on contracts principally relates to research and/or development efforts, or the contract is predominantly a development effort with few deliverable units, the Company recognizes revenue on a cost-to-cost basis. In this case, sales are recognized as costs are incurred and include estimated earned fees or profits calculated on the basis of the relationship between costs incurred and total estimated costs at completion. Revenue on service or time and material contracts is recognized when performed. If at any time expected costs exceed the value of the contract, the loss is recognized immediately.

Certain government contracts contain cost or performance incentive provisions that provide for increased or decreased fees or profits based upon actual performance against established targets or other criteria. Aerojet continually evaluates its performance and incorporates any anticipated penalties and cost incentives into its revenue and earnings calculations. Performance incentives, which increase or decrease earnings based solely on a single significant event, generally are not recognized until an event occurs.

Revenue that is not derived from long-term development and production contracts, or real estate asset transactions, is recognized when persuasive evidence of a final agreement exists, delivery has occurred, the selling price is fixed or determinable and payment from the customer is reasonably assured. Sales are recorded net of provisions for customer pricing allowances.

Revenue from real estate asset sales is recognized when a sufficient down-payment has been received, financing has been arranged and title, possession and other attributes of ownership have been transferred to the buyer.

q. Advanced Payments on Contracts

The Company receives advances from customers which may exceed costs incurred on certain contracts. Such advances, other than those reflected as a reduction of inventories as progress payments, are classified as current liabilities.

3. Accounts Receivable

(In millions)	2006	2005
Receivables under long-term contracts:		
Billed	$43.7	$41.4
Unbilled costs and estimated earnings	22.1	36.7
Other receivables, net of $0.1 million and $1.3 million of allowance for doubtful accounts as of November 30, 2006 and November 30, 2005	5.3	4.0
Accounts receivable	$71.1	$82.1

The unbilled receivable amounts as of November 30, 2006 and 2005 expected to be collected after one year are $16.7 million and $2.7 million, respectively. Such amounts are billed either upon delivery of completed units or settlement of contracts.

4. Inventories

(In millions)	2006	2005
Raw materials and supplies on commercial products	$ 0.1	$ 1.9
Work in progress on commercial products	4.0	3.0
Finished goods on commercial products	0.1	0.2
Long-term contracts at average cost	155.8	85.7
Progress payments	(90.5)	(33.7)
Inventories	$ 69.5	$ 57.1

As of November 30, 2006 and 2005, inventories include $9.2 million and $5.8 million, respectively, of deferred qualification costs. The Company believes recovery of costs to be probable and specifically identifiable to future contracts. Realization of the deferred costs at November 30, 2006 is dependent upon receipt of future firm orders. In addition, inventories include general and administrative costs. The total of such costs incurred in fiscal 2006 and fiscal 2005 were $115.7 million and $99.5 million, respectively, and the cumulative amount of general and administrative costs in inventory is estimated to be $14.6 million and $7.8 million at November 30, 2006 and 2005, respectively.

During fiscal 2005, the Company recorded an inventory write-down of $169.4 million on a contract to design, develop, and produce a solid rocket motor for Lockheed Martin's Atlas V program. Recovery of the Atlas V inventory had been subject to several uncertainties. The Company believed that a contract restructuring, projected to occur in 2005, would permit recovery of inventoried development and production costs. This belief was based on prior statements by government officials regarding funding for the Evolved Expendable Launch Vehicle program, and ongoing discussions with the prime contractor over a long period of time, including requests for historical costs and past investment. The Company learned that government funding was not available to recover past costs, and as a result, the Company concluded renegotiation of the contract was in its best interest to prevent further unrecoverable investment in this historically unprofitable program. Accordingly, on December 22, 2005, the Company reached an agreement with Lockheed Martin Corporation, which expresses the renegotiated terms.

3.127

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

A (In Part): Summary of Significant Accounting Policies

Revenue Recognition

General Dynamics accounts for sales and earnings under long-term government contracts using the percentage-of-completion method of accounting in accordance with AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* The company estimates the profit on a contract as the difference between the total estimated revenue and the total

estimated costs of a contract and recognizes that profit over the contract term. The company determines progress toward completion on production contracts based on either input measures, such as costs incurred, or output measures, such as units delivered, as appropriate. For services contracts, the company recognizes revenues as the services are rendered. The company applies earnings rates to all contract costs, including general and administrative (G&A) expenses on government contracts, to determine sales and operating earnings.

The company reviews earnings rates periodically to assess revisions in contract values and estimated costs at completion. The company applies the effect of any changes in earnings rates resulting from these assessments prospectively. The company charges any anticipated losses on contracts to earnings as soon as they are identified. Anticipated losses cover all costs allocable to the contracts, including G&A expenses on government contracts. The company recognizes revenue arising from claims either as income or as an offset against a potential loss only when the amount of the claim can be estimated reliably and its realization is probable.

The company accounts for contracts for business-jet aircraft in accordance with Statement of Position 81-1. These contracts usually provide for two major milestones: the manufacture of the "green" aircraft and its completion. Completion includes exterior painting and installation of customer-selected interiors and optional avionics. The company records revenue at two points: when green aircraft are delivered to, and accepted by, the customer and when the customer accepts final delivery of the fully outfitted aircraft. The company recognizes sales of all other aircraft products and services when the product is delivered or the service is performed.

Accounts Receivable and Contracts in Process

Accounts receivable are amounts billed and currently due from customers. Contracts in process represent recoverable costs incurred and, where applicable, accrued profit related to long-term government contracts for which the customer has not yet been billed (unbilled receivables).

F. Accounts Receivable

Accounts receivable represent amounts billed and currently due from customers and consisted of the following:

	2006	2005
U.S. government	$ 877	$ 736
International government	896	757
Commercial	568	511
Total accounts receivable	$2,341	$2,004

The receivables from international government customers relate primarily to long-term production programs for the Spanish government. The scheduled payment terms for some of these receivables extend beyond the next year. Other than these amounts, the company expects to collect substantially all of the December 31, 2006, accounts receivable balance during 2007.

G. Contracts in Process

Contracts in process represent recoverable costs and, where applicable, accrued profit related to government contracts and consisted of the following:

	2006	2005
Contract costs and estimated profits	$16,100	$15,524
Other contract costs	1,297	815
	17,397	16,339
Less advances and progress payments	13,409	13,187
Total contracts in process	$ 3,988	$ 3,152

Contract costs consist primarily of production costs and related overhead and G&A expenses. Contract costs also include contract recoveries for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled $352 as of December 31, 2006, and $264 as of December 31, 2005. The claims recognized include primarily the company's estimate of the minimum probable recovery it is entitled to in connection with a request for equitable adjustment related to its T-AKE combat logistics ship contract. The company is seeking a contract price adjustment for engineering- and design-related changes imposed by the customer. The company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable.

Other contract costs represent amounts recorded under GAAP that are not currently allocable to contracts, such as a portion of the company's estimated workers' compensation, other insurance-related assessments, pension and other post-retirement benefits, and environmental expenses. These costs will become allocable to contracts when they are paid. The company expects to recover these costs through ongoing business, including existing backlog and probable follow-on contracts. This business base includes numerous contracts for which the company is the sole source or is one of two suppliers on long-term defense programs. However, if the backlog in the future does not support the continued deferral of these costs, the profitability of the company's remaining contracts could be adversely affected. The company expects to bill substantially all of its year-end 2006 contracts-in-process balance, with the exception of these other contract costs, during 2007.

3.128

NORTHROP GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

As a defense contractor engaging in long-term contracts, the majority of the company's business is derived from long-term contracts for the construction of facilities, production of goods, and services provided to the federal government. In accounting for these contracts, the company extensively utilizes the cost-to-cost and the units-of-delivery measures of

the percentage-of-completion method of accounting. Sales under cost-reimbursement contracts and construction-type contracts that provide for delivery at a low volume per year or a small number of units after a lengthy period of time over which a significant amount of costs have been incurred are accounted for using the cost-to-cost measure of the percentage-of-completion method of accounting. Under this method, sales, including estimated earned fees or profits, are recorded as costs are incurred. For most contracts, sales are calculated based on the percentage that total costs incurred bear to total estimated costs at completion. For certain contracts with large up-front purchases of material, sales are calculated based on the percentage that direct labor costs incurred bear to total estimated direct labor costs. Sales under construction-type contracts that provide for delivery at a high volume per year are accounted for using the units-of-delivery measure of the percentage-of-completion method of accounting. Under this method, sales are recognized as deliveries are made to the customer generally using unit sales value in accordance with the contract terms. The company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes that profit evenly over the life of the contract based on deliveries. The company classifies contract revenues as product sales or service revenues depending upon the predominant attributes of the relevant underlying contracts.

Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined and estimated. Amounts representing contract change orders, claims, requests for equitable adjustment, or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in inventories, with any remaining amount reflected in liabilities. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original estimates. A significant change in an estimate on one or more programs could have a material adverse effect on the company's consolidated financial position or results of operations.

Revenue under contracts to provide services to non-federal government customers are generally recognized when services are performed. Service contracts include operations and maintenance contracts, and outsourcing-type arrangements, primarily in the Information Technology segment. Revenue under such contracts is generally recognized on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these service contracts are expensed as incurred, except that direct and incremental set-up costs are capitalized and amortized over the life of the agreement. Operating profit related to such service contracts may fluctuate from period to period, particularly in the earlier phases of the contract.

Service contracts that include more than one type of product or service are accounted for under the provisions of Emerging Issues Task Force Issue No. 00-21—*Revenue Arrangements with Multiple Deliverables.* Accordingly, for applicable arrangements, revenue recognition includes the proper identification of separate units of accounting and the allocation of revenue across all elements based on relative fair values.

Accounts Receivable

Accounts receivable include amounts billed and currently due from customers, amounts currently due but unbilled (primarily related to contracts accounted for under the cost-to-cost measure of the percentage-of-completion method of accounting), certain estimated contract changes, claims or requests for equitable adjustment in negotiation that are probable of recovery, and amounts retained by the customer pending contract completion.

Inventoried Costs

Inventoried costs primarily relate to work in process under fixed-price contracts (excluding those included in unbilled accounts receivable as previously described). They represent accumulated contract costs less the portion of such costs allocated to delivered items. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, allowable general and administrative expenses. The ratio of inventoried general and administrative expenses to total inventoried costs is estimated to be the same as the ratio of total administrative and general expenses incurred to total contract costs incurred. According to the provisions of U.S. Government contracts, the customer asserts title to, or a security interest in, inventories related to such contracts as a result of contract advances, performance-based payments, and progress payments. General corporate expenses and IR&D allocable to commercial contracts are expensed as incurred. Inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year. Product inventory primarily consists of raw materials and is stated at the lower of cost or market, generally using the average cost method.

8. Accounts Receivable, Net

Unbilled amounts represent sales for which billings have not been presented to customers at year-end, including amounts representing differences between actual and estimated contract cost elements. These amounts are usually billed and collected within one year. Progress payments are received on a number of fixed-price contracts.

Accounts receivable at December 31, 2006, are expected to be collected in 2007 except for approximately $419 million due in 2008 and $120 million due in 2009 and later.

Allowances for doubtful amounts mainly represent estimates of overhead costs which may not be successfully negotiated and collected.

Accounts receivable were composed of the following:

($ in millions)	2006	2005
Due from U.S. Government, long-term contracts		
Billed	$ 1,054	$ 1,290
Unbilled	33,004	30,768
Progress payments received	(31,637)	(29,673)
	2,421	2,385
Due from other customers, long-term contracts		
Billed	212	217
Unbilled	2,975	2,719
Progress payments received	(2,390)	(2,197)
	797	739
Total due, long-term contracts	3,218	3,124
Trade and other accounts receivable		
Due from U.S. Government	477	389
Due from other customers	237	282
Progress payments received	(58)	(18)
Total due, trade and other	656	653
	3,874	3,777
Allowances for doubtful amounts	(308)	(224)
Total accounts receivable, net	$ 3,566	$ 3,553

9. Inventoried Costs, Net

Inventoried costs were composed of the following:

($ in millions)	2006	2005
Production costs of contracts in process	$ 1,951	$ 1,920
General and administrative expenses	184	129
	2,135	2,049
Progress payments received	(1,226)	(1,162)
	909	887
Product inventory	269	277
Total inventoried costs, net	$ 1,178	$ 1,164

DISCONTINUED OPERATIONS

3.129 Paragraphs 41–44 of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* set forth the financial accounting and reporting requirements for discontinued operations of a component of an entity. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or operating segment (as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information)*, a reporting entity (as defined by SFAS No. 142, *Goodwill and Other Intangible Assets),* or an asset group (as defined by paragraph 4 of *SFAS No. 144*).

3.130 *SFAS No. 144* uses a single accounting model, based on the framework established in SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, to account for all long-lived assets to be disposed of (by sale, abandonment, or a distribution to owners). This includes asset disposal groups meeting the criteria for presentation as a discontinued operation as specified in paragraph 43 of *SFAS No. 144*. A long-lived asset group classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. Additionally, in accordance with paragraph 37 of *SFAS No. 144*, a loss shall be recognized for any write-down to fair value less cost to sell. A gain shall be recognized for any subsequent recovery of cost. Lastly, a gain or loss not previously recognized that results from the sale of the asset disposal group should be recognized at the date of sale. Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

3.131 The conditions for determining whether discontinued operation treatment is appropriate and the required income statement presentation are stated in paragraphs 42 and 43 of *SFAS No. 144* as follows:

> 42. The results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations in accordance with paragraph 43 if both of the following conditions are met: (a) the operations and cash flow of the component have been (or will be) eliminated from the ongoing operations of the enterprise as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.
>
> 43. In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business enterprise for current and prior periods shall report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37, in discontinued operations. The results of operations of a component classified as held for sale shall be reported in discontinued operations in the period(s) in which they occur. The results of discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes

(if applicable). For example, the results of discontinued operations may be reported in the income statement of a business enterprise as follows:

Income from continuing operations before income taxes	$XXXX	
Provision for income taxes	XXX	
Income from continuing operations		$XXXX
Discontinued operations (Note—):		
Loss from operations of component X (including loss on disposal of $—)		$XXXX
Income tax benefit		XXXX
Loss on discontinued operations		XXXX
Net income		$XXXX

A gain or loss recognized on the disposal shall be disclosed either on the face of the income statement or in the notes to the financial statements.

3.132 Illustrations of transactions which should and should not be accounted for as business segment disposals are presented in FASB *Accounting Standards—Current Text,* Section I14, *Income Statement Presentation: Discontinued Operations.*

3.133 In 2006, 119 survey companies discontinued or planned to discontinue the operations of a component of an entity. 101 of the survey companies reported a gain or loss recognized on the disposal of a component of an entity. 52 of those survey companies presented the disposal gain or loss on the face of the income statement. Examples of discontinued operations accounted for separately from continuing operations follow.

Business Component Disposals

3.134

PFIZER INC (DEC)

(Millions)	2006	2005	2004
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of a change in accounting principles	$13,028	$10,800	$13,403
Provision for taxes on income	1,992	3,178	2,460
Minority interests	12	12	7
Income from continuing operations before cumulative effect of a change in accounting principles	11,024	7,610	10,936
Discontinued operations:			
Income from discontinued operations—net of tax	433	451	374
Gains on sales of discontinued operations—net of tax	7,880	47	51
Discontinued operations—net of tax	8,313	498	425
Income before comulative effect of a change in accounting principles	19,337	8,108	11,361
Cumulative effect of a change in accounting principles—net of tax	—	(23)	—
Net income	$19,337	$ 8,085	$11,361

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Discontinued Operations

We evaluate our businesses and product lines periodically for strategic fit within our operations. As of December 31, 2006, we sold the following:

In the fourth quarter of 2006, we sold our Consumer Healthcare business for $16.6 billion, and recorded a gain of approximately $10.2 billion ($7.9 billion, net of tax) in *Gains on sales of discontinued operations—net of tax* in the consolidated statement of income for 2006. This business was composed of:

- substantially all of our former Consumer Healthcare segment;
- other associated amounts, such as purchase-accounting impacts, acquisition-related costs and restructuring and implementation costs related to our Adapting to Scale (AtS) productivity initiative that were previously reported in the Corporate/Other segment; and
- certain manufacturing facility assets and liabilities, which were previously part of our Pharmaceutical or Corporate/Other segment but were included in the sale of our Consumer Healthcare business. The net impact to the Pharmaceutical segment was not significant.

The results of this business are included in *Income from discontinued operations—net of tax* for all periods presented.

Legal title to certain assets and legal control of the business in certain non-U.S. jurisdictions did not transfer to the buyer on the closing date of December 20 because the satisfaction of specific local requirements was pending. These operations represent a small portion of our Consumer Healthcare business and all are expected to close within one year of the transaction date, most within a few months. In order to ensure that the buyer was placed in the same economic position as if the assets, operations and activities of those businesses had been transferred on that date, we entered into an agreement that passed the risks and rewards of ownership to the buyer from December 20. We have treated these delayed-close businesses as sold for accounting purposes.

For a period of time, we will continue to generate cash flows and to report income statement activity in *Discontinued operations—net of tax* that are associated with our former Consumer Healthcare business. The activities that will give rise to these impacts are transitional in nature and generally result from agreements that ensure and facilitate the orderly transfer of business operations. For example, we entered into a number of transition services agreements that will allow the buyer sufficient time to prepare for the transfer of activities and to limit the risk of business disruption. The nature, magnitude and duration of the agreements vary depending on the specific circumstances of the service, location and/or business need. The agreements can include the following: manufacturing and product supply, logistics, customer service, support of financial processes, procurement, human resources, facilities management, data collection and information services. Most of these agreements extend for periods generally less than 24 months, but because of the inherent complexity of manufacturing processes and the risk of product flow disruption, the product supply agreements generally extend up to 36 months.

For the period of time prior to the final transfer of these activities to the buyer, we will continue to generate cash flows and to report gross revenues, income and expense activity in *Discontinued operations—net of tax*, although at a substantially reduced level. After the transfer of these activities, these cash flows and the income statement activity reported in *Discontinued operations—net of tax* will be eliminated.

None of these agreements confers upon us the ability to influence the operating and/or financial policies of the Consumer Healthcare business under its new ownership.

In the third quarter of 2005, we sold the last of three European generic pharmaceutical businesses, which we had included in our Pharmaceutical segment, for 4.7 million euro (approximately $5.6 million). This business became a part of Pfizer in April 2003 in connection with our acquisition of Pharmacia. We recorded a loss of $3 million ($2 million, net of tax) in *Gains on sales of discontinued operations—net of tax* in the consolidated statement of income for 2005.

In the first quarter of 2005, we sold the second of three European generic pharmaceutical businesses, which we had included in our Pharmaceutical segment, for 70 million euro (approximately $93 million). This business became a part of Pfizer in April 2003 in connection with our acquisition of Pharmacia. We recorded a gain of $57 million ($36 million, net of tax) in *Gains on sales of discontinued operations—net of tax* in the consolidated statement of income for 2005. In addition, we recorded an impairment charge of $9 million ($6 million, net of tax) related to the third European generic business in *Income from discontinued operations—net of tax* in the consolidated statement of income for 2005.

In the fourth quarter of 2004, we sold the first of three European generic pharmaceutical businesses, which we had included in our Pharmaceutical segment, for 53 million euro (approximately $65 million). This business became a part of Pfizer in April 2003 in connection with our acquisition of Pharmacia. In addition, we recorded an impairment charge of $61 million ($37 million, net of tax), relating to a European generic business which was later sold in 2005, and is included in *Income from discontinued operations—net of tax* in the consolidated statement of income for 2004.

In the third quarter of 2004, we sold certain non-core consumer product lines marketed in Europe by our former Consumer Healthcare business for 135 million euro (approximately $163 million) in cash. The majority of these products were small brands sold in single markets only and included certain products that became a part of Pfizer in April 2003 in connection with the acquisition of Pharmacia. We recorded a gain of $58 million ($41 million, net of tax) in *Gains on sales of discontinued operations—net of tax* in the consolidated statement of income for 2004.

In the second quarter of 2004, we sold our surgical ophthalmic business, which we had included in our Pharmaceutical segment, for $450 million in cash. This business became a part of Pfizer in April 2003 in connection with our acquisition of Pharmacia. The results of this business were included in *Income from discontinued operations—net of tax.*

In the second quarter of 2004, we sold our in-vitro allergy and autoimmune diagnostics testing (Diagnostics) business, which we had included in the Corporate/Other segment, for $575 million in cash. This business became a part of Pfizer in April 2003 in connection with our acquisition of Pharmacia. The results of this business were included in *Income from discontinued operations—net of tax.*

The following amounts, primarily related to our Consumer Healthcare business, have been segregated from continuing operations and included in *Discontinued operations—net of tax* in the consolidated statements of income:

(Millions of dollars)	2006	2005	2004
Revenues	$ 4,044	$3,948	$3,933
Pre-tax income	$ 643	$ 695	$ 563
Provision for taxes on income[a]	(210)	(244)	(189)
Income from operations of discontinued businesses—net of tax	433	451	374
Pre-tax gains on sales of discontinued businesses	10,243	77	75
Provision for taxes on gains[b]	(2,363)	(30)	(24)
Gains on sales of discontinued businesses—net of tax	7,880	47	51
Discontinued operations—net of tax	$ 8,313	$ 498	$ 425

[a] Includes a deferred tax expense of $24 million in 2006 and $25 million in 2005 and a deferred tax benefit of $15 million in 2004.
[b] Includes a deferred tax benefit of $444 million in 2006, and nil in 2005 and 2004.

The following assets and liabilities have been segregated and included in *Assets of discontinued operations and other assets held for sale* and *Liabilities of discontinued operations and other liabilities held for sale*, as appropriate, in the consolidated balance sheet as of December 31, 2005, and primarily relate to our Consumer Healthcare business (amounts in 2006 were not significant):

(Millions of dollars)	2005
Accounts receivable, less allowance for doubtful accounts	$ 661
Inventories	561
Prepaid expenses and taxes	71
Property, plant and equipment, less accumulated depreciation	1,002
Goodwill	2,789
Identifiable intangible assets, less accumulated amortization	1,557
Other assets, deferred taxes and deferred charges	18
Assets of discontinued operations and other assets held for sale	$6,659
Current liabilities	$ 538
Other	689
Liabilities of discontinued operations and other liabilities held for sale	$1,227

Net cash flows of our discontinued operations from each of the categories of operating, investing and financing activities were not significant for 2006, 2005 and 2004.

3.135

AVERY DENNISON CORPORATION (DEC)

(In millions)	2006	2005	2004
Income from continuing operations before taxes	$425.6	$366.8	$375.3
Taxes on income	73.1	75.0	94.3
Income from continuing operations	352.5	291.8	281.0
Income (loss) from discontinued operations, net of tax (including gain on disposal of $1.3 and tax benefit of $14.9 in 2006)	14.7	(65.4)	(1.3)
Net income	$367.2	$226.4	$279.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Discontinued Operations

In 2006, the Company completed the sale of its raised reflective pavement markers business, which was announced in December 2005. The results for this business were accounted for as discontinued operations in the consolidated financial statements for the years presented herein. The divestiture resulted in a tax benefit ($14.9 million) due to capital losses arising from the sale of the business and a gain on sale of $1.3 million. Based on the estimated value for this business, management concluded that associated goodwill and intangible assets from the acquisition of this business were impaired, resulting in a pretax charge of $74.4 million in December 2005. This business was previously included in the Pressure-sensitive Materials segment.

Summarized, combined statement of income for discontinued operations:

(In millions)	2006	2005	2004
Net sales	$ 7.2	$ 22.8	$ 23.9
Loss before taxes	$ (1.3)	$(76.9)	$ (1.9)
Taxes on income	.2	(11.5)	(.6)
Loss from operations, net of tax	(1.5)	(65.4)	(1.3)
Gain on sale of discontinued operations	1.3	—	—
Tax benefit from sale	(14.9)	—	—
Income (loss) from discontinued operations, net of tax	$ 14.7	$(65.4)	$ (1.3)

Amortization expense on other intangible assets related to discontinued operations was $2 million in 2005 and 2004.

Summarized, combined balance sheet for discontinued operations (classified as held-for-sale):

(In millions)	2005
Current assets	$3.9
Property, plant and equipment, net	5.1
Other assets	2.9
Total non-current assets (included in "Other Assets" in the Consolidated Balance Sheet)	8.0
Current liabilities	2.2
Non-current liabilities	.5

Adjustment of Gain/Loss Reported in Prior Period

3.136

VIAD CORP. (DEC)

(In thousands)	2006	2005	2004
Income (loss) before income taxes and minority interests	$61,577	$52,442	$(52,133)
Income tax expense	9,736	15,326	5,346
Minority interests	516	602	850
Income (loss) from continuing operations	51,325	36,514	(58,329)
Income from discontinued operations, net of tax	12,229	1,240	2,327
Net income (loss)	$63,554	$37,754	$(56,002)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 24. Discontinued Operations

In 2006, Viad recorded income from discontinued operations of $7.4 million ($11.8 million pre-tax) related to the reversal of certain current liabilities as a result of the expiration of product warranty liabilities associated with a previously sold

manufacturing operation. In addition, Viad recorded income from discontinued operations of $4.8 million, $1.2 million and $2.3 million in 2006, 2005 and 2004, respectively, primarily related to the favorable resolution of tax and other matters related to previously sold operations.

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

3.137 Table 3-17 indicates the nature of charges or credits, other than extraordinary items, positioned on an income statement after the caption for income taxes applicable to income from continuing operations. An example of a charge/credit shown after the caption for income taxes applicable to income from continuing operations follows.

3.138 *APB No. 20* requires that most changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect on prior periods of changing to the new accounting principle. Under *APB No. 20*, financial statements for prior periods included for comparative purposes should be presented as previously reported. The amount of the cumulative effect and its related income tax effect should be shown in the income statement between the captions "extraordinary items" and "net income." Additionally, presentation of per-share amounts for the cumulative effect should be made either on the face of the income statement or in the related notes. Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, *SFAS No. 154* replaces *APB No. 20. SFAS No. 154* changes the requirements for the accounting for and reporting of a change in accounting principle.

SFAS No. 154 requires, unless impracticable or otherwise specified by an applicable authoritative pronouncement, retrospective application to prior periods' financial statements of a change in accounting principle. Retrospective application is the application of a different accounting principle to prior accounting periods as if that principle had always been used. More specifically, retrospective application involves the following:

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

3.139

TABLE 3-17: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	2006	2005	2004	2003
Minority interest	130	110	103	101
Cumulative effect of accounting change	53	54	26	118
Equity in earnings or losses of investees	42	39	37	35
Distributions on trust preferred securities	—	—	1	5
Other	2	3	2	2

3.140

HERCULES INCORPORATED (DEC)

(Dollars in millions, except per share data)	2006	2005	2004
Income (loss) before income taxes, minority interests and equity (loss) income	$ 3.2	$(35.4)	$ 34.5
(Benefit) provision for income taxes	(192.2)	(3.8)	3.8
Income (loss) before minority interests and equity loss (income)	195.4	(31.6)	30.7
Minority interests in earnings of consolidated subsidiaries	(1.4)	(1.0)	(0.9)
Equity (loss) income of affiliated companies, net of tax	(3.2)	0.5	0.9
Net income (loss) from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	190.8	(32.1)	30.7
Net income (loss) from discontinued operations, net of tax	47.0	(6.5)	(2.6)
Net income (loss) before cumulative effect of changes in accounting principle	237.8	(38.6)	28.1
Cumulative effect of changes in accounting principle, net of tax	0.9	(2.5)	—
Net income (loss)	$238.7	$(41.1)	$ 28.1
Earnings (loss) per share:			
Basic earnings (loss) per share			
Continuing operations	$ 1.72	$(0.30)	$ 0.28
Discontinued operations	0.42	(0.06)	(0.02)
Cumulative effect of change in accounting principle	0.01	(0.02)	—
Net income (loss)	$ 2.15	$(0.38)	$ 0.26
Weighted average number of shares (millions)	110.8	108.7	107.3
Diluted earnings (loss) per share			
Continuing operations	$ 1.71	$(0.30)	$ 0.28
Discontinued operations	0.42	(0.06)	(0.02)
Cumulative effect of change in accounting principle	0.01	(0.02)	—
Net income (loss)	$ 2.14	$(0.38)	$ 0.26
Weighted average number of shares (millions)	111.3	108.7	109.0

EXTRAORDINARY ITEMS

3.141 APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* defines extraordinary items as "events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence," and states that an event or transaction "should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion." *APB Opinion No. 30* and related AICPA Accounting Interpretation, *Reporting the Results of Operations,* illustrate events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in FASB *Accounting Standards—Current Text, Section I17, Income Statement Presentation: Extraordinary Items.* SFAS No. 4, *Reporting Gains and Losses From Extinguishment of Debt,* specifies that material debt extinguishment gains and losses be classified as extraordinary items. Under *SFAS No. 4*, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections,* rescinds *SFAS No. 4*. Since the issuance of *SFAS No. 4,* the use of debt extinguishment has become part of the risk management strategy of many companies. *SFAS No. 145* stipulates that only debt extinguishments, which meet the criteria in *APB Opinion No. 30* for classification as extraordinary items, are classified as extraordinary.

3.142 Table 3-18 shows the nature of items classified as extraordinary by the survey companies. An example of the presentation and disclosure of an extraordinary item follows.

3.143

TABLE 3-18: EXTRAORDINARY ITEMS

	2006	2005	2004	2003
Nature				
Negative goodwill	3	2	2	—
Debt extinguishments	—	—	—	4
Other	1	3	2	8
Total Extraordinary Items	**4**	**5**	**4**	**12**
Number of Companies				
Presenting extraordinary items	4	5	4	12
Not presenting extraordinary items	596	595	596	588
Total Companies	**600**	**600**	**600**	**600**

Negative Goodwill

3.144

HUNTSMAN CORPORATION (DEC)

(Dollars in millions)	2006	2005	2004
Income (loss) from continuing operations before income taxes and minority interest	$ 347.5	$(35.0)	$(384.8)
Income tax benefit	49.0	6.1	72.0
Minority interest in subsidiaries' income	(2.9)	(1.7)	(7.2)
Income (loss) from continuing operations	393.6	(30.6)	(320.0)
(Loss) income from discontinued operations (including loss on disposal of $301.8 in 2006 and $36.4 in 2005), net of tax	(219.7)	23.7	92.3
Income (loss) before extraordinary gain and accounting changes	173.9	(6.9)	(227.7)
Extraordinary gain on the acquisition of a business, net of tax of nil	55.9	—	—
Cumulative effect of changes in accounting principle, net of tax of $2.9	—	(27.7)	—
Net income (loss)	229.8	(34.6)	(227.7)
Preferred stock dividends	—	(43.1)	(87.7)
Net income (loss) available to common stockholders	$ 229.8	$(77.7)	$(315.4)
Basic income (loss) per share:			
Income (loss) from continuing operations	$ 1.78	$(0.33)	$ (1.85)
(Loss) income from discontinued operations, net of tax	(0.99)	0.11	0.42
Extraordinary gain on the acquisition of a business, net of tax	0.25	—	—
Cumulative effect of changes in accounting principle, net of tax	—	(0.13)	—
Net income (loss)	$ 1.04	$(0.35)	$ (1.43)
Weighted average shares	220.6	220.5	220.5
Diluted income (loss) per share:			
Income (loss) from continuing operations	$ 1.69	$(0.33)	$ (1.85)
(Loss) income from discontinued operations, net of tax	(0.94)	0.11	0.42
Extraordinary gain on the acquisition of a business, net of tax	0.24	—	—
Cumulative effect of changes in accounting principle, net of tax	—	(0.13)	—
Net income (loss)	$ 0.99	$(0.35)	$ (1.43)
Weighted average shares	233.1	220.5	220.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Business Dispositions and Combinations

Textile Effects Acquisition

On June 30, 2006, we acquired Ciba's textile effects business for approximately $172.1 million (CHF 215 million) in cash, of which $139.2 million was paid on June 30, 2006 and $32.9 million was paid on July 3, 2006. This purchase price is subject to finalization of post-closing working capital adjustments, which are currently estimated to be $21.4 million. The operating results of the textile effects business have been consolidated with our operating results beginning

on July 1, 2006 and are reported with our advanced materials operations as part of our Materials and Effects segment.

We have accounted for the Textile Effects Acquisition using the purchase method in accordance with SFAS No. 141, *Business Combinations.* As such, we analyzed the fair value of tangible and intangible assets acquired and liabilities assumed, and we determined the excess of fair value of net assets acquired over cost. Because the fair value of the acquired assets and liabilities assumed exceeded the acquisition price, the valuation of the long-lived assets acquired was reduced to zero in accordance with SFAS No. 141. Accordingly, no basis was assigned to property, plant and equipment or any other non-current assets and the remaining excess was recorded as an extraordinary gain, net of taxes (which were not applicable because the gain was recorded in purchase accounting). The preliminary allocation of the purchase price to the assets and liabilities acquired is summarized as follows (dollars in millions):

Acquisition cost:	
Acquisition payment, exclusive of post-closing working capital adjustment	$ 172.1
Estimated post-closing working capital adjustment	(21.4)
Direct costs of acquisition	12.5
Total acquisition costs	163.2
Fair value of assets acquired and liabilities assumed:	
Cash	7.7
Accounts receivable	253.7
Inventories	233.6
Prepaid expenses and other current assets	12.6
Deferred taxes	2.3
Accounts payable	(95.8)
Accrued liabilities	(34.3)
Short-term debt	(5.0)
Noncurrent liabilities	(155.7)
Total fair value of net assets acquired	219.1
Extraordinary gain on the acquisition of a business—excess of fair value of net assets acquired over cost	$ 55.9

This purchase price allocation is preliminary pending finalization of the determination of the fair value of assets acquired and liabilities assumed, including final valuation of working capital acquired, finalization of restructuring plans, estimates of asset retirement obligations and determination of related deferred taxes. We are assessing and formulating plans to exit certain activities of the textile effects business and expect to involuntarily terminate the employment of, or relocate, certain textile effects employees. We estimate that we will eliminate up to 650 positions and will create approximately 300 new positions, globally. These plans include the exit of various manufacturing, sales and administrative activities throughout the business through 2009. This preliminary purchase price allocation includes recorded liabilities for workforce reduction, non-cancelable lease termination costs, demolition and decommissioning and other restructuring costs of $65.4 million, $3.4 million, $1.5 million and $4.8 million, respectively. We have not yet finalized plans to exit certain business activities and may record additional liabilities for workforce reduction, or other restructuring costs as these plans are finalized. We expect that it is reasonably possible that material changes to the allocation could occur. Any changes to our purchase price allocation will be recorded as an adjustment to the extraordinary gain in future periods.

The following table reflects our results of operations on an unaudited pro forma basis as if the Textile Effects Acquisition had been completed at the beginning of each period presented utilizing historical results (dollars in millions, except per share amounts):

	2006	2005	2004
Revenues	$11,142.1	$11,699.9	$10,602.8
Income (loss) before extraordinary gain and accounting change	193.1	44.1	(230.9)
Net income (loss)	249.0	72.3	(175.0)
Basic income (loss) per share	1.13	0.13	(1.19)
Diluted income (loss) per share	1.07	0.13	(1.19)

Our pro forma net income (loss) reflects an extraordinary gain on the Textile Effects Acquisition of $55.9 million for the years ended December 31, 2006, 2005 and 2004.

EARNINGS PER SHARE

3.145 The reporting and disclosure requirements for earnings per share are stated in SFAS No. 128, *Earnings Per Share*, paragraphs 36–42. Examples of earnings per share presentations follow.

3.146

AIRGAS, INC. (MAR)

(In thousands, except per share amounts)	2006	2005	2004
Income from continuing operations before the cumulative effect of a change in accounting principle	$127,515	$91,558	$80,649
Income (loss) from discontinued operations, net of tax	(1,424)	464	(457)
Cumulative effect of a change in accounting principle, net of tax	(2,540)	—	—
Net earnings	$123,551	$92,022	$80,192
Net earnings per common share (Note 5)			
Basic			
Earnings from continuing operations before the cumulative effect of a change in accounting principle	$ 1.66	$ 1.22	$ 1.11
Earnings (loss) from discontinued operations	(0.02)	0.01	(0.01)
Cumulative effect of a change in accounting principle	(0.03)	—	—
Net earnings per share	$ 1.61	$ 1.23	$ 1.10
Diluted			
Earnings from continuing operations before the cumulative effect of a change in accounting principle	$ 1.62	$ 1.19	$ 1.08
Earnings (loss) from discontinued operations	(0.02)	0.01	(0.01)
Cumulative effect of a change in accounting principle	(0.03)	—	—
Net earnings per share	$ 1.57	$ 1.20	$ 1.07
Weighted average shares outstanding:			
Basic	76,624	74,911	72,761
Diluted	81,152	76,957	74,672

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Earnings Per Share

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares of the Company's common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock and common stock held by the Employee Benefits Trust. Diluted earnings per share is calculated by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of common stock equivalents related to stock options and warrants. The calculation of diluted earnings per share also assumes the conversion of National Welders' preferred stock to Airgas common stock.

The table below presents the computation of basic and diluted earnings per share for the years ended March 31, 2006, 2005 and 2004:

(In thousands, except per share amounts)	2006	2005[4]	2004[4]
Basic earnings per share computation			
Numerator:			
Income from continuing operations	$127,515	$91,558	$80,649
Income (loss) from discontinued operations	(1,424)	464	(457)
Cumulative effect of a change in accounting principle	(2,540)	—	—
Net earnings	$123,551	$92,022	$80,192
Denominator:			
Basic shares outstanding	76,624	74,911	72,761
Basic earnings per share from continuing operations	$ 1.66	$ 1.22	$ 1.11
Basic earnings (loss) per share from discontinued operations	(0.02)	0.01	(0.01)
Cumulative effect of a change in accounting principle	(0.03)	—	—
Basic net earnings per share	$ 1.61	$ 1.23	$ 1.10
Diluted earnings per share computation			
Numerator:			
Income from continuing operations	$127,515	$91,558	$80,649
Plus: Preferred stock dividends[1][2]	2,845	—	—
Plus: Income taxes on earnings of National Welders[3]	730	—	—
Income from continuing operations assuming preferred stock conversion	131,090	91,558	80,649
Income (loss) from discontinued operations	(1,424)	464	(457)
Cumulative effect of a change in accounting principle	(2,540)	—	—
Net earnings assuming preferred stock conversion	$127,126	$92,022	$80,192
Denominator:			
Basic shares outstanding	76,624	74,911	72,761
Incremental shares from assumed conversions:			
Stock options and warrants	2,201	2,046	1,911
Preferred stock of National Welders[1]	2,327	—	—
Diluted shares outstanding	81,152	76,957	74,672
Diluted earnings per share from continuing operations	$ 1.62	$ 1.19	$ 1.08
Diluted earnings (loss) per share from discontinued operations	(0.02)	0.01	(0.01)
Diluted loss from the cumulative effect of a change in accounting principle	(0.03)	—	—
Diluted net earnings per share	$ 1.57	$ 1.20	$ 1.07

[1] Pursuant to a joint venture agreement between the Company and the holders of the preferred stock of National Welders, until June 30, 2009, the preferred stockholders have the option to exchange their 3.2 million shares of National Welders voting redeemable preferred stock with a 5% annual dividend either for cash at a price of $17.78 per share or to tender them to the joint venture in exchange for approximately 2.3 million shares of Airgas common stock (see Note 16). If Airgas common stock has a market value of $24.45 per share, the stock and cash redemption options are equivalent.

[2] If the preferred stockholders of National Welders convert their preferred stock to Airgas common stock, the 5% preferred stock dividend, recognized as "Minority interest in earnings of consolidated affiliate," would no longer be paid to the preferred stockholders, resulting in additional net earnings for Airgas.

[3] The earnings of National Welders for tax purposes are treated as a deemed dividend to Airgas, net of an 80% dividend exclusion. Upon the assumed conversion of National Welders preferred stock to Airgas common stock, National Welders would become a wholly owned subsidiary of Airgas. As a wholly owned subsidiary, the net earnings of National Welders would not be subject to additional tax at the Airgas level.

[4] The assumed conversion of National Welders preferred stock to Airgas common stock is not presented because it was anti-dilutive.

Outstanding stock options and warrants, with an exercise price above market, are excluded from the Company's diluted computation as their effect would be anti-dilutive. There were approximately 3 thousand, 2 thousand and 545 thousand outstanding stock options and warrants with an exercise price above the average market price at March 31, 2006, 2005, and 2004, respectively. If the average market value of the Company's common stock increases above the respective exercise prices of the options and warrants, they will be included in the diluted computation as common stock equivalents.

3.147

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

(Millions of dollars, except for share data)	2006	2005	2004
Income from continuing operations	$748.3	$707.5	$608.4
Income (Loss) from discontinued operations, net of tax	(18.7)	4.2	(4.3)
Income before cumulative effect of accounting change	729.6	711.7	604.1
Cumulative effect of accounting change, net of tax	(6.2)	—	—
Net income	$723.4	$711.7	$604.1
Weighted average of common shares outstanding (in millions)	221.7	225.7	223.8
Weighted average of common shares outstanding assuming dilution (in millions)	227.5	231.4	228.9
Basic earnings per common share			
Income from continuing operations	$ 3.38	$ 3.13	$ 2.72
Income (loss) from discontinued operations	(.09)	.02	(.02)
Income before cumulative effect of accounting change	3.29	3.15	2.70
Cumulative effect of accounting change	(.03)	—	—
Net income	$ 3.26	$ 3.15	$ 2.70
Diluted earnings per common share			
Income from continuing operations	$ 3.29	$ 3.06	$ 2.66
Income (loss) from discontinued operations	(.08)	.02	(.02)
Income before cumulative effect of accounting change	3.21	3.08	2.64
Cumulative effect of accounting change	(.03)	—	—
Net income	$ 3.18	$ 3.08	$ 2.64

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars, except for share data)

16. Earnings Per Share

The calculation of basic and diluted earnings per share (EPS) is as follows:

	2006	2005	2004
Numerator			
Used in basic and diluted EPS			
Income from continuing operations	$748.3	$707.5	$608.4
Income (loss) from discontinued operations, net of tax	(18.7)	4.2	(4.3)
Income before cumulative effect of accounting change	729.6	711.7	604.1
Cumulative effect of accounting change, net of tax	(6.2)	—	—
Net income	$723.4	$711.7	$604.1
Denominator (in millions)			
Weighted average number of common shares used in basic EPS	221.7	225.7	223.8
Effect of dilutive securities:			
Employee stock options	4.9	5.0	4.5
Other award plans	.9	.7	.6
	5.8	5.7	5.1
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	227.5	231.4	228.9
Basic EPS			
Income from continuing operations	$ 3.38	$ 3.13	$ 2.72
Income (loss) from discontinued operations	(.09)	.02	(.02)
Income before cumulative effect of accounting change	3.29	3.15	2.70
Cumulative effect of accounting change	(.03)	—	—
Net Income	$ 3.26	$ 3.15	$ 2.70
Diluted EPS			
Income from continuing operations	$ 3.29	$ 3.06	$ 2.66
Income (loss) from discontinued operations	(.08)	.02	(.02)
Income before cumulative effect of accounting change	3.21	3.08	2.64
Cumulative effect of accounting change	(.03)	—	—
Net income	$ 3.18	$ 3.08	$ 2.64

Diluted EPS reflects the potential dilution that could occur if stock options or other share-based awards were exercised or converted into common stock. The dilutive effect is computed using the treasury stock method, which assumes all share-based awards are exercised and the hypothetical proceeds from exercise are used by the company to purchase common stock at the average market price during the period. The incremental shares (difference between shares assumed to be issued versus purchased), to the extent they would have been dilutive, are included in the denominator of the diluted EPS calculation. Options on 1.2 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for 2006.

3.148

CONSTELLATION BRANDS, INC. (FEB)

(In thousands, except per share data)	2006	2005	2004
Net income	$325,262	$276,464	$220,414
Dividends on preferred stock	(9,804)	(9,804)	(5,746)
Income available to common stockholders	$315,458	$266,660	$214,668
Share data:			
Earnings per common share:			
Basic—Class A common stock	$ 1.44	$ 1.25	$ 1.08
Basic—Class B common stock	1.31	1.14	0.98
Diluted	1.36	1.19	1.03
Weighted average common shares outstanding:			
Basic—Class A common stock	196,907	191,489	177,267
Basic—Class B common stock	23,904	24,043	24,137
Diluted	238,707	233,060	213,897

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings Per Common Share

Effective June 1, 2004, the Company adopted EITF Issue No. 03-6 ("EITF No. 03-6"), "Participating Securities and the Two-Class Method under FASB Statement No. 128." EITF No. 03-6 clarifies what is meant by a "participating security," provides guidance on applying the two-class method for computing earnings per share, and requires affected companies to retroactively restate earnings per share amounts for all periods presented.

The Company has two classes of common stock: Class A Common Stock and Class B Convertible Common Stock. With respect to dividend rights, the Class A Common Stock is entitled to cash dividends of at least ten percent higher than those declared and paid on the Class B Convertible Common Stock. Therefore, under EITF No. 03-6, the Class B Convertible Common Stock is considered a participating security requiring the use of the two-class method for the computation of net income per share—basic, rather than the if-converted method which was previously used. In addition, the shares of Class B Convertible Common Stock are considered to be participating convertible securities since the shares of Class B Convertible Common Stock are convertible into shares of Class A Common Stock on a one-to-one basis at any time at the option of the holder. The two-class computation method for each period reflects the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the minimum dividend rights of each class of stock. Earnings per share—basic reflects the application of EITF No. 03-6 and has been computed using the two-class method for all periods presented. Earnings per share—diluted continues to be computed using the if-converted method (see Note 16).

Basic earnings per common share excludes the effect of common stock equivalents and is computed using the two-class computation method. Diluted earnings per common share reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock and Preferred Stock using the if-converted method.

16. Earnings Per Common Share

Earnings per common share are as follows:

(In thousands, except per share data)	2006	2005	2004
Net income	$325,262	$276,464	$220,414
Dividends on preferred stock	(9,804)	(9,804)	(5,746)
Income available to common stockholders	$315,458	$266,660	$214,668
Weighted average common shares outstanding—basic:			
Class A common stock	196,907	191,489	177,267
Class B common stock	23,904	24,043	24,137
Total weighted average common shares outstanding—basic	220,811	215,532	201,404
Stock options	7,913	7,545	6,628
Preferred stock	9,983	9,983	5,865
Weighted average common shares outstanding—diluted	238,707	233,060	213,897
Earnings per common share—basic:			
Class A common stock	$ 1.44	$ 1.25	$ 1.08
Class B common stock	1.31	1.14	.98
Earnings per common share—diluted	1.36	1.19	1.03

Stock options to purchase 3.6 million, 1.6 million, and 0.2 million shares of Class A Common Stock at a weighted average price per share of $27.30, $23.27, and $15.55 were outstanding during the years ended February 28, 2006, February 28, 2005, and February 29, 2004, respectively, but were not included in the computation of the diluted earnings per common share because the stock options' exercise price was greater than the average market price of the Class A Common Stock for the respective periods.

3.149

DEVON ENERGY CORPORATION (DEC)

(In millions, except per share amounts)	2006	2005	2004
Earnings from continuing operations	$2,823	$2,899	$2,181
Discontinued operations:			
Earnings from discontinued operations before income taxes	22	46	17
Income tax (benefit) expense	(1)	15	12
Earnings from discontinued operations	23	31	5
Net earnings	2,846	2,930	2,186
Preferred stock dividends	10	10	10
Net earnings applicable to common stockholders	$2,836	$2,920	$2,176
Basic net earnings per share:			
Earnings from continuing operations	$ 6.37	$ 6.31	$ 4.50
Earnings from discontinued operations	0.05	0.07	0.01
Net earnings	$ 6.42	$ 6.38	$ 4.51
Diluted net earnings per share:			
Earnings from continuing operations	$ 6.29	$ 6.19	$ 4.37
Earnings from discontinued operations	0.05	0.07	0.01
Net earnings	$ 6.34	$ 6.26	$ 4.38
Weighted average common shares outstanding:			
Basic	442	458	482
Diluted	448	470	499

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Net Earnings Per Common Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share, as calculated using the treasury stock method, reflects the potential dilution that could occur if Devon's dilutive outstanding stock options were exercised. For 2005 and 2004, the calculation of diluted shares also assumed that Devon's previously outstanding zero coupon convertible senior debentures were converted to common stock.

The following table reconciles earnings from continuing operations and common shares outstanding used in the calculations of basic and diluted earnings per share for 2006, 2005 and 2004.

(In millions, except per share amounts)	Net Earnings Applicable to Common Stockholders	Weighted Average Common Shares Outstanding	Net Earnings Per Share
Year ended December 31, 2006:			
Earnings from continuing operations	$2,823		
Less preferred stock dividends	(10)		
Basic earnings per share	2,813	442	$6.37
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	—	6	
Diluted earnings per share	$2,813	448	$6,29
Year ended December 31, 2005:			
Earnings from continuing operations	$2,899		
Less preferred stock dividends	(10)		
Basic earnings per share	2,889	458	$6.31
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	—	8	
Dilutive effect of potential common shares issuable upon conversion of senior convertible debentures (increase in net earnings is net of income tax expense of $14 million)[1]	24	4	
Diluted earnings per share	$2,913	470	$6,19
Year ended December 31, 2004:			
Earnings from continuing operations	$2,181		
Less preferred stock dividends	(10)		
Basic earnings per share	2,171	482	$4.50
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	—	8	
Dilutive effect of potential common shares issuable upon conversion of senior convertible debentures (increase in net earnings is net of income tax expense of $6 million)	10	9	
Diluted earnings per share	$2,181	499	$4.37

[1] The senior convertible debentures were retired in June 2005 prior to their stated maturity.

Certain options to purchase shares of Devon's common stock were excluded from the dilution calculations because the options were antidilutive. These excluded options totaled 3 million, 0.2 million and 4 million in 2006, 2005 and 2004, respectively.

Section 4: Comprehensive Income

PRESENTATION IN ANNUAL REPORT

4.01 Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, requires that a full set of general-purpose financial statements report comprehensive income and its components. Comprehensive income includes net income, foreign currency items, defined benefit postretirement plan adjustments, changes in the fair value of certain derivatives, and unrealized gains and losses on certain investments in debt and equity securities. If an entity has only net income, it is not required to report comprehensive income. *SFAS No.* 130 encourages reporting comprehensive income in either a combined statement of income and comprehensive income or in a separate statement of comprehensive income.

4.02 *SFAS No. 130* also states that an enterprise shall disclose the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments), either on the face of the statement in which those components are displayed or in the notes thereto.

4.03 Table 4-1 shows the statement in which comprehensive income and the related tax effect was presented.

4.04

TABLE 4-1: COMPREHENSIVE INCOME—REPORTING STATEMENT

	2006	2005	2004	2003
Reporting format:				
Included in statement of changes in stockholders' equity	485	478	485	488
Separate statement of comprehensive income	75	77	68	69
Combined statement of income and comprehensive income	21	24	22	23
	581	**579**	**575**	**580**
No comprehensive income reported	19	21	25	20
Total Companies	**600**	**600**	**600**	**600**
Tax effect disclosure in any statement:				
Amount of tax effect allocated to each component	149	119	89	89
Amount of tax effect allocated to some, but not all, components	130	114	137	111
Total amount of tax effect	19	15	11	16
	298	**248**	**237**	**216**
Tax effect disclosure in notes:				
Amount of tax effect allocated to each component	75	75	68	75
Amount of tax effect allocated to some, but not all, components	66	62	65	71
Total amount of tax effect	10	11	9	16
	151	**148**	**142**	**162**
Tax effect not disclosed in any statement	132	183	196	202
	581	**579**	**575**	**580**
No comprehensive income reported	19	21	25	20
Total Companies	**600**	**600**	**600**	**600**

4.05 Table 4-2 summarizes the titles used to describe comprehensive income.

4.06 Examples of comprehensive income reported in a statement of changes in stockholders' equity, in a separate statement of comprehensive income, and in a combined statement of income and comprehensive income follow.

4.07

TABLE 4-2: COMPREHENSIVE INCOME—REPORTING STATEMENT TITLE

	2006	2005	2004	2003
Comprehensive income reported in a statement of income and comprehensive income, or in a statement of comprehensive income				
Comprehensive income	69	71	56	59
Comprehensive income (loss)	15	21	23	26
Comprehensive loss	2	3	4	3
Comprehensive earnings	2	2	1	1
Other title	8	4	6	3
	96	**101**	**90**	**92**
Comprehensive income reported in a statement of changes in stockholders' equity				
Statement title does not refer to comprehensive income	393	394	398	406
Statement title does refer to comprehensive income	92	84	87	82
	485	**478**	**485**	**488**
No comprehensive income reported	19	21	25	20
Total Companies	**600**	**600**	**600**	**600**

Included in Statement of Changes in Stockholders' Equity

4.08

SILGAN HOLDINGS INC. (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Common Stock Shares Outstanding	Common Stock Par Value	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unamortized Stock Compensation	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2004	18,273	$210	$125,758	$60,905	$(5,675)	$ —	$(60,393)	$120,805
Comprehensive income:								
Net income	—	—	—	84,145	—	—	—	84,145
Minimum pension liability, net of tax benefit of $1,406	—	—	—	—	(2,154)	—	—	(2,154)
Change in fair value of derivatives, net of tax provision of $2,409	—	—	—	—	3,686	—	—	3,686
Foreign currency translation	—	—	—	—	5,002	—	—	5,002
Comprehensive income								90,679
Dividends declared on common stock	—	—	—	(8,282)	—	—	—	(8,282)
Issuance of restricted stock units	—	—	1,929	—	—	(1,929)	—	—
Amortization of stock compensation	—	—	—	—	—	235	—	235
Stock option exercises and other awards, including tax benefit of $1,736	150	1	3,998	—	—	—	—	3,999
Balance at December 31, 2004	18,423	$211	$131,685	$136,768	$ 859	$(1,694)	$(60,393)	$207,436

(continued)

(Dollars in thousands)	Common Stock Shares Outstanding	Common Stock Par Value	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unamortized Stock Compensation	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2004	18,423	$211	$131,685	$136,768	$ 859	$(1,694)	$(60,393)	$207,436
Comprehensive income:								
Net income	—	—	—	87,550	—	—	—	87,550
Minimum pension liability net of tax benefit of $12,410	—	—	—	—	(17,857)	—	—	(17,857)
Change in fair value of derivatives, net of tax provision of $826	—	—	—	—	1,188	—	—	1,188
Foreign currency translation	—	—	—	—	1,922	—	—	1,922
Comprehensive income								72,803
Dividends declared on common stock	—	—	—	(14,859)	—	—	—	(14,859)
Net issuance of restricted stock units	—	—	777	—	—	(777)	—	—
Amortization of stock compensation	—	—	—	—	—	578	—	578
Stock option exercises, including tax benefit of $3,532	233	2	7,383	—	—	—	—	7,385
Net issuance of treasury stock for vested restricted stock units, including tax benefit of $39	8	—	(157)	—	—	—	164	7
Two-for-one stock split, net of treasury shares of 2,679	18,602	213	(213)	—	—	—	—	—
Balance at December 31, 2005	37,266	$426	$139,475	$209,459	$(13,888)	$(1,893)	$(60,229)	$273,350
Comprehensive income:								
Net income	—	—	—	104,016	—	—	—	104,016
Minimum pension liability, net of tax provision of $19,679	—	—	—	—	28,996	—	—	28,996
Change in fair value of derivatives, net of tax benefit of $1,759	—	—	—	—	(2,617)	—	—	(2,617)
Foreign currency translation, net of tax benefit of $1,791	—	—	—	—	1,349	—	—	1,349
Comprehensive income								131,744
Adjustment to initially apply SFAS No. 158, net of tax benefit of $19,418	—	—	—	—	(29,404)	—	—	(29,404)
Dividends declared on common stock	—	—	—	(18,042)	—	—	—	(18,042)
Reversal of unamortized stock compensation	—	—	(1,893)	—	—	1,893	—	—
Stock compensation expense	—	—	2,275	—	—	—	—	2,275
Stock option exercises, including tax benefit of $3,495	301	3	6,724	—	—	—	—	6,727
Net issuance of treasury stock for vested restricted stock units, including tax benefit of $107	21	—	(249)	—	—	—	139	(110)
Balance at December 31, 2006	37,588	$429	$146,332	$295,433	$(15,564)	$ —	$(60,090)	$366,540

4.09

WALTER INDUSTRIES, INC. (DEC)

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss)

(In thousands)	Total	Common Stock	Capital In Excess of Par Value	Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2003	$276,610	$ 557	$1,150,442		$(658,965)	$(164,018)	$(51,406)
Comprehensive income:							
Net income	49,917			$49,917	49,917		
Other comprehensive income (loss), net of tax:							
Increase in additional pension liability	(405)			(405)			(405)
Net unrealized gain on hedges	702			702			702
Comprehensive income				$50,214			
Stock issued upon exercise of stock options	26,580	23	26,557				
Tax benefit from the exercise of stock options	5,363		5,363				
Purchases of treasury stock	(95,299)					(95,299)	
Dividends paid, $.13 per share	(4,939)		(4,939)				
Stock-based compensation	698		698				
Balance at December 31, 2004	259,227	580	1,178,121		(609,048)	(259,317)	(51,109)
Comprehensive loss:							
Net income	7,046			$ 7,046	7,046		
Other comprehensive loss, net of tax:							
Cumulative foreign currency translation adjustment	(113)			(113)			(113)
Increase in additional pension liability	(9,573)			(9,573)			(9,573)
Net unrealized loss on hedges	(619)			(619)			(619)
Comprehensive loss				$ (3,259)			
Stock issued upon exercise of stock options	19,872	18	19,854				
Tax benefit from the exercise of stock options	17,469		17,469				
Dividends paid, $.16 per share	(6,145)		(6,145)				
Stock-based compensation	1,452		1,452				
Balance at December 31, 2005	288,616	598	1,210,751		(602,002)	(259,317)	(61,414)
Adjustment to initially apply SEC SAB No. 108	5,069				5,069		
Adjusted balance at December 31, 2005	$293,685	$598	$1,210,751		$(596,933)	$(259,317)	$(61,414)

(continued)

(In thousands)	Total	Common Stock	Capital In Excess of Par Value	Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Adjusted balance at December 31, 2005	$293,685	$598	$1,210,751		$(596,933)	$(259,317)	$(61,414)
Comprehensive income:							
Net income	198,369			$198,369	198,369		
Other comprehensive income, net of tax:							
Cumulative foreign currency translation adjustment	1,053			1,053			1,053
Decrease in additional pension liability	703			703			703
Net unrealized gain on hedges	4,113			4,113			4,113
Comprehensive income				$204,238			
Adjustment to initially apply FASB Statement No. 158	(74,513)						(74,513)
Sale of common stock	168,680	26	168,654				
Stock issued upon conversion of convertible notes	176,108	98	176,010				
Gain on sale of investment in Mueller Water Products, Inc. through initial public offering	132,048		125,088				6,960
Stock dividend for spin-off of Mueller Water Products, Inc.	(919,933)		(944,393)				24,460
Stock issued upon exercise of stock options	4,735	6	4,729				
Tax benefit on the exercise of stock options	8,310		8,310				
Dividends paid, $.16 per share	(6,825)		(6,825)				
Stock-based compensation	15,375		15,375				
Balance at December 31, 2006	$ 1,908	$728	$757,699		$(398,564)	$(259,317)	$(98,638)

4.10

YAHOO! INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	2004	2005	2006
Common stock			
Balance, beginning of year	$ 1,354	$ 1,416	$ 1,470
Common stock issued	62	54	23
Balance, end of year	1,416	1,470	1,493
Additional paid-in capital			
Balance, beginning of year	4,340,514	5,682,884	6,417,858
Common stock and stock-based awards issued and assumed	667,212	1,010,012	318,160
Stock-based compensation expense	—	—	451,467
Adoption of SFAS 123R	—	—	(235,394)
Change in deferred income tax asset valuation allowance	335,740	(423,147)	236,044
Gain in connection with business contribution	—	—	29,944
Tex benefits from stock-based awards	408,976	759,530	630,541
Structured stock repurchases, net	(69,558)	(611,421)	767,295
Balance, end of year	5,682,884	6,417,858	8,615,915
Deferred stock-based compensation			
Balance, beginning of year	(52,374)	(28,541)	(235,394)
Common stock and stock-based awards issued and assumed	(8,457)	(259,324)	—
Stock-based compensation expense	32,290	52,471	—
Adoption of SFAS 123R	—	—	235,394
Balance, end of year	(28,541)	(235,394)	—
Treasury stock			
Balance, beginning of year	(159,988)	(159,988)	(547,723)
Repurchases of common stock	—	(387,735)	(2,777,140)
Balance, end of year	(159,988)	(547,723)	(3,324,863)
Retained earnings			
Balance, beginning of year	230,386	1,069,939	2,966,169
Net income	839,553	1,896,230	751,391
Balance, end of year	1,069,939	2,966,169	3,717,560
Accumulated other comprehensive income (loss)			
Balance, beginning of year	3,598	535,736	(35,965)
Net change in unrealized gains/losses on available-for-sale securities, net of tax	471,425	(491,532)	38,018
Foreign currency translation adjustment, net of tax	60,713	(80,169)	148,452
Balance, end of year	535,736	(35,965)	150,505
Total stockholders' equity	$7,101,446	$8,566,415	$9,160,610
Comprehensive income			
Net income	$ 839,553	$1,896,230	$ 751,391
Other comprehensive income (loss):			
Unrealized gains/(losses) on available-for-sale securities, net of taxes of $(315,001), $7,669 and $(29,914) for 2004, 2005, and 2006, respectively	472,532	(11,510)	32,961
Reclassification adjustment for realized (gains)/losses included in net income, net of taxes of $738, $320,015, and $(3,371) for 2004, 2005, and 2006, respectively	(1,107)	(480,022)	5,057
Net change in unrealized (gains)/losses on available-for-sale securities, net of tax	471,425	(491,532)	38,018
Foreign currency translation adjustment, net of tax	60,713	(80,169)	148,452
Other comprehensive income (loss)	532,138	(571,701)	186,470
Comprehensive income	$1,371,691	$1,324,529	$ 937,861

Separate Statement of Comprehensive Income

4.11

THE BRINK'S COMPANY (DEC)

Consolidated Statements of Comprehensive Income

(In millions)	2006	2005	2004
Net income	$587.2	$142.4	$121.5
Other comprehensive income (loss):			
Minimum pension liability adjustments:			
Adjustments to minimum pension liability	90.0	(33.3)	(9.2)
Tax benefit (expense) related to minimum pension liability adjustment	(31.7)	11.6	1.4
Reclassification for sale of BAX Global Inc.	11.1	—	—
Minimum pension liability adjustments, net of tax	69.4	(21.7)	(7.8)
Foreign currency:			
Translation adjustments arising during the year	29.0	(32.3)	25.7
Tax benefit (expense) related to translation adjustments	(0.1)	2.3	0.9
Reclassification adjustment for sales of foreign subsidiaries	(12.9)	—	0.8
Reclassification of translation losses upon changing to cost method accounting for investment	—	—	14.5
Foreign currency translation adjustments, net of tax	16.0	(30.0)	41.9
Cash flow hedges:			
Unrealized net gains on cash flow hedges arising during the year	—	—	2.6
Tax expense related to unrealized net gains on cash flow hedges	—	—	(0.9)
Reclassification adjustment for net gains realized in net income	—	—	(2.8)
Tax expense related to net gains realized in net income	—	—	1.0
Unrealized net losses on cash flow hedges, net of tax	—	—	(0.1)
Marketable securities:			
Unrealized net gains on marketable securities arising during the year	2.0	1.2	0.1
Tax expense related to unrealized net gains on marketable securities	(0.7)	(0.4)	—
Reclassification adjustment for net gains realized in net income	(1.0)	(0.2)	(4.3)
Tax expense related to net gains realized in net income	0.4	0.1	1.5
Unrealized net gains (losses) on marketable securities, net of tax	0.7	0.7	(2.7)
Other comprehensive income (loss)	86.1	(51.0)	31.3
Comprehensive income	$673.3	$ 91.4	$152.8

4.12

ELI LILLY AND COMPANY (DEC)

Consolidated Statements of Comprehensive Income

(Dollars in millions)	2006	2005	2004
Net income	$ 2,662.7	$1,979.6	$1,810.1
Other comprehensive income (loss)			
Adoption of SFAS 158	(2,366.2)	—	—
Foreign currency translation gains (losses)	542.4	(533.4)	441.7
Net unrealized gains (losses) on securities	(3.2)	0.3	(25.9)
Minimum pension liability adjustment	(18.8)	(87.8)	(4.4)
Effective portion of cash flow hedges	143.3	(81.7)	(53.7)
Other comprehensive income (loss) before income taxes	(1,702.5)	(702.6)	357.7
Provision for income taxes related to other comprehensive income (loss) items	734.4	63.4	21.0
Other comprehensive income (loss)	(968.1)	(639.2)	378.7
Comprehensive income	$ 1,694.6	$1,340.4	$2,188.8

Combined Statement of Net Income and Comprehensive Income

4.13

ENERGIZER HOLDINGS, INC. (SEP)

Consolidated Statements of Earnings and Comprehensive income

(Dollars in millions, except per share data)	2006	2005	2004
Statement of earnings			
Net sales	$3,076.9	$2,989.8	$2,812.7
Cost of products sold	1,596.1	1,512.1	1,404.0
Selling, general and administrative expense	601.9	581.4	550.8
Advertising and promotion expense	368.9	387.6	403.3
Research and development expense	74.2	69.9	74.0
Interest expense	77.9	52.4	30.8
Other financing (income)/expense, net	1.3	(2.3)	2.0
Earnings before income taxes	356.6	388.7	347.8
Income taxes	95.7	108.0	86.8
Net earnings	$ 260.9	$ 280.7	$ 261.0
Earnings per share			
Basic net earnings per share	$ 4.26	$ 3.95	$ 3.24
Diluted net earnings per share	4.14	3.82	3.13
Statement of comprehensive income			
Net earnings	$ 260.9	$ 280.7	$ 261.0
Other comprehensive income, net of tax			
Foreign currency translation adjustments	29.4	(11.3)	29.6
Minimum pension liability change, net of tax of $(1.3) in 2006, $9.2 in 2005 and $2.9 in 2004	1.7	(17.1)	(6.2)
Comprehensive income	$ 292.0	$ 252.3	$ 284.4

4.14

FOSTER WHEELER LTD. (DEC)

Consolidated Statement of Operations and Comprehensive Income/(Loss)

(In thousands of dollars)	2006	2005	2004
Operating revenues	$ 3,495,048	$ 2,199,955	$ 2,661,324
Cost of operating revenues	(2,987,261)	(1,853,613)	(2,400,662)
Contract profit	507,787	346,342	260,662
Selling, general and administrative expenses	(225,330)	(216,691)	(213,919)
Other income (including interest: 2006–$15,119; 2005–$8,876; 2004–$8,832)	63,729	63,723	88,383
Other deductions	(45,453)	(36,529)	(32,096)
Interest expense	(24,944)	(50,618)	(94,622)
Minority interest	(4,789)	(4,382)	(4,900)
Net asbestos-related gains/(provision)	100,131	(113,680)	(60,626)
Prior domestic senior credit agreement fees and expenses	(14,955)	—	—
Loss on debt reduction initiatives	(12,483)	(58,346)	(175,054)
Income/(loss) before income taxes	343,693	(70,181)	(232,172)
Provision for income taxes	(81,709)	(39,568)	(53,122)
Net income/(loss)	261,984	(109,749)	(285,294)
Other comprehensive income/(loss):			
Foreign currency translation adjustment	31,612	(22,928)	27,155
Minimum pension liability adjustment (net of tax (provision)/benefit: 2006–$(4,674); 2005–$(8,456); 2004–$986)	40,087	4,875	(19,899)
Net gain on derivative instruments designated as cash flow hedges (net of tax provision: 2006–$203)	342	—	—
Net comprehensive income/(loss)	$ 334,025	$ (127,802)	$ (278,038)

TAX EFFECT DISCLOSURE

4.15

CUMMINS INC. (DEC)

Consolidated Statements of Shareholders Equity

(Millions)	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Earnings	Common Stock in Treasury	Common Stock Held in Trust	Unearned Compensation	Total Shareholders' Equity
Balance at December 31, 2003	$121	$1,113	$ 569	$(492)	$(225)	$(113)	$(24)	$ 949
Comprehensive income:								
Net earnings			350					350
Other comprehensive earnings (loss):								
Unrealized loss on marketable securities				(4)				(4)
Unrealized gain on derivatives				1				1
Foreign currency translation adjustments				20				20
Minimum pension liability adjustments				(65)				(65)
Total comprehensive income								302
Issuance of shares		4			137			141
Cash dividends on common stock			(53)					(53)
Stock option exercises		37						37
Other shareholder transactions		13				9	3	25
Balance at December 31, 2004	121	1,167	866	(540)	(88)	(104)	(21)	1,401
Comprehensive income:								
Net earnings			550					550
Other comprehensive earnings (loss):								
Unrealized gain on marketable securities				2				2
Unrealized loss on derivatives				(2)				(2)
Foreign currency translation adjustments				(39)				(39)
Minimum pension liability adjustments				(24)				(24)
Total comprehensive income								487
Issuance of shares		9			25			34
Acquisition of shares					(38)			(38)
Cash dividends on common stock			(56)					(56)
Stock option exercises		12						12
Other shareholder transactions		13				7	4	24
Balance at December 31, 2005	$121	$1,201	$1,360	$(603)	$(101)	$ (97)	$(17)	$1,864

(continued)

(Millions)	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Earnings	Common Stock in Treasury	Common Stock Held in Trust	Unearned Compensation	Total Shareholders' Equity
Balance at December 31, 2005	$121	$1,201	$1,360	$(603)	$(101)	$(97)	$(17)	$1,864
Comprehensive income:								
Net earnings			715					715
Other comprehensive earnings (loss):								
Unrealized loss on marketable securities				(1)				(1)
Unrealized gain on derivatives				7				7
Foreign currency translation adjustments				63				63
Minimum pension liability adjustments				102				102
Total comprehensive income								886
Issuance of shares	1	10			10			21
Acquisition of shares					(121)			(121)
Cash dividends on common stock			(66)					(66)
Stock option exercises		1						1
Adjustment to initially apply SFAS No. 158				(94)				(94)
Debt conversion	15	276						291
Other shareholder transactions		12				5	3	20
Balance at December 31, 2006	$137	$1,500	$2,009	$(526)	$(212)	$(92)	$(14)	$2,802

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Shareholders' Equity

Other Comprehensive Loss

Following are the items included in other comprehensive earnings (loss) and the related tax effects:

(Millions)	Before Tax Amount	Tax (Provision) Benefit	After Tax Amount
Year ended December 31, 2006			
Minimum pension liability adjustment	$154	$(52)	$102
Foreign currency translation adjustments	72	(9)	63
Unrealized loss on marketable securities:			
Holding loss	(2)	1	(1)
Reclassification of realized loss to net earnings	—	—	—
Net unrealized loss	(2)	1	(1)
Unrealized gain on derivatives:			
Holding gain	36	(12)	24
Reclassification of realized gain to net earnings	(25)	8	(17)
Net unrealized gain	11	(4)	7
Total other comprehensive income	$235	$(64)	$171

(continued)

	Before Tax Amount	Tax (Provision) Benefit	After Tax Amount
Year ended December 31, 2005			
Minimum pension liability adjustment	$ (39)	$ 15	$ (24)
Foreign currency translation adjustments	(39)	—	(39)
Unrealized gain on marketable securities:			
Holding gain	5	(2)	3
Reclassification of realized gain to net earnings	(2)	1	(1)
Net unrealized gain	3	(1)	2
Unrealized loss on derivatives:			
Holding loss	(9)	3	(6)
Reclassification of realized loss to net earnings	6	(2)	4
Net unrealized loss	(3)	1	(2)
Total other comprehensive loss	$ (78)	$ 15	$ (63)
Year ended December 31, 2004			
Minimum pension liability adjustment	$(104)	$ 39	$ (65)
Foreign currency translation adjustments	26	(6)	20
Unrealized gain (loss) on marketable securities:			
Holding gain (loss)	—	—	—
Reclassification of realized gain to net earnings	(7)	3	(4)
Net unrealized loss	(7)	3	(4)
Unrealized gain (loss) on derivatives:			
Holding loss	(8)	3	(5)
Reclassification of realized loss to net earnings	9	(3)	6
Net unrealized gain	1	—	1
Total other comprehensive loss	$ (84)	$ 36	$ (48)

4.16

DELUXE CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(In thousands)	2006	2005	2004
Net income	$100,954	$157,521	$197,991
Other comprehensive income (loss), net of tax:			
Loss on derivative instruments:			
Loss on derivative instruments arising during the year	—	—	(14,803)
Less reclassification of loss on derivative instruments from other comprehensive income to net income	2,559	2,576	771
Unrealized gains on securities:			
Unrealized holding gains arising during the year	268	99	161
Less reclassification adjustments for gains included in net income	(89)	(146)	(51)
Unrealized foreign currency translation adjustment	255	114	2,320
Minimum pension liability adjustment	(269)	—	—
Other comprehensive income (loss)	2,724	2,643	(11,602)
Comprehensive income	$103,678	$160,164	$186,389

(continued)

(In thousands)	2006	2005	2004
Related tax (expense) benefit of other comprehensive income (loss) included in above amounts:			
Loss on derivative instruments:			
Loss on derivative instruments arising during the year	$ —	$ —	$ 8,761
Less reclassification of loss on derivative instruments from other comprehensive income to net income	(1,493)	(1,500)	(456)
Unrealized gains on securities:			
Unrealized holding gains arising during the year	(191)	(67)	(108)
Less reclassification adjustments for gains included in net income	63	99	34
Minimum pension liability adjustment	151	—	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Comprehensive Income

Comprehensive income includes charges and credits to shareholders' deficit that are not the result of transactions with shareholders. Our total comprehensive income consists of net income, gains and losses on derivative instruments, unrealized gains and losses on securities, foreign currency translation adjustments and minimum pension liability adjustments. The gains and losses on derivative instruments, the unrealized gains and losses on securities, the foreign currency translation adjustments and the minimum pension liability adjustments are included in accumulated other comprehensive loss in our consolidated balance sheets and statements of shareholders' deficit.

4.17

PACCAR INC. (DEC)

Consolidated Statements of Comprehensive Income

(Millions of dollars)	2006	2005	2004
Net income	$1,496.0	$1,133.2	$ 906.8
Other comprehensive income (loss):			
Unrealized (losses) gains on derivative contracts			
Gains (losses) arising during the period	13.1	28.5	(11.9)
Tax effect	(4.7)	(10.5)	3.8
Reclassification adjustment	(17.4)	9.6	31.4
Tax effect	5.9	(2.8)	(12.3)
	(3.1)	24.8	11.0
Unrealized losses on investments			
Net holding loss	(.6)	(1.6)	(1.2)
Tax effect	.3	.6	.4
Reclassification adjustment		(.5)	(13.6)
Tax effect		.2	5.2
	(.3)	(1.3)	(9.2)
Minimum pension liability adjustment	26.0	(20.2)	(8.0)
Tax effect	(9.8)	7.9	2.7
	16.2	(12.3)	(5.3)
Foreign currency translation gains (losses)	148.9	(167.6)	166.7
Net other comprehensive income (loss)	161.7	(156.4)	163.2
Comprehensive income	$1,657.7	$ 976.8	$1,070.0

COMPONENTS OF OTHER COMPREHENSIVE INCOME

4.18 *SFAS No. 130* requires that items included in other comprehensive income shall be classified based on their nature. For example, under existing pronouncements, other comprehensive income shall be classified separately into foreign currency items, defined benefit postretirement plan adjustments, changes in fair value of derivatives, and unrealized gains and losses on certain debt and equity securities.

4.19 *SFAS No. 130* also requires that adjustments shall be made to avoid double counting, in comprehensive income, items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods. For example, gains on investment securities that were realized and included in net income of the current period, that also had been included in other comprehensive income as unrealized holding gains in the period in which they arose, must be deducted through other comprehensive income of the period in which they are included in net income to avoid including them in comprehensive income twice. These adjustments are called reclassification adjustments. An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported or it may disclose them in the notes to the financial statements.

4.20 Table 4-3 lists the components of other comprehensive income disclosed by survey companies in the statement used to present comprehensive income for the period reported.

4.21 Examples showing the presentation of components of other comprehensive income follow.

4.22

TABLE 4-3: OTHER COMPREHENSIVE INCOME—COMPONENTS

	2006	2005	2004	2003
Cumulative translation adjustments	485	495	490	477
Defined benefit postretirement plan adjustments	444	403	395	389
Changes in fair value of derivatives	321	331	325	311
Unrealized losses/gains on certain investments	263	263	270	268
Other	6	5	3	2

Cumulative Translation Adjustments

4.23

LEGGETT & PLATT, INCORPORATED (DEC)

Consolidated Statements of Changes in Shareholders' Equity

(Amounts in millions, except per share data)	2006	2005	2004
Common stock			
Balance, beginning and end of period	$ 2.0	$ 2.0	$ 2.0
Additional contributed capital			
Balance, beginning of period	$ 464.4	$ 452.5	$ 433.7
Stock options and benefit plans transactions	38.3	18.8	20.4
Treasury stock issued	(11.3)	(9.0)	(10.6)
Tax benefit related to stock options	2.0	2.1	9.0
Balance, end of period	$ 493.4	$ 464.4	$ 452.5
Retained earnings			
Balance, beginning of period	$2,093.1	$1,961.5	$1,788.3
Net earnings	300.3	251.3	285.4
Cash dividends declared (per share: 2006–$.67; 2005–$.63; 2004–$.58)	(122.7)	(119.7)	(112.2)
Balance, end of period	$2,270.7	$2,093.1	$1,961.5
Treasury stock			
Balance, beginning of period	$ (376.8)	$ (185.2)	$ (144.4)
Treasury stock purchased	(151.8)	(238.9)	(103.6)
Treasury stock issued	38.0	47.3	62.8
Balance, end of period	$ (490.6)	$ (376.8)	$ (185.2)
Accumulated other comprehensive income (loss)			
Balance, beginning of period	$ 66.3	$ 82.3	$ 34.4
Changes in foreign currency translation adjustments, net investment, cash flow and fair value hedges, and defined benefit plans, net of tax	29.1	(16.0)	47.9
Adjustment to initially apply SFAS 158	(19.8)	—	—
Balance, end of period	$ 75.6	$ 66.3	$ 82.3
Total shareholders' equity	$2,351.1	$2,249.0	$2,313.1
Comprehensive income (loss)			
Net earnings	$ 300.3	$ 251.3	$ 285.4
Foreign currency translation adjustments	33.9	(21.9)	57.6
Net investment hedges	(1.1)	2.8	(2.4)
Cash flow hedges	(5.6)	4.3	—
Fair value hedges	(.2)	—	—
Defined benefit plans	2.1	(1.2)	(7.3)
Total comprehensive income	$ 329.4	$ 235.3	$ 333.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in millions)

A (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

The functional currency for most foreign operations is the local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for income and expense accounts using monthly average exchange rates. The cumulative effects of translating the functional currencies into the U.S. dollar are included in comprehensive income.

Q. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments, net unrealized gains (losses) on net investment hedges, cash flow hedges, fair value hedges and defined benefit plans. The following table sets forth the changes in each component of accumulated other comprehensive income (loss):

	Foreign Currency Translation Adjustments[1]	Net Investment Hedges[2]	Cash Flow Hedges[3]	Fair Value Hedges[4]	Defined Benefit Pension Plans[5]	Accumulated Other Comprehensive Income (loss)
Balance January 1, 2004	$ 34.9	$ (.5)	$ —	$—	$ —	$ 34.4
Period change	57.6	(2.4)	—	—	(7.3)	47.9
Balance December 31, 2004	92.5	(2.9)	—	—	(7.3)	82.3
Period change	(21.9)	2.8	4.3	—	(1.2)	(16.0)
Balance December 31, 2005	70.6	(.1)	4.3	—	(8.5)	66.3
Period change	33.9	(1.1)	(5.6)	(.2)	2.1	29.1
Adjustment to initially apply SFAS 158	—	—	—	—	(19.8)	(19.8)
Balance December 31, 2006	$104.5	$(1.2)	$(1.3)	$(.2)	$(26.2)	$ 75.6

[1] Foreign currency translation adjustments activity is shown net of income tax expense (benefit) of $(1.0) in 2006; $1.8 in 2005; and $1.3 in 2004.
[2] Net investment hedges activity is shown net of income tax expense (benefit) of $(.7) in 2006; $(.1) in 2005; and $(1.8) in 2004.
[3] Cash flow hedge activity is shown net of income tax expense (benefit) of $(3.2) in 2006; $2.7 in 2005.
[4] Fair value hedge activity is shown net of income tax expense (benefit) of $(.1) in 2006.
[5] Defined benefit pension plan activity is shown net of income tax expense (benefit) of $1.4 in 2006; $(.7) in 2005; and $(4.0) in 2004. Adjustment to initially apply SFAS 158 is shown net of income tax expense (benefit) of $(12.5) in 2006.

4.24

LIBERTY MEDIA CORPORATION (DEC)

Consolidated Statements of Comprehensive Earnings (Loss)

(Amounts in millions)	2006	2005	2004
Net earnings (loss)	$ 840	$ (33)	$ 46
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	111	(5)	20
Recognition of previously unrealized foreign currency translation losses	—	312	—
Unrealized holding gains (losses) arising during the period	2,605	(1,121)	1,490
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(185)	217	(486)
Reclass unrealized gain on available-for-sale security to equity method investment	—	(197)	—
Other comprehensive earnings (loss) from discontinued operations	—	(7)	(54)
Other comprehensive earnings (loss)	2,531	(801)	970
Comprehensive earnings (loss)	$3,371	$ (834)	$1,016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign Currency Translation

The functional currency of the Company is the United States ("U.S.") dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated statements of operations and comprehensive earnings as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

15) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in Liberty's consolidated balance sheets and consolidated statements of stockholders' equity reflect the aggregate of foreign currency translation adjustments and unrealized holding gains and losses on AFS securities.

The change in the components of accumulated other comprehensive earnings (loss), net of taxes, is summarized as follows:

(Amounts in millions)	Foreign Currency Translation Adjustments	Unrealized Holding Gains (Losses) on Securities	Accumulated Other Comprehensive Earnings (Loss), Net of Taxes
Balance at January 1, 2004	$(286)	$ 3,519	$3,233
Other comprehensive earnings	20	1,004	1,024
Contribution to LMI	—	(51)	(51)
Other activity	9	(9)	—
Balance at December 31, 2004	(257)	4,463	4,206
Other comprehensive earnings (loss)	307	(1,101)	(794)
Balance at December 31, 2005	50	3,362	3,412
Other comprehensive earnings	111	2,420	2,531
Balance at December 31, 2006	$ 161	$ 5,782	$5,943

Included in Liberty's accumulated other comprehensive earnings (loss) at December 31, 2004 was $123 million, net of income taxes, of foreign currency translation losses related to Cablevisión, S.A. ("Cablevisión"), a former equity method investment of Liberty, and $186 million, net of income taxes, of foreign currency translation losses related to Telewest Global, Inc. ("Telewest"), another former equity method investment of Liberty. In the first quarter of 2005, Liberty disposed of its interests in Cablevisión and Telewest. Accordingly, Liberty recognized in its statement of operations $488 million of foreign currency translation losses (before income tax benefits) related to Cablevisión and Telewest that were previously included in accumulated other comprehensive earnings (loss).

The components of other comprehensive earnings (loss) are reflected in Liberty's consolidated statements of comprehensive earnings (loss) net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss).

(Amounts in millions)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Year ended December 31, 2006:			
Foreign currency translation adjustments	$ 179	$ (68)	$ 111
Unrealized holding gains on securities arising during period	4,202	(1,597)	2,605
Reclassification adjustment for holding gains realized in net loss	(298)	113	(185)
Other comprehensive earnings	$ 4,083	(1,552)	2,531
Year ended December 31, 2005:			
Foreign currency translation adjustments	$ (8)	$ 3	$ (5)
Reclassification adjustment for currency losses realized in net earnings	503	(191)	312
Unrealized holding losses on securities arising during period	(1,808)	687	(1,121)
Reclassification adjustment for holding gains realized in net earnings	350	(133)	217
Reclass unrealized gain on AFS security	(318)	121	(197)
Other comprehensive loss	$(1,281)	$ 487	$ (794)
Year ended December 31, 2004:			
Foreign currency translation adjustments	$ 33	$ (13)	$ 20
Unrealized holding losses on securities arising during period	2,443	(953)	1,490
Reclassification adjustment for holding gains realized in net earnings	(797)	311	(486)
Other comprehensive earnings	$ 1,679	$ (655)	$ 1,024

Defined Benefit Postretirement Plan Adjustments

4.25

GARDNER DENVER, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars and shares in thousands)	Number of Shares	Common Stock	Capital In Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
Balance December 31, 2003	17,839	$178	$174,474	$(25,947)	$102,307	$14,893	$265,905	
Stock offering	3,450	35	79,522				79,557	
Stock issued for benefit plans and options exercises	398	4	8,095				8,099	
Treasury stock				(500)			(500)	
Net income					37,123		37,123	$37,123
Foreign currency translation adjustments						15,524	15,524	15,524
Unrecognized gain on cash flow hedges, net						188	188	188
Minimum pension liability adjustments						(420)	(420)	(420)
								$52,415
Balance December 31, 2004	21,687	$217	$262,091	$(26,447)	$139,430	$30,185	$405,476	

(continued)

(Dollars and shares in thousands)	Number of Shares	Common Stock	Capital In Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
Balance December 31, 2004	21,687	$217	$262,091	$(26,447)	$139,430	$ 30,185	$405,476	
Stock offering	5,658	57	199,171				199,228	
Stock issued for benefit plans and options exercises	463	4	11,563				11,567	
Treasury stock				(2,872)			(2,872)	
Net income					66,951		66,951	$ 66,951
Foreign currency translation adjustments						(19,707)	(19,707)	(19,707)
Unrecognized gain on cash flow hedges, net						1,699	1,699	1,699
Minimum pension liability adjustments						(4,053)	(4,053)	(4,053)
								$ 44,890
Balance December 31, 2005	27,808	$278	$472,825	$(29,319)	$206,381	$8,124	$658,289	
Stock issued for benefit plans and options exercises	557	6	9,447				9,453	
Stock issued for stock split	27,996	280	(438)				(158)	
Stock-based compensation			9,022				9,022	
Treasury stock				(2,375)			(2,375)	
Deferred compensation				2,784			2,784	
Net income					132,908		132,908	$132,908
Foreign currency translation adjustments						48,244	48,244	48,244
Unrecognized loss on cash flow hedges, net						(330)	(330)	(330)
Minimum pension liability adjustments						4,422	4,422	4,422
								$185,244
Adjustments to initially apply SFAS No. 158, net of tax								
Reversal of minimum pension liability						5,206	5,206	
Recognition of funded status of benefit plans						(14,935)	(14,935)	
Balance December 31, 2006	56,361	$564	$490,856	$(28,910)	$339,289	$ 50,731	$852,530	

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

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

Comprehensive Income

The Company's comprehensive income consists of net income and other comprehensive income (loss), consisting of unrealized net gains and losses on the translation of the assets and liabilities of its foreign operations (including hedges of net investments in foreign operations), unrecognized gains and losses on cash flow hedges (consisting of interest rate swaps), net of income taxes, and additional minimum pension liability adjustments, net of income taxes. See Note 11 "Accumulated Other Comprehensive Income."

Changes in Accounting Principles and Effects of New Accounting Pronouncements (In Part)

In September 2006, the FASB issued SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)"* ("SFAS No. 158"), Which requires companies to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income, net of tax, to report the funded status of defined benefit pension and other postretirement benefit plans. Additionally, this statement requires companies to measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet. SFAS No. 158 requires prospective application and is effective for fiscal years ending after December 15, 2006. The Company adopted the recognition provisions of SFAS No. 158 and initially applied them to the funded status of its defined benefit pension and other postretirement benefit plans as of December 31, 2006. The initial recognition of the funded status resulted in a decrease in total stockholders' equity of $9.7 million, which was net of a tax benefit of $3.4 million. The effect of adopting SFAS No. 158 on the Company's consolidated financial position at December 31, 2006 has been included in the accompanying consolidated financial statements (see Note 9 "Benefit Plans"). SFAS No. 158 did not have an effect on the Company's consolidated financial position or consolidated results of operations for fiscal years 2005 and 2004.

Note 9 (In Part): Benefit Plans

Pension and Postretirement Benefit Plans

The following tables provide a reconciliation of the changes in the benefit obligations (the projected benefit obligation in the case of the pension plans and the accumulated benefit obligation on the case of the other postretirement plans) and in the fair value of plan assets over the two-year period ended December 31, 2006:

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2006	2005	2006	2005	2006	2005
Reconciliation of benefit obligations:						
Obligations as of January 1	$ 74,909	$ 60,669	$182,292	$150,483	$ 31,026	$ 25,493
Service cost	2,907	2,996	5,639	4,298	40	83
Interest cost	3,963	3,731	8,904	7,824	1,491	1,507
Actuarial (gains) losses	(1,303)	1,936	(6,764)	26,496	(4,320)	4,271
Employee contributions	—	—	986	988	—	—
Plan amendments	2	55	—	—	(715)	—
Benefit payments	(5,460)	(4,867)	(4,573)	(2,719)	(2,383)	(2,485)
Acquisitions	—	10,389	401	12,536	—	2,157
Special termination benefits	—	—	—	291	—	—
Effect of foreign currency exchange rate changes	—	—	24,818	(17,905)	—	—
Obligations as of December 31	$ 75,018	$ 74,909	$211,703	$182,292	$ 25,139	$ 31,026
Reconciliation of fair value of plan assets:						
Fair value of plan assets as of January 1	$ 56,830	$ 47,773	$122,077	$114,394		
Actual return on plan assets	8,238	2,643	8,101	17,760		
Acquisitions	—	9,003	—	1,207		
Employer contributions	3,615	2,278	4,787	4,213		
Employee contributions	—	—	986	988		
Benefit payments	(5,460)	(4,867)	(5,739)	(3,534)		
Effect of foreign currency exchange rate changes	—	—	17,195	(12,951)		
Fair value of plan assets as of December 31	$ 63,223	$ 56,830	$147,407	$122,077		
Funded status as of December 31	$(11,795)	$(18,079)	$ (64,296)	$ (60,215)	$(25,139)	$(31,026)

The measurement dates for the assets and liabilities of the Company's pension and other postretirement benefit plans included in the above table were December 31, 2006 and December 31, 2005, respectively.

The following table shows the amounts not yet recognized as a component of net periodic benefit cost at December 31:

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2006	2005	2006	2005	2006	2005
Recognized in accumulated other comprehensive income:						
Net actuarial losses (gains)	$6,835	$ —	$21,921	$ —	$(6,412)	$ —
Prior-service cost (credit)	39	—	—	—	(932)	—
Not recognized in accumulated other comprehensive income:						
Net actuarial losses (gains)	—	12,470	—	23,270	—	(2,323)
Prior-service cost (credit)	—	(314)	—	—	—	(492)
Amounts not yet recognized as a component of net periodic benefit cost	$6,874	$12,156	$21,921	$23,270	$(7,344)	$(2,815)

The Company adopted the recognition provisions of SFAS No. 158 and initially applied them to the funded status of its defined benefit pension and other postretirement benefit plans as of December 31, 2006. The effect of adopting SFAS No. 158 on the Company's consolidated Balance Sheet at December 31, 2006 has been included in the following table. The adoption of SFAS No. 158 did not have an effect on the Company's Consolidated Balance Sheets at December 31, 2005 and 2004.

	Before Application of SFAS No. 158	Incremental Effect of Applying SFAS No. 158	After Application of SFAS No. 158
Accrued liabilities	$ 211,459	$ 393	$ 211,852
Postretirement benefits other than pensions	30,105	(7,507)	22,598
Deferred income tax liabilities	72,975	(6,515)	66,460
Other liabilities	70,276	28,564	98,840
Total liabilities	882,766	14,935	897,701
Accumulated other comprehensive income	60,460	(9,729)	50,731
Total stockholders' equity	862,259	(9,729)	852,530
Total liabilities and stockholders' equity	$1,745,025	$ 5,206	$1,750,231

The following table provides the calculation of the total pension and other postretirement accrued benefit liability recognized on the Company's Consolidated Balance Sheets at December 31, 2006 and 2005:

	2006	2005
Funded status	$(101,230)	$(109,320)
Unrecognized net actuarial loss	22,344	33,417
Unrecognized prior-service credit	(893)	(806)
Accumulated other comprehensive income	(21,451)	—
Total pension and other postretirement benefit liability recognized on the Consolidated Balance Sheet	$(101,230)	$ (76,709)

The total pension and other postretirement accrued benefit liability is included in the following captions in the Consolidated Balance Sheets at December 31, 2006 and 2005:

	2006	2005
Accrued liabilities	$ (2,893)	$ (2,454)
Postretirement benefits other than pensions	(22,476)	(31,387)
Deferred income taxes	—	5,890
Other liabilities	(75,861)	(58,386)
Accumulated other comprehensive income	—	9,628
Total pension and other postretirement accrued benefit liability	$(101,230)	$(76,709)

The following table provides information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31:

	U.S. Plans		Non-U.S. Plans	
	2006	2005	2006	2005
Projected benefit obligation	$75,018	$74,909	$211,342	$182,292
Accumulated benefit obligation	75,018	74,734	181,336	155,202
Fair value of plan assets	63,223	56,830	147,060	122,077

The accumulated benefit obligation for all U.S. defined benefit pension plans was $75.0 million and $74.7 million at December 31, 2006 and 2005, respectively. The accumulated benefit obligation for all non-U.S. defined benefit pension plans was $181.7 million and $155.2 million at December 31, 2006 and 2005, respectively.

Note 11. Accumulated Other Comprehensive Income

The Company's other comprehensive income (loss) consists of unrealized net gains and losses on the translation of the assets and liabilities of its foreign operations (including the foreign currency hedge of the Company's investment in foreign subsidiaries), unrecognized gains and losses on cash flow hedges (consisting of interest rate swaps), net of income taxes, and additional minimum pension liability adjustments, net of income taxes.

The before tax income (loss), related income tax effect and accumulated balances are as follows:

	Foreign Currency Translation Adjustment	Unrecognized Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability	Pension and Postretirement Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2003	$ 20,048	$ —	$(5,155)		$ 14,893
Before tax income (loss)	15,524	303	(560)		15,267
Income tax effect	—	(115)	140		25
Other comprehensive income (loss)	15,524	188	(420)		15,292
Balance at December 31, 2004	35,572	188	(5,575)		30,185
Before tax (loss) income	(19,707)	2,740	(6,505)		(23,472)
Income tax effect	—	(1,041)	2,452		1,411
Other comprehensive (loss) income	(19,707)	1,699	(4,053)		(22,061)
Balance at December 31, 2005	15,865	1,887	(9,628)		8,124
Before tax income (loss)	48,244	(532)	7,244		54,956
Income tax effect	—	202	(2,822)		(2,620)
Other comprehensive income (loss)	48,244	(330)	4,422		52,336
Reversal of minimum pension liability[(1)]			8,274		8,274
Income tax effect[(1)]			(3,068)		(3,068)
Recognition of funded status of benefit plans[(1)]				(21,451)	(21,451)
Income tax effect[(1)]				6,516	6,516
Balance at December 31, 2006	$ 64,109	$ 1,557	$ —	$(14,935)	$ 50,731

[(1)] Reflects adoption of the recognition provisions of SFAS No. 158 as of December 31, 2006. See Note 9 "Benefit Plans."

The Company's total comprehensive income for the twelve-month periods ended December 31 was as follows:

	2006	2005	2004
Net income	$132,908	$ 66,951	$37,123
Other comprehensive income (loss)	52,336	(22,061)	15,292
Comprehensive income	$185,244	$ 44,890	$52,415

4.26

TENET HEALTHCARE CORPORATION (DEC)

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in millions)	2006	2005	2004
Net loss	$(803)	$(724)	$(2,806)
Other comprehensive income (loss):			
Adjustments for supplemental executive retirement plans	5	(28)	—
Foreign currency translation adjustments	—	—	(5)
Unrealized losses on securities held as available-for-sale	(1)	—	—
Reclassification adjustments for (gains) losses included in net loss	1	2	(3)
Other comprehensive income (loss) before income taxes	5	(26)	(8)
Income tax (expense) benefit related to items of other comprehensive income (loss)	—	—	3
Other comprehensive income (loss)	5	(26)	(5)
Comprehensive loss	$(798)	$(750)	$(2,811)

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in millions, share amounts in thousands)	Shares Outstanding	Issued Par Amount	Additional Paid-In Capital	Other Comprehensive Loss	Retained Earnings (Deficit)	Treasury Stock	Total Shareholders' Equity
Balances at December 31, 2003	464,787	$26	$4,124	$ (8)	$ 1,723	$(1,491)	$ 4,374
Net loss	—	—	—	—	(2,806)	—	(2,806)
Other comprehensive loss	—	—	—	(5)	—	—	(5)
Issuance of common stock	2,213	—	14	—	—	9	23
Stock options exercised, including tax benefit	236	—	2	—	—	—	2
Stock-based compensation expense	—	—	111	—	—	—	111
Balances at December 31, 2004	467,236	26	4,251	(13)	(1,083)	(1,482)	$ 1,699
Net Loss	—	—	—	—	(724)	—	(724)
Other comprehensive loss	—	—	–	(26)	—	—	(26)
Issuance of common stock	1,274	—	5	—	—	3	8
Stock options exercised, including tax benefit	1,200	—	12	—	—	—	12
Stock-based compensation expense	—	—	52	—	—	—	52
Balances at December 31, 2005	469,710	26	4,320	(39)	(1,807)	(1,479)	1,021
Net loss	—	—	—	—	(803)	—	(803)
Other comprehensive income	—	—	—	5	—	—	5
Issuance of common stock	1,875	—	2	—	—	—	2
Equity investee stock transactions	—	—	2	—	—	—	32
Stock-based compensation expense	—	—	48	—	—	—	48
Adjustment to apply SFAS 158	—	—	—	(11)	—	—	(11)
Balances at December 31, 2006	471,585	$26	$4,372	$(45)	$(2,610)	$(1,479)	$ 264

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1(In Part): Significant Accounting Policies

Changes in Accounting Principle (In Part)

Effective December 31, 2006, we adopted Statement of Financial Accounting Standard ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans" ("SFAS 158"), and recorded a $9 million reduction in our intangible assets and a $2 million increase in our pension liability, which resulted in an $11 million charge to accumulated other comprehensive loss. See Note 7 for further information.

Note 2 (In Part): Changes in Accounting Principle

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," to require the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the balance sheet and to recognize changes in that funded status, in the year in which the changes occur, through other comprehensive income (loss). Effective December 31, 2006, we adopted SFAS 158 by recording a $2 million additional supplemental executive retirement plan liability and writing off an intangible asset of $9 million with an offsetting charge of $11 million to accumulated other comprehensive loss, in accordance with the transition guidance. The year-end measurement provision of SFAS 158 is effective for fiscal years ending after December 15, 2008; however, we currently use a year-end measurement date, so that requirement should not result in any material further changes.

Note 7 (In Part): Employee Benefit Plans

Employee Retirement Plans

Substantially all of our employees, upon qualification, are eligible to participate in a defined contribution 401(k) plan. Under the plan, employees may contribute 1% to 25% of their eligible compensation, and we match such contributions annually up to a maximum percentage for participants actively employed as of December 31. Prior to July 1, 2004, we matched such contributions each pay period. Plan expense, primarily related to our contributions to the plan, were approximately $51 million, $74 million and $76 million for the years ended December 31, 2006, 2005 and 2004, respectively. Such amounts are reflected in salaries, wages and benefits in the Consolidated Statements of Operations. In 2005 and 2004, the maximum company matching percentage was 5%. Effective January 1, 2006, we reduced the matching percentage from 5% to 3%.

Certain of our current and former executives participate in Supplemental Executive Retirement Plans ("SERPs"). We maintain one active and two frozen non-qualified defined benefit pension plans that provide these supplemental retirement benefits. These plans' obligations are paid from our working capital. Pension benefits are generally based on years of service and compensation. The SERPs have been actuarially valued by an independent third party and the expense associated with the SERPs in accrued and classified as salaries, wages and benefits in the accompanying Consolidated Statements of Operations. The SERPs were unfunded at December 31, 2006 and 2005. SERP obligations under one of the frozen plans are collateralized by certain of our real properties.

Effective December 31, 2006, we adopted SFAS 158. Prior to adopting SFAS 158, we accounted for the SERPs in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

The following tables summarize the balance sheet impact, as well as the benefit obligations, funded status and rate assumptions associated with the SERPs based on actuarial valuations prepared as of December 31, 2006 and 2005:

	2006	2005
Reconciliation of funded status of plans and the amounts included in the Consolidated Balance Sheets:		
Projected benefit obligations		
Beginning obligations	$(252)	$(241)
Service cost	(2)	(2)
Interest cost	(13)	(13)
Actuarial gain (loss)	4	(7)
Benefits paid	14	11
Ending obligations	$(249)	$(252)[1]
Fair value of plans' assets	—	—
Funded status of plans	$(249)	$(252)
Amounts recognized in the Consolidated Balance Sheets consist of		
Intangible asset	$ —	$ 12
Current liability	(15)	(12)[1]
Noncurrent liability	(234)	(237)[1]
Accumulated other comprehensive loss	34	28
	$(215)	$(209)

[1] The $3 million difference between the projected benefit obligation ($252 million) and the amounts recognized on the Consolidated Balance Sheet at December 31, 2005 ($249 million accumulated benefit obligation) was not required to be recognized prior to the adoptions of SFAS 158. The accumulated benefit obligation at December 31, 2006 was approximately $247 million.

We have recorded adjustments of $34 million to accumulated other comprehensive loss as of December 31, 2006 to recognize the funded status of our SERPs. Under SFAS 158, future changes in the funded status are recorded as a direct increase or decrease to shareholders' equity through accumulated other comprehensive income. Net actuarial gains of $4 million were recognized in other comprehensive income (loss) during the year ended December 31, 2006. Cumulative net actuarial losses of $25 million and unrecognized prior service costs of $9 million as of December 31, 2006 have not yet been recognized as components of net periodic benefit costs, of which $1 million and $3 million, respectively, are expected to be recognized as components of net periodic benefit costs during the year ending December 31, 2007.

We adopted SFAS 158 effective December 31, 2006. The following table reflects the impact of the adoption of this new accounting pronouncement:

	2006
Before adoption of SFAS 158:	
Intangible asset	$ 9
Total assets	8,548
Liability for pension benefits	(247)
Accumulated other comprehensive loss	34
Total shareholders' equity	253
Impact of changes:	
Intangible asset	$ (9)
Total assets	(9)
Liability for pension benefits	(2)
Accumulated other comprehensive loss	11
Total shareholders' equity	11
After adoption of SFAS 158:	
Intangible asset	$ —
Total assets	8,539
Liability for pension benefits	(249)
Accumulated other comprehensive loss	45
Total shareholders' equity	264

Note 11. Other Comprehensive Income (Loss)

Our accumulated other comprehensive loss is comprised of the following:

	2006	2005
Unamortized realized losses from interest rate lock derivatives	$(12)	$(13)
Adjustments for supplemental executive retirement plans	(34)	(28)
Unrealized losses on securities held as available-for-sale	(1)	—
Cumulative foreign currency translation adjustment	2	2
Accumulated other comprehensive loss	$(45)	$(39)

The table below shows the tax effect allocated to each component of other comprehensive income (loss) for the years ended December 31, 2006, 2005 and 2004. The components of accumulated other comprehensive loss have no tax effect in 2006 and 2005 due to the recording of a deferred tax asset valuation allowance in the fourth quarter of 2004.

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Year ended December 31, 2006			
Adjustments for supplemental executive retirement plans	$ 5	$—	$ 5
Unrealized losses on securities held as available-for-sale	(1)	—	(1)
Less: reclassification adjustment for realized losses included in net loss	1	—	1
	$ 5	$—	$ 5
Year ended December 31, 2005			
Adjustments for supplemental executive retirement plans	$(28)	$—	$(28)
Less: reclassification adjustment for realized losses included in net loss	2	—	2
	$(26)	$—	$(26)
Year ended December 31, 2004			
Foreign currency translation adjustment	$ (5)	$ 2	$ (3)
Less: reclassification adjustment for realized gains included in net loss	(3)	1	(2)
	$ (8)	$ 3	$ (5)

Changes in Fair Value of Derivatives

4.27

AIRGAS, INC. (MAR)

Consolidated Statements of Stockholders' Equity

(In thousands)	Shares of Common Stock $0.01 Par Value	Common Stock	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Employee Benefits Trust	Comprehensive Income
Balance—March 31, 2003	76,373	$764	$216,275	$413,286	$(3,302)	$(4,289)	$(25,801)	
Net earnings				80,192				$80,192
Foreign currency translation adjustment					1,573			1,573
Shares issued in connection with stock options exercised	786	8	8,395				4,728	
Tax benefit associated with exercise of stock options			6,190					
Airgas common stock owned by National Welders						(369)		
Dividends paid on common stock ($0.16 per share)				(11,801)				
Shares issued from Employee Benefits Trust for Employee Stock Purchase Plan			2,714				4,175	
Net change in fair value of interest rate swap agreements					1,964			1,964
Consolidation of National Welders' interest rate swap agreement, net of cumulative tax benefit					(1,560)			
Net tax expense of comprehensive income items					(1,241)			(1,241)
Balance—March 31, 2004	77,159	$772	$233,574	$481,677	$(2,566)	$(4,658)	$(16,898)	$82,488

(continued)

(In thousands)	Shares of Common Stock $0.01 Par Value	Common Stock	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Employee Benefits Trust	Comprehensive Income
Balance—March 31, 2004	77,159	$772	$233,574	$481,677	$ (2,566)	$ (4,658)	$(16,898)	$ 82,488
Net earnings				92,022				$ 92,022
Foreign currency translation adjustment					2,314			2,314
Shares issued in connection with stock options exercised	308	3	10,278				10,095	
Shares issued from treasury stock associated with warrants exercised			(893)			893		
Dividends paid on common stock ($0.18 per share)				(13,643)				
Tax benefit associated with exercise of stock options and warrants			8,435					
Shares issued from Employee Benefits Trust for Employee Stock Purchase Plan			5,648				4,258	
Net change in fair value of interest rate swap agreements (Note 12)					2,894			2,894
Net change in fair value of National Welders' interest rate swap agreement (Note 12)					1,583			1,583
Net tax expense of comprehensive income items					(1,616)			(1,616)
Balance—March 31, 2005	77,467	$775	$257,042	$560,056	$ 2,609	$ (3,765)	$ (2,545)	$ 97,197
Net earnings				123,551				$123,551
Foreign currency translation adjustment					1,012			1,012
Shares issued in connection with stock options exercised	570	6	14,136			3,402	2,545	
Purchase of treasury stock						(12,771)		
Dividends paid on common stock ($0.24 per share)				(18,449)				
Tax benefit associated with exercise of stock options			7,891					
Shares issued in connection with the Employee Stock Purchase Plan	532	5	10,529					
Net change in fair value of interest rate swap agreements (Note 12)					867			867
Net change in fair value of National Welders' interest rate swap agreement (Note 12)					885			885
Net tax expense of comprehensive income items					(622)			(622)
Balance—March 31, 2006	78,569	$786	$289,598	$665,158	$ 4,751	$(31,134)	$ —	$125,693

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

n) (In Part): Financial Instruments

In managing interest rate risk exposure, the Company enters into interest rate swap agreements. An interest rate swap is a contractual exchange of interest payments between two parties. A standard interest rate swap involves the payment of a fixed rate times a notional amount by one party in exchange for a floating rate times the same notional amount from another party. As interest rates change, the difference to be paid or received is accrued and recognized as interest expense or income over the life of the agreement. These instruments are not entered into for trading purposes. Counterparties to the Company's interest rate swap agreements are major financial institutions. In accordance with SFAS 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended by SFAS No. 137 and 138, the Company recognizes interest rate swap agreements on the balance sheet at fair value. The interest rate swap agreements are marked to market with changes in fair value recognized in either other comprehensive income (loss) or in the carrying value of the hedged portions of fixed rate debt, as applicable.

Note 12. Derivative Instruments and Hedging Activities

The Company manages exposure to changes in market interest rates. The Company's use of derivative instruments is limited to highly effective fixed and floating interest rate swap agreements used to manage well-defined interest rate risk exposures. The Company monitors its positions and the credit ratings of its counterparties and does not anticipate non-performance by the counterparties. Interest rate swap agreements are not entered into for trading purposes.

At March 31, 2006, the Company was party to two interest rate swap agreements. The swap agreements are with major financial institutions and aggregate $50 million in notional principal amount. These swap agreements effectively convert $50 million of variable interest rate debt to fixed rate debt. The swap agreements require the Company to make fixed interest payments based on an average effective rate of 4.15% and receive variable interest payments from its counterparties based on one-month LIBOR (average rate of 4.70% at March 31, 2006). The remaining term of these swap agreements is three years. In fiscal 2006 and 2005, the Company recorded a net change in the fair value of the fixed interest rate swap agreements in the amounts of $867 thousand and $2.9 million, respectively, as other comprehensive income. The net additional interest payments made or received under these swap agreements are recognized in interest expense. Over the next 12 months, the Company expects to reclassify $275 thousand of deferred gain from accumulated other comprehensive income to interest expense as related interest payments that are being hedged are recognized.

On March 30, 2005, the Company terminated four variable interest rate swap agreements with a notional principal amount of $125 million. The interest rate swap agreements previously converted a corresponding amount of fixed rate medium-term notes and the senior subordinated notes due 2011 to variable rate debt. As a result of swap termination, the Company received $3.9 million in cash. The corresponding gain on the termination has been deferred and is being amortized as a reduction of interest expense over the remaining terms of the notes. During fiscal 2006, amortization of the deferred gain reduced interest expense by $1.7 million. In fiscal 2007, the Company anticipates the amortization of the deferred gain to reduce interest expense by $1 million.

The Company's National Welders joint venture participated in one interest rate swap with a notional principal amount of $21 million that effectively converted a corresponding amount of variable interest rate debt to a fixed rate debt instrument. The interest rate swap agreement was not entered into for trading purposes. The December 31, 2003 consolidation of National Welders resulted in the addition of a cumulative unrealized loss on the National Welders interest rate swap of $2.5 million and associated tax benefit of $1 million in "Accumulated Other Comprehensive Loss." In fiscal 2006 and 2005, the Company recognized a net change in the fair value of the National Welders fixed interest rate swap agreement of $885 thousand and $1.6 million, respectively, as other comprehensive income. In June 2005, in conjunction with the repayment of a term loan, National Welders terminated its interest rate swap agreement. The cost to terminate the interest rate swap of $680 thousand was reimbursed to National Welders by its preferred stockholders.

Including the debt of National Welders, the effect of the interest rate swap agreements and the trade receivables securitization, the Company's ratio of fixed to variable interest rates was approximately 53% fixed to 47% variable at March 31, 2006. The financial impact of the swap agreements was to reduce interest expense by approximately $13 thousand, $3.6 million and $4.7 million in fiscal 2006, 2005 and 2004, respectively. Swap agreements with a notional amount of $50 million mature in May 2009.

4.28

VIAD CORP (DEC)

Consolidated Statements of Comprehensive Income

(In thousands)	2006	2005	2004
Net income (loss)	$63,554	$37,754	$(56,002)
Other comprehensive income:			
Unrealized gains (losses) on investments:			
Holding gains (losses) arising during the period, net of tax expense (benefit) of $27, $(15) and $101	42	(23)	158
Unrealized gains (losses on derivative financial instruments:			
Holding gains (losses) arising during the period, net of tax expense (benefit) of $(51) and $19	(103)	38	—
Reclassifications from other comprehensive income to net income, net of tax benefit of $19	(38)	—	—
Unrealized foreign currency translation adjustments	(38)	3,745	11,980
Pension and other postretirement benefit plans: Minimum pension liability adjustment, net of tax expense (benefit) of $153, $(450) and $(409)	243	(696)	(639)
Other comprehensive income	106	3,064	11,499
Comprehensive income (loss)	$63,660	$40,818	$(44,503)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, receivables and accounts payable approximate fair value due to the short-term maturities of these instruments. The estimated fair value of debt obligations is disclosed in Note 11. The estimated fair value of derivative financial instruments is presented in Note 6. Certain judgments are required in interpreting market data and in the assumptions used to develop the estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts that Viad could realize in a current market exchange. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair value amounts.

Derivative Financial Instruments

Periodically, Viad's subsidiaries utilize forward contracts to mitigate the effects of foreign currency exchange rate fluctuations on certain foreign denominated revenue transactions. The term of the forward contracts is generally less than 12 months and is consistent with the anticipated timing of the related transactions. The Company does not use derivative financial instruments for trading or speculative purposes. The forward contracts are recorded as either assets or liabilities in the consolidated balance sheets at fair value, and are marked-to-market based on the quoted market prices of comparable contracts. The change in fair value of the contracts (gains or losses) is recognized directly in earnings or in other comprehensive income depending on whether the contracts qualify for, and were formally designated as, accounting hedges at their inception. A derivative that does not qualify as an accounting hedge will be reflected at fair value, with changes in value recognized through earnings.

Note 6. Derivative Financial Instruments

Periodically, Viad's foreign subsidiaries utilize foreign currency forward contracts to mitigate the impact of exchange rate fluctuations on certain revenue transactions denominated in currencies other than the functional currency of the respective subsidiary. As of December 31, 2006, Viad had aggregate contracts to sell U.S. dollars of $3.4 million (notional amount) in exchange for Canadian dollars at an average contract rate of 1.11 (Canadian dollars per U.S. dollar), maturing on various dates through September 2007. As of December 31, 2006, the fair value of these contracts was $149,000 and is included in the consolidated balance sheet under the caption "Other current liabilities." During 2006, the net unrealized loss related to these contracts of $103,000 (after-tax) was recorded as a component of other comprehensive income.

As of December 31, 2006, Viad had aggregate contracts to sell U.S. dollars of $1.4 million (notional amount) in exchange for British pounds at an average exchange rate of 0.54 (British pounds per U.S. dollar), which mature in February 2007. As of December 31, 2006, the fair value of these contracts was $65,000 and is included in the consolidated balance sheet under the caption "Other current assets." During 2006, the unrealized gain related to these contracts of $65,000 was recorded through earnings as these contracts did not qualify as accounting hedges.

As of December 31, 2005, Viad had aggregate contracts to sell U.S. dollars of $3.5 million (notional amount) in exchange for Canadian dollars at an average exchange rate of 1.18 (Canadian dollars per U.S. dollar), which matured at various dates through October 2006. As of December 31, 2005, the fair value of these contracts was $57,000 and is included in the consolidated balance sheet under the caption "Other current assets." During 2005, the net unrealized gain related to these contracts of $38,000 (after-tax) was recorded as a component of other comprehensive income.

Unrealized Losses/Gains on Certain Investments

4.29

PAYCHEX, INC. (MAY)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance at May 31, 2003	376,698	$3,767	$198,713	$ 846,196	$ 28,695	$1,077,371
Net income				302,950		302,950
Unrealized losses on securities, net of tax					(31,404)	(31,404)
Total comprehensive income						271,546
Cash dividends declared				(177,408)		(177,408)
Exercise of stock options	1,270	13	18,257			18,270
Tax benefit from exercise of stock options			10,194			10,194
Balance at May 31, 2004	377,968	3,780	227,164	971,738	(2,709)	1,199,973
Net income				368,849		368,849
Unrealized losses on securities, net of tax					(3,712)	(3,712)
Total comprehensive income						365,137
Cash dividends declared				(192,976)		(192,976)
Exercise of stock options	661	6	9,020			9,026
Tax benefit from exercise of stock options			4,516			4,516
Balance at May 31, 2005	378,629	3,786	240,700	1,147,611	(6,421)	1,385,676
Net income				464,914		464,914
Unrealized losses on securities, net of tax					(7,905)	(7,905)
Total comprehensive income						457,009
Cash dividends declared				(231,554)		(231,554)
Exercise of stock options	1,674	17	32,108			32,125
Tax benefit from exercise of stock options			11,587			11,587
Balance at May 31, 2006	380,303	$3,803	$284,395	$1,380,971	$ (14,326)	$1,654,843

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Funds Held for Clients and Corporate Investments

Marketable securities included in funds held for clients and corporate investments consist primarily of securities classified as available-for-sale and are recorded at market value obtained from an independent pricing service. Funds held for clients also include cash, money market securities, and short-term investments. Unrealized gains and losses, net of applicable income taxes, are reported as comprehensive income in the Consolidated Statements of Stockholders' Equity. Realized gains and losses on the sales of securities are determined by specific identification of the cost basis of each security. On the Consolidated Statements of Income, realized gains and losses from funds held for clients are included in interest on funds held for clients and realized gains and losses from corporate investments are included in investment income, net.

Note D (In Part): Funds Held for Clients and Corporate Investments

Funds held for clients and corporate investments at May 31, 2006 and 2005 are as follows:

(In thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
2006				
Money market securities and other cash equivalents	$ 557,074	$ —	$ —	$ 557,074
Available-for-sale securities:				
General obligation municipal bonds	796,543	229	(12,201)	784,571
Pre-refunded municipal bonds	215,491	153	(3,015)	212,629
Revenue municipal bonds	423,922	12	(6,099)	417,835
Auction rate securities and variable rate demand notes	2,136,906	94	—	2,137,000
U.S. government securities	301,573	—	(1,272)	300,301
Other equity securities	20	57	—	77
Total available-for-sale securities	3,874,455	545	(22,587)	3,852,413
Other	6,148	515	(51)	6,612
Total funds held for clients and corporate investments	$4,437,677	$1,060	$(22,638)	$4,416,099
2005				
Money market securities and other cash equivalents	$36,571	$ —	$ —	$ 36,571
Available-for-sale securities:				
General obligation municipal bonds	730,571	1,497	(7,042)	725,026
Pre-refunded municipal bonds	196,321	612	(1,112)	195,821
Revenue municipal bonds	414,358	697	(3,806)	411,249
Auction rate securities and variable rate demand notes	2,060,037	2	—	2,060,039
U.S. government securities	175,792	14	(762)	175,044
Other equity securities	20	48	—	68
Total available-for-sale securities	3,577,099	2,870	(12,722)	3,567,247
Other	5,169	254	(22)	5,401
Total funds held for clients and corporate investments	$3,618,839	$3,124	$(12,744)	$3,609,219

Classification of investments on the Consolidated Balance Sheets is as follows:

(In thousands)	2006	2005
Funds held for clients	$3,591,611	$2,979,348
Corporate investments	440,007	225,719
Long-term corporate investments	384,481	404,152
Total funds held for clients and corporate investments	$4,416,099	$3,609,219

The Company is exposed to credit risk in connection with these investments through the possible inability of the borrowers to meet the terms of the bonds. In addition, the Company is exposed to interest rate risk, as rate volatility will cause fluctuations in the market value of held investments and in the earnings potential of future investments. The Company attempts to limit these risks by investing primarily in AAA and AA rated securities and A-1 rated short-term securities, limiting amounts that can be invested in any single issuer, and by investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes.

The Company's available-for-sale securities reflected a net unrealized loss position of $22.0 million at May 31, 2006 compared with $9.9 million at May 31, 2005. The change in the net unrealized loss position of the Company's available-for-sale securities from May 31, 2005 to May 31, 2006 resulted from increases in long-term market interest rates. The gross unrealized losses at May 31, 2006 were comprised of 441 available-for-sale securities, which had a total market value of $1,625.7 million. The gross unrealized losses at May 31, 2005 were comprised of 327 available-for-sale securities with a total market value of $1,211.5 million. The securities in an unrealized loss position were in a loss position as follows as of May 31, 2006 and 2005:

	Less than 12 Months		More than 12 Months	
(In thousands)	Gross Unrealized Loss	Market Value	Gross Unrealized Loss	Market Value
2006	$(7,724)	$735,610	$(14,863)	$890,076
2005	(6,474)	818,782	(6,248)	392,748

Note I. Other Comprehensive Loss

The following table sets forth the related tax effects allocated to unrealized gains and losses on available-for-sale securities, which is the only component of other comprehensive loss:

(In thousands)	2006	2005	2004
Unrealized holding losses	$(11,216)	$(5,445)	$(30,011)
Income tax benefit related to unrealized holding losses	3,941	1,878	10,768
Reclassification adjustment for the net gain on sale of available-for-sale securities realized in net income	(975)	(223)	(19,133)
Income tax expense on reclassification adjustment for net gain on sale of available-for-sale securities	345	78	6,972
Other comprehensive loss	$ (7,905)	$(3,712)	$(31,404)

At May 31, 2006, accumulated other comprehensive loss was $14.3 million, net of tax of $7.8 million. At May 31, 2005, accumulated other comprehensive loss was $6.4 million, net of tax of $3.4 million.

4.30

SPARTON CORPORATION (JUN)

Consolidated Statements of Shareowners' Equity

	Common Stock		Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at July 1, 2003	7,943,671	$ 9,929,589	$ 3,015,989	$77,863,142	$ 359,486	$91,168,206
Stock dividend (5% declared October 21, 2003)	397,039	496,299	4,089,502	(4,589,486)		(3,685)
Stock options exercised	10,828	13,535	28,658			42,193
Comprehensive income (loss), net of tax:						
Net loss				(2,043,497)		(2,043,497)
Net unrealized loss on investment securities owned					(493,601)	(493,601)
Reclassification adjustment for net loss realized and reported in net loss					38,483	38,483
Net unrealized gain on equity investment					158,000	158,000
Comprehensive loss						(2,340,615)
Balance at June 30, 2004	8,351,538	10,439,423	7,134,149	71,230,159	62,368	88,866,099
Stock dividend (5% declared November 9, 2004)	417,507	521,883	3,198,104	(3,722,925)		(2,938)
Stock options exercised	61,383	76,729	226,504			303,233
Comprehensive income (loss), net of tax:						
Net income				8,112,158		8,112,158
Net unrealized loss on investment securities owned					(148,219)	(148,219)
Reclassification adjustment for net loss realized and reported in net income					40,653	40,653
Net unrealized gain on equity investment					1,000	1,000
Comprehensive income						8,005,592
Balance at June 30, 2005	8,830,428	$11,038,035	$10,558,757	$75,619,392	$(44,198)	$97,171,986

(continued)

	Common Stock		Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at June 30, 2005	8,830,428	$11,038,035	$10,558,757	$75,619,392	$(44,198)	$97,171,986
Stock dividend (5% declared October 25, 2005)	446,287	557,857	3,820,645	(4,382,156)		(3,654)
Stock options exercised, net of common stock surrendered to facilitate exercise	154,627	192,285	443,357			636,642
Cash dividend ($0.10 per share)				(889,409)		(889,409)
Repurchases of common stock as part of 2005 share repurchase program	(39,037)	(48,796)	(51,247)	(263,079)		(363,122)
Stock-based compensation			344,267			344,267
Tax effect from stock transactions			76,211			76,211
Comprehensive income (loss), net of tax:						
Net income				98,356		98,356
Net unrealized loss on investment securities owned					(245,797)	(245,797)
Reclassification adjustment for net loss realized and reported in net income					52,898	52,898
Net unrealized loss on equity investment					(28,000)	(28,000)
Comprehensive loss						(122,543)
Balance at June 30, 2006	9,392,305	$11,740,381	$15,191,990	$70,183,104	$(265,097)	$96,850,378

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investment Securities

Investments in debt securities that are not cash equivalents or marketable equity securities have been designated as available for sale. Those securities, all of which are investment grade, are reported at fair value, with net unrealized gains and losses included in accumulated other comprehensive income or loss, net of applicable taxes. Unrealized losses that are other than temporary are recognized in earnings. The investment portfolio has various maturity dates up to 30 years. Realized gains and losses on investments are determined using the specific identification method.

Other Investment

The Company has an active investment in Cybernet Systems Corporation, which is accounted for under the equity method, as more fully described in Note 3.

2. Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) as well as unrealized gains and losses, net of tax, on investment securities owned and investment securities held by an investee accounted for by the equity method, which are excluded from net income. Unrealized gains and losses, net of tax, are excluded from net income, but are reflected as a direct charge or credit to shareowners' equity. Comprehensive income (loss) and the related components are disclosed in the accompanying consolidated statements of shareowners' equity for each of the years ended June 30, 2006, 2005, and 2004. Comprehensive income (loss) is summarized as follows for the years ended of June 30, 2006, 2005 and 2004, respectively:

	2006	2005	2004
Net income (loss)	$ 98,000	$8,112,000	$(2,043,000)
Other comprehensive income (loss), net of tax			
Investment securities owned	(193,000)	(107,000)	(456,000)
Investment securities held by investee accounted for by the equity method	(28,000)	1,000	158,000
	(221,000)	(106,000)	(298,000)
Comprehensive income (loss)	$(123,000)	$8,006,000	$(2,341,000)

At June 30, 2006 and June 30, 2005, shareowners' equity includes an accumulated other comprehensive loss of $(265,000) and $(44,000), respectively, net of tax. The components of these amounts at those dates are as follows:

	2006	2005
Accumulated other comprehensive income (loss), net of tax:		
Investment securities owned	$(284,000)	$(91,000)
Investment securities held by investee accounted for by the equity method	19,000	47,000
Accumulated other comprehensive loss	$(265,000)	$(44,000)

3. Investment Securities

Details of investment securities, which are classified as available-for-sale, as of June 30, 2006 and 2005, are as follows:

Debt Securities	Amortized Cost	Gross Unrealized Gains/(Losses)		Estimated Fair Value
June 30, 2006:				
Corporate—primarily U.S.	$ 3,687,000	$ 2,000	$ (52,000)	$ 3,637,000
U.S. government and federal agency	5,545,000	—	(188,000)	5,357,000
State and municipal	2,880,000	—	(109,000)	2,771,000
Bond fund	4,274,000	—	(70,000)	4,204,000
Total investment securities	$16,386,000	$ 2,000	$(419,000)	$15,969,000
June 30, 2005:				
Corporate—primarily U.S.	$ 4,704,000	$ 9,000	$ (55,000)	$ 4,658,000
U.S. government and federal agency	7,432,000	12,000	(50,000)	7,394,000
State and municipal	4,412,000	28,000	(46,000)	4,394,000
Bond fund	4,257,000	—	(43,000)	4,214,000
Total investment securities	$20,805,000	$49,000	$(194,000)	$20,660,000

The Company does not believe there are any significant individual unrealized losses as of June 30, 2006, which would represent other-than-temporary losses and unrealized losses which have existed for one year or more. A daily market exists for all of the investment securities. The Company believes that the impact of fluctuations in interest rates on its investment portfolio should not have a material impact on its financial position or results of operations. These highly liquid securities are designated as current assets. It is the Company's intention to use these investment securities to provide working capital, fund the expansion of its business and for other customary business purposes. The contractual maturities of debt securities as of June 30, 2006, are as follows:

Debt Securities	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Corporate—primarily U.S.	$ 808,000	$2,531,000	$ 187,000	$ 111,000	$ 3,637,000
U.S. government and federal agency	215,000	2,271,000	1,417,000	1,454,000	5,357,000
State and municipal	—	2,080,000	691,000	—	2,771,000
Bond fund	4,204,000	—	—	—	4,204,000
Total debt securities	$5,227,000	$6,882,000	$2,295,000	$1,565,000	$15,969,000

For the years ended June 30, 2006, 2005, and 2004, the Company had purchases of investment securities totaling $7,536,000, $10,253,000, and $10,443,000, and proceeds from investment securities sales totaling $8,153,000, $6,315,000, and $12,062,000, respectively. Gross realized gains and losses from sales of investment securities in fiscal 2006 amounted to $30,000 and $110,000, respectively. Gross realized gains and losses in fiscal 2005 amounted to $15,000 and $77,000, respectively. Gross realized gains and losses in fiscal 2004 amounted to $152,000 and $210,000, respectively.

At June 30, 2006 and 2005, the Company had net unrealized losses of $417,000 and $145,000, respectively, on its investment securities portfolio. On those dates, the net after-tax effect of these losses was $284,000 and $91,000, respectively, which is included in accumulated other comprehensive loss within shareowners' equity.

In June 1999, the Company purchased a 14% interest (12% on a fully diluted basis) in Cybernet Systems Corporation (Cybernet) for $3,000,000. Cybernet is a developer of hardware, software, next-generation network computing, and robotics products. It is located in Ann Arbor, Michigan. The investment is accounted for under the equity method and is included in other assets and goodwill on the balance sheet. At June 30, 2006 and 2005, the Company's investment in Cybernet amounted to $1,645,000 and $1,656,000, respectively, representing its equity interest in Cybernet's net assets plus $770,000 of goodwill (no longer being amortized in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*). The Company believes that the equity method is appropriate given Sparton's level of involvement in Cybernet. Prior to June 2002, Sparton accounted for its Cybernet investment using the cost method, which reflected a more passive involvement with Cybernet's operations. Sparton's current President and CEO is one of three Cybernet Board members, and as part of that position is actively involved in Cybernet's oversight and operations. In addition, he has a strategic management relationship with the owners, who are also the other two board members, resulting in his additional involvement in pursuing areas of common interest for both Cybernet and Sparton. The use of the equity method requires Sparton to record its share of Cybernet's income or loss in earnings ("Equity income (loss) in investment") in Sparton's income statements with a corresponding increase or decrease in the investment account ("Other assets") in Sparton's balance sheets. In addition, Sparton's share of unrealized gains (losses) on available-for-sale securities held by Cybernet, is carried in accumulated other comprehensive income (loss) within the shareowners' equity section of Sparton's balance sheets. The unrealized gains (losses) on available-for-sale securities reflect Cybernet's investment in Immersion Corporation, a publicly traded company, as well as other investments.

Reclassification Adjustments

4.31

ANDREW CORPORATION (SEP)

Consolidated Statements of Change in Shareholders' Equity

(Dollars in thousands)	Redeemable Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at September 30, 2003	$ 9,186	$1,609	$649,667	$(14,115)	$803,772	$(27,812)	$1,422,307
Repurchase of shares						(2,732)	(2,732)
Stock purchase and option plans			1,889			5,133	7,022
Shares issued for acquisitions			10,140			17,220	27,360
Preferred stock conversion	(3,165)	1	(3,448)			6,612	—
Warrants issued for settlement of pre-acquisition litigation			8,498				8,498
Preferred stock dividends					(707)		(707)
Decrease in minimum pension liability				3,083			3,083
Foreign currency forward contracts				418			418
Foreign currency translation adjustments				22,977			22,977
Net income					28,897		28,897
Comprehensive income							55,375
Balance at September 30, 2004	$ 6,021	$1,610	$666,746	$ 12,363	$831,962	$ (1,579)	$1,517,123

(continued)

(Dollars in thousands)	Redeemable Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at September 30, 2004	$ 6,021	$1,610	$666,746	$12,363	$831,962	$ (1,579)	$1,517,123
Repurchase of shares						(18,140)	(18,140)
Stock purchase and option plans		1	3,667			1,918	5,586
Preferred stock conversion	(6,021)	14	5,849			158	—
Preferred stock dividends					(232)		(232)
Foreign currency translation adjustments				7,357			7,357
Net income					38,858		38,858
Comprehensive income							46,215
Balance at September 30, 2005	$ —	$1,625	$676,262	$19,720	$870,588	$(17,643)	$1,550,552
Repurchase of shares						(39,373)	(39,373)
Stock purchase and option plans			8,606			3,757	12,363
Foreign currency translation adjustments				19,512			19,512
Realized foreign currency translation adjustments				(1,489)			(1,489)
Net loss					(34,290)		(34,290)
Comprehensive loss							(16,267)
Balance at September 30, 2006	$ —	$1,625	$684,868	$37,743	$836,298	$(53,259)	$1,507,275

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

The functional currency for the company's foreign operations is predominantly the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using year-end exchange rates for assets and liabilities and average monthly exchange rates for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Gains and losses resulting from foreign currency transactions that are included in determining net income (loss). Net foreign exchange losses resulting from foreign currency transactions that are included in other expense (income), net were $4.0 million, $4.9 million and $2.5 million for fiscal years 2006, 2005 and 2004, respectively. Included in the foreign exchange loss in fiscal 2006 is a $1.5 million gain for the liquidation of one of the company's foreign subsidiaries for amounts previously carried in accumulated other comprehensive income.

4.32

SWIFT TRANSPORTATION CO., INC. (DEC)

Consolidated Statements of Comprehensive Income

(In thousands)	2006	2005	2004
Net earnings	$141,055	$101,127	$103,482
Other comprehensive income (loss):			
Foreign currency translation	(39)	(139)	16
Reclassification of derivative loss on cash flow hedge into net earnings, net of tax effect of $56, $58 and $55 in 2006, 2005 and 2004, respectively	98	94	90
Comprehensive income	$141,114	$101,082	$103,588

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12) Senior Notes

In June 2003, the Company completed a private placement of Senior Notes. The notes were issued in two series of $100 million each with an interest rate of 3.73% for those notes maturing on June 27, 2008 and 4.33% for those notes maturing on June 27, 2010 with interest payable on each semiannually in June and December. The notes contain financial covenants relating to leverage, fixed charge coverage and tangible net worth. As of December 31, 2006, the Company was in compliance with these debt covenants.

19) Accumulated Other Comprehensive Loss

In conjunction with the June 2003 private placement of Senior Notes, the Company entered into a cash flow hedge to lock the benchmark interest rate used to set the coupon rate for $50 million of the notes. The Company terminated the hedge when the coupon rate was set and paid $1.1 million, which is recorded as accumulated other comprehensive loss in stockholders' equity. This amount will be amortized as a yield adjustment of the interest rate on the seven-year series of notes. The Company amortized $154,000, $152,000 and $145,000 into interest expense during the years ended December 31, 2006, 2005 and 2004, respectively.

Section 5: Stockholders' Equity

GENERAL

5.01 This section reviews the presentation of transactions, other than comprehensive income (loss) for the year, affecting stockholders' equity.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

5.02 Paragraph 152 of Statement of Financial Accounting Standards (SFAS) No. 95, *Statement of Cash Flows*, states that a complete set of financial statements includes a presentation of "results of operations." Paragraph 7 of Accounting Principles Board (APB) Opinion No. 9, *Reporting the Results of Operations*, states that a statement of income and a statement of retained earnings "are designed to reflect" results of operations. As shown in Table 5-1, which summarizes the presentation formats used by the survey companies to present changes in retained earnings, changes in retained earnings are most frequently presented in a Statement of Stockholders' Equity. Examples of statements showing changes in retained earnings are presented throughout this section.

5.03

TABLE 5-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	2006	2005	2004	2003
Statement of stockholders' equity	588	586	584	586
Separate statement of retained earnings	3	4	5	7
Combined statement of income and retained earnings	3	3	3	2
Schedule in notes	6	7	8	5
Total Companies	**600**	**600**	**600**	**600**

DIVIDENDS

5.04 Table 5-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 56% of the survey companies paying cash dividends to common stock shareholders indicate the per share amount of such dividends in the statement of retained earnings; approximately 28% of the survey companies made a similar disclosure for cash dividends paid to preferred stock shareholders.

5.05 Certain stock purchase rights enable the holders of such rights to purchase additional equity in a company if an outside party acquires or tenders for a substantial minority interest in the subject Company.

5.06 Examples of distributions to shareholders follow.

5.07

TABLE 5-2: DIVIDENDS

	Number of Companies			
	2006	2005	2004	2003
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statements	223	220	221	213
Per share amount not disclosed in retained earnings statements	176	169	175	157
Total	**399**	**389**	**396**	**370**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statements	13	11	15	22
Per share amount not disclosed in retained earnings statements	34	35	35	32
Total	**47**	**46**	**50**	**54**
Stock Dividends	**3**	**2**	**3**	**4**
Dividends in Kind	**3**	**3**	**8**	**7**
Stock Purchase Rights	**9**	**3**	**4**	**1**

Cash Dividends

5.08

FORTUNE BRANDS, INC. (DEC)

Consolidated Statement of Stockholders' Equity

(In millions except per share amounts)	$2.67 Convertible Preferred Stock	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, at Cost	Total
Balance at December 31, 2003	$ 7.5	$717.4	$126.7	$ (89.8)	$4,846.9	$(2,968.1)	$2,640.6
Comprehensive income							
Net income	—	—	—	—	783.8	—	783.8
Foreign exchange adjustments, net of effect of hedging activities	—	—	—	52.2	—	—	52.2
Minimum pension liability adjustments	—	—	—	44.0	—	—	44.0
Total comprehensive income	—	—	—	96.2	783.8	—	880.0
Dividends ($1.26 per common share and $2.67 per preferred share)	—	—	—	—	(183.5)	—	(183.5)
Purchases (4.4 shares)	—	—	—	—	—	(322.1)	(322.1)
Tax benefit on exercise of stock options	—	—	35.0	—	—	—	35.0
Conversion of preferred stock (<0.1 shares) and delivery of stock plan shares (2.3 shares)	(0.4)	—	(5.9)	—	—	87.0	80.7
Balance at December 31, 2004	$ 7.1	$717.4	$155.8	$ 6.4	$5,447.2	$(3,203.2)	$3,130.7
Comprehensive income							
Net income	—	—	—	—	621.1	—	621.1
Foreign exchange adjustments, net of effect of hedging activities	—	—	—	1.7	—	—	1.7
Minimum pension liability adjustments	—	—	—	(30.3)	—	—	(30.3)
Total comprehensive income	—	—	—	(28.6)	621.1	—	592.5
Dividends ($1.38 per common share and $2.67 per preferred share)	—	—	—	—	(201.6)	—	(201.6)
Tax benefit on exercise of stock options	—	—	26.0	—	—	—	26.0
Conversion of preferred stock (<0.1 shares) and delivery of stock plan shares (1.9 shares)	(0.5)	—	1.0	—	—	74.0	74.5
Spin-off of ACCO World Corporation	—	—	—	—	23.5	—	23.5
Balance at December 31, 2005	$ 6.6	$717.4	$182.8	$ (22.2)	$5,890.2	$(3,129.2)	$3,645.6
Comprehensive income							
Net income	—	—	—	—	830.1	—	830.1
Foreign exchange adjustments, net of effect of hedging activities	—	—	—	153.3	—	—	153.3
Minimum pension liability adjustments	—	—	—	26.7	—	—	26.7
Total comprehensive income	—	—	—	180.0	830.1	—	1,010.1
Dividends ($1.50 per common share and $2.67 per preferred share)	—	—	—	—	(224.0)	—	(224.0)
Stock issued for SBR acquisition	—	16.6	372.8	—	—	(91.5)	297.9
Stock-based compensation	—	—	45.0	—	—	56.0	101.0
Tax benefit on exercise of stock options	—	—	17.3	—	—	—	17.3
Conversion of preferred stock (0.1 shares)	(0.3)	—	(2.2)	—	—	2.5	—
Adjustment to initially apply FASB Statement no. 158, net of tax	—	—	—	(119.9)	—	—	(119.9)
Balance at December 31, 2006	$ 6.3	$734.0	$615.7	$ 37.9	$6,496.3	$(3,162.2)	$4,728.0

5.09

PACCAR INC (DEC)

Consolidated Statements of Stockholders' Equity

(Millions of dollars except per share data)	2006	2005	2004
Common stock, $1 per value:			
Balance at beginning of year	$ 169.4	$ 173.9	$ 175.1
Treasury stock retirement	(5.0)	(5.0)	(2.0)
50% stock dividend	83.1		
Stock options exercised and other stock compensation	1.0	.5	.8
Balance at end of year	248.5	169.4	173.9
Additional paid-in capital:			
Balance at beginning of year	140.6	450.5	524.2
Treasury stock retirement	(160.8)	(338.4)	(105.7)
Stock options and tax benefit	42.6	27.0	25.6
Other stock compensation	5.1	1.5	6.4
Balance at end of year	27.5	140.6	450.5
Treasury stock, at cost:			
Balance at beginning of year	(35.1)		
Purchases	(301.5)	(378.5)	(107.7)
Retirements	334.5	343.4	107.7
Balance at end of year	(2.1)	(35.1)	
Retained earnings:			
Balance at beginning of year	3,471.5	2,826.9	2,399.2
Net income	1,496.0	1,133.2	906.8
Cash dividends declared on common stock, per share: 2006–$2.77; 2005–$1.91; 2004–$1.83	(689.6)	(488.6)	(479.1)
Treasury stock retirement	(168.7)		
50% stock dividend	(83.1)		
Balance at end of year	4,026.1	3,471.5	2,826.9
Accumulated other comprehensive income (loss):			
Balance at beginning of year	154.7	311.1	147.9
FAS 158 accounting change, net of $87.5 tax effect	(160.2)		
Other comprehensive income (loss)	161.7	(156.4)	163.2
Balance at end of year	156.2	154.7	311.1
Total stockholders' equity	$4,456.2	$3,901.1	$3,762.4

Dividends-in-Kind

5.10

FIRST DATA CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share amounts)	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Shares	Paid-In Capital	Treasury Stock	
							Shares	Cost
Balance, December 31, 2003	$ 4,047.3		$6,381.2	$ 107.9	897.9	$2,585.9	(181.4)	$ (5.027.7)
Comprehensive income								
Net income	1,908.3	$1,908.3	1,908.3					
Other comprehensive income (loss):								
Unrealized losses on securities	(107.9)	(107.9)						
Unrealized losses on hedging activities	(17.1)	(17.1)						
Foreign currency translation adjustment	47.3	47.3						
Minimum pension liability adjustment	(32.0)	(32.0)						
Other comprehensive loss		(109.7)		(109.7)				
Comprehensive income		$1,798.6						
Stock issued related to merger	6,858.5				169.8	6,858.5		
Purchase of treasury shares	(4,517.7)						(106.2)	(4,517.7)
Stock issued for compensation and benefit plans	574.0		(314.9)			63.3	19.4	825.6
Stock issued for conversion of debt	182.1		53.9			(1.6)	4.5	129.8
Other	10.7					10.7		
Cash dividends declared ($0.08 per share)	(67.4)		(67.4)					
Balance, December 31, 2004	8,886.1		7,961.1	(1.8)	1,067.7	9,516.8	(283.7)	(8,590.0)
Comprehensive income								
Net income	1,717.4	$1,717.4	1,717.4					
Other comprehensive income (loss):								
Unrealized losses on securities	(120.6)	(120.6)						
Unrealized gains on hedging activities	11.6	11.6						
Foreign currency translation adjustment	(77.5)	(77.5)						
Minimum pension liability adjustment	22.0	22.0						
Other comprehensive loss		(164.5)		(164.5)				
Comprehensive income		$1,552.9						
Purchase of treasury shares	(2,175.0)						(53.7)	(2,175.0)
Stock issued for compensation and benefit plans	374.1		(181.7)			41.4	12.5	514.4
Stock option accelerated vesting	11.5					11.5		
Other	(7.7)					(7.7)		
Cash dividends declared ($0.24 per share)	(184.9)		(184.9)					
Balance, December 31, 2005	$ 8,457.0		$9,311.9	$(166.3)	1,067.7	$9,562.0	(304.9)	$(10,250.6)

(continued)

(In millions, except per share amounts)	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Shares	Paid-In Capital	Treasury Stock Shares	Treasury Stock Cost
Balance, December 31, 2005	$ 8,457.0		$ 9,311.9	$(166.3)	1,067.7	$9,562.0	(304.9)	$(10,250.6)
Comprehensive income								
Net income	1,513.4	$1,513.4	1,513.4					
Other comprehensive income:								
Unrealized gains on securities	68.9	68.9						
Unrealized gains on hedging activities	2.3	2.3						
Foreign currency translation adjustment	58.4	58.4						
Minimum pension liability adjustment	4.0	4.0						
Other comprehensive income		133.6		133.6				
Comprehensive income		$1,647.0						
Purchase of treasury shares	(1,286.9)						(35.5)	(1,286.9)
Stock issued for compensation and benefit plans	930.8		(309.4)			178.8	25.2	1,061.4
Stock issued for exercise of warrant	—		(9.3)				0.4	9.3
Adjustment to initially apply SFAS No. 158	(46.3)			(46.3)				
Other	(0.6)					(0.6)		
Western Union dividend	600.7		554.5	62.1		(15.9)		
Cash dividends declared ($0.21 per share)	(160.5)		(160.5)					
Balance, December 31, 2006	$10,141.2		$10,900.6	$ (16.9)	1,067.7	$9,724.3	(314.8)	$(10,466.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Business Description

FDC operates electronic commerce businesses providing a variety of services to financial institutions, commercial establishments and consumers. Such services include merchant transaction processing and acquiring; credit, retail and debit card issuing and processing; official check issuance; and check guarantee and verification services.

On September 29, 2006, the Company separated its Western Union money transfer business into an independent, publicly traded company through a spin-off of 100% of Western Union to FDC shareholders in a transaction intended to qualify for tax-free treatment ("the spin-off"). The Company received a favorable ruling from the Internal Revenue Service with respect to the spin-off, which assumed, among other things, the accuracy of the representations made by FDC with respect to certain matters on which the Internal Revenue Service does not rule. The new Western Union Company consists of the consumer-to-consumer and consumer-to-business money transfer businesses (including the Western Union, Vigo, and Orlandi Valuta brands) and related businesses. FDC and Western Union are independent and have separate public ownership, boards of directors and management. To facilitate Western Union's separation from FDC, FDC is providing certain services to Western Union during a transition period. Additionally, the Company and Western Union entered into various commercial service agreements which are long-term agreements to provide ongoing services.

Upon completion of a strategic review of its official check and money order operations, the Company has decided to gradually exit this line of business over a period of two to three years. While the Company intends to serve existing clients through the end of their respective contract terms, expiring contracts will not be renewed on a long-term basis. Client contracts representing approximately 60% of portfolio balances will expire in the next two years. Over the next four to six months, the Company plans to convert most of the associated long-term instruments into more liquid instruments of shorter duration.

Note 19 (In Part): Discontinued Operations

As discussed in Note 1, on September 29, 2006, the Company separated its Western Union money transfer business into an independent, publicly traded company through a spin-off of 100% of Western Union to FDC shareholders in a transaction intended to qualify for tax-free treatment. The spin-off included all entities previously reported as the Western Union segment as well as two small entities previously reported in All Other and Corporate. In connection with the spin-off, Western Union transferred $1 billion of notes and $2.5 billion in cash to FDC. As a result of the spin-off, FDC recorded a net increase to retained earnings of $554.5 million which represented the distribution of the net liabilities and certain equity balances related to Western Union to shareholders. Such distribution occurred shortly after and is net of the transfer by Western Union of $1 billion of Western Union notes and $2.5 billion in cash to FDC as well as the net settlement of various intercompany balances and realignment of certain operating assets. To facilitate Western Union's

separation from FDC, FDC is providing certain services to Western Union during a transition period. Additionally, the Company and Western Union entered into various commercial service agreements which are long-term arrangements to provide ongoing services. Revenues from Western Union and Primary Payment Systems for commercial relationships previously eliminated in consolidation were $18.5 million, $24.5 million and $20.4 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Stock Purchase Rights

5.11

DONALDSON COMPANY, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Shareholders' Equity

Stock Rights

On January 27, 2006, the Board of Directors of the Company approved the extension of the benefits afforded by the Company's existing rights plan by adopting a new shareholder rights plan. Pursuant to the Rights Agreement, dated as of January 27, 2006, by and between the Company and Wells Fargo Bank, N.A., as Rights Agent, one right was issued on March 3, 2006 for each outstanding share of common stock of the Company upon the expiration of the Company's existing rights. Each of the new rights entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, without par value, at a price of $143.00 per one one-thousandth of a share. The rights, however, will not become exercisable unless and until, among other things, any person acquires 15 percent or more of the outstanding common stock of the Company. If a person acquires 15 percent or more of the outstanding common stock of the Company (subject to certain conditions and exceptions more fully described in the Rights Agreement), each right will entitle the holder (other than the person who acquired 15 percent or more of the outstanding common stock) to purchase common stock of the Company having a market value equal to twice the exercise price of a right. The rights are redeemable under certain circumstances at $.001 per right and will expire, unless earlier redeemed, on March 2, 2016.

ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

5.12 Reasons for which the opening balance of retained earnings is properly restated include certain changes in accounting principles, changes in reporting entity, and prior period adjustments. SFAS No 16, *Prior Period Adjustments*, as amended by SFAS No. 109, *Accounting for Income Taxes*, stipulates that only corrections of errors are properly accounted for as prior period adjustments.

5.13 Effective for fiscal years beginning after December 15, 2005 with early adoption permitted, SFAS No. 154, *Accounting Changes and Error Corrections*, changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion No. 20, *Accounting Changes*, requires that most changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. *SFAS No. 154* replaces *APB Opinion No. 20. SFAS No. 154* requires, unless impracticable or otherwise specified by an applicable authoritative pronouncement, retrospective application to prior periods' financial statements of a change in accounting principle. Retrospective application is the application of a different accounting principle to prior accounting periods as if that principle had always been used. More specifically, retrospective application involves the following:

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

5.14 The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, to provide guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of assessing materiality. *SAB No. 108* requires that registrant companies determine the quantitative effect of a financial statement misstatement using both an income statement ("rollover") and a balance sheet ("iron curtain") approach, and evaluate whether, under either approach, the error is material after considering all relevant quantitative and qualitative factors. Further, *SAB No. 108* allows companies to reflect the cumulative effect of initial application of *SAB No. 108* in the carrying amounts of assets and liabilities as of the beginning of that fiscal year, and report an offsetting adjustment to the opening balance of retained earnings for that year. *SAB No. 108* is effective for fiscal years ending after November 15, 2006.

5.15 Table 5-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted.

5.16

TABLE 5-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	2006	2005	2004	2003
Accounting changes	27	10	6	4
Prior period adjustments	26	10	19	4
Other—described	1	—	1	—

Change in Accounting Principle

5.17

NACCO INDUSTRIES, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share data)	2006	2005	2004
Class A common stock			
Beginning balance	$ 6.6	$ 6.6	$ 6.6
Shares issued under stock compensation plans	0.1	—	—
	6.7	6.6	6.6
Class B common stock	1.6	1.6	1.6
Capital in excess of par value			
Beginning balance	7.2	6.0	5.3
Shares issued under stock compensation plans	5.3	1.2	0.7
	12.5	7.2	6.0
Retained earnings			
Balance as of December 31:			
2005	729.6	—	—
2004	—	682.3	—
2003	—	—	648.2
Cumulative effect of accounting change for EITF 04-6, net of $14.9 tax benefit	(27.6)	—	—
Beginning balance	702.0	682.3	648.2
Net income	106.2	62.5	47.9
Cash dividends on Class A and Class B common stock:			
2006: $1.905 per share	(15.7)	—	—
2005: $1.848 per share	—	(15.2)	—
2004: $1.675 per share	—	—	(13.8)
	792.5	729.6	682.3
Accumulated other comprehensive loss			
Beginning balance	(41.7)	(8.5)	(24.7)
Foreign currency translation adjustment	20.4	(28.4)	21.2
Reclassification of hedging activities into earnings	(2.3)	3.4	2.9
Current period cash flow hedging activity	4.6	(3.3)	1.9
Pension and post-retirement plan adjustment	6.3	(4.9)	(9.8)
Adjustment to initially apply SFAS No. 158	(7.5)	—	—
	(20.2)	(41.7)	(8.5)
Total stockholders' equity	$793.1	$703.3	$688.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Recently Issued Accounting Standards (In Part)

Accounting Standards Adopted in 2006 (In Part)

EITF No. 04-6

In June 2005, the FASB ratified modifications to EITF No. 04-6. "Accounting for Stripping Costs Incurred during Production in the Mining Industry." EITF No. 04-6 clarifies that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. EITF No. 04-6 is effective for fiscal years beginning after December 15, 2005. The transition provisions require that the consensus be accounted for in a manner similar to a cumulative effect adjustment with any adjustment recognized in the opening balance of retained earnings in the year of adoption.

The Company adopted EITF No. 04-6 on January 1, 2006. NACoal previously included coal that was uncovered, but not extracted, as a component of inventory ("in-pit inventory"). In addition, NACoal previously capitalized and deferred stripping costs incurred when developing a new mine into property, plant and equipment until that mine had reached full production. Upon adoption of EITF No. 04-6, NACoal was required to write-off in-pit inventory and the amount of deferred stripping costs remaining in property, plant and equipment that were incurred after saleable coal was extracted from each of its mines. As a result of the adoption of EITF No. 04-6, the Company recognized a cumulative effect of a change in accounting principle adjustment of $27.6 million, net of related deferred income taxes of $14.9 million, which decreased beginning retained earnings in the accompanying Consolidated Statement of Stockholders' Equity for the

year ended December 31, 2006. In addition, the Company recognized a reduction in property, plant and equipment of $41.8 million and a reduction in inventory of $0.7 million in the accompanying Consolidated Balance Sheet as of December 31, 2006 as a result of the adoption of EITF No. 04-6.

Prior Period Adjustment

5.18

GENERAL MOTORS CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity (Deficit)

(Dollars in millions)	Shares of Common Stock	Capital Stock	Capital Surplus	Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
Balance January 1, 2004, as previously reported	562	$937	$15,185		$ 12,387	$(3,806)	$24,903
Prior period adjustments (see Note 2)	—	—	—		552	(579)	(27)
Balance January 1, 2004, as restated	562	$937	$15,185		$ 12,939	$(4,185)	$24,876
Net Income	—	—	—	$ 2,701	2,701	—	2,701
Other comprehensive income (loss):	—	—	—				
Foreign currency translation adjustments	—	—	—	1,277	—	—	—
Unrealized gains on derivatives	—	—	—	463	—	—	—
Unrealized gains on securities	—	—	—	202	—	—	—
Minimum pension liability adjustment	—	—	—	(571)	—		—
Other comprehensive income (loss)	—	—	—	1,371	—	1,371	1,371
Comprehensive income (loss)				$ 4,072	—	—	—
Stock options	3	5	56			—	61
Cash dividends paid	—	—	—		(1,129)	—	(1,129)
Balance December 31, 2004, as restated	565	$942	$15,241		$ 14,511	$(2,814)	$27,880
Net (loss)	—	—	—	$(10,417)	(10,417)	—	(10,417)
Other comprehensive income (loss):							
Foreign currency translation adjustments	—	—	—	(929)	—	—	—
Unrealized gains on derivatives	—	—	—	33	—	—	—
Unrealized (loss) on securities	—	—	—	(67)	—	—	—
Minimum pension liability adjustment	—	—	—	(758)	—	—	—
Other comprehensive income (loss)	—	—	—	(1,721)	—	(1,721)	(1,721)
Comprehensive income (loss)				$(12,138)		—	
Stock options	1	1	44		—	—	45
Cash dividends paid	—	—	—		(1,134)	—	(1,134)
Balance December 31, 2005, as restated	566	$943	$15,285		$ 2,960	$(4,535)	$14,653

(continued)

(Dollars in millions)	Shares of Common Stock	Capital Stock	Capital Surplus	Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
Balance December 31, 2005, as restated	566	$943	$15,285		$ 2,960	$ (4,535)	$ 14,653
Net (loss)	—	—	—	$(1,978)	(1,978)	—	(1,978)
Other comprehensive income (loss):							
Foreign currency translation adustments	—	—	—	175	—	—	—
Unrealized (loss) on derivatives	—	—	—	(249)	—	—	—
Unrealized (loss) on securities	—	—	—	(504)	—	—	—
Minimum pension liability adjustment	—	—	—	(67)	—		
Other comprehensive income (loss)	—	—	—	(645)		(645)	(645)
Comprehensive income (loss)				$(2,623)			
Adjustment to initially apply SFAS No. 158, net of income tax	—	—	—		—	(16,946)	(16,946)
Stock options	—	—	51		—		51
Cumulative effect of a change in accounting principle—adoption of SFAS No. 156, net of tax	—	—	—		(13)		(13)
Cash dividends paid	—	—	—		(563)		(563)
Balance December 31, 2006	566	$943	$15,336		$ 406	$(22,126)	$ (5,441)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Restatement of Previously Issued Consolidated Financial Statements

The accompanying 2005 and 2004 consolidated financial statements have been restated to correct the accounting for certain derivative transactions under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS No. 133); accounting for deferred income taxes under SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109), and various other accounting adjustments.

The following table sets forth a reconciliation of previously reported and restated net income (loss) and retained earnings as of the dates and for the periods shown (in millions):

	Net Income (Loss)		Retained Earnings at January 1, 2004
	2005	2004	
As previously reported	$(10,567)	$2,804	$12,387
Pre-tax adjustments:			
Derivative and hedge accounting adjustments			
Commodity contracts			
"Normal purchases and normal sales" scope exception for certain commodity contracts	111	65	(4)
Hedge accounting related to commodity cash flow hedges	120	247	25
Foreign exchange cotnracts			
Hedge accounting related to foreign currency cash flow and net investment hedges	114	(209)	(112)
Interest rate contracts			
Hedge accounting related to certain debt investments	(256)	(143)	88
Total derivative and hedge accounting adjustments	89	(40)	(3)
Other out-of-period adjustments	118	(272)	(740)
Total pre-tax adjustments	207	(312)	(743)
Tax effects—provision/(benefit)	22	(207)	(153)
Total of above adjustments, net of tax	185	(105)	(590)
Deferred income tax adjustments	(35)	2	1,142
Net after-tax adjustments	150	(103)	552
As restated	$(10,417)	$2,701	$12,939

The following table sets forth a reconciliation of previously reported and restated earnings (loss) per share for the periods shown (in millions):

	2005	2004
Basic earnings (loss) per share:		
Earnings (loss) before cumulative effect of a change in accounting principle, as reported	$(18.50)	$4.97
Adjustments	0.27	(0.19)
Earnings (loss) before cumulative effect of a change in accounting principle, as restated	(18.23)	4.78
Cumulative effect of a change in accounting principle	(0.19)	—
Earnings (loss) per share, as restated	$(18.42)	$4.78
Diluted earnings (loss) per share:		
Earnings (loss) before cumulative effect of a change in accounting principle, as reported	$(18.50)	$4.94
Adjustments	0.27	(0.18)
Earnings (loss) before cumulative effect of a change in accounting principle, as restated	(18.23)	4.76
Cumulative effect of a change in accounting principle	(0.19)	—
Earnings (loss) per share, as restated	$(18.42)	$4.76

These restatement adjustments and revisions are further described below:

Derivatives and Hedge Accounting Adjustments

Commodity Contracts

In reviewing the accounting for certain commodity purchase contracts, GM determined that it had incorrectly concluded that the "normal purchases and normal sales" scope exception in paragraph 10(b) of SFAS No. 133 applied. Therefore, these commodity purchase contracts should have been accounted for as derivatives. The financial statements have been restated to record the fair value of these purchase contracts in the 2005 consolidated balance sheet and record the changes in the fair value of the commodity contracts as charges or credits in the consolidated statements of operations. This adjustment resulted in recording derivative assets and liabilities of $178.8 million and $7.1 million, respectively, at December 31, 2005. Additionally, pre-tax earnings were increased, through a reduction of Automotive cost of sales, by $111.4 million ($72.4 million after tax) and $64.7 million ($42.0 million after tax) in 2005 and 2004, respectively.

Additionally, GM entered into various commodity derivatives contracts, including swaps and options, to hedge its forecasted purchases of precious and non-ferrous metals and energy. These commodity derivatives were designated as cash flow hedges. Under SFAS No. 133, hedge accounting is appropriate only for those hedging relationships that a company expects will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged. To determine whether transactions satisfy these requirements, companies must periodically assess and document the effectiveness of their hedging relationships both retrospectively and prospectively and measure and recognize any ineffectiveness. For certain commodity cash flow hedges, GM inappropriately applied the "matched terms" method of assessing hedge effectiveness as outlined in paragraph 65 of SFAS No. 133 by not considering in its assessment certain terms of the underlying commodity contracts that created ineffectiveness in the cash flow hedging relationship. In addition, for other commodity cash flow hedges, GM did not properly document the hedging relationship or properly perform the periodic retrospective assessment of effectiveness necessary to qualify for hedge accounting or properly measure hedge ineffectiveness, and did not properly reclassify amounts from Other Comprehensive Income (OCI) when the underlying hedged forecasted transaction affected earnings. Accordingly, the commodity derivatives should have been marked-to-market with gains and losses recorded in cost of sales. Changes in the fair value of the commodity derivatives that had been recorded in OCI as part of these cash flow hedging relationships were reversed and recorded in Automotive cost of sales. Pre-tax earnings were increased, through a reduction of Automotive cost of sales, by $119.5 million ($77.6 million after tax) and $246.6 million ($160.3 million after tax) in 2005 and 2004, respectively.

Foreign Exchange Contracts

GM enters into foreign currency forward contracts and cross-currency swaps to hedge foreign-currency-denominated debt and forecasted transactions. GM also designates foreign-currency-denominated debt as hedges of net investments in foreign operations.

GM concluded that it did not properly apply the "matched terms" method of assessing hedge effectiveness as outlined in paragraph 65 of SFAS No. 133, inadequately measured hedging effectiveness, and lacked contemporaneous hedge documentation and, therefore, incorrectly applied hedge accounting to certain cash flow hedges and net investment hedges. The changes in fair value of certain derivatives used in cash flow hedging relationships and amounts related to a net investment hedge previously recorded in OCI were released from OCI and recorded in Automotive cost of sales. Pre-tax earnings were increased by $38.3 million ($25.2 million after tax) in 2005 and decreased by $86.9 million ($56.5 million after tax) in 2004.

In addition, GM determined it incorrectly applied cash flow hedge accounting treatment to one of two concurrent offsetting derivatives by accounting for the two derivatives separately instead of treating them as one combined arrangement in accordance with SFAS No. 133, *Implementation Issue F6, Concurrent Offsetting Matching Swaps and Use of One as Hedging Instrument*, and SFAS No. 133, *Implementation Issue K1, Determining Whether Separate Transactions Should Be Viewed as a Unit*. The changes in fair value of the derivatives used in this hedging strategy previously accounted for as cash flow hedges were released from OCI and recorded in Automotive cost of sales. Pretax earnings were increased by $75.3 million ($48.9 million after tax) in 2005 and decreased by $121.7 million ($79.1 million after tax) in 2004.

Interest Rate Contracts

GMAC determined that its hedge accounting documentation and hedge effectiveness assessment methodologies did not meet the requirements of paragraph 20(b) of SFAS No. 133 for certain hedges of callable fixed rate debt instruments. Under SFAS No. 133, hedge accounting is appropriate only for those hedging relationships that a company has sufficiently documented an expectation that such relationship will be highly effective in achieving offsetting changes in fair values attributable to the risk being hedged at the inception of the

hedging relationship. To determine whether transactions satisfy these requirements, a company must periodically assess the effectiveness of its hedging relationships both prospectively and retrospectively. After review, GMAC determined that the interest rate derivatives did not qualify for hedge accounting. Accordingly, hedge accounting should not have been applied to any of the hedging relationships in this strategy and therefore, market value adjustments on the debt instruments included in the hedging relationships related to changes in fair value due to movements in the designated benchmark interest rate should not have been recorded. Changes in the fair value of the debt instruments recorded in earnings under these fair value hedge relationships were reversed. Pre-tax earnings were decreased, through an increase to interest expense, by $256 million ($157.2 million after tax) and $143 million ($87.8 million after tax) in 2005 and 2004, respectively.

The net effect of all derivative and hedge accounting adjustments decreased retained earnings at January 1, 2004 by $4.6 million.

Deferred Income Tax Adjustments

As a result of a comprehensive deferred tax account reconciliation that was performed in 2006, GM determined that deferred income tax liabilities were overstated and net income was understated by approximately $1.1 billion, principally the result of duplicate or incorrect recording of deferred income tax expense related to temporary differences, primarily arising in years prior to 2002. These adjustments increased net loss in 2005 by $35.2 million, increased net income in 2004 by $1.6 million, and increased retained earnings at January 1, 2004 by approximately $1.1 billion.

In addition, we inappropriately provided deferred income taxes on translation adjustments for certain non-US subsidiaries, which resulted in an overstatement of deferred tax assets and OCI of $423 million, $74 million and $680 million as of December 31, 2005, December 31, 2004, and January 1, 2004, respectively.

Other Out-of-Period Adjustments

Subsequent to the completion of our previously filed consolidated financial statements for each period being restated, we identified adjustments that should have been recorded in these earlier periods (out-of-period adjustments). Upon identification, we determined these adjustments to be immaterial, individually and in the aggregate, to our previously filed consolidated financial statements, and recorded these adjustments in the periods in which they were identified. Due to the adjustments, as discussed above, that required a restatement of our previously filed consolidated financial statements, we are also correcting these out-of-period adjustments by recording them in the proper periods.

The out-of-period adjustments in the table above include the following:

Unemployment Benefit Payments

Subsequent to December 31, 2005 but prior to the issuance of our 2005 consolidated financial statements, we were notified by the German Labor Office that we were released from certain contingent unemployment benefit payment obligations previously recorded. As part of our restatement, pre-tax earnings were increased, through a reduction of Automotive cost of sales, by $50.2 million ($31.1 million after tax) in 2005.

Automotive Revenue Recognition

We recorded an adjustment to correct deferred revenue related to data disks provided to customers to update their vehicle's navigational system. We did not compute deferred revenue using fair value as determined by vendor specific objective evidence as required by EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. Additionally, we did not defer revenue on the correct number of 2006 models year vehicles containing navigation systems. As part of our restatement, pre-tax earnings were decreased, through a reduction of Automotive sales, by $33.1 million ($21.5 million after tax) in 2005.

In addition, we incorrectly recognized revenue for our sponsorship of the GM Card program, which offers rebates that can be applied primarily against the purchase or lease of GM vehicles. We corrected this accounting by deferring and recognizing additional revenue over the average utilization period of points earned by retail customers. As part of our restatement, pre-tax earnings were increased, through an increase to Automotive sales, by $42.3 million ($27.5 million after tax) and $19.7 million ($12.8 million after tax) in 2005 and 2004, respectively, and retained earnings was decreased at January 1, 2004 by $147 million.

Impairment of Long-Lived Assets

We incorrectly determined impairment charges associated with a plant closing. As part of our restatement, pre-tax earnings were decreased, through an increase to Automotive cost of sales, by $24.2 million ($15.9 million after tax) and $42.8 million ($27.8 million after tax) in 2005 and 2004, respectively, and retained earnings was decreased at January 1, 2004 by $4.0 million.

Cooperative Advertising Program

Under our cooperative advertising program with our dealers, we are obligated to match a portion of the funds contributed by our dealers for advertising. We recorded an adjustment to correctly reflect the timing of our obligation under this arrangement. Previously, our matching portion of the advertising costs was expensed as incurred. As part of our restatement, pre-tax earnings were decreased, through an increase to Selling, general, and administrative expenses, by $5.7 million ($3.7 million after tax) and pre-tax earnings were increased, through a decrease to Selling, general, and administrative expenses, by $11.4 million ($7.4 million after tax) in 2005 and 2004, respectively, and retained earnings at January 1, 2004 was decreased by $46.6 million.

Environmental Operation and Maintenance

We recorded an adjustment to properly reflect our obligation for ongoing operation and maintenance costs for certain environmental sites. As part of our restatement, pre-tax earnings were decreased, through an increase to Automotive cost of sales, by $1.4 million ($0.9 million after tax) and $4.9 million ($3.2 million after tax) in 2005 and 2004, respectively, and retained earnings at January 1, 2004 was decreased by $32.2 million.

Available-for-Sale Securities

We incorrectly recorded the foreign exchange component of the changes in the market value of foreign-currency-denominated available-for-sale debt securities in earnings rather than OCI. As part of our restatement, pre-tax earnings were increased, through a decrease to Automotive cost of sales, by $158 million ($102.7 million after tax) in 2005, pre-tax earnings were decreased, through an increase to Automotive cost of sales, by $107.1 million ($69.6 million after tax) in 2004 and retained earnings at January 1, 2004 decreased by $33.1 million.

LIFO Inventory Reserve

We recorded an adjustment to properly include certain inventories in our LIFO inventory reserve. As part of our restatement, pre-tax earnings were decreased, through an increase to Automotive cost of sales, by $9.2 million ($6 million after tax) and $22.5 million ($14.6 million after tax) in 2005 and 2004, respectively, and retained earnings at January 1, 2004, was decreased by approximately $1.5 million.

Development Costs

We recorded an adjustment to correctly expense supplier development costs. As part of our restatement, pre-tax and after-tax earnings were increased, through a reduction of Automotive cost of sales, by $14.4 million in both 2005 and 2004, and retained earnings at January 1, 2004 was decreased by $85.5 million.

Inventory

We recorded an adjustment to correct Automotive cost of sales associated with inventory errors identified at one of our international subsidiaries. As part of our restatement, retained earnings at January 1, 2004 was decreased by $37.7 million.

In addition to the items listed above, we also recorded other less significant out-of-period pre-tax and income tax adjustments, the net effect of which decreased pre-tax earnings by $73.3 million and decreased after-tax earnings by $9.4 million in 2005, decreased pre-tax earnings by $140.2 million and decreased after-tax earnings by $2.9 million in 2004, and decreased retained earnings at January 1, 2004 by $198.3 million.

The restatement also included an adjustment to comply with EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*, related to shipping and handling costs incurred to transport product to customers. The correction for this reclassification increased Automotive sales and Automotive cost of sales by $3.6 billion in both 2005 and 2004. This correction did not affect net income (loss) or earnings (loss) per share.

The following is a summary of the effect of the restatement on the originally issued Consolidated Statements of Operations, Consolidated Balance Sheets and Consolidated Statements of Cash Flows.

Consolidated Statements of Operations

	2005		2004	
(Dollars in millions)	Previously Reported	Restated	Previously Reported	Restated
Net sales and revenues				
Automotive sales	$156,801	$160,228	$159,937	$163,341
Financial services and insurance revenues	34,383	34,427	31,972	32,010
Total net sales and revenues	191,184	194,655	191,909	195,351
Costs and expenses				
Automotive cost of sales	155,863	158,887	148,642	152,115
Selling, general and administrative expenses	27,440	27,513	25,810	25,969
Interest expense	15,768	15,607	11,980	11,913
Provisions for credit and insurance losses related to financing and insurance operations	3,440	3,430	4,315	4,315
Other expenses	7,024	7,024	1,584	1,584
Total costs and expenses	209,535	212,461	192,331	195,896
Operating (loss)	(18,351)	(17,806)	(422)	(545)
Automotive interest income and other non-operating income, net	$ 1,420	$ 1,066	$ 1,608	$ 1,400
Income (loss) before income taxes, equity income (loss) and minority interests and cumulative effect of a change in accounting principle	(16,931)	(16,740)	1,186	855
Income tax (benefit)	(5,878)	(5,870)	(916)	(1,126)
Equity income (loss) and minority interests, net of tax	595	562	702	720
Income (loss) before cumulative effect of a change in accounting principle	(10,458)	(10,308)	2,804	2,701
Cumulative effect of a change in accounting principle	(109)	(109)	—	—
Net income (loss)	$ (10,567)	$ (10,417)	$ 2,804	$ 2,701

Consolidated Balance Sheets

	2005	
(Dollars in millions)	Previously Reported	Restated
Assets		
Current assets		
Cash and cash equivalents	$ 15,187	$ 15,187
Marketable securities	1,416	1,416
Total cash and marketable securities	16,603	16,603
Accounts and notes receivable, net	7,758	5,917
Inventories	13,851	13,862
Equipment on operating leases, net	6,993	6,993
Deferred income taxes and other current assets	8,877	8,982
Total current assets	54,082	52,357
Financing and insurance operations assets		
Cash and cash equivalents	15,539	15,539
Investments in securities	18,310	18,310
Finance receivables, net	180,793	180,849
Loans held for sale	21,865	21,865
Assets held for sale	19,030	19,030
Equipment on operating leases, net	31,194	31,194
Other assets	27,694	25,157
Total financing and insurance operations assets	314,425	311,944
Non-current assets		
Equity in net assets of nonconsolidated affiliates	3,291	3,242
Property, net	38,466	38,543
Intangible assets, net	1,862	1,869
Deferred income taxes	22,849	23,761
Prepaid pension	37,690	37,576
Other assets	3,413	4,864
Total non-current assets	107,571	109,855
Total assets	$476,078	$474,156
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable (principally trade)	$ 26,182	$ 26,402
Short-term borrowings and current portion of long-term debt	1,519	1,627
Accrued expenses	42,665	42,697
Total current liabilities	70,366	70,726
Finance and insurance operations liabilities		
Accounts payable	3,731	3,731
Liabilities related to assets held for sale	10,941	10,941
Debt	253,217	253,508
Other liabilities and deferred income taxes	28,946	26,325
Total financing and insurance operations liabilities	296,835	294,505
Non-current liabilities		
Long-term debt	31,014	32,580
Postretirement benefits other than pensions	28,990	28,990
Pensions	11,214	11,225
Other liabilities and deferred income taxes	22,023	20,430
Total non-current liabilities	93,241	93,225
Total liabilities	460,442	458,456
Commitments and contingencies		
Minority interests	1,039	1,047
Stockholders' equity		
Preferred stock, no par value, authorized 6,000,000, no shares issued and outstanding	—	—
$1 2/3 par value common stock (2,000,000,000 shares authorized, 756,637,541 and 565,518,106 shares issued and outstanding, respectively, at December 31, 2005)	943	943
Capital surplus (principally additional paid-in capital)	15,285	15,285
Retained earnings	2,361	2,960
Accumulated other comprehensive (loss)	(3,992)	(4,535)
Total stockholders' equity	14,597	14,653
Total liabilities, minority interest, and stockholders' equity	$476,078	$474,156

Consolidated Statements of Cash Flows

	2005		2004	
(Dollars in millions)	Previously Reported	Restated	Previously Reported	Restated
Cash flows from operating activities				
Net income (loss)	$(10,458)	$(10,417)	$ 2,804	$ 2,701
Cumulative effect of a change in accounting principle	—	109	—	—
Adjustments to reconcile income (loss) before cumulative effect of a change in accounting principle to net cash provided by (used in) operating activities:				
Depreciation, impairment, and amortization expense	15,769	15,797	14,152	14,202
Mortgage servicing rights and premium amortization	1,142	1,142	1,675	1,675
Goodwill impairment	712	712	—	—
Delphi benefit guarantee	5,500	5,500	—	—
Provision for credit financing losses	1,085	1,074	1,944	1,944
Net gains on sale of finance receivables	(1,695)	(1,741)	(1,312)	(1,332)
Net gains on sale of investment securities	(104)	(104)	(52)	(52)
Other postretirement employee benefit (OPEB) expense	5,671	5,671	4,558	4,558
OPEB payments	(4,084)	(4,084)	(3,974)	(3,974)
VEBA/401(h) withdrawals	3,168	3,168	(8,618)	(8,618)
Pension expense	2,496	2,519	2,456	2,456
Pension contributions	(833)	(833)	(919)	(919)
Retiree lump sum and vehicle voucher expense, net of payments	(264)	(264)	(329)	(329)
Net change in mortgage loans	(29,119)	(29,119)	(2,312)	(2,312)
Net change in mortgage securities	(1,155)	(1,155)	614	614
Change in other investments and miscellaneous assets	(653)	(685)	83	104
Changes in assets and liabilities, net of acquisitions and disposals	(6,683)	(6,798)	(1,644)	(1,754)
Other	2,649	2,652	230	392
Net cash provided by (used in) operating activities	(16,856)	(16,856)	9,356	9,356
Cash flows from investing activities				
Expenditures for property	(8,179)	(8,179)	(7,753)	(7,753)
Investments in marketable securities, acquisitions	(21,800)	(21,800)	(15,278)	(15,278)
Investments in marketable securities, liquidations	22,537	22,537	15,911	15,911
Net change in mortgage servicing rights	(267)	(267)	(326)	(326)
Increase in finance receivables	(6,582)	(6,582)	(38,673)	(38,673)
Proceeds from sale of finance receivables	31,652	31,652	23,385	23,385
Proceeds from sale of business units/equity investments	846	846	—	—
Operating leases, acquisitions	(15,496)	(15,496)	(14,324)	(14,324)
Operating leases, liquidations	5,362	5,362	7,696	7,696
Investments in companies, net of cash acquired	1,355	1,355	(60)	(60)
Other	(863)	(863)	1,359	1,359
Net cash provided by (used in) investing activities	8,565	8,565	(28,063)	(28,063)
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings	(10,126)	(10,126)	2,192	2,192
Borrowings of long-term debt	78,276	78,276	73,511	73,511
Payments made on long-term debt	(69,566)	(69,566)	(57,822)	(57,822)
Cash dividends paid to stockholders	(1,134)	(1,134)	(1,129)	(1,129)
Other	6,030	6,030	4,723	4,723
Net cash provided by (used in) financing activities	3,480	3,480	21,475	21,475
Effect of exchange rate changes on cash and cash equivalents	(85)	(85)	671	671
Net increase (decrease) in cash and cash equivalents	(4,896)	(4,896)	3,439	3,439
Cash and cash equivalents reclassified to assets held for sale	(371)	(371)	—	—
Cash and cash equivalents at beginning of the year	35,993	35,993	32,554	32,554
Cash and cash equivalents at end of the year	$ 30,726	$ 30,726	$ 35,993	$ 35,993

5.19

H. B. FULLER COMPANY (NOV)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at November 29, 2003	$28,435	$42,454	$437,575	$ 3,044	$511,508
Net income			35,603		35,603
Foreign currency translation				21,480	21,480
Minimum pension liability, net of tax of $2,623				(4,342)	(4,342)
Comprehensive income					52,741
Dividends			(13,460)		(13,460)
Stock option exercises	133	2,487			2,620
Share-based compensation plans other, net	82	1,840			1,922
Tax benefit on share-based compensation plans		376			376
Retirement of common stock	(9)	(238)			(247)
Balance at November 27, 2004	28,641	46,919	459,718	20,182	555,460
Net income			61,576		61,576
Foreign currency translation				(20,182)	(20,182)
Minimum pension liability, net of tax of $3,771				(7,767)	(7,767)
Comprehensive income					33,627
Dividends			(14,077)		(14,077)
Stock option exercises	327	7,304			7,631
Share-based compensation plans other, net	228	3,199			3,427
Tax benefit on share-based compensation plans		1,355			1,355
Retirement of common stock	(11)	(327)			(338)
Balance at December 3, 2005	29,185	58,450	507,217	(7,767)	587,085
Cumulative effect of adjustment resulting from adoption of SAB No. 108, net of tax			351		351
Adjusted balance at December 3, 2005	29,185	58,450	507,568	(7,767)	587,436
Net income			134,213		134,213
Foreign currency translation				26,016	26,016
Minimum pension liability, net of tax of $4,108				7,233	7,233
Comprehensive income					167,462
Dividends			(14,853)		(14,853)
2-for-1 stock split	29,813		(29,813)		—
Stock option exercises	949	18,921			19,870
Share-based compensation plans other, net	48	13,529			13,577
Tax benefit on share-based compensation plans		6,187			6,187
Retirement of common stock	(63)	(1,824)			(1,887)
Balance at December 2, 2006	$59,932	$95,263	$597,115	$ 25,482	$777,792

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

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

Recently Issued Accounting Pronouncements (In Part)

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year’s financial statements are materially misstated. SAB 108 requires registrants to apply the new quantification guidance to errors in existence at the beginning of the first fiscal year ending after November 15, 2006 by correcting errors determined to be material under this new quantification method through a one-time cumulative effect adjustment to beginning-of-year retained earnings. Upon adoption of SAB 108, the company recorded a one-time cumulative effect income adjustment to its beginning-of-year retained earnings of $351, net of taxes. See Note 13 for additional information on the adoption of SAB 108.

Note 13. Staff Accounting Bulletin 108 (SAB 108)

As discussed under Recent Accounting Pronouncements in Note 1, in September 2006, the SEC released SAB 108. The transition provisions of SAB 108 permit the company to adjust for the cumulative effect on retained earnings of errors relating to prior years deemed to be immaterial under an income statement approach that are material under the balance sheet approach. The company adopted SAB 108 effective the beginning of the fiscal year ended December 2, 2006. In accordance with SAB 108, the company has adjusted beginning retained earnings for fiscal 2006 in the accompanying Consolidated Financial Statements for the items described below.

Investment-in-Affiliate Adjustment

The company adjusted its beginning retained earnings for fiscal 2006 related to a historical imbalance between the investment and the underlying equity in a consolidated subsidiary. It was determined that the company had recorded $309 more expense than necessary when recording the subsidiary’s earnings in a prior year which was incorrectly reflected as a other long-term liability.

Deferred Revenue on Shipments With Freight Claim Exposure

The company adjusted its beginning retained earnings for fiscal 2006 related to a historical difference in accounting for revenue deferral on pre-2004 shipments to customers for which the company retained the risk of loss due to freight claim exposure. This adjustment of $585, net of tax of $256, reflects the related retained earnings effect on pre-2004 shipments which were incorrectly recorded in long-term liabilities.

Consistent Application of Accounting for Sales Allowances

The Company adjusted its beginning retained earnings for fiscal 2006 related to recognizing a reserve for expected sales allowances. Historically, the company had recorded reserves for expected sales allowances, but only at certain locations. The company did not record reserves at its other locations due to the size of individual reserve balances. The company aggregated all of the unrecorded reserves and determined that the unrecorded amount was $454, net of tax of $126.

Tax Accounting Adjustments

The company adjusted its beginning retained earnings for fiscal 2006 for a historical misstatement in current and deferred taxes payable related to unreconciled differences in detailed records supporting the deferred tax assets and current taxes payable totaling $520 and an unrecorded tax benefit of $561 related to the Medicare Part D subsidy. This resulted in an overstatement of current liabilities of $520 and long-term liabilities of $561.

The cumulative effect of each of the items noted above, net of tax, on fiscal 2006 beginning balances are presented below:

Description	Current Assets	Current Liabilities	Noncurrent Liabilities	Retained Earnings
Investment-in-affiliate adjustment	$ —	$ —	$ 309	$ (309)
Deferred revenue on shipments with freight claim exposure	—	—	(585)	585
Consistent application of accounting for sales allowances receivable disputes	(454)	—	—	454
Tax accounting adjustments	—	520	561	(1,081)
Total	$(454)	$520	$ 285	$ (351)

5.20

SARA LEE CORPORATION (JUN)

Consolidated Statements of Common Stockholders' Equity

(Dollars in millions)	Restated Total	Common Stock	Capital Surplus	Restated Retained Earnings[1]	Unearned Stock	Restated Accumulated Other Comprehensive Income (Loss)[1]	Restated Comprehensive Income (Loss)[1]
Balance at June 28, 2003, as previously reported	$2,083	$8	$ 32	$3,787	$ (10)	$(1,734)	
Effect of error correction[1]	(186)	—	—	(47)	—	(139)	
Balances at June 28, 2003	1,897	8	32	3,740	(10)	(1,873)	
Net Income	1,272	—	—	1,272	—	—	$1,272
Translation adjustments, net of tax of $ (59)	135	—	—	—	—	135	135
Minimum pension liability, net of tax of $112	199	—	—	—	—	199	199
Net unrealized gain (loss) on qualifying cash flow hedges	3	—	—	—	—	3	3
Comprehensive Income							$1,609
Dividends	(594)	—	—	(594)	—	—	
Stock Issuances—restricted stock	20	—	20	—	—	—	
Stock option and benefit plans	138	—	138	—	—	—	
Tax benefit related to stock-based compensation	14	—	14	—	—	—	
Share repurchases and retirements	(350)	—	(321)	(29)	—	—	
Conversion of ESOP preferred to common	28	—	210	—	(182)	—	
ESOP tax benefit, redemptions and other	34	—	11	1	22	—	
Balances at July 3, 2004	2,796	8	104	4,390	(170)	(1,536)	
Net income	719	—	—	719	—	—	$ 719
Translation adjustments, net of tax of $14	62	—	—	—	—	62	62
Minimum pension liability, net of tax of $(21)	(87)	—	—	—	—	(87)	(87)
Net unrealized gain (loss) on qualifying cash flow hedges	—	—	—	—	—	—	—
Comprehensive income							$ 694
Dividends	(614)	—	—	(614)	—	—	
Stock issuances—restricted stock	51	—	51	—	—	—	
Stock option and benefit plans	167	—	167	—	—	—	
Tax benefit related to stock-based compensation	10	—	10	—	—	—	
Share repurchases and retirements	(396)	—	(258)	(138)	—	—	
ESOP tax benefit, redemptions and other	24	—	5	4	15	—	
Balances at July 2, 2005	2,732	8	79	4,361	(155)	(1,561)	
Net income	555	—	—	555	—	—	$ 555
Translation adjustments, net of tax of $(43)	70	—	—	—	—	70	70
Minimum pension liability, net of tax of $96	180	—	—	—	—	180	180
Net unrealized gain (loss) on qualifying cash flow hedges	(28)	—	—	—	—	(28)	(28)
Comprehensive income							$ 777
Dividends	(611)	—	—	(611)	—	—	
Stock Issuances—restricted stock	55	—	55	—	—	—	
Stock option and benefit plans	33	—	33	—	—	—	
Tax benefit related to stock-based compensation	1	—	1	—	—	—	
Share repurchases and retirements	(561)	—	(107)	(454)	—	—	
ESOP tax benefit, redemptions and other	23	—	1	4	18	—	
Balances at July 1, 2006	$2,449	$8	$ 62	$3,855	$(137)	$(1,339)	

[1] Amounts have been restated. See Note 1 to the Consolidated Financial Statements for further information.

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

Note 1 (In Part): Basis of Presentation

Restatement of Prior Periods

The corporation's Consolidated Statements of Income, Consolidated Statements of Common Stockholders' Equity, and Consolidated Statements of Cash Flows for fiscal 2005 and 2004, as well as the Consolidated Balance Sheet for the year ended July 2, 2005, have been restated for a number of events as set out below.

Correction of Valuation Allowance on Deferred Tax Asset

In preparing its financial statements, the corporation recognizes additional minimum pension obligation if the difference between the accumulated benefit obligation of a plan and its related assets exceeds the liability recognized on the balance sheet. In establishing the required additional minimum obligation, a charge is recognized in other comprehensive income, which is a component of the corporation's common stockholders' equity. The tax effect of any charge is also recognized in other comprehensive income. However, in accordance with SFAS 109, "Accounting for Income Taxes," the establishment of a valuation allowance relating to a previously established deferred tax asset, is reflected as a charge against tax expense in continuing operations, even when the beginning of year deferred tax asset relates to an amount in common stockholders' equity.

During the preparation of the fiscal 2006 financial statements, it was determined that the corporation had inadvertently excluded deferred tax assets related to the additional minimum pension obligation in the United Kingdom (U.K.) in connection with establishing a valuation allowance against its U.K. deferred tax assets for fiscal 2003, 2004 and 2005. Consistent with the manner in which other deferred tax assets in the U.K. were evaluated in fiscal 2003, the corporation should have recognized a full valuation allowance on deferred tax assets associated with the minimum pension obligation established in fiscal 2003 and prior years. In addition, consistent with the manner in which other deferred tax assets in the U.K. were evaluated in fiscal 2004 and 2005, the corporation should have also recognized a full valuation allowance on the incremental deferred tax assets related to increases in the additional minimum pension obligation in those years.

The effect of understating the valuation allowance as described above had no impact on net income in fiscal 2004 or 2005, but resulted in the understatement of income tax expense and overstatement of income from continuing operations and net income in fiscal 2003 of $47 ($0.06 per diluted share). In addition, deferred tax assets and common stockholders' equity were each overstated by $186, $189 and $206 in fiscal 2003, 2004 and 2005, respectively. Accumulated other comprehensive income was overstated by $139, $142 and $159 in fiscal 2003, 2004 and 2005, respectively.

The corporation does not believe that any of its prior period financial statements were materially misstated as a result of not recording the deferred tax asset valuation allowance described above. However, the corporation also believes that the cumulative effect of correcting the error in the period it was discovered (the fourth quarter of fiscal 2006) would have required charges against income of approximately $47, which the corporation believes would have been material to fiscal 2006. As such, the corporation concluded that restatement of prior period financial statements is appropriate.

The corporation's fiscal 2005 balance sheet and statements of common stockholders' equity in fiscal 2004 and 2005 have been restated to appropriately reflect the deferred tax valuation allowance described above.

The impact of the effect of the restatement on periods preceding fiscal 2004 has been reflected as adjustments to retained earnings and accumulated other comprehensive income as of June 29, 2003.

OTHER CHANGES IN RETAINED EARNINGS

5.21 In addition to opening balance adjustments, the retained earnings account is affected by direct charges and credits. The most frequent direct charges to retained earnings are net loss for the year, losses on treasury stock transactions, and cash or stock dividends. The most common direct credit to retained earnings is net income for the year. Direct charges and credits—other than net loss, net income, dividends, and stock splits—are summarized in Table 5-4. Examples of such charges and credits follow.

5.22

TABLE 5-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	2006	2005	2004	2003
Charges				
Purchase or retirement of capital stock	83	78	67	69
Treasury stock issued for less than cost	33	28	39	38
Preferred stock accretion	—	—	2	4
Other—described	31	23	22	10
Credits				
Tax benefit on dividends paid to ESOP	6	6	5	9
Tax benefit on stock option exercise	5	6	3	4
Other—described	21	23	19	29

Treasury Stock Transactions

5.23

COOPER TIRE & RUBBER COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

(Dollar amounts in thousands except per share amounts)	Common Stock $1 Par Value	Capital in Excess of Par Value	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Common Shares in Treasury	Total
Balance at January 1, 2004	$85,268	$24,813	$1,226,999	$(109,679)	$(197,012)	$1,030,389
Net income			201,372			201,372
Other comprehensive income:						
Minimum pension liability adjustment, net of $16,641 tax effect				24,798		24,798
Currency translation adjustment				23,200		23,200
Change in the fair value of derivatives and unrealized gain on marketable securities, net of $894 tax effect				1,454		1,454
Sale of Automotive				(13,858)		(13,858)
Comprehensive income						236,966
Purchase of 4,030,100 treasury shares					(83,064)	(83,064)
Stock compensation plans	1,054	13,259			3,032	17,345
Cash dividends—$.42 per share			(31,103)			(31,103)
Balance at December 31, 2004	86,322	38,072	1,397,268	(74,085)	(277,044)	1,170,533
Net loss			(9,356)			(9,356)
Other comprehensive income:						
Minimum pension liability adjustment, net of $4,238 tax effect				(4,818)		(4,818)
Currency translation adjustment				(10,714)		(10,714)
Change in the fair value of derivatives and unrealized gain on marketable securities, net of $2,034 tax effect				3,294		3,294
Comprehensive income (loss)						(21,594)
Purchase of 10,151,636 treasury shares					(189,764)	(189,764)
Stock compensation plans, including tax benefit of $1,273	1	(405)			6,648	6,244
Cash dividends—$.42 per share			(26,643)			(26,643)
Balance at December 31, 2005	86,323	37,667	1,361,269	(86,323)	(460,160)	938,776
Net loss			(78,511)			(78,511)
Other comprehensive income (loss):						
Minimum pension liability adjustment, net of $6,469 tax effect				(15,795)		(15,795)
Currency translation adjustment				16,228		16,228
Change in the fair value of derivatives and unrealized gain on marketable securities, net of $633 tax effect				559		559
Comprehensive income (loss)						(77,519)
Adjustment to initially apply SFAS No. 158, net of tax				(197,221)		(197,221)
Stock compensation plans, including tax benefit of $8		477	(6)		1,165	1,636
Cash dividends—$.42 per share			(25,781)			(25,781)
Balance at December 31, 2006	$86,323	$38,144	$1,256,971	$(282,552)	$(458,995)	$ 639,891

5.24

INTEL CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(In millions, except per share amounts)	Common Stock and Capital in Excess of Par Value: Number of Shares	Common Stock and Capital in Excess of Par Value: Amount	Acquisition-Related Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 27, 2003	6,487	$ 6,754	$(20)	$ 96	$31,016	$ 37,846
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	7,516	7,516
Other comprehensive income	—	—	—	56	—	56
Total comprehensive income						7,572
Proceeds from sales of shares through employee equity incentive plans, tax benefit of $789 (including reclassification of $445 related to prior years), and other	67	1,683	—	—	—	1,683
Amortization of acquisition-related unearned stock compensation, net of adjustments	—	—	16	—	—	16
Repurchase and retirement of common stock	(301)	(2,294)	—	—	(5,222)	(7,516)
Cash dividends declared ($0.16 per share)	—	—	—	—	(1,022)	(1,022)
Balance at December 25, 2004	6,253	6,143	(4)	152	32,288	38,579
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	8,664	8,664
Other comprehensive income	—	—	—	(25)	—	(25)
Total comprehensive income						8,639
Proceeds from sales of shares through employee equity incentive plans, tax benefit of $351, and other	84	1,553	—	—	—	1,553
Assumption of acquisition-related stock options and amortization of acquisition-related unearned stock compensation, net of adjustments	—	2	4	—	—	6
Repurchase and retirement of common stock	(418)	(1,453)	—	—	(9,184)	(10,637)
Cash dividends declared ($0.32 per share)	—	—	—	—	(1,958)	(1,958)
Balance at December 31, 2005	5,919	6,245	—	127	29,810	36,182
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	5,044	5,044
Other comprehensive income	—	—	—	26	—	26
Total comprehensive income						5,070
Adjustment for initially applying SFAS No. 158, net of tax	—	—	—	(210)	—	(210)
Proceeds from sales of shares through employee equity incentive plans, net excess tax benefit, and other	73	1,248	—	—	—	1,248
Share-based compensation	—	1,375	—	—	—	1,375
Repurchase and retirement of common stock	(226)	(1,043)	—	—	(3,550)	(4,593)
Cash dividends declared ($0.40 per share)	—	—	—	—	(2,320)	(2,320)
Balance at December 30, 2006	5,766	$ 7,825	$ —	$ (57)	$28,984	$ 36,752

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Common Stock Repurchase Program

The company has an ongoing authorization, as amended in November 2005, from the Board of Directors to repurchase up to $25 billion in shares of Intel's common stock in open market or negotiated transactions. During 2006, the company repurchased 226 million shares of common stock at a cost of $4.6 billion (418 million shares at a cost of $10.6 billion during 2005 and 301 million shares at a cost of $7.5 billion during 2004). Since the program began in 1990, the company has repurchased and retired 2.8 billion shares at a cost of approximately $57 billion. As of December 30, 2006, $17.3 billion remained available for repurchase under the existing repurchase authorization.

Tax Benefit From ESOP Dividends

5.25

CHEVRON CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

(Shares in thousands; amounts in millions of dollars)	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Preferred stock	—	$ —	—	$ —	—	$ —
Common stock						
Balance at January 1	2,442,677	$ 1,832	2,274,032	$ 1,706	2,274,042	$ 1,706
Shares issued for Unocal acquisition	—	—	168,645	126	—	—
Conversion of Texaco Inc. acquisition	—	—	—	—	(10)	—
Balance at December 31	2,442,677	$ 1,832	2,442,677	$ 1,832	2,274,032	$ 1,706
Capital in excess of par						
Balance at January 1		$13,894		$ 4,160		$ 4,002
Shares issued for Unocal acquisition		—		9,585		—
Treasury stock transactions		232		149		158
Balance at December 31		$14,126		$13,894		$ 4,160
Retained earnings						
Balance at January 1		$55,738		$45,414		$35,315
Net income		17,138		14,099		13,328
Cash dividends on common stock		(4,396)		(3,778)		(3,236)
Adoption of EITF 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry"		(19)		—		—
Tax benefit from dividends paid on unallocated ESOP shares and other		3		3		7
Balance at December 31		$68,464		$55,738		$45,414
Notes receivable—key employees		$ (2)		$ (3)		$ —

(continued)

(Shares in thousands; amounts in millions of dollars)	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Accumulated other comprehensive loss						
Currency translation adjustment						
Balance at January 1		$ (145)		$ (140)		$ (176)
Change during year		55		(5)		36
Balance at December 31		$ (90)		$ (145)		$ (140)
Pension and other postretirement benefit plans						
Balance at January 1		$ (344)		$ (402)		$ (874)
Change to minimum pension liability during year		(38)		58		472
Adoption of FAS 158, "Employers' Accounting for Defined Pension and Other Postretirement Plans"		(2,203)		—		—
Balance at December 31		$ (2,585)		$ (344)		$ (402)
Unrealized net holding gain on securities						
Balance at January 1		$ 88		$ 120		$ 129
Change during year		(88)		(32)		(9)
Balance at December 31		$ —		$ 88		$ 120
Net derivatives gain (loss) on hedge transactions						
Balance at January 1		$ (28)		$ 103		$ 112
Change during year		67		(131)		(9)
Balance at December 31		$ 39		$ (28)		$ 103
Balance at December 31		$ (2,636)		$ (429)		$ (319)
Deferred compensation and benefit plan trust						
Deferred compensation						
Balance at January 1		$ (246)		$ (367)		$ (362)
Net reduction of ESOP debt and other		32		121		(5)
Balance at December 31		(214)		(246)		(367)
Benefit plan trust (common stock)	14,168	(240)	14,168	(240)	14,168	(240)
Balance at December 31	14,168	$ (454)	14,168	$ (486)	14,168	$ (607)
Treasury stock at cost						
Balance at January 1	209,990	$ (7,870)	166,912	$ (5,124)	135,747	$ (3,317)
Purchases	80,369	(5,033)	52,013	(3,029)	42,607	(2,122)
Issuances—mainly employee benefit plans	(12,241)	508	(8,935)	283	(11,442)	315
Balance at December 31	278,118	$(12,395)	209,990	$ (7,870)	166,912	$ (5,124)
Total stockholders' equity at December 31		$ 68,935		$62,676		$45,230

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars, except per-share amounts)

Note 21 (In Part): Employee Benefit Plans

Employee Stock Ownership Plan

Within the Chevron ESIP is an employee stock ownership plan (ESOP). In 1989, Chevron established a LESOP as a constituent part of the ESOP. The LESOP provides partial prefunding of the company's future commitments to the ESIP.

As permitted by American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, the company has elected to continue its practices, which are based on AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*, and subsequent consensus of the EITF of the FASB. The debt of the LESOP is recorded as debt, and shares pledged as collateral are reported as "Deferred compensation and benefit plan trust" on the Consolidated Balance Sheet and the Consolidated Statement of Stockholders' Equity.

The company reports compensation expense equal to LESOP debt principal repayments less dividends received and used by the LESOP for debt service. Interest accrued on LESOP debt is recorded as interest expense. Dividends paid on LESOP shares are reflected as a reduction of retained earnings. All LESOP shares are considered outstanding for earnings-per-share computations.

Total (credits) expenses recorded for the LESOP were $(1), $94 and $(29) in 2006, 2005 and 2004, respectively, including $17, $18 and $23 of interest expense related to LESOP debt and a (credit) charge to compensation expense of $(18), $76 and $(52).

Of the dividends paid on the LESOP shares, $59, $55 and $52 were used in 2006, 2005 and 2004, respectively, to service LESOP debt. The amount in 2006 included $28 of LESOP debt service that was scheduled for payment on the first business day of January 2007 and was paid in late December 2006. Included in the 2004 amount was a repayment of debt entered into in 1999 to pay interest on the ESOP debt. Interest expense on this debt was recognized and reported as LESOP interest expense in 1999. In addition, the company made contributions in 2005 of $98 to satisfy LESOP debt service in excess of dividends received by the LESOP. No contributions were required in 2006 or 2004 as dividends received by the LESOP were sufficient to satisfy LESOP debt service.

Shares held in the LESOP are released and allocated to the accounts of plan participants based on debt service deemed to be paid in the year in proportion to the total of current year and remaining debt service. LESOP shares as of December 31, 2006 and 2005, were as follows:

(Thousands)	2006	2005
Allocated shares	21,827	23,928
Unallocated shares	8,316	9,163
Total LESOP shares	30,143	33,091

Spin-off

5.26

WENDY'S INTERNATIONAL, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands)	2006	2005	2004
Common stock at stated value			
Balance at beginning of period	$ 12,549	$ 11,809	$ 11,676
Exercise of options and restricted stock vesting	406	740	133
Balance at end of period	12,955	12,549	11,809
Capital in excess of stated value			
Balance at beginning of period	405,588	111,286	54,310
Exercise of options, including tax benefits of $25,440, $37,816, and $6,159	145,049	257,589	37,651
Initial Public Offering of THI	716,680	0	0
THI minority interest	(140,288)	0	0
Unearned compensation—restricted stock	(37,778)	0	0
Restricted stock awards and other equity-based compensation	8,282	36,713	19,325
Tax adjustments related to the THI spin-off	(7,708)	0	0
Balance at end of period	1,089,825	405,588	111,286
Retained earnings			
Balance at beginning of period	1,858,743	1,700,813	1,703,488
Net income	94,312	224,067	52,035
Dividends	(72,708)	(66,137)	(54,710)
Spin-off of THI	(638,858)	0	0
Balance at end of period	1,241,489	1,858,743	1,700,813
Accumulated other comprehensive income	(13,446)	114,156	102,037
Treasury stock, at cost			
Balance at beginning of period	(294,669)	(195,124)	(56,992)
Purchase of common stock	(1,024,477)	(99,545)	(138,132)
Balance at end of period	(1,319,146)	(294,669)	(195,124)
Unearned compensation—restricted stock	0	(37,778)	(15,132)
Shareholders' equity	$ 1,011,677	$2,058,589	$1,715,689
Common shares			
Balance issued at beginning of period	125,490	118,090	116,760
Exercise of options and restricted stock vesting	4,058	7,400	1,330
Balance issued at end of period	129,548	125,490	118,090
Treasury shares			
Balance at beginning of period	(7,681)	(5,681)	(2,063)
Purchase of common stock	(26,163)	(2,000)	(3,618)
Balance at end of period	(33,844)	(7,681)	(5,681)
Common shares outstanding	95,704	117,809	112,409

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business (In Part)

On March 29, 2006, the Company completed its initial public offering ("*IPO*") of Tim Hortons Inc. ("*THI*"). A total of 33.4 million shares of THI were offered at an initial per share price of $23.162 ($27.00 Canadian). The shares sold in the IPO represented 17.25% of total THI shares issued and outstanding and the Company retained the remaining 82.75%. On September 29, 2006, the Company completed the spin-off of its remaining 82.75% ownership in THI, the parent company of the business previously reported as the Hortons segment. Accordingly, the results of operations of THI are reflected as discontinued operations for all periods presented and the assets and liabilities are reflected as discontinued operations at January 1, 2006. During the third quarter of 2006, the Company's Board of Directors approved the sale of Baja Fresh and on November 28, 2006, the Company completed the sale of Baja Fresh and, accordingly, the results of operations of Baja Fresh are reflected as discontinued operations for all periods presented and the assets and liabilities of Baja Fresh are reflected as discontinued operations at January 1, 2006. On October 9, 2006, the Company's Board of Directors approved the future sale of Cafe Express and, accordingly, the resuls of operations and assets and liabilities of Cafe Express are reflected as discontinued operations for all periods presented. Baja Fresh and Cafe Express were previously reported as the Developing Brands segment.

Note 6 (In Part): Shareholders' Equity

On September 29, 2006, the Company completed its spin-off of THI, the parent company of the business formerly reported as the Hortons segment. The net assets of THI of $638.9 million (including accumulated translation adjustments of $112.2 million and a hedge fair value loss of $0.6 million in other comprehensive income) have been reflected as a final dividend paid out of retained earnings in 2006. The assets and liabilities of THI have been recorded in current assets and liabilities and non current assets and liabilities of discontinued operations as of January 1, 2006.

On March 29, 2006, the Company completed its IPO of THI. A total of 33.4 million shares were offered at an initial per share price of $23.162 ($27.00 Canadian). The gross proceeds of $769.2 million were offset by $52.4 million in underwriter and other third party costs with all such costs paid as of October 1, 2006. As a result of the IPO, the Company recorded a $716.8 million increase to capital in excess of stated value. The shares sold in the IPO represented 17.25% of total THI shares issued and outstanding and the Company retained the remaining 82.75% of THI shares until it completed the spin-off described above. The IPO was reflected as an increase to capital in excess of total value in accordance with SAB No. 51, "Accounting for Sales of Stock of a Subsidiary", because the Company expected to spin-off the remaining THI shares it held.

Note 10 (In Part): Discontinued Operations

THI (In Part)

On September 29, 2006, the Company completed the distribution of its remaining 82.75% ownership in THI. The distribution took place in the form of a pro rata common stock dividend to Wendy's shareholders whereby each shareholder received 1.3542759 shares of THI common stock for each share of Wendy's common stock held (see also Note 6 to the Consolidated Financial Statements).

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.27 Paragraph 10 of APB Opinion No. 12, *Omnibus Opinion—1967*, states:

> 10. When both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

5.28 Table 5-5 summarizes the presentation formats used by the survey companies to present changes in additional paid-in capital.

5.29

TABLE 5-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	2006	2005	2004	2003
Statement of stockholders' equity	532	523	517	515
Schedule in notes	9	10	11	11
No statement or schedule but changes disclosed	2	2	1	1
Balance unchanged during year	3	6	10	11
	546	**541**	**539**	**538**
Additional paid-in capital account not presented	54	59	61	62
Total Companies	**600**	**600**	**600**	**600**

STOCK SPLITS

5.30 Table 5-6 shows the number of survey companies disclosing stock splits and summarizes the accounting treatments for stock splits. Examples of disclosures of stock splits follow.

5.31

TABLE 5-6: STOCK SPLITS

	2006	2005	2004	2003
Ratio				
Less than three-for-two	1	3	1	3
Three-for-two (50%) to two-for-one	9	9	7	4
Two-for-one (100%)	29	31	38	12
Greater than two-for-one	2	1	1	—
	41	**44**	**47**	**19**
Reverse Ratio				
One-for-two	—	1	—	—
One-for-three	—	—	—	—
One-for-four	—	—	1	—
Other	1	1	1	—
Total Companies	**42**	**46**	**49**	**19**
Account(s) Charged				
Additional paid-in capital	12	10	7	7
Retained earnings	2	6	7	5
Both additional paid-in capital and retained earnings	—	2	—	—
No charge	28	28	35	7
Total Companies	**42**	**46**	**49**	**19**

5.32

ANADARKO PETROLEUM CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

(Millions)	2006	2005	2004
Preferred stock			
Balance at beginning of year	$ 89	$ 89	$ 89
Preferred stock repurchased and retired	(43)	—	—
Balance at end of year	46	89	89
Common stock			
Balance at beginning of year	27	26	26
Common stock issued	1	1	—
Two-for-one stock split	23	—	—
Retirement of treasury stock	(4)	—	—
Balance at end of year	47	27	26
Paid-in capital			
Balance at beginning of year	6,063	5,741	5,453
Common stock issued	224	263	260
Two-for-one stock split	(23)	—	—
Retirement of treasury stock	(820)	—	—
Revaluation to market for Executives and Directors Benefits Trust	(15)	59	28
Balance at end of year	5,429	6,063	5,741
Retained earnings			
Balance at beginning of year	6,957	4,661	3,199
Net income	4,854	2,471	1,606
Dividends—preferred	(3)	(5)	(5)
Dividends—common	(167)	(170)	(139)
Retirement of treasury stock	(1,722)	—	—
Balance at end of year	9,919	6,957	4,661
Treasury stock			
Balance at beginning of year	(2,423)	(1,476)	(166)
Purchase of treasury stock	(142)	(947)	(1,310)
Retirement of treasury stock	2,545	—	—
Balance at end of year	(20)	(2,423)	(1,476)
Employee Stock Ownership Plan			
Balance at beginning of year	—	(7)	(22)
Release of shares	—	7	15
Balance at end of year	—	—	(7)
Executives and Directors Benefits Trust			
Balance at beginning of year	(189)	(130)	(102)
Revaluation to market	15	(59)	(28)
Balance at end of year	(174)	(189)	(130)
Accumulated other comprehensive income (loss), net of taxes			
Balance at beginning of year	527	381	122
Unrealized gain (loss) on derivative instruments	(132)	18	97
Foreign currency translation adjustments	(549)	67	182
Minimum pension liability adjustments	7	61	(20)
Adoption of SFAS No. 158	(187)	—	—
Balance at end of year	(334)	527	381
Total stockholders' equity	$14,913	$11,051	$9,285

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Common Stock

In May 2006, the Company's shareholders approved an increase in authorized shares so Anadarko could complete a two-for-one stock split to be effected in the form of a stock dividend. The distribution date was May 26, 2006 to stockholders of record on May 12, 2006. In addition, the Company's Board of Directors approved the retirement of the Company's existing treasury stock prior to the stock split distribution date. The book value of the treasury shares was allocated to common stock, paid-in capital and retained earnings at the time of retirement. Except for the presentation of common shares authorized and issued on the consolidated balance sheet and shares presented in the table below, all share and per share information has been revised to give retroactive effect to the stock split.

The changes in the Company's shares of common stock are as follows:

(Millions)	2006	2005	2004
Shares of common stock issued			
Beginning of year	266	262	257
Exercise of stock options	3	4	5
Issuance of restricted stock	2	—	—
Retirement of treasury stock	(36)	—	—
Two-for-one stock split	232	—	—
End of year	467	266	262
Shares of common stock held in treasury			
Beginning of year	34	23	3
Purchase of treasury stock	1	11	20
Shares received for restricted stock vested and options exercised	1	—	—
Retirement of treasury stock	(36)	—	—
End of year	—	34	23
Shares of common stock held for Employee Stock Ownership Plan			
Beginning of year	—	—	1
Release of shares	—	—	(1)
End of year	—	—	—
Shares of common stock held for Executives and Directors Benefits Trust			
Beginning of year	2	2	2
Two-for-one stock split	2	—	—
End of year	4	2	2
Shares of common stock outstanding at end of year	463	230	237

5.33

H.B. FULLER COMPANY (NOV)

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at November 29, 2003	$28,435	$42,454	$437,575	$ 3,044	$511,508
Net income			35,603		35,603
Foreign currency translation				21,480	21,480
Minimum pension liability, net of tax of $2,623				(4,342)	(4,342)
Comprehensive income					52,741
Dividends			(13,460)		(13,460)
Stock option exercises	133	2,487			2,620
Share-based compensation plans other, net	82	1,840			1,922
Tax benefit on share-based compensation plans		376			376
Retirement of common stock	(9)	(238)			(247)
Balance at November 27, 2004	28,641	46,919	459,718	20,182	555,460
Net income			61,576		61,576
Foreign currency translation				(20,182)	(20,182)
Minimum pension liability, net of tax of $3,771				(7,767)	(7,767)
Comprehensive income					33,627
Dividends			(14,077)		(14,077)
Stock option exercises	327	7,304			7,631
Share-based compensation plans other, net	228	3,199			3,427
Tax benefit on share-based compensation plans		1,355			1,355
Retirement of common stock	(11)	(327)			(338)
Balance at December 3, 2005	29,185	58,450	507,217	(7,767)	587,085
Cumulative effect of adjustment resulting from adoption of SAB No. 108, net of tax			351		351
Adjusted balance at December 3, 2005	29,185	58,450	507,568	(7,767)	587,436
Net income			134,213		134,213
Foreign currency translation				26,016	26,016
Minimum pension liability, net of tax of $4,108				7,233	7,233
Comprehensive income					167,462
Dividends			(14,853)		(14,853)
2-for-1 stock split	29,813		(29,813)		—
Stock option exercises	949	18,921			19,870
Share-based compensation plans other, net	48	13,529			13,577
Tax benefit on share-based compensation plans		6,187			6,187
Retirement of common stock	(63)	(1,824)			(1,887)
Balance at December 2, 2006	$59,932	$95,263	$597,115	$ 25,482	$777,792

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

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

Principles of Consolidation (In Part)

On July 13, 2006, the company's board of directors approved a two-for-one stock split of its common stock. The stock split was payable on August 4, 2006 to shareholders of record as of July 28, 2006. The split was in the form of a stock dividend, with shareholders receiving an additional share for each existing share held. All references in the Consolidated Financial Statements to the number of common shares and related per share amounts reflect the effect of the stock split.

Note 9 (In Part): Stockholders' Equity

Common Stock

There were 160,000,000 shares of common stock with a par value of $1.00 authorized and 59,931,766 and 58,369,508 shares issued and outstanding at December 2, 2006 and December 3, 2005, respectively. Dividends of $0.24875, $0.24125 and $0.22875 per share were declared and paid in 2006, 2005 and 2004, respectively.

On July 13, 2006, the company's board of directors approved a two-for-one stock split of its common stock. The stock split was payable on August 4, 2006 to shareholders of record as of July 28, 2006. The split was in the form of a stock dividend, with shareholders receiving an additional share for each existing share held. All references in the Consolidated Financial Statements to the number of common shares and related per share amounts reflect the effect of the stock split.

Common Shares Outstanding	2006	2005	2004
Beginning balance	58,369,508	57,282,074	56,870,000
Stock options exercised	1,542,664	654,468	264,954
Deferred compensation paid	46,940	116,774	61,520
Restricted units vested	46,384	34,048	33,074
Restricted shares granted	12,474	372,214	80,476
Restricted shares forfeited	(12,522)	(68,676)	(10,658)
Shares withheld for taxes	(73,682)	(21,394)	(17,292)
Ending balance	59,931,766	58,369,508	57,282,074

5.34

HESS CORPORATION (DEC)

Statement of Consolidated Stockholders' Equity

	2006		2005		2004	
(Millions of dollars; thousands of shares)	Shares	Amount	Shares	Amount	Shares	Amount
Preferred stock						
Balance at January 1	13,824	$ 14	13,827	$ 14	13,827	$ 14
Conversion of preferred stock to common stock	(13,500)	(14)	(3)	—	—	—
Balance at December 31	324	—	13,824	14	13,827	14
Common stock*						
Balance at January 1	279,197	279	275,145	275	269,604	270
Activity related to restricted common stock awards, net	903	1	948	1	927	1
Employee stock options exercised	1,283	1	3,098	3	4,614	4
Conversion of preferred stock to common stock	33,635	34	6	—	—	—
Balance at December 31	315,018	315	279,197	279	275,145	275
Capital in excess of par value*						
Balance at January 1		1,656		1,544		1,423
Activity related to restricted common stock awards, net		36		37		23
Employee stock options exercised		68		75		98
Conversion of preferred stock to common stock		(20)		—		—
Reclassification resulting from adoption of FAS 123R		(51)		—		—
Balance at December 31		1,689		1,656		1,544
Retained earnings						
Balance at January 1		5,914		4,831		4,011
Net income		1,916		1,242		977
Dividends declared on common stock		(115)		(111)		(109)
Dividends on preferred stock		(44)		(48)		(48)
Balance at December 31		$7,671		$5,914		$4,831

(continued)

	2006		2005		2004	
(Millions of dollars; thousands of shares)	Shares	Amount	Shares	Amount	Shares	Amount
Accumulated other comprehensive income (loss)						
Balance at January 1		$(1,526)		$(1,024)		$ (350)
Net other comprehensive income (loss)		104		(502)		(674)
Cumulative effect of adoption of FAS 158		(142)		—		—
Balance at December 31		(1,564)		(1,526)		(1,024)
Deferred compensation						
Balance at January 1		(51)		(43)		(28)
Change in unearned compensation		—		(8)		(15)
Reclassification resulting from adoption of FAS 123R		51		—		—
Balance at December 31		—		(51)		(43)
Total stockholders' equity at December 31		$ 8,111		$ 6,286		$ 5,597

* Common stock and Capital in excess of par value as of January 1, 2004, December 31, 2004 and December 31, 2005 are restated to reflect the impact of a 3-for-1 stock split on May 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Stockholders' Equity and Net Income Per Share

On May 3, 2006, the Corporation's shareholders voted to increase the number of authorized common shares from 200 million to 600 million and the board of directors declared a three-for-one stock split. The stock split was completed in the form of a stock dividend that was issued on May 31, 2006 to shareholders of record on May 17, 2006. The common share par value remained at $1.00 per share. All common share and per share amounts in these financial statements and notes are on an after-split basis for all periods presented.

CHANGES IN ADDITIONAL PAID-IN CAPITAL

5.35 Table 5-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

5.36

TABLE 5-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	2006	**2005**	**2004**	**2003**
Credits				
Common stock issued				
Employee benefits	442	460	438	401
Business combinations	41	47	45	38
Public offerings	36	32	32	33
Debt conversions/ extinguishments	20	20	18	12
Preferred stock conversions	15	18	19	10
Compensation recognized	307	98	92	51
Stock compensation tax benefits	249	214	199	156
Warrants issued or exercised	2	6	5	7
Put options/warrants	—	—	—	1
Other—described	80	45	44	36
Charges				
Purchase or retirement of capital stock	128	119	107	99
Other employee benefits	82	44	N/C*	N/C*
Treasury stock issued for less than cost	75	64	74	75
Restricted stock	69	36	26	39
Conversion of preferred stock	6	7	5	7
Other—described	74	39	64	65

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

Common Stock Issued in Connection With Employee Benefit Plans

5.37

THE BOEING COMPANY (DEC)

Consolidated Statement of Shareholders' Equity

(Dollars in millions)	Additional Paid-In Capital	Treasury Stock	ShareValue Trust	Accumulated Other Comprehensive Loss	Retained Earnings	Comprehensive Gain
Balance January 1, 2004	$2,880	$ (8,322)	$(1,740)	$(4,145)	$14,407	$ 618
Share-based compensation	576					
Tax benefit related to share-based plans	13					
Shares paid out, net of fees			143			
ShareValue Trust market value adjustment	283		(426)			
Treasury shares issued for share-based plans, net	(332)	264				
Treasury shares repurchased		(752)				
Net earnings					1,872	1,872
Cash dividends declared ($0.85 per share)					(714)	
Minimum pension liability adjustment, net of tax of $(1,257)				2,188		2,188
Reclassification adjustment for losses realized in net earnings, net of taxes of $(12)				21		21
Gain on derivative instruments, net of tax of $(8)				14		14
Unrealized loss on certain investments, net of tax of $18				(34)		(34)
Currency translation adjustment				31		31
Balance December 31, 2004	$3,420	$ (8,810)	$(2,023)	$(1,925)	$15,565	$4,092
Share-based compensation	720					
Tax benefit related to share-based plans	35					
Restricted stock compensation and reclassification of deferred compensation	3					
Changes in capital stock	23					
ShareValue Trust market value adjustment	773		(773)			
Excess tax pools	63					
Treasury shares issued for share-based plans, net	(666)	612				
Treasury shares repurchased		(2,877)				
Net earnings					2,572	2,572
Cash dividends declared ($1.05 per share)					(861)	
Minimum pension liability adjustment, net of tax of $(45)				167		167
Reclassification adjustment for losses realized in net earnings, net of taxes of $(15)				21		21
Unrealized loss of certain investments, net of tax of $8				(12)		(12)
Currency translation adjustment				(29)		(29)
Balance December 31, 2005	$4,371	$(11,075)	$(2,796)	$(1,778)	$17,276	$2,719
Share-based compensation	487					
ShareValue Trust withholding tax	(265)					
ShareValue Trust distribution	(471)		457			
Tax benefit related to share-based plans	36					
ShareValue Trust market value adjustment	716		(716)			
Excess tax pools	325					
Treasury shares issued for share-based plans, net	(544)*	615				
Treasury shares repurchased		(1,698)				
Treasury shares transfer		(301)	301			
Net earnings					2,215	2,215
Cash dividends declared ($1.25 per share)					(991)	
Dividends related to Performance Share payout					(47)	
Reclassification adjustment for gains realized in net earnings, net of tax of $23				(39)		(39)
Unrealized gain on derivative instruments, net of tax of $(16)				23		23
Unrealized gain on certain investments, net of tax of $(7)				13		13
Minimum pension liability adjustment, net of tax of $(1,116)				1,733		1,733
SFAS 158 transition amount, net of tax of $5,195				(8,242)		
Currency translation adjustment				73		73
Balance December 31, 2006	$4,655	$(12,459)	$(2,754)	$(8,217)	$18,453	$4,018

* Includes transfers of Shareholders' equity of $224, primarily to other liabilities for employee withholding taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Share-Based Compensation and Other Compensation Arrangements

Share-Based Compensation

On April 28, 2003, the shareholders approved The Boeing Company 2003 Incentive Stock Plan (2003 Plan). The 2003 Plan permits awards of incentive stock options, nonqualified stock options, restricted stock, stock units, Performance Shares, performance units and other incentives to our employees, officers, consultants and independent contractors. The aggregate number of shares of our stock available for issuance under the 2003 Plan will not exceed 60,000,000. Under the terms of the 2003 Plan, no more than an aggregate of 6,000,000 shares are available for issuance as restricted stock awards.

Our 1997 Incentive Stock Plan (1997 Plan) permits the grant of stock options, stock appreciation rights (SARs) and restricted stock awards (denominated in stock or stock units) to employees and contract employees. Under the terms of the plan, 64,000,000 shares are authorized for issuance upon exercise of options, as payment of SARs and as restricted stock awards, of which no more than an aggregate of 6,000,000 shares are available for Issuance as restricted stock awards. This authorization for issuance under the 1997 Plan will terminate on April 30, 2007.

Shares issued as a result of stock option exercise or conversion of stock unit awards will be funded out of treasury shares except to the extent there are insufficient treasury shares in which case new shares will be issued. We believe we currently have adequate treasury shares to meet any requirements to issue shares during 2007.

Share-based plans expense is primarily included in general and administrative expense since it is incentive compensation issued primarily to our executives. The share-based plans expense and related income tax benefit follow:

	2006	2005	2004
Performance Shares	$473	$ 723	$449
Stock options, other	173	234	132
ShareValue Trust	97	79	74
Share-based plans expense	$743	$1,036	$655
Income tax benefit	$291	$ 322	$238

Performance Shares (In Part)

Performance Shares are stock units that are convertible to common stock, on a one-to-one basis, contingent upon stock price performance. If, at any time up to five years after award, the stock price reaches and maintains for twenty consecutive days a price equal to stated price growth targets, a stated percentage (up to 125%) of the Performance Shares awarded are vested and convertible to common stock. The following table shows the cumulative vesting percentages based on the cumulative growth rate of the stock above the stock price at the grant date for performance shares awarded in 2002:

Cumulative growth	61.0%	68.5%	76.2%	84.2%	92.5%	101.1%
Cumulative vesting	25%	40%	55%	75%	100%	125%

Cumulative stock price growth targets and vesting percentages for 2003, 2004 and 2005 awards follow:

Cumulative growth	40%	50%	60%	70%	80%	90%	100%	110%	120%	125%
Cumulative vesting	15%	30%	45%	60%	75%	90%	100%	110%	120%	125%

Performance Shares not converted to common stock expire five years after the date of the award. Awards may vest based on total shareholder return as follows:

- For 2002 awards, up to 100% of the award may vest if our total shareholder return (stock price appreciation plus dividends) during the five-year period exceeds the average total shareholder return of the S&P 500 over the same period.
- For 2003 and 2004 awards, up to 125% of the award may vest based on an award formula using the total shareholder return performance relative to the S&P 500.
- For 2005 award, up to 125% of the award may vest based on an award formula using the total shareholder return performance relative to the S&P 100 and the five-year Treasury Bill rate.

In the event a participant's employment terminates due to retirement, layoff, disability, or death, the participant (or beneficiary) continues to participate in Performance Shares awards that have been outstanding for at least one year. In all other cases, participants forfeit unvested awards if their employment terminates.

The following tables summarize information about Performance Shares activity:

(Shares in thousands)	2006 Shares
Number of Performance Shares:	
Outstanding at beginning of year	24,859
Granted	
Transferred	
Dividend	172
Converted or deferred	(14,925)
Forfeited	(593)
Canceled or expired	(5,493)
Outstanding at end of year	4,020
Outstanding at end of year not contingent on future employment	1,578

The following table provides additional information regarding potentially convertible and converted or deferred Performance Shares.

(Shares in thousands)				
Grant date	2/25/2002	2/24/2003	2/23/2004	2/28/2005
Expiration date	2/25/2007	2/24/2008	2/23/2009	2/28/2010
Weighted average grant date fair value	$ 44.94	$ 30.27	$ 43.53	$ 33.05
Cumulative vested at December 31, 2006	100%	125%	100%	45%
Shares convertible at December 31, 2006				4,020
Shares convertible at December 31, 2005	5,625		5,991	7,347
Shares converted or deferred during 2006	5,642		6,003	3,280
Shares converted or deferred during 2005		5,688	4,855	
Total market value of converted or deferred share 2006	$ 461		$ 496	$ 276
Total market value of converted or deferred share 2005		$ 351	$ 322	

The above tables do not include the maximum number of shares contingently issuable under the Plans. Additional shares of 5,825,998 could be transferred in and converted or deferred if Performance Share vestings exceed 100%. Additionally, future deferred vestings that are eligible for the 25% matching contribution could result in the issuance of an additional 1,809,888 shares.

For years ended December 31, 2006, 2005 and 2004, we recorded $120, $124 and $57, respectively, of additional compensation expense to accelerate the amortization of compensation cost for those Performance Shares converted to common stock or deferred as stock or cash at the employees' election.

Stock Options (In Part)

Options have been granted with an exercise price equal to the fair market value of our stock on the date of grant and expire ten years after the date of grant. For stock options issued prior to 2006, vesting is generally over a five-year service period with portions of a grant becoming exercisable at one year, three years and five years after the date of grant. In the event an employee has a termination of employment due to retirement, layoff, disability or death, the employee (or beneficiary) immediately vests in grants that have been outstanding for at least one year.

On February 27, 2006 we granted to our executives 6,361,100 options with an exercise price equal to the fair market value of our stock on the date of grant. The stock options vest over a period of three years, with 34% vesting after the first year, 33% vesting after the second year and the remaining 33% vesting after the third year. The options expire ten years after the date of grant. If an executive terminates for any reason, the non-vested portion of the stock option will not vest and all rights to the non-vested portion will terminate completely.

The following table summarizes the activity of stock options issued to directors, officers and other employees:

(Shares in thousands)	2006 Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In Millions)
Number of shares under option:				
Outstanding at beginning of year	16,358	$45.40		
Granted	6,408	74.55		
Exercised	(6,543)	46.58		
Forfeited	(697)	67.64		
Expired	(44)	48.70		
Outstanding at end of year	15,482	56.22	5.87	$505
Exercisable at end of year	8,428	$46.58	3.48	$356

The total intrinsic value of options exercised was $216, $170 and $44 during the years ended December 31, 2006, 2005 and 2004, respectively. Cash received from options exercised for the years ended December 31, 2006, 2005 and 2004 was $294, $348 and $98 with a related tax benefit of $52, $59 and $13, respectively, derived from the compensation deductions resulting from these option exercises. Stock options granted during 2005 and 2004 were not material. At December 31, 2006, there was $97 of total unrecognized compensation cost related to the Stock Option plan which is expected to be recognized over a weighted average period of 2.1 years. The total fair value of stock options vested during the year ended December 31, 2006 was $8.

5.38

CHURCH & DWIGHT CO., INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands)	Number of Shares: Common Stock	Number of Shares: Treasury Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
January 1, 2004	69,991	(8,812)	$69,991	$(81,094)	$27,882	$435,677	$(13,962)	
Net income	—	—	—	—	—	88,808	—	$ 88,808
Translation adjustments	—	—	—	—	—	—	7,523	7,523
Minimum pension liability, net of tax benefits of $274	—	—	—	—	—	—	(289)	(289)
Company portion of Armkel accumulated other comprehensive (loss), net of taxes of $879	—	—	—	—	—	—	3,475	3,475
Interest rate swap agreements, net of taxes of $55	—	—	—	—	—	—	143	143
Comprehensive income								$ 99,660
Cash dividends	—	—	—	—	—	(14,005)	—	
Stock option plan transactions, including related income tax benefits of $15,516	—	1,999	—	16,225	17,924	—	—	
Other stock issuances	—	10	—	94	1,638	—	—	
December 31, 2004	69,991	(6,803)	$69,991	$(64,775)	$47,444	$510,480	$ (3,110)	

(continued)

(In thousands)	Number of Shares: Common Stock	Number of Shares: Treasury Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
December 31, 2004	69,991	(6,803)	$69,991	$(64,775)	$47,444	$510,480	$ (3,110)	
Net income	—	—	—	—	—	122,906	—	$122,906
Translation adjustments	—	—	—	—	—	—	2,890	2,890
Minimum pension liability, net of tax benefits of $83	—	—	—	—	—	—	(234)	(234)
Comprehensive income	—	—	—	—	—	—	—	$125,562
Cash dividends	—	—	—	—	—	(15,315)	—	
Stock option plan transactions, including related income tax benefits of $9,186	—	1,191	—	8,865	17,488	—	—	
Other stock issuances	—	9	—	70	178	—	—	
December 31, 2005	69,991	(5,603)	69,991	(55,840)	65,110	618,071	(454)	
Net income	—	—	—	—	—	138,927	—	$138,927
Translation adjustments	—	—	—	—	—	—	15,302	15,302
Minimum pension liability, net of tax benefits of $220	—	—	—	—	—	—	(338)	(338)
SFAS No. 158 adoption adjustment, net of taxes of $1,300	—	—	—	—	—	—	(2,182)	—
Interest rate agreements, net of taxes of $113							(175)	(175)
Comprehensive income	—	—	—	—	—	—	—	$153,716
Cash dividends	—	—	—	—	—	(16,868)	—	
Stock based compensation expense and stock option plan transactions, including related income tax benefits of $9,185	—	924	—	6,655	24,988	—	—	
Other stock issuances	—	49	—	349	301	—	—	
December 31, 2006	69,991	(4,630)	$69,991	$(48,836)	$90,399	$740,130	$ 12,153	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stock Option Plans

The Company has options outstanding under three equity compensation plans. Under the 1983 Stock Option Plan and the 1994 Incentive Stock Option Plan, the Company may grant options to key management employees. Under the Stock Option Plan for Directors the Company grants options to non-employee directors. Options outstanding under the plans are issued at market value, vest on the third anniversary of the date of grant and must be exercised within ten years of the date of grant. A total of 10.5 million shares of the Company's common stock is authorized for issuance upon the exercise of stock options. Issuances of Common Stock to satisfy employee option exercises are currently made from treasury stock.

Stock option transactions for the three years ended December 31, 2006 were as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2004	6,606,288	$13.76
Grants	1,023,296	27.58
Exercised	1,998,539	9.32
Cancelled	234,459	15.00
Outstanding at December 31, 2004	5,396,586	17.97
Grants	709,800	35.23
Exercised	1,191,017	14.41
Cancelled	173,487	21.78
Outstanding at December 31, 2005	4,741,882	21,37
Grants	913,550	35.51
Exercised	923,916	13.20
Cancelled	152,705	28.17
Outstanding at December 31, 2006	4,578,811	$25.61

At December 31, 2006, 2005 and 2004, options to purchase 2,386,874 shares, 2,484,009 shares and 2,720,108 shares were exercisable, respectively.

The table below summarizes information relating to options outstanding and exercisable at December 31, 2006.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding as of 12/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of 12/31/2006	Weighted Average Exercise Price
$ 5.01–$10.00	249,496	1.1	$ 9.10	249,496	$ 9.10
$10.01–$15.00	533,300	2.8	$12.28	533,300	$12.28
$15.01–$20.00	440,000	4.2	$16.71	440,000	$16.71
$20.01–$25.00	974,705	5.6	$22.01	974,705	$22.01
$25.01–$30.00	742,060	6.9	$29.50	135,873	$29.53
$30.01–$35.00	195,750	7.9	$32.74	52,000	$32.42
$35.01–$40.00	1,422,000	8.7	$35.48	1,500	$38.15
$40.01–$45.00	21,500	9.8	$40.71	—	$ —
	4,578,811	6.2	$25.61	2,386,874	$18.17

The table above represents the Company's estimate of options fully vested and/or expected to vest as expected forfeitures are not material to the Company, and therefore are not reflected in the table above.

The fair value of options granted in 2006 and 2005 is $12.4 million and $9.6 million, respectively, and the weighted average fair value per share of options granted in 2006 and 2005 is $13.62 and $13.56, respectively.

The fair value of options granted in 2006, 2005 and 2004 was estimated on the date the options were granted based on the Black Scholes option-pricing model with the following weighted-average assumptions:

	2006	2005	2004
Risk-free interest rate	5.0%	4.0%	4.3%
Expected life	6.5 years	6.6 years	6.6 years
Expected volatility	30.4%	33.0%	28.2%
Dividend yield	0.7%	0.7%	0.7%

The Company determined its expected volatility and dividend yield based on the historical changes in stock price and dividend payments. The risk free interest rate is based on the yield of an applicable term Treasury instrument. The Company determined the option's expected life based on historical exercise behavior. The total intrinsic value of options exercised during 2006, 2005 and 2004 were $22.4, $25.8 and $41.7 million, respectively. As of December 31, 2006, there was a fair value of $14.0 million related to unamortized stock option compensation expense, which is expected to be recognized over a weighted-average period of approximately one year. The Company's 2006 Consolidated Statements of Cash Flow reflects an add back to Net Cash Provided by Operating Activities of $10.6 million of non cash compensation expense, primarily stock option expense. Net Cash Used in Financing Activities in 2006 reflects $7.6 million of excess tax benefits on stock options exercised. The total tax benefit for 2006, 2005 and 2004 was $9.2, $9.2 and $15.5 million, respectively. During 2006, there were no modifications made to any options outstanding.

During 2005, the Company instituted a program under which officers who elect to receive up to 50% of their annual incentive compensation in shares of the Company's common stock or stock equivalents, or otherwise increase their share ownership during a specified period of time, will be awarded restricted shares having a fair market value of 20% of the amount of stock and stock equivalents that an officer elects to receive or otherwise acquires. The restricted shares vest on the third anniversary of the date of grant. During the three year vesting period, officers holding these shares will have voting rights and receive dividends either in cash or through reinvestment in additional shares. During 2006, approximately 41 thousand restricted shares were issued, of which 35 thousand shares were issued in connection with a new executive employment agreement in the third quarter. The $1.5 million value of these restricted shares is expensed primarily over the three year graduated vesting period.

Business Combination

5.39

BARNES GROUP INC. (DEC)

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
January 1, 2004	$488	$124,096	$(34,652)	$259,977	$(14.475)	$335,434
Comprehensive income:						
Net income				30,026		30,026
Foreign currency translation adjustments, net					9,637	9,637
Unrealized gains on hedging activities, net					31	31
Minimum pension liability adjustment, net					(8,902)	(8,902)
Comprehensive income				30,026	766	30,792
Dividends paid				(18,509)		(18,509)
Common stock repurchases			(3,498)			(3,498)
Employee stock plans		6,257	6,609	(709)		12,157
December 31, 2004	488	130,353	(31,541)	270,785	(13,709)	356,376
Comprehensive income:						
Net income				54,151		54,151
Foreign currency translation adjustments, net					(7,353)	(7,353)
Unrealized gains on hedging activities, net					579	579
Minimum pension liability adjustment, net					(5,494)	(5,494)
Comprehensive income:				54,151	(12,268)	41,883
Dividends paid				(19,879)		(19,879)
Common stock repurchases			(149)			(149)
Employee stock plans		6,609	17,100	(783)		22,926
December 31, 2005	488	136,962	(14,590)	304,274	(25,977)	401,157
Comprehensive income:						
Net income				73,845		73,845
Foreign currency translation adjustments, net					19,323	19,323
Unrealized gains on hedging activities, net					42	42
Minimum pension liability adjustment, net					9,791	9,791
Comprehensive income				73,845	29,156	103,001
Adjustment to initially apply SFAS No. 158, net					(26,335)	(26,335)
Dividends paid				(24,803)		(24,803)
Common stock repurchases			(712)			(712)
Stock issued for the purchase of Heinz Hänggi	16	30,666				30,682
Employee stock plans	22	26,582	10,694	(493)		36,805
December 31, 2006	$526	$194,210	$ (4,608)	$352,823	$(23,156)	$519,795

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Acquisitions

In May 2006, the Company acquired Heinz Hänggi, a developer and manufacturer of high-precision punched and fine-blanked components, and a producer of orifice plates, used in fuel injectors throughout the world. Its range of manufacturing solutions allows Heinz Hänggi to serve diversified industries, including high-precision components for transportation suppliers, the power tools sector, the watch industry, consumer electronics, telecommunications, medical devices, and textile machinery sectors. A majority of Heinz Hänggi's sales are in Europe. Heinz Hänggi is being integrated into the Associated Spring segment. The Company reported $19,453 in sales from Heinz Hänggi for the period from the acquisition date through December 31, 2006. The purchase price of 162.0 million Swiss francs ($132,019 U.S. Dollars) was paid through a combination of 122.0 million Swiss francs ($101,337 U.S. Dollars) in cash and 1,628,676 shares (post–stock split) of Barnes Group Inc. common stock ($30,682 based upon a market value determined at the time of the purchase agreement). The purchase cost, consisting of the purchase price of $132,019 plus transaction costs of $2,614, net of cash acquired of $7,672, was $126,961.

Public Offering

5.40

TRANSTECHNOLOGY CORPORATION (MAR)

Statements of Consolidated Stockholders' Equity (Deficit)

(In thousands, except share data)	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Unearned Compensation	Total Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount				
Balance, March 31, 2003	7,018,299	$70	(560,964)	$(9,240)	$74,283	$(72,993)	$ (43)	$12,122
Net income	—	—	—	—	—	1,744	—	1,744
Warrant put option expired	—	—	—	—	2,184	—	—	
Issuance of stock under stock option plan	7,400	—	—	—	38	—	—	—
Issuance of stock under compensation and bonus plan	33,408	1	—	—	223	—	(54)	—
Balance, March 31, 2004	7,059,107	71	(560,964)	(9,240)	76,728	(71,249)	(97)	$ 1,744
Net loss	—	—	—	—	—	(2,776)	—	$ (2,776)
Issuance of stock from warrant exercise	—	—	170,829	2,813	(2,813)	—	—	—
Issuance of stock under stock option plan	3,400	—	—	—	21	—	—	—
Issuance of stock under compensation and bonus plan	24,704	—	—	—	200	—	(17)	—
Balance, March 31, 2005	7,087,211	71	(390,135)	(6,427)	74,136	(74,025)	(114)	$ (2,776)
Net income	—	—	—	—	—	1,292		$ 1,292
Private placement of common stock, net of expenses	2,500,000	25			17,160			
Issuance of stock under stock option plan	6,400				39			
Issuance of stock under compensation and bonus plan	25,242				180		(9)	
Balance, March 31, 2006	9,618,853	$96	(390,135)	$(6,427)	$91,515	$(72,733)	$(123)	$ 1,292

Debt Conversion

5.41

THERMO FISHER SCIENTIFIC INC. (DEC)

Consolidated Statement of Comprehensive Income and Shareholders' Equity

(In thousands except share amounts)	2006	2005	2004
Comprehensive income			
Net income	$ 168,935	$ 223,218	$ 361,837
Other comprehensive items:			
Currency translation adjustment	118,569	(105,033)	96,800
Unrealized gains (losses) on available-for-sale investments, net of reclassification adjustment and net of tax	(33)	15,309	(9,970)
Unrealized gains (losses) on hedging instruments, net of tax	204	(1,921)	2,528
Minimum pension liability adjustment, net of tax	(944)	(13,502)	(3,023)
	117,796	(105,147)	86,335
	$ 286,731	$ 118,071	$ 448,172
Shareholders' equity			
Common stock, $1 par value:			
Balance at beginning of year (181,817,452; 179,818,648; and 175,479,994 shares)	$ 181,817	$ 179,819	$ 175,480
Issuance of shares for merger with Fisher (251,164,572 shares)	251,165	—	—
Issuance of shares for conversion of debt (1,668,141 shares)	1,668	—	—
Retirement of treasury shares (20,000,000 shares)	(20,000)	—	—
Issuance of stock under employees' and directors' stock plans (9,590,127; 1,998,804; and 4,338,654 shares)	9,590	1,998	4,339
Balance at end of year (424,240,292; 181,817,452; and 179,818,648 shares)	$ 424,240	$ 181,817	$ 179,819
Capital in excess of par value:			
Balance at beginning of year	$ 1,421,382	$1,381,448	$1,298,881
Elimination of deferred compensation	(3,834)	—	—
Issuance of equity for merger with Fisher	10,028,949	—	—
Fair value of Fisher convertible debt allocable to equity	546,783	—	—
Issuance of shares for conversion of debt	67,988	—	—
Retirement of treasury shares	(500,400)	—	—
Activity under employees' and directors' stock plans	162,775	33,296	66,562
Equity compensation	69,371	—	—
Tax benefit related to employees' and directors' stock plans	17,409	6,638	16,005
Balance at end of year	$11,810,423	$1,421,382	$1,381,448
Retained earnings:			
Balance at beginning of year	$ 1,604,475	$1,381,257	$1,019,420
Net income	168,935	223,218	361,837
Balance at end of year	$ 1,773,410	$1,604,475	$1,381,257
Treasury stock:			
Balance at beginning of year (19,335,163; 19,269,245; and 10,416,770 shares)	$ (437,707)	$ (435,779)	$ (192,469)
Purchases of company common stock (7,881,113 and 8,448,800 shares)	(300,000)	—	(231,530)
Retirement of treasury shares (20,000,000 shares)	520,400	—	—
Activity under employees' and directors' stock plans (418,908; 65,918; and 403,675 shares)	(29,097)	(1,928)	(11,780)
Balance at end of year (7,635,184; 19,335,163; and 19,269,245 shares)	$ (246,404)	$ (437,707)	$ (435,779)
Deferred compensation:			
Balance at beginning of year	$ (3,834)	$ (2,561)	$ (2,834)
Elimination of deferred compensation	3,834	—	—
Awards under employees' stock plans	—	(4,076)	(1,680)
Amortization of deferred compensation	—	2,803	1,757
Forfeitures under employees' stock plans	—	—	196
Balance at end of year	$ —	$ (3,834)	$ (2,561)
Accumulated other comprehensive items:			
Balance at beginning of year	$ 27,179	$161,366	$ 83,215
Initial impact upon adoption of SFAS No. 158, net of taxes	5,183	—	—
Other comprehensive items	117,796	(134,187)	78,151
Balance at end of year	$ 150,158	$27,179	$ 161,366
Total shareholders' equity	$13,911,827	$2,793,312	$2,665,550

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Debt and Other Financing Arrangements

(In thousands except per share amounts)	2006	2005
Revolving credit facility	$ 322,000	$ —
Euro credit facility	—	124,236
Money market loans	136,000	—
5% senior notes, due 2015	250,000	250,000
7 5/8% senior notes, due 2008	129,284	130,542
2.50% senior convertible notes, due 2023 convertible at $23.73 per share	299,995	—
Floating rate senior convertible debentures, due 2033 convertible at $29.55 per share	344,541	—
3.25% senior subordinated convertible notes, due 2024 convertible at $40.20 per share	329,269	—
6 3/4% senior subordinated notes, due 2014	308,069	—
6 1/8% senor subordinated notes, due 2015	500,000	—
3.25% subordinated convertible debentures, due 2007, convertible at $41.84 per share	7,438	77,234
Other	37,407	16,755
	2,664,003	598,767
Less: current maturities	483,298	130,137
	$2,180,705	$468,630

In connection with the Fisher merger, the company assumed three issuances of convertible debt as well as two issuances of fixed–rate debt, described below. The company became a co-obligor of this debt. The debt was recorded at the merger date at its fair value. The excess of the fair value over the principal value of the convertible debt, or $546.8 million, was deemed to arise from the value of the conversion features and was allocated to additional paid-in capital.

On December 15, 2006, the company provided a notice to the holders of the 3.25% subordinated convertible debentures due 2007 that the debentures would be redeemed on January 5, 2007. The holders' right to convert the debentures into common shares of the company expired on December 28, 2006. The holders of $69.8 million in aggregate principal amount converted their debentures into common shares. On January 5, 2007, the remaining debentures totaling $7.4 million in aggregate principal amount were redeemed at par plus accrued interest.

3.25% Subordinated Convertible Debentures, Due 2007

At December 31, 2006, the company had $7.4 million aggregate principal amount of 3.25% Subordinated Convertible Debentures due 2007. Interest on the notes was payable on May 1 and November 1 of each year. The notes had been convertible at the option of the holder upon the occurrence of certain events at a price of $41.84 per share. In December 2006, the company provided notice to the holders that the debentures would be redeemed on January 5, 2007. The holders' right to convert the debentures into common shares of the company expired on December 28, 2006. The holders of $69.8 million in principal converted their debentures into 1,668,000 shares. On January 5, 2007, the remaining debentures totaling $7.4 million in aggregate principal amount were redeemed at par plus accrued interest.

Preferred Stock Conversion

5.42

ALLIED WASTE INDUSTRIES, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance as of December 31, 2003	$ 333.1	$3.2	$2,318.5	$(94.5)	$ (42.6)	$2,517.7
Common stock issued, net	—	—	20.3	—	—	20.3
Stock options	—	—	14.1	—	—	14.1
Dividends paid on Series C mandatory convertible preferred stock	—	—	(14.9)	—	(6.7)	(21.6)
Net income	—	—	—	—	49.3	49.3
Other comprehensive income, net of tax:						
Net gain deferred on hedging derivatives	—	—	—	18.2	—	18.2
Net loss on hedging derivatives reclassified to earnings	—	—	—	4.3	—	4.3
Employee benefits plan liability adjustment	—	—	—	2.6	—	2.6
Balance as of December 31, 2004	$ 333.1	$3.2	$2,338.0	$(69.4)	$ —	$2,604.9
Common stock issued, net	—	0.1	100.5	—	—	100.6
Stock options	—	—	2.2	—	—	2.2
Issuance of Series D mandatory convertible preferred stock	580.8	—	—	—	—	580.8
Dividends paid on Series C mandatory convertible preferred stock	—	—	—	—	(21.6)	(21.6)
Dividends paid on Series D mandatory convertible preferred stock	—	—	—	—	(30.4)	(30.4)
Net income	—	—	—	—	203.8	203.8
Other comprehensive income, net of tax:						
Net gain deferred on hedging derivatives	—	—	—	1.3	—	1.3
Employee benefits plan liability adjustment	—	—	—	(2.2)	—	(2.2)
Balance as of December 31, 2005	$ 913.9	$3.3	$2.440.7	$(70.3)	$151.8	$3.439.4
Common stock issued for stock awards and other, net	—	—	14.4	—	—	14.4
Stock based compensation, net	—	—	14.2	—	—	14.2
Conversion of Series C mandatory convertible preferred stock into common stock	(333.1)	0.4	332.7	—	—	—
Dividends paid on Series C mandatory convertible preferred stock	—	—	—	—	(5.4)	(5.4)
Dividends paid on Series D mandatory convertible preferred stock	—	—	—	—	(37.5)	(37.5)
Net income	—	—	—	—	160.9	160.9
Other comprehensive income, net of tax:						
Employee benefits plan liability adjustment	—	—	—	70.3	—	70.3
Adjustment to initially apply SFAS 158	—	—	—	(57.4)	—	(57.4)
Balance as of December 31, 2006	$ 580.8	$3.7	$2,802.0	$(57.4)	$269.8	$3,598.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Preferred Stock

Series C Mandatory Convertible Preferred Stock

In April 2003, we issued 6.9 million shares of Series C mandatory convertible preferred stock (Series C preferred stock), par value $0.10 at $50 per share, through a public offering for net proceeds of approximately $333 million. The Series C preferred stock had a dividend rate of 6.25%. The Series C preferred stock was mandatorily convertible on April 1, 2006.

In April 2006, each of the outstanding shares of our Series C preferred stock automatically converted into 4.9358 shares of our common stock pursuant to the terms of the certificate of designations governing the Series C preferred stock. The conversion rate, pursuant to the terms set forth in the certificate of designations, was equal to $50.00 divided by $10.13 (the threshold appreciation price), as the average of the closing prices per share of our common stock on each of the 20 consecutive trading days ending on March 29, 2006 (the third trading day preceding the conversion date) was greater than the threshold appreciation price. Each holder of Series C preferred stock on the applicable record date received a cash payment equal to the amount of accrued and unpaid dividends. As a result of the conversion, we will no longer pay quarterly dividends in cash or stock in respect of the Series C preferred stock. Each holder of Series C preferred stock on the conversion date received cash in lieu of any

fractional shares of common stock issued upon conversion of the Series C preferred stock. The conversion increased our common shares outstanding by approximately 34.1 million shares and eliminated annual cash dividends of $21.6 million.

5.43

PITNEY BOWES INC. (DEC)

Consolidated Statements of Stockholders' Equity

(In thousands, except per share data)	Preferred Stock	Preference Stock	Common Stock	Capital in Excess of Par Value	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock at Cost
Balance, January 1, 2004	$19	$1,315	$323,338	$ —		$4,057,654	$ 18,063	$(3,313,027)
Adjustment to initially apply SFAS 123(R), net of tax				182,157		(124,103)		
Adjusted balance, January 1, 2004				182,157		3,933,551		
Net income					$461,996	461,996		
Other comprehensive income, net of tax:								
Foreign currency translation adjustments					115,111		115,111	
Net unrealized gain on derivative instruments					1,777		1,777	
Minimum pension liability					575		575	
Comprehensive income					$579,459			
Cash dividends:								
Preferred ($2.00 per share)						(1)		
Preference ($2.12 per share)						(100)		
Common ($1.22 per share)						(282,164)		
Issuances of common stock				(6,147)		(12,511)		98,162
Conversions to common stock		(63)		(1,342)				1,405
Stock-based compensation				27,036				
Repurchase of common stock								(199,998)
Balance, December 31, 2004	19	1,252	323,338	201,704		4,100,771	135,526	(3,413,458)
Net income					$508,611	508,611		
Other comprehensive income, net of tax:								
Foreign currency translation adjustments					(54,499)		(54,499)	
Net unrealized gain on derivative instruments					1,605		1,605	
Minimum pension liability					(5,715)		(5,715)	
Comprehensive income					$450,002			
Cash dividends:								
Preferred ($2.00 per share)						(1)		
Preference ($2.12 per share)						(93)		
Common ($1.24 per share)						(284,254)		
Issuances of common stock				(8,468)		(583)		85,569
Conversions to common stock	(2)	(94)		(2,056)				2,152
Stock-based compensation				31,728				
Repurchase of common stock								(258,803)
Balance, December 31, 2005	$17	$1,158	$323,338	$222,908		$4,324,451	$ 76,917	$(3,584,540)

(continued)

(In thousands, except per share data)	Preferred Stock	Preference Stock	Common Stock	Capital in Excess of Par Value	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock at Cost
Balance, December 31, 2005	$ 17	$1,158	$323,338	$222,908		$4,324,451	$ 76,917	$(3,584,540)
Adjustment to initially apply SAB 108, net of tax						(4,618)		
Adjusted retained earnings						4,319,833		
Net income					$105,347	105,347		
Other comprehensive income, net of tax:								
Foreign currency translation adjustments					83,183		83,183	
Net unrealized gain on derivative instruments					(20)		(20)	
Minimum pension liability					5,405		5,405	
Comprehensive income					$193,915			
Adjustment to initially apply SFAS 158, net of tax							(297,229)	
Cash dividends:								
Preferred ($2.00 per share)						(1)		
Preference ($2.12 per share)						(86)		
Common ($1.28 per share)						(284,965)		
Issuances of common stock				(11,575)				113,142
Conversions to common stock	(10)	(90)		(2,132)				2,232
Stock-based compensation				26,357				
Repurchase of common stock								(400,000)
Balance, December 31, 2006	$ 7	$1,068	$323,338	$235,558		$4,140,128	$(131,744)	$(3,869,166)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in thousands, except per share data)

11 (In Part): Stockholders' Equity

At December 31, 2006, 480,000,000 shares of common stock, 600,000 shares of cumulative preferred stock, and 5,000,000 shares of preference stock were authorized, and 220,613,322 shares of common stock (net of 102,724,590 shares of treasury stock), 135 shares of 4% Convertible Cumulative Preferred Stock (4% preferred stock) and 39,607 shares of $2.12 Convertible Preference Stock ($2.12 preference stock) were issued and outstanding. In the future, the Board of Directors can issue the balance of unreserved and unissued preferred stock (599,865 shares) and preference stock (4,960,393 shares). This will determine the dividend rate, terms of redemption, terms of conversion (if any) and other pertinent features. At December 31, 2006, unreserved and unissued common stock (exclusive of treasury stock) amounted to 117,947,091 shares.

The 4% preferred stock outstanding, entitled to cumulative dividends at the rate of $2 per year, can be redeemed at our option, in whole or in part at any time, at the price of $50 per share, plus dividends accrued to the redemption date. Each share of the 4% preferred stock can be converted into 24.24 shares of common stock, subject to adjustment in certain events.

The $2.12 preference stock is entitled to cumulative dividends at the rate of $2.12 per year and can be redeemed at our option at the rate of $28 per share. Each share of the $2.12 preference stock can be converted into 16.53 shares of common stock, subject to adjustment in certain events.

At December 31, 2006, a total of 658,003 shares of common stock were reserved for issuance upon conversion of the 4% preferred stock (3,272 shares) and $2.12 preference stock (654,731 shares). In addition, 17,213,889 shares of common stock were reserved for issuance under our dividend reinvestment and other corporate plans.

The following table summarizes the preferred, preference and common stock outstanding:

	Preferred Stock	Preference Stock	Common Stock		
			Issued	Treasury	Outstanding
Balance, January 1, 2004	385	48,733	323,337,912	(91,049,689)	232,288,223
Repurchase of common stock				(4,694,912)	
Issuances of common stock				2,686,580	
Conversions of common stock		(2,328)		38,482	
Balance, December 31, 2004	385	46,405	323,337,912	(93,019,539)	230,318,373
Repurchase of common stock				(5,945,778)	
Issuances of common stock				2,276,222	
Conversions of common stock	(50)	(3,459)		58,389	
Balance, December 31, 2005	335	42,946	323,337,912	(96,630,706)	226,707,206
Repurchase of common stock				(9,180,216)	
Issuances of common stock				3,026,290	
Conversions of common stock	(200)	(3,339)		60,042	
Balance, December 31, 2006	135	39,607	323,337,912	(102,724,590)	220,613,322

Compensation Recognized

5.44

APPLIED INDUSTRIAL TECHNOLOGIES, INC. (JUN)

Statements of Consolidated Shareholders' Equity

(In thousands, except per share amounts)	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Income Retained for Use in the Business	Treasury Shares at Cost	Unearned Restricted Common Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at July 1, 2003	42,795	$10,000	$84,898	$289,724	$(78,706)	$ (114)	$2,054	$307,856
Net income				31,471				31,471
Unrealized loss on cash flow hedge, net of income tax of $(614)							(776)	(776)
Foreign currency translation adjustment, net of income tax of $(46)							(157)	(157)
Total comprehensive income								30,538
Cash dividends—$.21 per share				(9,273)				(9,273)
Purchases of common stock for treasury	(653)				(6,336)			(6,336)
Treasury shares issued for:								
Retirement Savings Plan contributions	515		1,713		3,609			5,322
Exercise of stock options	986		1,497		6,839			8,336
Deferred compensation plans	116		344		831			1,175
Restricted common stock awards	128		392		893	(1,285)		
Compensation expense—stock options			1,586					1,586
Amortization of restricted common stock compensation			9			241		250
Other			81					81
Balance at June 30, 2004	43,886	$10,000	$90,520	$311,922	$(72,870)	$(1,158)	$1,121	$339,535

(continued)

(In thousands, except per share amounts)	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Income Retained for Use in the Business	Treasury Shares at Cost	Unearned Restricted Common Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at June 30, 2004	43,886	$10,000	$ 90,520	$311,922	$(72,870)	$(1,158)	$1,121	$339,535
Net income				55,339				55,339
Unrealized loss on cash flow hedge, net of income tax of $(634)							(1,002)	(1,002)
Unrealized gain on investment securities available for sale, net of income tax of $42							74	74
Minimum pension liability, net of income tax of $(1.643)							(2,858)	(2,858)
Foreign currency translation adjustment, net of income tax of $693							1,676	1,676
Total comprehensive income								53,229
Cash dividends—$.29 per share				(12,740)				(12,740)
Purchases of common stock for treasury	(911)				(14,596)			(14,596)
Treasury shares issued for:								
Retirement Savings Plan contributions	446		4,623		3,304			7,927
Exercise of stock options	1,467		4,934		10,656			15,590
Deferred compensation plans	114		728		851			1,579
Compensation expense—stock options and appreciation rights			2,111					2,111
Amortization of restricted common stock compensation			253			326		579
Other			71		(5)	7		73
Balance at June 30, 2005	45,002	$10,000	$103,240	$354,521	$(72,660)	$ (825)	$ (989)	$393,287

(continued)

(In thousands, except per share amounts)	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Income Retained for Use in the Business	Treasury Shares at Cost	Unearned Restricted Common Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at June 30, 2005	45,002	$10,000	$103,240	$354,521	$ (72,660)	$(825)	$ (989)	$393,287
Net income				72,299				72,299
Unrealized gain on cash flow hedge, net of income tax of $384							598	598
Unrealized gain on investment securities available for sale, net of income tax of $43							72	72
Reduction in minimum pension liability, net of income tax of $282							542	542
Foreign currency translation adjustment, net of income tax of $1,258							4,573	4,573
Total comprehensive income								78,084
Cash dividends—$.40 per share				(17,973)				(17,973)
Purchases of common stock for treasury	(2,379)				(54,778)			(54,778)
Treasury shares issued for:								
Retirement Savings Plan contributions	348		4,892		3,583			8,475
Exercise of stock options	1,088		11,279		(6,945)			4,334
Deferred compensation plans	21		269		193			462
Compensation expense—stock options and appreciation rights			2,658					2,658
Amortization of restricted common stock compensation			320					320
Reclassification of unearned restricted stock compensation due to the adoption of SFAS 123(R)			(825)			825		
Other	(13)		313		(360)			(47)
Balance at June 30, 2006	44,067	$10,000	$122,146	$408,847	$(130,967)	$ 0	$4,796	$414,822

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

Note 9 (In Part): Shareholders' Equity

Stock-Based Incentive Plans

The 1997 Long–Term Performance Plan (the "1997 Plan"), which expires in 2012, provides for granting of stock options, stock appreciation rights ("SARs"), stock awards, cash awards, and such other awards or combination thereof as the Executive Organization and Compensation Committee of the Board of Directors (the "Committee") may determine to officers, other key associates and members of the Board of Directors. Grants are generally made by the Committee during regularly scheduled meetings. The number of shares of common stock which may be awarded in each fiscal year under the 1997 Plan is two percent (2%) of the total number of shares of common stock outstanding on the first day of each year for which the plan is in effect. Common stock available for distribution under the 1997 Plan, but not distributed, may be carried over to the following year. Shares available for future grants at June 30, 2006 and 2005 were 2,050 and 753, respectively.

Stock Option and Appreciation Rights (In Part)

SARs and non–qualified stock options are granted with an exercise price equal to the market price of the Company's common stock at the date of grant. SAR and stock option awards generally vest over four years of continuous service and have 10–year contractual terms.

Compensation expense related to stock options and SARs recorded for the years ended June 30, 2006, 2005, and 2004 was $2,658, $2,111, and $1,586, respectively. Such amounts are included in selling, distribution and administrative expense in the accompanying statement of consolidated income. Compensation expense for stock options and SARs

has been determined using the Black-Scholes option pricing model. Determining the appropriate fair value of stock-based awards requires management to select a fair value model and make certain estimates and assumptions. The weighted average assumptions used for SAR and stock option grants issued in fiscal 2006, 2005 and 2004 are:

	2006	2005	2004
Expected life, in years	7.2	8.0	7.3
Risk free interest rate	4.3%	3.9%	3.8%
Dividend yield	1.4%	2.0%	2.9%
Volatility	42.3%	31.5%	31.7%

The expected life is based upon historical exercise experience of the officers, other key associates and members of the Board of Directors currently awarded stock–based compensation. The risk free interest rate is based upon the U.S. Treasury zero–coupon bonds with remaining terms equal to the expected life of the stock options and SARs. The assumed dividend yield has been estimated based upon the Company's historical results and expectations for changes in dividends and stock prices. The volatility assumption is calculated based upon historical daily price observations of the Company's common stock for a period equal to the expected life.

5.45

COSTCO WHOLESALE CORPORATION (AUG)

Consolidated Statements of Stockholders' Equity and Comprehensive Income

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	
(In thousands)	Shares	Amount	Capital	Income/(Loss)	Earnings	Total
Balance at August 31, 2003	457,479	$2,287	$1,280,942	$ (77,980)	$5,349,731	$ 6,554,980
Comprehensive income:						
Net income	—	—	—	—	882,393	882,393
Foreign currency translation adjustment and other	—	—	—	94,124	—	94,124
Total comprehensive income	—	—	—	94,124	882,393	976,517
Stock options exercised, including income tax benefits and other	5,153	26	148,785	—	—	148,811
Conversion of convertible notes	5	—	131	—	—	131
Stock-based compensation	—	—	36,508	—	—	36,508
Cash dividends	—	—	—	—	(92,137)	(92,137)
Balance at August 29, 2004	462,637	2,313	1,466,366	16,144	6,139,987	7,624,810
Comprehensive income:						
Net income	—	—	—	—	1,063,092	1,063,092
Foreign currency translation adjustment and other	—	—	—	141,895	—	141,895
Total comprehensive income	—	—	—	141,895	1,063,092	1,204,987
Stock options exercised, including income tax benefits and other	9,138	46	323,545	—	—	323,591
Conversion of convertible notes	9,910	49	277,554	—	—	277,603
Stock repurchase	(9,205)	(46)	(38,848)	—	(374,358)	(413,252)
Stock-based compensation	—	—	67,937	—	—	67,937
Cash dividends	—	—	—	—	(204,567)	(204,567)
Balance at August 28, 2005	472,480	2,362	2,096,554	158,039	6,624,154	8,881,109
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax	—	—	147,637	—	(139,481)	8,156
Adjusted balance at August 28, 2005	472,480	2,362	2,244,191	158,039	6,484,673	8,889,265
Comprehensive income:						
Net income	—	—	—	—	1,103,215	1,103,215
Foreign currency translation adjustment and other	—	—	—	119,224	—	119,224
Total comprehensive income	—	—	—	119,224	1,103,215	1,222,439
Stock options exercised, including income tax benefits and other	11,712	59	427,291	—	—	427,350
Conversion of convertible notes	6,505	33	188,902	—	—	188,935
Stock repurchase	(28,418)	(142)	(145,129)	—	(1,316,465)	(1,461,736)
Stock-based compensation	—	—	107,397	—	—	107,397
Cash dividends	—	—	—	—	(230,211)	(230,211)
Balance at September 3, 2006	462,279	$2,312	$2,822,652	$277,263	$6,041,212	$ 9,143,439

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

Note 6 (In Part): Stock-Based Compensation Plans

Summary of Stock Option Activity (In Part)

The Company recorded stock-based compensation expense related to stock options of $102,473, $67,937 and $36,508 in fiscal 2006, 2005, and 2004, respectively. The related total tax benefit was $32,665, $22,539 and $12,325 in fiscal 2006, 2005, and 2004, respectively. The remaining unrecognized compensation cost related to unvested options at September 3, 2006, was $241,000 and the weighted-average period of time over which this cost will be recognized is 2.9 years. During fiscal 2006, the total intrinsic value of stock options exercised was $240,200. The actual tax benefit realized from the tax deductions for stock options exercised totaled $54,937, $44,946 and $22,712 in fiscal 2006, 2005, & 2004.

Summary of Restricted Stock Unit Activity (In Part)

The Company recorded stock-based compensation expense related to RSUs of $4,924 in fiscal 2006. The related total tax benefit was $1,623 in fiscal 2006. The remaining unrecognized compensation cost related to non–vested restricted stock units at September 3, 2006, was $67,000 and the weighted–average period of time over which this cost will be recognized is 4.8 years.

Stock Compensation Tax Benefit

5.46

UNIVERSAL FOREST PRODUCTS, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands, except share and per share data)	Common Stock	Additional Paid-In Capital	Deferred Stock Compensation	Deferred Compensation Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Total
Balance at December 27, 2003	$17,814	$85,189	$2,447	$ (615)	$200,745	$1,396	$(1,872)	$305,104
Comprehensive earnings:								
Net earnings					48,603			
Foreign currency translation adjustment						129		
Total comprehensive earnings								48,732
Cash dividends—$.100 per share					(1,796)			(1,796)
Issuance of 170,677 shares under employee stock plans	170	2,845						3,015
Issuance of 4,036 shares under stock grant programs	4	127						131
Issuance of 22,528 shares under deferred compensation plans	23	693		(716)				0
Received 4,695 shares for the exercise of stock options	(5)	(150)						(155)
Received 4,050 shares to payoff notes receivable	(4)				(125)			(129)
Tax benefits from non-qualified stock options exercised		559						559
Accrued expense under deferred compensation plans			976					976
Issuance of 195 shares in exchange for employee stock notes receivable		6					(6)	0
Payments received on employee stock notes receivable							332	332
Balance at December 25, 2004	$18,002	$89,269	$3,423	$(1,331)	$247,427	$1,525	$(1,546)	$356,769

(continued)

(In thousands, except share and per share data)	Common Stock	Additional Paid-In Capital	Deferred Stock Compensation	Deferred Compensation Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Total
Balance at December 25, 2004	$18,002	$89,269	$3,423	$(1,331)	$247,427	$1,525	$(1,546)	$356,769
Comprehensive earnings:								
Net earnings					67,373			
Foreign currency translation adjustment						883		
Total comprehensive earnings								68,256
Cash dividends—$.105 per share					(1,922)			(1,922)
Issuance of 411,245 shares under employee stock plans	411	4,781						5,192
Issuance of 3,713 shares under stock grant programs	4	158						162
Issuance of 33,074 shares under deferred compensation plans	33	939	(216)	(756)				0
Received 49,244 shares for the exercise of stock options	(49)	(1,856)						(1,905)
Tax benefits from non-qualified stock options exercised		4,021						4,021
Accrued expense under deferred compensation plans			1,005	(30)				975
Issuance of 1,605 shares in exchange for employee stock notes receivable	2	60					(62)	0
Payments received on employee stock notes receivable							304	304
Balance at December 31, 2005	$18,403	$97,372	$4,212	$(2,117)	$312,878	$2,408	$(1,304)	$431,852

(continued)

(In thousands, except share and per share data)	Common Stock	Additional Paid-In Capital	Deferred Stock Compensation	Deferred Compensation Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Total
Balance at December 31, 2005	$18,403	$ 97,372	$ 4,212	$(2,117)	$312,878	$2,408	$(1,304)	$431,852
Comprehensive earnings:								
Net earnings					70,125			
Foreign currency translation adjustment						43		
Total comprehensive earnings								70,168
Cash dividends—$.110 per share					(2,072)			(2,072)
Reversal of deferred compensation upon adoption of SFAS 123(R)		2,095	(4,212)	2,117				0
Issuance of 349,644 shares under employee stock plans	350	5,678						6,028
Issuance of 3,467 shares under stock grant programs	3	194						197
Issuance of 101,278 shares under deferred compensation plans	101	(101)						0
Received 1,367 shares for the exercise of stock options	(1)	(89)						(90)
Tax benefits from non–qualified stock options exercised		4,376						4,376
Expense associated with share–based compensation arrangements		972						972
Accrued expense under deferred compensation plans		3,056						3,056
Issuance of 3,222 shares in exchange for employee stock notes receivable	3	201					(204)	0
Payments received on employee stock notes receivable				—			255	255
Balance at December 30, 2006	$18,859	$113,754	$ 0	$ 0	$380,931	$2,451	$(1,253)	$514,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I (In Part): Stock-Based Compensation

All Share-Based Payment Arrangements

The total share-based compensation cost and the related total income tax benefit that has been recognized in results of operations was approximately $1.4 million and $481,000, respectively in 2006.

As of December 30, 2006, there was $1.6 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 3.06 years.

Cash received from option exercises and share issuances under the Stock Purchase Plan was $5.9 million during 2006. The actual tax benefit realized for the tax deductions from option exercises totaled $4.4 million during that period.

Warrants Issued/Exercised

5.47

FOSTER WHEELER LTD. (DEC)

Consolidated Statement of Changes in Shareholders' Equity/(Deficit)

(In thousands of dollars, except share data)	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Preferred shares:						
Balance at beginning of year	4,195	$ —	75,484	$ 1	—	$ —
Preferred shares issued pursuant to equity-for-debt exchange	—	—	—		599,944	6
Preferred shares converted into common shares	(537)	—	(71,289)	(1)	(524,460)	(5)
Balance at end of year	3,658	$ —	4,195	$ —	75,484	$ 1
Common shares:						
Balance at beginning of year	57,462,262	$ 575	40,542,898	$ 405	2,038,578	$ 20
Issuance of common shares upon exercise of common share purchase warrants	8,444,278	84	474,608	5	—	—
Issuance of common shares upon equity-for-debt exchanges	1,277,900	13	11,661,445	117	3,062,574	31
Issuance of common shares upon exercise of stock options	1,523,215	15	127,945	1	—	—
Issuance of common shares upon award of restricted shares	124,470	1	17,417	1	1,351,846	13
Cancellation of common shares upon forfeiture of restricted award	(2,476)	—	—	—	—	—
Issuance of common shares upon vesting of restricted share units	226,337	2	—	—	—	—
Issuance of common shares upon conversion of preferred shares	35,488	—	4,637,949	46	34,089,900	341
Balance at end of year	69,091,474	$ 690	57,462,262	$ 575	40,542,898	$ 405
Paid-in capital:						
Balance at beginning of year		$1,187,518		$ 883,167		$ 242,593
Issuance of common shares upon exercise of common share purchase warrants		75,599		4,446		—
Issuance of common shares upon equity-for-debt exchanges		58,750		296,876		623,153
Issuance of common shares upon exercise of stock options		17,580		1,199		—
Share-based compensation expense-stock options		7,258		—		—
Excess tax benefit related to equity-based incentive program		2,915		645		—
Reclassification of unearned compensation balance upon adoption of SFAS No. 123R		(8,358)		—		—
Share-based compensation expense—restricted share awards		9,216		—		—
Issuance of restricted share awards		(1)		1,230		17,757
Issuance of common shares upon vesting of restricted share units		(2)		—		—
Non-vested restricted share awards subject to redemption		(983)		—		—
Issuance of common shares upon conversion of preferred shares		—		(45)		(336)
Balance at end of year		$1,349,492		$ 1,187,518		$ 883,167

(continued)

(In thousands of dollars, except share data)	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Accumulated deficit:						
Balance at beginning of year		$(1,206,097)		$(1,096,348)		$ (811,054)
Net income/(loss) for the year		261,984		(109,749)		(285,294)
Balance at end of year		$ (944,113)		$(1,206,097)		$(1,096,348)
Accumulated other comprehensive loss:						
Balance at beginning of year		$ (314,796)		$ (296,743)		$ (303,999)
Change in accumulated translation adjustment during the year		31,612		(22,928)		27,155
Minimum pension liability adjustment (net of tax (provision)/benefit: 2006–$(4,674); 2005–$(8,456); 2004–$986)		40,087		4,875		(19,899)
Adjustment resulting from the adoption of SFAS No. 158 (net of tax benefit: 2006–$54,364)		(100,587		—		—
Net gain on derivative instruments designated as cash flow hedges (net of tax provision: 2006–$203)		342		—		—
Balance at end of year		$ (343,342)		$ (314,796)		$ (296,743)
Unearned compensation:						
Balance at beginning of year		$ (8,358)		$ (16,047)		$ —
Issuance of restricted share awards		—		(1,230)		(17,771)
Share-based compensation expense—restricted share awards		—		8,919		1,724
Reclassification of unearned compensation balance upon adoption of SFAS No. 123R		8,358		—		—
Balance at end of year		$ —		$ (8,358)		$ (16,047)
Total shareholders' equity/(deficit)		$ 62,727		$ (341,158)		$ (525,565)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands of dollars, except share data and per share amounts)

13. Common Share Purchase Warrants

In connection with the equity-for-debt exchange consummated in 2004, we issued 4,152,914 Class A common share purchase warrants and 40,771,560 Class B common share purchase warrants. Each Class A warrant entitles its owner to purchase 1.6841 common shares at an exercise price of $9.378 per common share thereunder, subject to the terms of the warrant agreement between the warrant agent and us. The Class A warrants are exercisable on or before September 24, 2009. Each Class B warrant entitles its owner to purchase 0.0723 common shares at an exercise price of $9.378 per common share thereunder, subject to the terms and conditions of the warrant agreement between the warrant agent and us. The Class B warrants are exercisable on or before September 24, 2007.

In January 2006, we completed transactions that increased the number of common shares to be delivered upon the exercise of our Class A and Class B common share purchase warrants during the offer period and raised $75,336 in net proceeds. The exercise price per warrant was not increased in the offers. Holders of approximately 95% of the Class A warrants and 57% of the Class B warrants participated in the offers resulting in the aggregate issuance of approximately 8,403,500 common shares.

Including the above-noted warrant transactions, 3,944,296 Class A warrants and 26,308,941 Class B warrants have been exercised for 8,918,886 common shares in the aggregate through December 29, 2006. The number of common shares issuable upon the exercise of the remaining outstanding Class A warrants and Class B warrants is approximately 1,396,981 as of December 29, 2006.

The holders of the Class A and Class B warrants are not entitled to vote, to receive dividends or to exercise any of the rights of common shareholders for any purpose until such warrants have been duly exercised. We currently maintain and intend to continue to maintain at all times during which the warrants are exercisable, a "shelf" registration statement relating to the issuance of common shares underlying the warrants for the benefit of the warrant holders, subject to the terms of the registration rights agreement. The registration statement became effective on December 28, 2005.

Stock Options Assumed

5.48

NETWORK APPLIANCE INC. (APR)

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

	Common Stock			Treasury Stock					
(In thousands)	Shares	Amount	Additional Paid-In Capital	Shares	Treasury Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, April 30, 2003	340,668	$341	$ 704,338	—	$ —	$ (1,363)	$284,137	$ (96)	$ 987,357
Components of comprehensive income:									
Net income	—	—	—	—	—	—	152,087	—	152,087
Currency translation adjustment	—	—	—	—	—	—	—	2,440	2,440
Unrealized gain on derivatives	—	—	—	—	—	—	—	341	341
Unrealized loss on investments, net	—	—	—	—	—	—	—	(2,063)	(2,063)
Total comprehensive income									152,805
Issuance of common stock related to emloyee transactions	11,170	11	81,537	—	—	—	—	—	81,548
Issuance of restricted stock	120	—	—	—	—	—	—	—	—
Issuance of common stock to acquire Spinnaker Networks, Inc.	12,377	12	259,666	—	—	—	—	—	259,678
Repurchase of common stock	—	—	—	(6,853)	(136,172)	—	—	—	(136,172)
Deferred stock compensation	—	—	2,725	—	—	(2,725)	—	—	—
Assumption of options in connection with Spinnaker acquisition	—	—	43,094	—	—	(25,892)			17,202
Amortization of deferred stock compensation	—	—	—	—	—	3,397	—	—	3,397
Reversal of deferred stock compensation due to employee terminations	—	—	(3,235)	—	—	3,235	—	—	—
Stock compensation expense—nonemployee	—	—	498	—	—	—	—	—	498
Income tax benefit from employee stock transactions	—	—	49,535	—	—	—	—	—	49,535
Balances, April 30, 2004	364,335	$364	$1,138,158	(6,853)	$(136,172)	$(23,348)	$436,224	$ 622	$1,415,848

(continued)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Treasury Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, April 30, 2004	364,335	$364	$1,138,158	(6,853)	$(136,172)	$(23,348)	$436,224	$ 622	$1,415,848
Components of comprehensive income:									
Net income	—	—	—	—	—	—	225,754	—	225,754
Currency translation adjustment	—	—	—	—	—	—	—	81	81
Unrealized gain on derivatives	—	—	—	—	—	—	—	(201)	(201)
Unrealized loss on investments, net	—	—	—	—	—	—	—	(4,552)	(4,552)
Total comprehensive income									(221,082)
Issuance of common stock related to employee transactions	17,111	17	181,905	—	—	—	—	—	181,922
Issuance of restricted stock	10	—	—	—	—	—	—	—	—
Spinnaker restricted stock units exercises	98	—	—	—	—	—	—	—	—
Restricted stock withheld for taxes	(37)	—	(1,122)	—	—	—	—		(1,122)
Repurchase of common stock	—	—	—	(7,713)	(192,903)	—	—	—	(192,903)
Repurchase of Spinnaker restricted stock units	(3)	—	—	—	—	—	—	—	—
Repurchase of restricted stock	(5)	—	—	—	—	—	—	—	—
Deferred stock compensation	—	—	1,401	—	—	(1,401)	—	—	—
Amortization of deferred stock compensation	—	—	—	—	—	7,720	—	—	7,720
Reversal of deferred stock compensation due to employee terminations	—	—	(1,247)	—	—	1,247	—	—	—
Stock compensation expense—nonemployee	—	—	428	—	—	—	—	—	428
Income tax benefit from employee stock transactions	—	—	27,829	—	—	—	—	—	27,829
Balances, April 30, 2005	381,509	$381	$1,347,352	(14,566)	$(329,075)	$(15,782)	$661,978	$(4,050)	$1,660,804

(continued)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Treasury Amount	Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, April 30, 2005	381,509	$381	$1,347,352	(14,566)	$(329,075)	$(15,782)	$661,978	$(4,050)	$1,660,804
Components of comprehensive income:									
Net income	—	—	—	—	—	—	266,452	—	266,452
Currency translation adjustment	—	—	—	—	—	—	—	(914)	(914)
Unrealized gain on derivatives	—	—	—	—	—	—	—	(4,271)	(4,271)
Unrealized loss on investments, net	—	—	—	—	—	—	—	(1,863)	(1,863)
Total comprehensive income									259,404
Issuance of common stock related to employee transactions	18,081	18	232,726	—	—	—	—	—	232,744
Spinnaker restricted stock units exercises	98	—	—	—	—	—	—	—	—
Restricted stock withheld for taxes	(34)	—	(1,062)	—	—	—	—	—	(1,062)
Repurchase of common stock	—	—	—	(17,430)	(488,908)	—	—	—	(488,908)
Repurchase of restricted stock	(15)	—	—	—	—	—	—	—	—
Issuance of common stock to acquire Decru, Inc.	8,270	9	191,865	—	—	—	—	—	191,874
Assumption of options in connection with Decru	—	—	36,142	—	—	(18,549)	—	—	17,593
Assumption of options in connection with Alacritus	—	—	2,314	—	—	(1,199)	—	—	1,115
Deferred stock compensation	85	—	29,855	—	—	(29,855)	—	—	—
Amortization of deferred stock compensation	—	—	—	—	—	13,233	—	—	13,233
Reversal of deferred stock compensation due to employee terminations	—	—	(2,886)	—	—	2,886	—	—	—
Stock compensation expense—nonemployee	—	—	60	—	—	—	—	—	60
Income tax benefit from employee stock transactions	—	—	36,596	—	—	—	—	—	36,596
Balance, April 30, 2006	407,994	$408	$1,872,962	(31,996)	$(817,983)	$(49,266)	$928,430	$(11,098)	$1,923,453

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Business Combinations

Acquisition of Decru (In Part)

On August 26, 2005, we completed our acquisition of Decru, Inc. ("Decru"), a Delaware corporation that develops and sells encryption software and appliances which encrypt network data. The acquisition resulted in the issuance of approximately 8,270 shares of our common stock with a fair value of approximately $191,874, approximately 1,907 stock options and restricted stock with a fair value of approximately $36,142 and the payment of approximately $54,482 in cash (of which approximately $34,049 has been placed in escrow to secure the Decru stockholders' indemnification obligations to us pursuant to the Merger Agreement), and $711 acquisition-related transaction costs, for a total purchase price of approximately $283,209. The common stock issued in the acquisition was valued at $23.20 per share using a measurement date of August 11, 2005 in accordance with EITF 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combinations.* The options were valued using the Black–Scholes option pricing model with the following inputs: volatility factor of 69%, expected life of 3.8 years, and risk-free interest rate of 2.9%. The historical operations of

Decru were not significant. A summary of the total purchase price is as follows based on independent appraisal and management estimates:

	Decru
Common stock issued	$191,874
Cash consideration	54,482
Stock options assumed	36,142
Acquisition-related transaction costs	711
	$283,209

Deferred Stock Compensation

In accordance with FASB Interpretation No. 44, "*Accounting for Certain Transactions involving Stock Compensation*", we recorded the intrinsic value, measured as the difference between the grant price and fair market value on the acquisition consummation date, of unvested options and restricted stock units assumed in the Decru acquisition as deferred stock compensation. Such deferred stock compensation which aggregated $18,549 for Decru, are recorded as a separate component of stockholders' equity in the accompanying Consolidated Balance Sheets and will be amortized over the vesting term of the related options. In connection with the Decru merger, we assumed all options to purchase Decru common stock granted under the Decru, Inc. 2001 Equity Incentive Plan that were outstanding at the closing of the Merger, which options shall be exercisable for an aggregate of 1,907 shares of our Common Stock at an average price of $11.86 per share.

Acquisition of Alacritus (In Part)

On May 2, 2005, we acquired Alacritus, Inc., a privately held company based in Pleasanton, California, that develops and sells disk-based virtual tape library software for data protection solutions. Under terms of the agreement, we paid Alacritus $11,000 in cash and assumed options to acquire 79 shares of common stock at an average price of $26.37 per share and 43 shares of restricted stock units at $0 per share. We also incurred certain transactions costs and assumed certain operating assets and liabilities. The historical operations of Alacritus were not significant.

The acquisition was accounted for under the purchase method of accounting. The total purchase price for Alacritus is summarized below:

	Alacritus
Cash consideration	$11,000
Common stock issued	—
Stock options assumed	2,314
Acquisition-related transaction costs	337
	$13,651

Deferred Stock Compensation

In accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation", we recorded the intrinsic value of unvested options and restricted stock units assumed in the Alacritus acquisition as deferred stock compensation. Such deferred stock compensation which aggregated $1,199 for Alacritus are recorded as a separate component of stockholders' equity in the accompanying Consolidated Balance Sheets and will be amortized over the vesting term of the related options.

Treasury Stock Purchased

5.49

STANDARD PACIFIC CORP. (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars in thousands, except per share amounts)	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 31, 2003	67,724,436	$677	$ 434,826	$ 597,698	$ —	$1,033,201
Stock issuances under employee plans, including income tax benefits	1,146,462	11	16,005	—	—	16,016
Repurchase of and retirement of common stock, net of expenses	(1,636,200)	(16)	(38,738)	—	—	(38,754)
Cash dividends declared ($0.16 per share)	—	—	—	(10,783)	—	(10,783)
Amortization of stock-based compensation	—	—	6,498	—	—	6,498
Net income	—	—	—	315,817	—	315,817
Balance, December 31, 2004	67,234,698	672	418,591	902,732	—	1,321,995
Stock issuances under employee plans, including income tax benefits	1,286,470	13	25,818	—	—	25,831
Repurchase of and retirement of common stock, net of expenses	(1,392,158)	(14)	(52,021)	—	—	(52,035)
Cash dividends declared ($0.16 per share)	—	—	—	(10,866)	—	(10,866)
Amortization of stock-based compensation	—	—	13,250	—	—	13,250
Net income	—	—	—	440,984	—	440,984
Balance, December 31, 2005	67,129,010	671	405,638	1,332,850	—	1,739,159
Net income	—	—	—	123,693	—	123,693
Accumulated other comprehensive loss, net of tax	—	—	—	—	(5,416)	(5,416)
Comprehensive income						118,277
Stock issuances under employee plans, including income tax benefits	592,392	6	5,594	—	—	5,600
Repurchase of and retirement of common stock, net of expenses	(3,298,854)	(33)	(104,672)	—	—	(104,705)
Cash dividends declared ($0.16 per share)	—	—	—	(10,500)	—	(10,500)
Amortization of stock-based compensation	—	—	16,539	—	—	16,539
Balance, December 31, 2006	64,422,548	$644	$ 323,099	$1,446,043	$(5,416)	$1,764,370

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Stockholder Rights Plan and Common Stock Repurchase Plan

For the year ended December 31, 2005, we repurchased approximately 1.4 million shares of common stock for approximately $52.0 million under previously authorized stock repurchase plans. On February 1, 2006, our Board of Directors authorized a new $100 million stock repurchase plan (the "February 2006 Plan"), which was subsequently replaced with a new $50 million plan on July 26, 2006 (the "July 2006 Plan"). From January 1, 2006 through July 25, 2006, we repurchased approximately 3.3 million shares of common stock for approximately $104.7 million under the February 2006 Plan. Through December 31, 2006, no shares were repurchased under the July 2006 Plan.

Treasury Stock Issued

5.50

TYLER TECHNOLOGIES, INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity
Balance at December 31, 2003	48,148	$481	$156,201	$(32)	$(14,552)	(6,704)	$(24,191)	$117,907
Comprehensive income:								
Net income	—	—	—	—	10,128	—	—	10,128
Unrealized loss on investment securities, net of tax	—	—	—	(37)	—	—	—	(37)
Reclassification adjustment, net of income taxes of $37	—	—	—	69	—	—	—	69
Total comprehensive income								10,160
Issuance of shares pursuant to stock compensation plan	—	—	(3,704)	—	—	680	5,644	1,940
Treasury stock purchases	—	—	—	—	—	(1,459)	(12,518)	(12,518)
Stock warrant exercises	—	—	(143)	—	—	16	143	—
Issuance of shares pursuant to Employee Stock Purchase Plan	—	—	(66)	—	—	44	395	329
Federal income tax benefit related to exercise of stock options	—	—	582	—	—	—	—	582
Balance at December 31, 2004	48,148	481	152,870	—	(4,424)	(7,423)	(30,527)	118,400
Comprehensive income:								
Net income	—	—	—	—	8,193	—	—	8,193
Unrealized loss on investment securities, net of tax	—	—	—	(8)	—	—	—	(8)
Reclassification adjustment, net of income taxes of $5	—	—	—	8	—	—	—	8
Total comprehensive income								8,193
Issuance of shares pursuant to stock compensation plan	—	—	(1,570)	—	—	436	3,370	1,800
Stock compensation	—	—	18	—	—	—	—	18
Treasury stock purchases	—	—	—	—	—	(2,457)	(17,683)	(17,683)
Issuance of shares pursuant to Employee Stock Purchase Plan	—	—	(116)	—	—	171	1,272	1,156
Federal income tax benefit related to exercise of stock options	—	—	313	—	—	—	—	313
Balance at December 31, 2005	48,148	$481	$151,515	$ —	$ 3,769	(9,273)	$(43,568)	$112,197

(continued)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity
Balance at December 31, 2005	48,148	$481	$151,515	$ —	$ 3,769	(9,273)	$(43,568)	$112,197
Comprehensive income:								
Net income	—	—	—	—	14,362	—	—	14,362
Unrealized loss on investment securities, net of tax	—	—	—	(10)	—	—	—	(10)
Total comprehensive income								14,352
Issuance of shares pursuant to stock compensation plan	—	—	(3,158)	—	—	623	6,074	2,916
Stock compensation	—	—	1,960	—	—	—	—	1,960
Treasury stock purchases	—	—	—	—	—	(1,033)	(10,531)	(10,531)
Issuance of shares pursuant to Employee Stock Purchase Plan	—	—	22	—	—	102	918	940
Federal income tax benefit related to exercise of stock options	—	—	1,150	—	—	—	—	1,150
Issuance of shares for acquisitions	—	—	138	—	—	325	2,753	2,891
Balance at December 31, 2006	48,148	$481	$151,627	$(10)	$18,131	(9,256)	$(44,354)	$125,875

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

2) (In Part): Acquisitions

In January 2006, we completed the acquisitions of all of the capital stock of MazikUSA, Inc. ("Mazik") and TACS, Inc. ("TACS"). The total value of these transactions, including transaction costs, was approximately $14.6 million, which was comprised of $11.7 million in cash and 325,000 shares of Tyler common stock valued at $2.9 million.

8) (In Part): Shareholders' Equity

The following table details activity in our common stock:

	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Purchases of common stock	(1,033)	$(10,531)	(2,457)	$(17,683)	(1,459)	$(12,518)
Stock option exercises	623	2,916	436	1,800	680	1,940
Employee stock plan purchases	102	940	171	1,156	44	329
Shares issued for acquisitions	325	2,891	—	—	—	—

Subsequent to December 31, 2006 and through February 23, 2007, we repurchased 188,000 shares for an aggregate purchase price of $2.6 million. As of February 23, 2007, we had authorization from our board of directors to repurchase up to 843,000 additional shares of our common stock.

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9) (In Part): Share-Based Compensation

Stock Option Activity

Options granted, exercised, forfeited and expired are summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2003	4,630	$3.94		
Granted	62	9.18		
Exercised	(680)	2.85		
Forfeited	(48)	3.18		
Options outstanding at December 31, 2004	3,964	4.21		
Granted	1,135	7.49		
Exercised	(436)	4.12		
Forfeited	(55)	7.49		
Options outstanding at December 31, 2005	4,608	4.99		
Granted	237	10.76		
Exercised	(623)	4.68		
Forfeited	(127)	6.42		
Expired	(8)	5.21		
Options outstanding at December 31, 2006	4,087	5.32	6	$35,703
Options exercisable at December 31, 2006	2,727	$4.25	5	$26,760

Other information pertaining to option activity was as follows during the twelve months ended December 31:

	2006	2005	2004
Weighted average grant-date fair value of stock options granted	$ 6.13	$ 3.47	$ 6.03
Total fair value of stock options vested	1,757	1,519	2,719
Total intrinsic value of stock options exercised	4,227	1,753	4,362

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan ("ESPP") participants may contribute up to 15% of their annual compensation to purchase common shares of Tyler. The purchase price of the shares is equal to 85% of the closing price of Tyler shares on the last day of each quarterly offering period. As of December 31, 2006, there were 683,000 shares available for future grants under the ESPP from the 1.0 million shares originally reserved for issuance.

Restricted Stock

5.51

THE DIXIE GROUP, INC. (DEC)

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Common Stock and Class B Common Stock	Common Stock Subscribed	Additional Paid-In Capital	Other	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total Stockholders' Equity
Balance at December 27, 2003	$45,917	$ 383	$130,862	$(1,185)	$(23,857)	$(1,995)	$(54,044)	$ 96,081
Stock subscription settled—127,694 shares	96	(383)	(844)	1,131	—	—	—	—
Common Stock issued under Directors' Stock Plan—26,020 shares	78	—	62	—	—	—	—	140
Common Stock issued under stock option plan—303,542 shares	911	—	1,241	—	—	—	—	2,152
Amortization of restricted stock grants	—	—	—	28	—	—	—	28
Other comprehensive income	—	—	—	—	—	121	—	121
Net income	—	—	—	—	12,315	—	—	12,315
Balance at December 26, 2004	47,002	—	131,321	(26)	(11,542)	(1,874)	(54,044)	110,837
Common Stock issued under Directors' Stock Plan—1,740 shares	8	—	19	—	—	—	—	25
Common Stock and Class B issued under stock option plan—332,770 shares	998	—	952	—	—	—	—	1,950
Tax benefit from exercise of stock options	—	—	1,042	—	—	—	—	1,042
Restricted stock grants issued—67,180 shares	202	—	998	(1,200)	—	—	—	—
Restricted stock grants forfeited—9,190 shares	(28)	—	(137)	143	—	—	—	(22)
Amortization of restricted stock grants	—	—	—	364	—	—	—	364
Acceleration of stock options	—	—	88	—	—	—	—	88
Common Stock issued upon conversion of convertible subordinated debentures—2,391 shares	7	—	70	—	—	—	—	77
Other comprehensive loss	—	—	—	—	—	(1,013)	—	(1,013)
Net income	—	—	—	—	10,136	—	—	10,136
Balance at December 31, 2005	$48,187	$ —	$134,353	$ (719)	$ (1,406)	$(2,887)	$(54,044)	$123,484

(continued)

(Dollars in thousands)	Common Stock and Class B Common Stock	Common Stock Subscribed	Additional Paid-In Capital	Other	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total Stockholders' Equity
Balance at December 31, 2005	$48,187	$ —	$134,353	$(719)	$(1,406)	$(2,887)	$(54,044)	$123,484
Common Stock acquired for treasury—3,455 shares	—	—	—	—	—	—	(45)	(45)
Common Stock and Class B issued under stock option plan—125,340 shares	375	—	478	—	—	—	—	853
Restricted stock grants issued—149,000 shares	447	—	(447)	—	—	—	—	—
Tax benefit from exercise of stock options	—	—	202	—	—	—	—	202
Stock-based compensation expense	—	—	602	—	—	—	—	602
Reclassification upon adoption of SFAS No. 123(R)	—	—	(719)	719	—	—	—	—
Other comprehensive income	—	—	—	—	—	2,023	—	2,023
Adoption of SFAS No. 158	—	—	—	—	—	856	—	856
Net income	—	—	—	—	7,703	—	—	7,703
Balance at December 30, 2006	$49,009	$ —	$134,469	$ —	$ 6,297	$ (8)	$(54,089)	$135,678

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

Note M (In Part): Stock Compensation Expense and Stock Plans

Restricted Stock Awards

On June 6, 2006, the Company granted 125,000 shares of restricted stock to its Chief Executive Officer. The award is intended to retain and motivate the Company's Chief Executive Officer over the term of the award and to bring his total compensation package closer to median levels for Chief Executive Officers of comparable companies. The fair value of the award was $1,556, or $12.45 per share, equivalent to 92% of the market value of a share of the Company's Common Stock on the date the award was granted. Such value was determined using a binomial model and will be expensed over the seven year term of the award. Vesting of the shares is contingent on a 35% increase in the market value of the Company's Common Stock ("Market Condition") prior to June 5, 2011. Additionally, vesting of shares requires the Chief Executive Office to meet a continued service condition during the term of the award, with a two year minimum vesting period. Shares subject to the award vest pro rata annually on the anniversary date the award was granted after the market condition and minimum vesting period are met.

During 2006, the Company also granted awards of 24,000 shares of restricted stock to key employees. The grant-date fair value of the awards was $333, or $13.88 per share. Vesting of the awards is subject to a continued service condition, with one-third to one-fifth of the awards vesting each year on the anniversary date the awards were granted. The fair value of each share of restricted stock awarded was equal to the market value of a share the Company's Common Stock on the grant date.

During 2005, the Company granted awards of 67,180 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was $1,200, or $17.86 per share. Vesting of the awards is subject to a continued service condition, with one-third of the awards vesting each year on the anniversary date the awards were granted. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

Restricted stock activity for the three years ended December 30, 2006 is summarized as follows:

	Number of Shares	Weighted-Average Fair Value Granted During the Year
Outstanding at December 27, 2003	20,000	$ —
Granted	—	—
Vested	—	—
Forfeited	—	—
Outstanding at December 25, 2004	20,000	—
Granted	67,180	17.86
Vested	(20,000)	—
Forfeited	(9,190)	—
Outstanding at December 31, 2005	57,990	—
Granted	149,000	12.68
Vested	(19,330)	—
Forfeited	—	—
Outstanding at December 30, 2006	187,660	$ —

Spin-Off

5.52

WALTER INDUSTRIES, INC. (DEC)

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss)

(In thousands)	Total	Common Stock	Capital in Excess of Par Value	Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2003	$276,610	$557	$1,150,442		$(658,965)	$(164,018)	$(51,406)
Comprehensive income:							
Net income	49,917			$49,917	49,917		
Other comprehensive income (loss), net of tax:							
Increase in additional pension liability	(405)			(405)			(405)
Net unrealized gain on hedges	702			702			702
Comprehensive income				$50,214			
Stock issued upon exercise of stock options	26,580	23	26,557				
Tax benefit from the exercise of stock options	5,363		5,363				
Purchases of treasury stock	(95,299)					(95,299)	
Dividends paid, $.13 per share	(4,939)		(4,939)				
Stock-based compensation	698		698				
Balance at December 31, 2004	259,227	580	1,178,121		(609,048)	(259,317)	(51,109)
Comprehensive loss:							
Net income	7,046			$ 7,046	7,046		
Other comprehensive loss, net of tax:							
Cumulative foreign currency translation adjustment	(113)			(113)			(113)
Increase in additional pension liability	(9,573)			(9,573)			(9,573)
Net unrealized loss on hedges	(619)			(619)			(619)
Comprehensive loss				$ (3,259)			
Stock issued upon exercise of stock options	19,872	18	19,854				
Tax benefit from the exercise of stock options	17,469		17,469				
Dividends paid, $.16 per share	(6,145)		(6,145)				
Stock-based compensation	1,452		1,452				
Balance at December 31, 2005	288,616	598	1,210,751		(602,002)	(259,317)	(61,414)
Adjustment to initially apply SEC SAB No. 108	5,069				5,069		
Adjusted balance at December 31, 2005	$293,685	$598	$1,210,751		$(596,933)	$(259,317)	$(61,414)

(continued)

(In thousands)	Total	Common Stock	Capital in Excess of Par Value	Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Adjusted balance at December 31, 2005	$293,685	$598	$1,210,751		$(596,933)	$(259,317)	$(61,414)
Comprehensive income:							
Net income	198,369			$198,369	198,369		
Other comprehensive income, net of tax:							
Cumulative foreign currency translation adjustment	1,053			1,053			1,053
Decrease in additional pension liability	703			703			703
Net unrealized gain on hedges	4,113			4,113			4,113
Comprehensive income				$204,238			
Adjustment to initially apply FASB Statement No. 158	(74,513)						(74,513)
Sale of common stock	168,680	26	168,654				
Stock issued upon conversion of convertible notes	176,108	98	176,010				
Gain on sale of investment in Mueller Water Products, Inc. through initial public offering	132,048		125,088				6,960
Stock dividend for spin-off of Mueller Water Products, Inc.	(919,933)		(944,393)				24,460
Stock issued upon exercise of stock options	4,735	6	4,729				
Tax benefit on the exercise of stock options	8,310		8,310				
Dividends paid, $.16 per share	(6,825)		(6,825)				
Stock-based compensation	15,375		15,375				
Balance at December 31, 2006	$ 1,908	$728	$ 757,699		$(398,564)	$(259,317)	$(98,638)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Discontinued Operations

Acquisition, Initial Public Offering and Spin-Off of Mueller Water Products, Inc.

Acquisition

In October 2005, the Company acquired all of the outstanding common stock of Mueller Water Products, Inc. ("Mueller Water") for $943.4 million and assumed approximately $1.1 billion of indebtedness at Mueller Water. In conjunction with the acquisition, the Company's wholly owned subsidiary, United States Pipe and Foundry Company, LLC, ("U.S. Pipe") was contributed to Mueller Water.

Also in October 2005, the Company announced its plan to undertake an initial public offering and spin-off of Mueller Water to unlock shareholder value by creating a "pure play" water infrastructure company and a predominantly "pure play" coal company.

Initial Public Offering

In June 2006, Mueller Water completed its initial public offering ("IPO") of 28.8 million shares of Series A common stock, at $16 per share (NYSE: MWA). The net proceeds of $428.9 million were used to repay a portion of Mueller Water's existing debt and the Company recognized a gain of $132.0 million on the sale of the 25.1% ownership interest which has been included in stockholders' equity. In connection with the IPO, Mueller Water issued approximately 85.8 million shares of Series B common stock to the Company in exchange for the Company's one share held prior to the IPO.

Spin-Off

On December 14, 2006, the Company distributed all of its 85.8 million shares of Mueller Water Series B common stock to its shareholders. The distribution took place in the form of a pro rata common stock dividend whereby each shareholder received 1.6524432 shares of Mueller Water Series B common stock for each share of Company common stock held on the record date ("the spin-off"). The spin–off was intended to be tax-free to the Company and to the shareholders of the Company for U.S. income tax purposes, except for any cash received in lieu of fractional shares.

As a result of the distribution, the Company no longer has any ownership interest in Mueller Water. The Company and Mueller Water have entered into several agreements to facilitate the spin-off, including a Transition Services Agreement to provide certain services to each other, including tax, accounting, human resources and communication. The term of the services to be provided varies, but the Agreement is expected to terminate one year from the spin-off date. The Company and Mueller Water entered into an Income Tax Allocation Agreement that sets forth the rights and obligations of the Company and Mueller Water with respect to taxes and other liabilities that could be imposed in the event of a

determination by the Internal Revenue Service, upon audit, that the transaction is inconsistent with the tax-free status of the spin-off. Additionally, the Company and Mueller also entered into a Joint Litigation Agreement that allocates responsibilities for pending and future litigation and claims, allocates insurance coverages and third-party indemnification rights, where appropriate, and provides that each party should cooperate with each other regarding such litigation claims and rights on a going forward basis.

As a result of the spin-off, amounts previously reported in the Mueller Co., Anvil and U.S. Pipe segments (collectively, "Mueller Water") are presented as discontinued operations for all periods presented.

The Company allocated certain corporate expenses, limited to specifically identified costs and other corporate shared services which supported segment operations to discontinued operations, in accordance with EITF 87-24, "Allocation of Interest to Discontinued Operations." These costs represent expenses that have historically been allocated to and recorded by the Company's operating segments as selling, general and administrative expenses. The Company did not elect to allocate additional interest expense to discontinued operations in accordance with EITF 87-24.

OTHER COMPONENTS OF STOCKHOLDERS' EQUITY

5.53 Certain items such as receivables from the sale of stock, and employee stock ownership plans are presented as separate components of stockholders' equity. Other items such as foreign currency translation adjustments, unrealized gains and losses on certain investments in debt and equity securities, and defined benefit postretirement plan adjustments are considered components of other comprehensive income. *SFAS No. 130* permits presentation of components of other comprehensive income and total comprehensive income in a statement of changes in stockholders' equity. In addition, the Standard allows disclosure of accumulated balances, by component, included in accumulated other comprehensive income in a statement of changes in stockholders' equity.

5.54 Examples of statements reporting changes in separate components of stockholders' equity, other than those classified as components of other comprehensive income, follow. See Sections 2 and 4 for examples of presentation of other comprehensive income and related accumulated balances in statements of changes in stockholders' equity.

Unearned Compensation Expense

5.55

BRIGGS & STRATTON CORPORATION (JUN)

Consolidated Statements of Shareholders' Investment

(In thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation on Restricted Stock	Treasury Stock	Comprehensive Income
Balances, June 29, 2003	$289	$35,074	$822,060	$ (734)	$ (287)	$(341,415)	
Comprehensive income:							
Net income	—	—	136,114	—	—	—	$136,114
Foreign currency translation adjustments	—	—	—	3,042	—	—	3,042
Unrealized gain on derivatives	—	—	—	487	—	—	487
Minimum pension liability adjustment, net of tax of $788	—	—	—	1,233	—	—	1,233
Total comprehensive income	—	—	—	—	—	—	$140,876
Cash dividends paid ($0.66 per share)	—	—	(30,408)	—	—	—	
Stock opinion activity, net of tax	—	7,667	—	—	—	41,194	
Restricted stock	—	322	—	—	(1,494)	1,171	
Amortization of unearned compensation	—	—	—	—	291	—	
Issuance of treasury shares	—	5,546	—	—	—	137,270	
Shares issued to directors	—	48	—	—	—	125	
Balances, June 27, 2004	$289	$48,657	$927,766	$4,028	$(1,490)	$(161,655)	

(continued)

(In thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation on Restricted Stock	Treasury Stock	Comprehensive Income
Balances, June 27, 2004	$289	$48,657	$ 927,766	$ 4,028	$(1,490)	$(161,655)	
Comprehensive income:							
Net income	—	—	136,567	—	—	—	$136,567
Foreign currency translation adjustments	—	—	—	881	—	—	881
Unrealized gain on derivatives	—	—	—	419	—	—	419
Minimum pension liability adjustment, net of tax of $(34,306)	—	—	—	(53,659)	—	—	(53,659)
Total comprehensive income	—	—	—	—	—	—	$ 84,208
Cash dividends paid ($0.68 per share)	—	—	(35,004	—	—	—	
Stock option activity, net of tax	—	6,990	—	—	—	14,752	
Restricted stock	—	316	—	—	(1,006)	688	
Amortization of unearned compensation	—	—	—	—	511	—	
Stock split	290	(290)	—	—	—	—	
Deferred stock	—	3	—	—	—	—	
Shares issued to directors	—	117	—	—	—	16	
Balances, July 3, 2005	$579	$55,793	$1,029,329	$(48,331)	$(1,985)	$(146,199)	
Comprehensive income:							
Net income	—	—	102,346	—	—	—	$102,346
Foreign currency translation adjustments	—	—	—	1,785	—	—	1,785
Unrealized loss on derivatives	—	—	—	(1,255)	—	—	(1,255)
Minimum pension liability adjustment, net of tax of $(33,733)	—	—	—	52,761	—	—	52,761
Total comprehensive income	—	—	—	—	—	—	$155,637
Cash dividends paid ($0.88 per share)	—	—	(45,278)	—	—	—	
Purchase of common stock for treasury	—	—	—	—	—	(34,919)	
Stock option activity, net of tax	—	10,455	—	—	—	10,254	
Restricted stock	—	431	—	—	(1,490)	925	
Amortization of unearned compensation	—	—	—	—	1,276	—	
Deferred stock	—	605	—	—	—	—	
Shares issued to directors	—	41	—	—	—	83	
Balances, July 2, 2006	$579	$67,325	$1,086,397	$ 4,960	$(2,199)	$(169,856)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11) (In Part): Stock Incentives

Under the plans, the Company has issued restricted stock to certain employees. During fiscal years 2006, 2005 and 2004, the Company has issued 42,574, 26,000 and 49,000 shares, respectively. The restricted stock vests on the fifth anniversary date of the issue provided the recipient is still employed by the Company. The aggregate market value on the date of issue of approximately $1.5 million, $1.0 million and $1.5 million in fiscal 2006, 2005 and 2004, respectively, has been recorded as unearned compensation, a separate component of the Shareholders' Investment section of the Consolidated Balance Sheets, and is being amortized over the five-year vesting period.

Employee Stock Ownership Plan

5.56

AVERY DENNISON CORPORATION (DEC)

Consolidated Statement of Shareholders' Equity

(Dollars in millions, except per share amounts)	Common Stock, $1 Par Value	Capital In Excess of Par Value	Retained Earnings	Cost of Unallocated ESOP Shares	Employee Stock Benefit Trusts	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Fiscal year ended 2003	$124.1	$703.7	$1,772.5	$(11.6)	$(595.4)	$(597.0)	$(77.6)	$1,318.7
Comprehensive income:								
Net income			279.7					279.7
Other comprehensive income:								
Foreign currency translation adjustment							87.9	87.9
Minimum pension liability adjustment, net of tax of $14.6							(14.9)	(14.9)
Effective portion of gains or losses on cash flow hedges, net of tax of $2.5							1.9	1.9
Other comprehensive income							74.9	74.9
Total comprehensive income								354.6
Repurchase of 9,641 shares for treasury, net of shares issued						(.6)		(.6)
Stock issued under option plans, including $19.2 of tax and dividends paid on stock held in stock trusts		4.4			34.3			38.7
Dividends: $1.49 per share			(164.6)					(164.6)
ESOP transactions, net				1.9				1.9
Employee stock benefit trusts market value adjustment		58.0			(58.0)			—
Fiscal year ended 2004	124.1	766.1	1,887.6	(9.7)	(619.1)	(597.6)	(2.7)	1,548.7
Comprehensive income:								
Net income			226.4					226.4
Other comprehensive income:								
Foreign currency translation adjustment							(90.6)	(90.6)
Minimum pension liability adjustment, net of tax of $2.2							(.9)	(.9)
Effective portion of gains or losses on cash flow hedges, net of tax of $(3.1)							5.1	5.1
Other comprehensive income							(86.4)	(86.4)
Total comprehensive income								140.0
Repurchase of 693,005 shares for treasury, net of shares issued						(40.6)		(40.6)
Stock issued under option plans, including $18.8 of tax and dividends paid on stock held in stock trusts		11.3			19.2			30.5
Dividends: $1.53 per share			(168.7)					(168.7)
ESOP transactions, net				2.0				2.0
Employee stock benefit trusts market value adjustment		(47.9)			47.9			—
Fiscal year ended 2005	$124.1	$729.5	$1,945.3	$ (7.7)	$(552.0)	$(638.2)	$(89.1)	$1,511.9

(continued)

(Dollars in millions, except per share amounts)	Common Stock, $1 Per Value	Capital In Excess of Per Value	Retained Earnings	Cost of Unallocated ESOP Shares	Employee Stock Benefit Trusts	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Fiscal year ended 2005	$124.1	$729.5	$1,945.3	$(7.7)	$(552.0)	$(638.2)	$(89.1)	$1,511.9
Comprehensive income:								
Net income			367.2					367.2
Other comprehensive income:								
Foreign currency translation adjustment							101.0	101.0
Effective portion of gains or losses on cash flow hedges, net of tax of $1.8							(3.1)	(3.1)
Minimum pension liability, net of tax of $.6							(2.2)	(2.2)
Other comprehensive income							95.7	95.7
Total comprehensive income								462.9
Adjustment to initially adopt SFAS No. 158:								
Adjustment to minimum pension liability to initially apply SFAS No. 158, net of tax of $(59.2)							114.0	114.0
Net actuarial loss, prior service cost and net transition obligation, net of tax of $62.2							(170.8)	(170.8)
Effects of changing pension plan measurement date pursuant to SFAS No. 158:								
Service cost, interest cost, and expected return on plan assets for December 1—December 30, 2006, net of tax			(.8)					(.8)
Amortization of prior service cost for December 1—December 30, 2006, net of tax							.1	.1
Repurchase of 2,524,194 shares for treasury, net of shares issued						(168.5)		(168.5)
Stock issued under option plans, including $22.7 of tax and dividends paid on stock held in stock trusts		30.4			71.1			101.5
Dividends: $1.57 per share			(171.8)					(171.8)
ESOP transactions, net				2.0				2.0
Employee stock benefit trusts market value adjustment		121.6			(121.6)			—
Fiscal year ended 2006	$124.1	$881.5	$2,139.9	$(5.7)	$(602.5)	$(806.7)	$(50.1)	$1,680.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Pensions and Other Postretirement Benefits

Defined Contribution Plans

The Company sponsors various defined contribution plans worldwide, with the largest plan being the Avery Dennison Corporation Employee Savings Plan ("Savings Plans"—a 401 (k) savings plan covering its U.S. employees). The Company matches participant contributions to the Savings Plan based on a formula within the plan. The Savings Plan has a leveraged employee stock ownership plan ("ESOP") feature, which allows the plan to borrow funds to purchase shares of the Company's common stock at market prices. Savings Plan expense consists primarily of stock contributions from the ESOP to participant accounts.

ESOP expense is accounted for under the cost of shares allocated method. Net ESOP expense for 2006, 2005 and 2004 was $.4 million, $1.2 million, and $.7 million, respectively. Company contributions to pay interest or principal on ESOP borrowings were $2.5 million, $1.7 million, and $1.1 million in 2006, 2005 and 2004, respectively.

Interest costs incurred by the ESOP for 2006, 2005 and 2004 were $.7 million, $.6 million, and $.3 million, respectively. Dividends on unallocated ESOP shares used for debt service were $.9 million, $1.1 million, and $1.3 million for 2006, 2005 and 2004, respectively.

The cost of shares allocated to the ESOP for 2006, 2005 and 2004 was $2.2 million, $2.3 million, and $2.1 million, respectively. Of the total shares held by the ESOP, 1.8 million shares were allocated and .5 million shares were unallocated at year end 2006, and 2.5 million shares were allocated and .6 million shares were unallocated at year end 2005.

Stock Loan Program

5.57

DARDEN RESTAURANTS, INC. (MAY)

Consolidated Statements of Changes in Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)

(In thousands, except per share data)	Common Stock and Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Officer Notes Receivable	Total Stockholders' Equity
Balance at May 25, 2003	$1,525,957	$913,464	$(1,254,293)	$(10,646)	$(42,848)	$(1,579)	$1,130,055
Comprehensive income:							
Net earnings	—	227,173	—	—	—	—	227,173
Other comprehensive income (loss):							
Foreign currency adjustment	—	—	—	337	—	—	337
Change in fair value of derivatives, net of tax of $51	—	—	—	205	—	—	205
Minimum pension liability adjustment, net of tax benefit of $45	—	—	—	(69)	—	—	(69)
Total comprehensive income							227,646
Cash dividends declared ($0.08 per share)	—	(12,984)	—	—	—	—	(12,984)
Stock option exercises (3,464 shares)	30,972	—	3,685	—	—	—	34,657
Issuance of restricted stock (409 shares), net of forfeiture adjustments	7,605	—	173	—	(7,778)	—	—
Earned compensation	—	—	—	—	4,198	—	4,198
ESOP note receivable repayments	—	—	—	—	5,027	—	5,027
Income tax benefits credited to equity	15,650	—	—	—	—	—	15,650
Purchases of common stock for treasury (10,749 shares)	—	—	(235,462)	—	—	—	(235,462)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (357 shares)	3,931	—	2,129	—	—	—	6,060
Repayment of officer notes	—	—	—	—	—	441	441
Balance at May 30, 2004	$1,584,115	$1,127,653	$(1,483,768)	$(10,173)	$(41,401)	$ (1,138)	$1,175,288

(continued)

(In thousands, except per share data)	Common Stock and Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Officer Notes Receivable	Total Stockholders' Equity
Balance at May 30, 2004	$1,584,115	$1,127,653	$(1,483,768)	$(10,173)	$(41,401)	$ (1,138)	$1,175,288
Comprehensive income:							
Net earnings	—	290,606	—	—	—	—	290,606
Other comprehensive income (loss):							
Foreign currency adjustment	—	—	—	1,450	—	—	1,450
Change in fair value of derivatives, net of tax of $1,503	—	—	—	(243)	—	—	(243)
Minimum pension liability adjustment, net of tax benefit of $56	—	—	—	90	—	—	90
Total comprehensive income							291,903
Cash dividends declared ($0.08 per share)	—	(12,505)	—	—	—	—	(12,505)
Stock option exercises (6,615 shares)	62,464	—	7,081	—	—	—	69,545
Issuance of restricted stock (378 shares), net of forfeiture adjustments	9,535	—	—	—	(9,535)	—	—
Earned compensation	—	—	—	—	7,464	—	7,464
ESOP note receivable repayments	—	—	—	—	3,393	—	3,393
Income tax benefits credited to equity	42,996	—	—	—	—	—	42,996
Purchases of common stock for treasury (11,343 shares)	—	—	(311,686)	—	—	—	(311,686)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (296 shares)	4,226	—	1,932	—	—	—	6,158
Issuance of treasury stock under Employee Stock Ownership Plan (50 shares)	—	—	1,606	—	(1,606)	—	—
Repayment of officer notes	—	—	—	—	—	463	463
Balance at May 29, 2005	$1,703,336	$1,405,754	$(1,784,835)	$ (8,876)	$(41,685)	$ (675)	$1,273,019
Comprehensive income:							
Net earnings	—	338,194	—	—	—	—	338,194
Other comprehensive income (loss):							
Foreign currency adjustment	—	—	—	3,878	—	—	3,878
Change in fair value of derivatives, net of tax of $418	—	—	—	(532)	—	—	(532)
Minimum pension liability adjustment, net of tax benefit of $25	—	—	—	(40)	—	—	(40)
Total comprehensive income							341,500
Cash dividends declared ($0.40 per share)	—	(59,206)	—	—	—	—	(59,206)
Stock option exercises (3,909 shares)	49,260	—	6,346	—	—	—	55,606
Issuance of restricted stock (403 shares), net of forfeiture adjustments	13,467	—	—	—	(13,467)	—	—
Earned compensation	—	—	—	—	7,386	—	7,386
ESOP note receivable repayments	—	—	—	—	3,580	—	3,580
Income tax benefits credited to equity	34,316	—	—	—	—	—	34,316
Purchases of common stock for treasury (11,943 shares)	—	—	(434,187)	—	—	—	(434,187)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (237 shares)	5,988	—	1,454	—	—	—	7,442
Repayment of officer notes	—	—	—	—	—	307	307
Balance at May 28, 2006	$1,806,367	$1,684,742	$(2,211,222)	$ (5,570)	$(44,186)	$ (368)	$1,229,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Stockholders' Equity

Stock Purchase/Loan Program

We have share ownership guidelines for our officers. To assist them in meeting these guidelines, we implemented the 1998 Stock Purchase/Option Award Loan Program (Loan Program) in conjunction with our Stock Option and Long-Term Incentive Plan of 1995. The Loan Program provided loans to our officers and awarded two options for every new share purchased, up to a maximum total share value equal to a designated percentage of the officer's base compensation. Loans are full recourse and interest bearing, with a maximum principal amount of 75 percent of the value of the stock purchased. The stock purchased is held on deposit with us until the loan is repaid. The interest rate for loans under the Loan Program is fixed and is equal to the applicable federal rate for mid-term loans with semi-annual compounding for the month in which the loan originates. Interest is payable on a weekly basis. Loan principal is payable in installments with 25 percent, 25 percent and 50 percent of the total loan due at the end of the fifth, sixth and seventh years of the loan, respectively. Effective July 30, 2002, and in compliance with the Sarbanes-Oxley Act of 2002, we no longer issue new loans under the Loan Program. We account for outstanding officer notes receivable as a reduction of stockholders' equity.

Section 6: Statement of Cash Flows

GENERAL

6.01 Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows,* requires enterprises to present a Statement of Cash Flows which classifies cash receipts and payments by operating, investing, and financing activities.

6.02 This section reviews the format and content of the Statement of Cash Flows.

PRESENTATION IN ANNUAL REPORT

6.03 Table 6-1 shows where in relation to other financial statements a Statement of Cash Flows is presented in an annual report. As shown in Table 6-1, a Statement of Cash Flows is usually presented as the last financial statement or after the income statement and balance sheet but before the statement of changes in stockholders' equity.

6.04

TABLE 6-1: PRESENTATION IN ANNUAL REPORT

	2006	2005	2004	2003
Final statement	296	305	301	299
Follows income statement and balance sheet	287	278	279	274
Between income statement and balance sheet	16	16	19	26
First statement	1	1	1	1
Total Companies	**600**	**600**	**600**	**600**

CASH FLOWS FROM OPERATING ACTIVITIES

6.05 Paragraphs 21–24 of *SFAS No. 95* define those transactions and events that constitute operating cash receipts and payments. *SFAS No. 95* recommends that the direct method, as defined in paragraph 27, be used to report net cash flow from operating activities. Most of the survey companies used the indirect method (reconciling net income to net cash flow from operating activities) to report net cash flow from operating activities. Regardless of whether the direct or indirect method is used, paragraph 29 of *SFAS No. 95* requires that a reconciliation of net income to net cash flow from operating activities be presented and that interest and income tax payments be disclosed.

6.06 Table 6-2. shows the methods used to report cash flows from operating activities. Companies using the direct method usually present the reconciliation of net income to net cash flow from operating activities as a schedule at the bottom of the Statement of Cash Flows or on the page adjacent to the Statement. Companies using the indirect method usually present the reconciliation within the Statement of Cash Flows.

6.07 Paragraph 29 of *SFAS No. 95* states that the reconciliation of net income to net cash flow from operating activities shall separately report all major classes of reconciling items. For example, major classes of deferrals of past operating cash receipts and payments, and accruals of expected future operating cash receipts and payments, including at a minimum changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities, shall be separately reported. Table 6-3 lists the major types of items used by the survey companies to reconcile net income to net cash flow from operating activities. Besides deferred taxes and changes in trade receivables, trade payables and inventory, depreciation and amortization expense is the most frequently presented reconciling item.

6.08 Table 6-4 shows where in the financial statements interest and income tax payments are disclosed. Those survey companies disclosing the amount of interest payments in the notes to financial statements did so usually in a note discussing debt or in a note discussing details about the Statement of Cash Flows. Those survey companies disclosing the amount of income tax payments in the notes to financial statements did so usually in a note discussing income taxes or in a note discussing details about the Statement of Cash Flows.

6.09 Examples of reporting cash flows from operating activities and related interest and income tax payment disclosures follow.

6.10

TABLE 6-2: METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	2006	2005	2004	2003
Indirect method	594	592	592	593
Direct method	6	8	8	7
Total Companies	**600**	**600**	**600**	**600**

6.11

TABLE 6-3: CASH FLOWS FROM OPERATING ACTIVITIES—RECONCILING ITEMS

	2006	2005	2004	2003
Income Statement Items				
Depreciation and/or amortization	600	597	596	600
Deferred taxes	512	496	497	475
Employee related costs	442	276	222	190
Gain or loss on sale of property	208	225	218	203
Tax benefit from share-based compensation plans	197	136	78	64
Gain or loss on sale of assets other than property	192	182	169	183
Equity in investee's earnings	179	170	153	154
Provision for bad debt	145	140	154	142
Intangible asset amortization	144	147	144	161
Write-down of assets	116	107	111	123
Restructuring	109	113	126	146
Changes in Operating Assets and Liabilities				
Accounts receivable	556	552	555	548
Inventories	497	497	500	492
Accounts receivable combined with inventories and/or other items	40	56	44	60
Accounts payable	333	335	351	342
Accounts payable combined with other items	241	241	227	234
Income taxes payable	247	258	241	230
Employee related liabilities	136	145	119	109

6.12

TABLE 6-4: INTEREST AND INCOME TAX PAYMENTS

	2006	2005	2004	2003
Interest Payments				
Notes to financial statements	298	296	306	310
Bottom of statements of cash flows	282	279	273	264
Within statement of cash flows	6	8	8	9
Amount not disclosed	14	17	13	17
Total Companies	**600**	**600**	**600**	**600**
Income Tax Payments				
Notes to financial statements	303	299	310	310
Bottom of statement of cash flows	288	288	278	271
Within statement of cash flows	7	9	9	12
Amount not disclosed	2	4	3	7
Total Companies	**600**	**600**	**600**	**600**

DIRECT METHOD

6.13

CVS CORPORATION (DEC)

(In millions)	2006	2005	2004
Cash flows from operating activities:			
Cash receipts from revenues	$ 43,273.7	$ 36,923.1	$ 30,545.8
Cash paid for inventory	(31,422.1)	(26,403.9)	(22,469.2)
Cash paid to other suppliers and employees	(9,065.3)	(8,186.7)	(6,528.5)
Interest and dividends received	15.9	6.5	5.7
Interest paid	(228.1)	(135.9)	(70.4)
Income taxes paid	(831.7)	(591.0)	(569.2)
Net cash provided by operating activities	1,742.4	1,612.1	914.2
Cash flows from investing activities:			
Additions to property and equipment	(1,768.9)	(1,495.4)	(1,347.7)
Proceeds from sale-leaseback transactions	1,375.6	539.9	496.6
Acquisitions (net of cash acquired) and other investments	(4,224.2)	12.1	(2,293.7)
Cash outflow from hedging activities	(5.3)	—	(32.8)
Proceeds from sale or disposal of assets	29.6	31.8	14.3
Net cash used in investing activities	(4,593.2)	(911.6)	(3,163.3)
Cash flows from financing activities:			
Additions to/(reductions in) short-term debt	1,589.3	(632.2)	885.6
Dividends paid	(140.9)	(131.6)	(119.8)
Proceeds from exercise of stock options	187.6	178.4	129.8
Excess tax benefits from stock-based compensation	42.6	—	—
Additions to long-term debt	1,500.0	16.5	1,204.1
Reductions in long-term debt	(310.5)	(10.5)	(301.5)
Net cash provided by (used in) financing activities	2,868.1	(579.4)	1,798.2
Net increase in cash and cash equivalents	17.3	121.1	(450.9)
Cash and cash equivalents at beginning of year	513.4	392.3	843.2
Cash and cash equivalents at end of year	$ 530.7	$ 513.4	$ 392.3
Reconciliation of net earnings to net cash provided by operating activities:			
Net earnings	$ 1,368.9	$ 1,224.7	$ 918.8
Adjustments required to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	733.3	589.1	496.8
Stock based compensation	69.9	—	—
Deferred income taxes and other non-cash items	98.2	13.5	(23.6)
Change in operating assets and liabilities providing/(requiring) cash, net of effects from acquisitions:			
Accounts receivable, net	(540.1)	(83.1)	(48.4)
Inventories	(624.1)	(265.2)	(509.8)
Other current assets	(21.4)	(13.2)	35.7
Other assets	(17.2)	(0.1)	8.5
Accounts payable	396.7	192.2	109.4
Accrued expenses	328.9	(43.8)	(144.2)
Other long-term liabilities	(50.7)	(2.0)	71.0
Net cash provided by operating activities	$ 1,742.4	$ 1,612.1	$ 914.2

6.14

NORTHROP GRUMMAN CORPORATION (DEC)

($ in millions)	2006	2005	2004
Operating activities			
Sources of cash—continuing operations			
Cash received from customers			
Progress payments	$ 6,819	$ 6,731	$ 6,733
Other collections	23,303	23,622	22,110
Insurance proceeds received	100	89	
Income tax refunds received	60	88	121
Interest received	45	78	8
Other cash receipts	42	51	34
Total sources of cash—continuing operations	30,369	30,659	29,006
Uses of cash—continuing operations			
Cash paid to suppliers and employees	(27,415)	(27,113)	(25,943)
Interest paid	(366)	(404)	(443)
Income taxes paid	(678)	(419)	(449)
Excess tax benefits from stock-based compensation	(57)		
Payments for litigation settlements	(11)	(99)	(86)
Other cash payments	(12)	(31)	(181)
Total uses of cash—continuing operations	(28,539)	(28,066)	(27,102)
Cash provided by continuing operations	1,830	2,593	1,904
Cash (used in) provided by discontinued operations	(74)	34	32
Net cash provided by operating activities	1,756	2,627	1,936
Investing activities			
Proceeds from sale of businesses, net of cash divested	43	57	125
Collection of note receivable			494
Payments for businesses purchased, net of cash acquired		(361)	
Proceeds from sale of property, plant, and equipment	21	11	28
Additions to property, plant, and equipment	(737)	(824)	(672)
Proceeds from insurance carrier	117	38	
Proceeds from sale of investments	209	238	23
Payment for purchase of investment	(35)		
Restriction of cash, net of restrictions released	(127)		
Payments for outsourcing contract costs	(77)		
Other investing activities, net	(15)	(14)	11
Net cash (used in) provided by investing activities	(601)	(855)	9
Financing activities			
Borrowings under lines of credit	47	62	101
Repayment of borrowings under lines of credit	(3)	(21)	(111)
Proceeds from issuance of long-term debt	200		
Principal payments of long-term debt	(1,212)	(32)	(725)
Proceeds from exercises of stock options and issuances of common stock	393	163	834
Dividends paid	(402)	(359)	(322)
Excess tax benefits from stock-based compensation	57		
Common stock repurchases	(825)	(1,210)	(786)
Net cash used in financing activities	(1,745)	(1,397)	(1,009)
(Decrease) Increase in cash and cash equivalents	(590)	375	936
Cash and cash equivalents, beginning of year	1,605	1,230	294
Cash and cash equivalents, end of year	$ 1,015	$ 1,605	$ 1,230

($ in millions)	2006	2005	2004
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 1,542	$ 1,400	$ 1,084
Adjustments to reconcile to net cash provided by operating activities			
Depreciation	569	556	507
Amortization of assets	136	216	226
Stock-based compensation	184	172	154
Excess tax benefits from stock-based compensation	(57)		
Loss on disposals of property, plant, and equipment	6	21	14
Impairment of property, plant, and equipment damaged by Hurricane Katrina	37	61	
Amortization of long-term debt premium	(14)	(18)	(17)
Net gain on investments	(96)	(165)	
Decrease (increase) in			
Accounts receivable	(2,209)	(5,315)	(5,672)
Inventoried costs	(73)	(231)	6
Prepaid expenses and other current assets	(9)	(85)	1
Increase (decrease) in			
Progress payments	2,261	5,249	5,400
Accounts payable and accruals	160	348	193
Deferred income taxes	183	105	91
Income taxes payable	(68)	295	98
Retiree benefits	(772)	(22)	(192)
Other non-cash transactions, net	50	6	11
Cash provided by continuing operations	1,830	2,593	1,904
Cash (used in) provided by discontinued operations	(74)	34	32
Net cash provided by operating activities	$ 1,756	$ 2,627	$ 1,936
Non-cash investing and financing activities			
Settlement of note receivable in lieu of payment			$ 40
Sales of businesses			
Liabilities assumed by purchaser		$ 41	
Purchase of businesses			
Fair value of assets acquired, including goodwill		$ 399	
Consideration given for businesses purchased		(361)	
Liabilities assumed		$ 38	
Capital leases		$ 9	

INDIRECT/RECONCILIATION METHOD

6.15

BEMIS COMPANY, INC. (DEC)

(In thousands)	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 176,296	$ 162,529	$ 179,967
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	152,375	150,779	130,846
Minority interest in net income	3,540	5,937	489
Excess tax benefit from share-based payment arrangements	(926)		
Share-based compensation	11,694	14,199	11,908
Deferred income taxes	(7,930)	2,360	25,332
Income of unconsolidated affiliated companies	(32)	(874)	(8,807)
(Gain) loss on sale of property and equipment	896	(667)	(4,667)
Restructuring related activities	13,145	(896)	(2,408)
Proceeds from cash flow hedge		6,079	
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	9,709	(13,404)	(9,424)
Inventories	(31,387)	(783)	(73,989)
Prepaid expenses	(23,505)	500	583
Accounts payable	36,720	(8,967)	42,557
Accrued salaries and wages	15,694	7,542	15,774
Accrued income taxes	(438)	(6,105)	8,892
Accrued other taxes	(1,730)	(3,179)	300
Changes in other liabilities and deferred credits	2,329	(14,516)	(24,989)
Changes in deferred charges and other investments	(7,491)	(20,117)	(20,819)
Net cash provided by operating activities	348,959	280,417	271,545
Cash flows from investing activities:			
Additions to property and equipment	(158,837)	(186,965)	(134,511)
Business acquisitions, net of cash acquired	(10,800)	(237,992)	(30,733)
Proceeds from sales of property, equipment, and other assets	1,373	1,900	13,239
Proceeds from sale of restructuring related assets	2,116	2,985	8,191
Increased investment in unconsolidated affiliated company			(7,065)
Net cash used in investing activities	(166,148)	(420,072)	(150,879)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, net		296,548	
Repayment of long-term debt	(41,859)	(6,183)	(776)
Net repayment of commercial paper	(31,254)	(48,426)	(41,120)
Net borrowing (repayment) of short-term debt	7,364	32,859	(1,185)
Cash dividends paid to stockholders	(82,139)	(76,634)	(68,423)
Common stock purchased for the treasury	(17,804)	(49,469)	
Excess tax benefit from share-based payment arrangements	926		
Stock incentive programs	51	1,366	411
Net cash provided (used) by financing activities	(164,715)	150,061	(111,093)
Effect of exchange rates on cash	2,939	(13,179)	7,849
Net (decrease) increase in cash	21,035	(2,773)	17,422
Cash balance at beginning of year	91,125	93,898	76,476
Cash balance at end of year	$ 112,160	$ 91,125	$ 93,898
Supplemental disclosure of cash flow information:			
Business acquisitions, net of divestitures and cash:			
Working capital acquired (net)	$ (147)	$ 23,672	$ 9,921
Property acquired		157,667	19,546
Goodwill and intangible assets (divested) or acquired, net	8,398	151,952	(1,059)
Deferred charges and other assets acquired		28,018	3,031
Long-term debt, deferred taxes, and other liabilities	2,549	(123,317)	(706)
Cash used for acquisitions	$ 10,800	$ 237,992	$ 30,733
Interest paid during the year	$ 46,396	$ 38,731	$ 15,735
Income taxes paid during the year	$ 116,520	$ 120,496	$ 78,515

6.16

ENERGIZER HOLDINGS, INC. (SEP)

(Dollars in millions)	2006	2005	2004
Cash flow from operations			
Net earnings	$ 260.9	$ 280.7	$ 261.0
Adjustments to reconcile net earnings to net cash flow from operations:			
Depreciation and amortization	117.5	116.3	115.8
Deferred income taxes	(23.3)	(15.6)	(18.2)
Other non-cash charges	25.4	14.9	26.5
Other, net	11.0	4.8	19.6
Operating cash flow before changes in working capital	391.5	401.1	404.7
Changes in assets and liabilities used in operations:			
Increase in accounts receivable, net	(15.0)	(46.0)	(62.8)
Increase in inventories	(54.2)	(30.3)	(21.9)
(Increase)/decrease in other current assets	5.8	(10.8)	78.1
Increase/(decrease) in accounts payable	11.5	(10.4)	3.8
Increase/(decrease) in other current liabilities	33.4	(7.7)	77.4
Net cash flow from operations	373.0	295.9	479.3
Cash flow from investing activities			
Capital expenditures	(94.9)	(103.0)	(121.4)
Proceeds from sale of assets	6.6	5.4	4.3
Investment in prepaid share options	(19.6)	—	—
Other, net	(7.7)	0.5	5.8
Net cash used by investing activities	(115.6)	(97.1)	(111.3)
Cash flow from financing activities			
Cash proceeds from issuance of debt with original maturities greater than 90 days	497.8	621.0	—
Cash payments on debt with original maturities greater than 90 days	(15.0)	(430.0)	(20.0)
Net increase/(decrease) in debt with original maturities of 90 days or less	(123.2)	(10.4)	206.9
Common stock purchased	(600.7)	(461.2)	(542.9)
Proceeds from issuance of common stock	21.4	39.7	20.7
Excess tax benefits from share-based payments	8.2	20.9	6.4
Other	—	(1.3)	(3.6)
Net cash used by financing activities	(211.5)	(221.3)	(332.5)
Effect of exchange rate changes on cash	3.9	(2.1)	1.9
Net (decrease)/increase in cash and cash equivalents	49.8	(24.6)	37.4
Cash and cash equivalents, beginning of period	84.5	109.1	71.7
Cash and cash equivalents, end of period	$ 134.3	$ 84.5	$ 109.1

ADJUSTMENTS TO RECONCILE NET INCOME TO OPERATING CASH FLOWS

Employee Related Costs

6.17

OLIN CORPORATION (DEC)

($ in millions)	2006	2005	2004
Operating activities			
Net income	$149.7	$133.3	$ 54.8
(Income) from discontinued operations, net	—	—	(4.1)
Adjustments to reconcile net income to net cash and cash equivalents provided by (used for) operating activities:			
Earnings of non-consolidated affiliates	(46.0)	(38.5)	(10.1)
Other operating income—gains on disposition of real estate	(0.7)	(9.1)	—
Stock-based compensation	5.6	2.3	1.7
Gain on sale of insurance investment	—	—	(2.0)
Depreciation and amortization	72.1	72.5	73.3
Deferred taxes	(29.4)	54.1	(13.2)
Non-cash portion of restructuring charges	3.8	—	—
LIFO inventory liquidation gains	(25.9)	(0.9)	(0.3)
Cumulative effect of accounting change	—	6.4	—
Qualified pension plan contributions	(80.0)	(6.1)	(169.4)
Qualified pension plan expense	38.4	20.7	5.3
Common stock issued under employee benefit plans	3.3	2.9	2.8
Change in assets and liabilities net of purchases and sales of businesses:			
Receivables	(43.6)	(52.1)	(60.5)
Inventories	25.2	(5.2)	(16.3)
Other current assets	(19.9)	6.7	(3.2)
Accounts payable and accrued liabilities	58.7	73.4	10.0
Income taxes payable	(18.4)	23.1	(1.0)
Other noncurrent liabilities	(43.8)	1.7	2.2
Other assets	12.0	(8.4)	—
Other operating activities	3.6	2.1	(4.7)
Cash provided by (used for) continuing operations	64.7	278.9	(134.7)
Discontinued operations:			
Income from discontinued operations, net	—	—	4.1
Gain on disposal of discontinued operations	—	—	(5.8)
Net operating activities	$ 64.7	$278.9	$(136.4)

Sale of Property

6.18

BRIGGS & STRATTON CORPORATION (JUN)

(In thousands)	2006	2005	2004
Cash flows from operating activities:			
Net income	$102,346	$136,567	$ 136,114
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary gain	—	(19,800)	—
Depreciation and amortization	77,234	72,793	66,608
Earnings of unconsolidated affiliates, net of dividends	459	678	(3,484)
(Gain) loss on disposition of plant and equipment	(11,139)	2,418	7,390
Stock compensation expense	9,999	1,268	291
Provision for deferred income taxes	(10,438)	(3,896)	12,800
Change in operating assets and liabilities, net of effects of acquisition:			
Decrease (increase) in receivables	87,284	(26,892)	(28,588)
(Increase) decrease in inventories	(92,350)	12,784	(128,594)
(Increase) decrease in prepaid expenses and other current assets	(12,302)	2,650	2,017
(Decrease) increase in accounts payable, accrued liabilities and income taxes	(7,695)	(27,673)	4,696
Change in accrued/prepaid pension	10,847	(1,050)	(6,070)
Other, net	363	(1,289)	(13,024)
Net cash provided by operating activities	$154,608	$148,558	$ 50,156

Tax Benefit From Share-Based Compensation Plans

6.19

VIAD CORP (DEC)

(In thousands)	2006	2005	2004
Cash flows from operating activities			
Net income (loss)	$ 63,554	$ 37,754	$(56,002)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	19,804	22,113	23,370
Deferred income taxes	4,593	11,809	1,745
Income from discontinued operations	(12,229)	(1,240)	(2,327)
Restructuring charges (recoveries)	(215)	(743)	1,240
Impairment losses	5,160	843	88,699
Gains on dispositions of property and other assets	(3,499)	(69)	(631)
Share-based compensation expense	11,127	9,175	8,126
Tax benefits from share-based compensation arrangements	7,906	731	1,031
Excess tax benefits from share-based compensation arrangements	(4,860)	—	—
Other non-cash items, net	4,464	2,889	4,464
Change in operating assets and liabilities:			
Receivables	14,520	(6,561)	(17,202)
Inventories	(5,670)	(1,461)	(624)
Accounts payable	273	(1,387)	9,338
Restructuring liability	(1,301)	(2,609)	(7,894)
Other assets and liabilities, net	(27,190)	(21,380)	(17,687)
Net cash provided by operating activities	$ 76,437	$ 49,864	$ 35,646

Sale of Assets Other Than Property

6.20

UNITED STATIONERS INC. (DEC)

(Dollars in thousands)	2006	2005	2004
Cash flows from operating activities:			
Net income	$132,213	$ 97,501	$ 89,971
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	38,232	32,079	27,164
Amortization of capitalized financing costs	801	670	648
Write-off of capitalized software development costs	6,501	—	—
Share-based compensation	7,953	—	—
Loss on sale of Canadian Division	5,885	—	—
Excess tax benefits related to share-based compensation	(4,572)	—	—
Write down of assets held for sale	—	—	300
(Gain) loss on sale of property, plant and equipment	(5,482)	264	114
Deferred income taxes	(16,143)	(1,425)	(181)
Changes in operating assets and liabilities, excluding the effects of acquisitions:			
(Increase) decrease in accounts receivable, net	(46,875)	(15,725)	16,927
Decrease (increase) in retained interest in receivables sold, net	9,389	111,269	(74,085)
Increase in inventory	(8,754)	(25,792)	(68,201)
Increase in other assets	(5,504)	(7,358)	(86)
(Decrease) increase in accounts payable	(63,264)	13,588	44,743
Increase in accrued liabilities	7,299	15,414	8,532
(Decrease) increase in deferred credits	(51,255)	4,220	2,651
Increase in other liabilities	7,570	11,362	2,204
Net cash provided by operating activities	$ 13,994	$236,067	$ 50,701

Equity Earnings/(Loss)

6.21

AT&T INC. (DEC)

(Dollars in millions, increase (decrease) in cash and cash equivalents)	2006	2005	2004
Operating activities			
Net income	$ 7,356	$ 4,786	$ 5,887
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,907	7,643	7,564
Undistributed earnings from investments in equity affiliates	(1,946)	(451)	(542)
Provision for uncollectible accounts	586	744	761
Amortization of investment tax credits	(28)	(21)	(32)
Deferred income tax (benefit) expense	(87)	(658)	646
Net gain on sales of investments	(10)	(135)	(939)
Income from discontinued operations, net of tax	—	—	(908)
Retirement benefit funding	—	—	(2,232)
Changes in operating assets and liabilities:			
Accounts receivable	519	(94)	282
Other current assets	30	34	(102)
Accounts payable and accrued liabilities	(2,213)	74	408
Stock-based compensation tax benefit	(18)	(3)	(5)
Other—net	1,519	1,055	162
Total adjustments	8,259	8,188	5,063
Net cash provided by operating activities	$15,615	$12,974	$10,950

Provision for Bad Debt

6.22

ADVO, INC. (SEP)

(In thousands)	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 20,797	$ 39,953	$ 48,724
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation	42,968	38,359	35,901
Stock-based compensation	7,996	2,666	1,699
Amortization of debt issue costs	554	554	627
Deferred income taxes	(9,050)	8,678	2,810
Provision for bad debts	6,776	9,610	6,837
Equity earnings from joint ventures	(3,276)	(2,029)	(2,601)
Debt issue costs associated with debt retirement	—	—	1,401
Other	(32)	(10)	57
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(54,452)	(22,366)	(34,408)
Inventories	(1,446)	(373)	371
Prepaid postage	3,745	(9,404)	(584)
Prepaid expenses and other current assets	(147)	85	3,234
Investment in deferred compensation plan	(61)	(445)	(491)
Other assets	636	1,811	3,917
Accounts payable	(26)	3,254	15,385
Accrued compensation and benefits	2,019	(156)	2,769
Deferred compensation plan	61	445	491
Customer advances	18,514	(1,353)	3,653
Federal and state income taxes payable	173	(3,638)	(954)
Other liabilities	6,364	2,621	3,580
Distributions from equity joint ventures	3,164	1,963	2,559
Net cash provided by operating activities	$ 45,277	$ 70,225	$ 94,977

Intangible Asset Amortization

6.23

HORMEL FOODS CORPORATION (OCT)

(In thousands)	2006	2005	2004
Operating activities			
Net earnings	$286,139	$254,603	$233,550
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	109,360	105,774	87,675
Amortization of intangibles	11,741	9,415	7,070
Equity in earnings of affiliates	(4,083)	(5,797)	(5,884)
Provision for deferred income taxes	(26,736)	(24,333)	(10,494)
(Gain) loss on property/equipment sales and plant facilities	(686)	149	(432)
Gain on sales of business and investment	0	0	(24,285)
Changes in operating assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(37,986)	6,463	14,803
Increase in inventories, prepaid expenses, and other current assets	(21,722)	(15,180)	(31,997)
(Increase) decrease in net pension assets	(22,406)	23,478	(5,733)
Increase in accounts payable and accrued expenses	14,899	93,078	22,644
Other	18,054	6,069	4,557
Net cash provided by operating activities	$326,574	$453,719	$291,474

Restructuring Charges

6.24

MILACRON INC. (DEC)

(In millions)	2006	2005	2004
Increase (decrease) in cash and cash equivalents			
Operating activities cash flows			
Net loss	$(39.7)	$(14.0)	$(51.8)
Operating activities providing (using) cash			
Loss from discontinued operations	—	—	1.3
Net gain on divestitures	(.1)	(2.5)	(.8)
Depreciation and amortization	16.8	18.4	20.3
Restructuring costs	8.2	1.6	13.0
Refinancing costs	1.8	—	21.4
Deferred income taxes	.8	(.7)	8.7
Working capital changes			
Notes and accounts receivable	7.9	10.0	(36.1)
Inventories	(4.5)	(14.3)	(1.1)
Other current assets	2.1	3.1	3.0
Trade accounts payable	(1.7)	1.1	9.3
Other current liabilities	(2.0)	(8.2)	(30.4)
Decrease (increase) in other noncurrent assets	15.7	7.0	3.0
Increase (decrease) in long-term accrued liabilities	(25.9)	7.0	(1.9)
Other—net	1.4	.7	.4
Net cash provided (used) by operating activities	$(19.2)	$ 9.2	$(41.7)

Changes in Assets and Liabilities

6.25

GENERAL MILLS, INC. (MAY)

(In millions)	2006	2005	2004
Cash flows—operating activities			
Net earnings	$ 1,090	$ 1,240	$ 1,055
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	424	443	399
Deferred income taxes	26	9	109
Changes in current assets and liabilities	184	258	(186)
Tax benefit on exercised options	41	62	63
Pension and other postretirement costs	(74)	(70)	(21)
Restructuring and other exit costs	30	84	26
Divestitures (gain)	—	(499)	—
Debt repurchase costs	—	137	—
Other, net	50	47	16
Net cash provided by operating activities	1,771	1,711	1,461
Cash flows—investing activities			
Purchases of land, buildings and equipment	(360)	(434)	(653)
Investments in businesses	(26)	—	(10)
Investments in affiliates, net of investment returns and dividends	78	84	32
Purchases of marketable securities	—	(1)	(7)
Proceeds from sale of marketable securities	1	33	129
Proceeds from disposal of land, buildings and equipment	11	24	36
Proceeds from disposition of businesses	—	799	—
Other, net	4	(9)	2
Net cash provided (used) by investing activities	(292)	496	(470)
Cash flows—financing activities			
Change in notes payable	1,197	(1,057)	(1,023)
Issuance of long-term debt	—	2	576
Payment of long-term debt	(1,386)	(1,115)	(248)
Proceeds from issuance of preferred membership interests of subsidiary	—	835	—
Common stock issued	157	195	192
Purchases of common stock for treasury	(885)	(771)	(24)
Dividends paid	(485)	(461)	(413)
Other, net	(3)	(13)	(3)
Net cash used by financing activities	(1,405)	(2,385)	(943)
Increase (decrease) in cash and cash equivalents	74	(178)	48
Cash and cash equivalents—beginning of year	573	751	703
Cash and cash equivalents—end of year	$ 647	$ 573	$ 751
Cash flow from changes in current assets and liabilities:			
Receivables	$ (18)	$ (9)	$ (22)
Inventories	(6)	30	24
Prepaid expenses and other current assets	(7)	9	(15)
Accounts payable	14	(19)	(161)
Other current liabilities	201	247	(12)
Changes in current assets and liabilities	$ 184	$ 258	$ (186)

6.26

PACCAR INC (DEC)

(Millions of dollars)	2006	2005	2004
Operating activities:			
Net income	$1,496.0	$1,133.2	$ 906.8
Items included in net income not affecting cash:			
Depreciation and amortization:			
Property, plant and equipment	163.4	133.3	122.0
Equipment on operating leases and other	271.2	236.8	193.0
Provision for losses on financial services receivables	33.8	40.4	18.1
Other, net	61.2	(19.8)	19.4
Change in operating assets and liabilities:			
(Increase) decrease in assets other than cash and equivalents:			
Receivables:			
Trade and other	(80.5)	(80.1)	(53.0)
Wholesale receivables on new trucks	(64.6)	(398.9)	(298.4)
Sales-type finance leases and dealer direct loans on new trucks	(232.4)	(194.3)	(164.0)
Inventories	(168.5)	(30.1)	(142.1)
Other, net	(2.2)	(37.5)	(30.2)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	423.3	147.1	409.7
Residual value guarantees and deferred revenues	72.9	45.5	(69.5)
Other, net	(120.9)	11.2	(20.8)
Net cash provided by operating activities	$1,852.7	$ 986.8	$ 891.0

INTEREST AND INCOME TAX PAYMENTS

6.27

CBS CORPORATION (DEC)

(In millions)	2006	2005	2004
Operating activities:			
Net earnings (loss)	$ 1,660.5	$(7,089.1)	$(17,462.2)
Less: Net earnings from discontinued operations	277.6	1,271.5	278.9
Less: Cumulative effect of accounting change, net of tax	—	—	(1,312.4)
Net earnings (loss) from continuing operations	1,382.9	(8,360.6)	(16,428.7)
Adjustments to reconcile net earnings (loss) from continuing operations to net cash flow from operating activities:			
Depreciation and amortization	439.5	440.1	449.8
Impairment charges	65.2	9,484.4	17,997.1
Stock-based compensation	64.3	17.6	—
Net gain on dispositions	(28.5)	(44.0)	(45.3)
Equity in (earnings) loss of affiliated companies, net of tax	97.0	1.5	(19.2)
Distributions from affiliated companies	8.9	9.5	12.6
Minority interest, net of tax	.6	.5	.6
Amortization of deferred financing costs	5.4.	8.4	9.8
Change in operating assets and liabilities:			
(Increase) decrease in receivables	(215.0)	40.1	(126.8)
(Increase) decrease in inventory and related program and participation liabilities, net	151.8	(69.8)	95.5
(Increase) decrease in other assets	136.4	(180.6)	(189.6)
Increase (decrease) in accounts payable and accrued expenses	(176.6)	156.7	(276.3)
Increase in income taxes payable and net deferred tax liabilities	68.6	286.6	174.8
Decrease in deferred revenue	(4.0)	(6.8)	(41.7)
Other, net	6.0	38.7	(54.4)
Net cash flow provided by operating activities from continuing operations	2,002.5	1,822.3	1,558.2
Net cash flow provided by (used for) operating activities from discontinued operations	(114.1)	1,714.7	2,082.4
Net cash flow provided by operating activities	1,888.4	3,537.0	3,640.6
Investing activities:			
Acquisitions, net of cash acquired	(97.9)	(462.9)	(64.0)
Capital expenditures	(394.1)	(327.0)	(217.9)
Investments in and advances to affiliated companies	(110.0)	(29.5)	(3.4)
Net receipts from Viacom Inc. related to the Separation	65.6	5,400.0	—
Proceeds from the sale of Paramount Parks	1,242.1	—	—
Proceeds from other dispositions	142.5	279.6	17.1
Proceeds from sale of investments	2.5	123.4	70.2
Other, net	(1.2)	(2.1)	(2.8)
Net cash flow provided by (used for) investing activities from continuing operations	849.5	4,981.5	(200.8)
Net cash flow used for investing activities from discontinued operations	(34.5)	(213.7)	(332.9)
Net cash flow provided by (used for) investing activities	815.0	4,767.8	(533.7)
Financing activities:			
Repayments to banks, including commercial paper, net	(4.8)	(1.6)	(26.1)
Repayment of notes and debentures	(832.0)	(1,440.3)	(80.3)
Payment of capital lease obligations	(14.7)	(13.5)	(12.8)
Purchase of Company common stock	(6.2)	(5,562.6)	(2,503.3)
Dividends	(519.1)	(451.3)	(415.2)
Proceeds from exercise of stock options	91.1	317.5	119.6
Other, net	1.6	—	(.9)
Net cash flow used for financing activities from continuing operations	(1,284.1)	(7,151.8)	(2,919.0)
Net cash flow used for financing activities from discontinued operations	—	(425.9)	(110.4)
Net cash flow used for financing activities	(1,284.1)	(7,577.7)	(3,029.4)
Net increase in cash and cash equivalents	1,419.3	727.1	77.5
Cash and cash equivalents at beginning of year (includes $0 (2006), $150.0 (2005) and $293.1 (2004) of discontinued operations cash)	1,655.3	928.2	850.7
Cash and cash equivalents at end of year (includes $0 (2006), $0 (2005) and $150.0 (2004) of discontinued operations cash)	$ 3,074.6	$ 1,655.3	$ 928.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions)

18) (In Part): Supplemental Cash Flow Information

	2006	2005	2004
Cash paid for interest, net of amounts capitalized:			
Continuing operations	$522.3	$ 659.6	$ 613.2
Discontinued operations	—	19.8	32.6
Total	$522.3	$ 679.4	$ 645.8
Cash paid for income taxes:			
Continuing operations	$562.2	$ 493.4	$ 393.8
Discontinued operations	142.7	989.5	791.2
Total	$704.9	$1,482.9	$1,185.0

6.28

PACTIV CORPORATION (DEC)

(In millions)	2006	2005	2004
Operating activities			
Net income	$ 274	$ 54	$ 155
Less results from discontinued operations	3	89	(17)
Income from continuing operations	277	143	138
Adjustments to reconcile income from continuing operations to cash provided by operating activities—continuing operations:			
Depreciation and amortization	145	146	139
Deferred income taxes	(19)	20	39
Restructuring and other	(1)	(1)	32
Pension income	(42)	(54)	(56)
Noncash compensation expense	5	—	—
Realized foreign-exchange gain	(31)	—	—
Changes in components of working capital			
Increase in receivables	(6)	(30)	(3)
(Increase) decrease in inventories	(5)	25	4
(Increase) decrease in prepayments and other current assets	(2)	2	4
Increase (decrease) in accounts payable	(27)	(7)	33
Increase (decrease) in taxes accrued	58	30	4
Decrease in interest accrued	—	(1)	—
Increase (decrease) in other current liabilities	23	5	(5)
Other	11	(8)	4
Cash provided by operating activities—continuing operations	386	270	333
Cash provided (used) by operating activities—discontinued operations	(14)	(4)	33
Cash provided by operating activities	$ 372	$ 266	$ 366
Investing activities			
Expenditures for property, plant, and equipment—continuing operations	(78)	(121)	(78)
Acquisitions of businesses and assets	—	(98)	—
Proceeds from the sale of a business or assets	3	524	2
Cash provided (used) by investing activities—continuing operations	(75)	305	(76)
Expenditures for property, plant, and equipment—discontinued operations	—	(22)	(22)
Other discontinued operations investing activities	—	—	7
Cash provided (used) by investing activities	$ (75)	$ 283	$ (91)
Financing activities			
Issuance of common stock	73	28	33
Purchase of common stock	(369)	(164)	(230)
Issuance of long-term debt	—	142	—
Retirement of long-term debt	—	(610)	—
Net increase in short-term debt, excluding current maturities of long-term debt	2	9	—
Cash used by financing activities—continuing operations	$(294)	$(595)	$(197)
Effect of foreign-exchange rate changes on cash and temporary cash investments	6	(4)	4
Increase (decrease) in cash and temporary cash investments	9	(50)	82
Cash and temporary cash investments, January 1	172	222	140
Cash and temporary cash investments, December 31	$ 181	$ 172	$ 222
Supplemental disclosure of cash-flow information			
Cash paid for interest	$ 73	$ 96	$ 100
Cash paid for income taxes—continuing operations	73	31	35
Cash paid for income taxes—discontinued operations	10	17	6

6.29

THE J. M. SMUCKER COMPANY (APR)

(Dollars in thousands)	2006	2005	2004
Operating activities			
Net income	$ 143,354	$ 129,073	$ 111,350
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	63,638	54,077	36,147
Amortization	7,445	1,971	2,414
Gain on sale of assets	(5,638)	(3,079)	—
Deferred income tax expense	33,124	36,247	6,113
Changes in assets and liabilities, net of effect from businesses acquired:			
Trade receivables	1,444	(2,015)	(1,190)
Inventories	(6,036)	(5,257)	(20,341)
Other current assets	(24,369)	(13,934)	3,819
Accounts payable and accrued items	(63,914)	(43,595)	3,478
Income taxes	44,756	(5,494)	(18,012)
Discontinued operations	—	868	17,964
Other—net	4,477	902	(5,153)
Net cash provided by operating activities	198,281	149,764	136,589
Investing activities			
Businesses acquired, net of cash acquired	—	(99,062)	(9,196)
Additions to property, plant, and equipment	(63,172)	(87,576)	(97,721)
Proceeds from sale of businesses	8,754	79,566	—
Purchase of marketable securities	(5,000)	(88,803)	(86,439)
Sale and maturities of marketable securities	31,101	67,094	28,957
Disposal of property, plant, and equipment	3,747	2,406	9,161
Discontinued operations	—	(907)	(1,846)
Other—net	8,723	6,465	(5,455)
Net cash used for investing activities	(15,847)	(120,817)	(162,539)
Financing activities			
Proceeds from long-term debt	—	100,000	—
Repayments of long-term debt	(17,000)	(37,500)	—
Revolving credit arrangements—net	(8,434)	33,155	—
Repayments of short-term debt	—	(113,622)	—
Dividends paid	(62,656)	(56,057)	(45,724)
Purchase of treasury shares	(81,717)	(16,869)	(1,148)
Other—net	678	18,613	6,835
Net cash used for financing activities	(169,129)	(72,280)	(40,037)
Effect of exchange rate changes on cash	566	(3,133)	526
Net increase (decrease) in cash and cash equivalents	13,871	(46,466)	(65,461)
Cash and cash equivalents at beginning of year	58,085	104,551	170,012
Cash and cash equivalents at end of year	$ 71,956	$ 58,085	$ 104,551

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note L (In Part): Long-Term Debt and Financing Arrangements

Interest paid totaled $29,374, $29,075, and $10,364 in 2006, 2005, and 2004, respectively. This differs from interest expense due to the timing of payments, amortization of the fair value adjustment on the 6.60 percent Senior Notes, amortization of deferred interest rate swap gains, and interest capitalized of $507, $1,000, and $1,850 in 2006, 2005, and 2004, respectively.

Note P (In Part): Income Taxes

A reconciliation of the statutory federal income tax rate and the effective income tax rate follows:

Percent of Pretax Income	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in income taxes resulting from:			
State and local income taxes, net of federal income tax benefit	0.8	1.8	0.7
Other items—net	(2.3)	(0.6)	1.5
Effective income tax rate	33.5%	36.2%	37.2%
Income taxes paid	$5,882	$60,359	$70,927

CASH FLOWS FROM INVESTING ACTIVITIES

6.30 Paragraphs 15–17 of *SFAS No. 95* define those transactions and events which constitute investing cash receipts and payments. With the exception of certain transactions described in paragraphs 12 and 13 of *SFAS No. 95* and paragraph 7 of SFAS No. 104, *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows From Hedging Activities*, which amends *SFAS No. 95*, cash receipts and payments should be reported separately and not netted. Examples of reporting cash flows from investing activities follow.

Property Acquisitions/Disposals

6.31

CAMPBELL SOUP COMPANY (JUL)

(Millions)	2006	2005	2004
Cash flows from investing activities:			
Purchases of plant assets	$(309)	$(332)	$(288)
Sales of plant assets	2	11	22
Businesses acquired	—	—	(9)
Other, net	13	7	—
Net cash used in investing activities	$(294)	$(314)	$(275)

6.32

DARDEN RESTAURANTS, INC. (MAY)

(In thousands)	2006	2005	2004
Cash flows—investing activities			
Purchases of land, buildings and equipment	$(338,155)	$(329,238)	$(354,326)
Increase in other assets	(7,021)	(1,931)	(5,128)
Proceeds from disposal of land, buildings and equipment	20,560	18,028	16,197
Net cash used in investing activities	$(324,616)	$(313,141)	$(343,257)

Investments

6.33

HUBBELL INCORPORATED (DEC)

(Dollars in millions)	2006	2005	2004
Cash flows from investing activities			
Acquisition of businesses, net of cash acquired	$(145.7)	$ (54.3)	$ —
Proceeds from disposition of assets	0.6	14.6	10.7
Capital expenditures	(86.8)	(73.4)	(39.1)
Purchases of available-for-sale investments	(153.2)	(293.0)	(415.0)
Proceeds from sale of available-for-sale investments	296.0	356.9	329.0
Purchases of held-to-maturity investments	(0.4)	—	—
Proceeds from maturities/sales of held-to-maturity investments	21.4	17.2	—
Other, net	1.4	1.6	5.7
Net cash used in investing activities	$ (66.7)	$ (30.4)	$(108.7)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1(In Part): Significant Accounting Policies

Investments

At December 31, 2006 and 2005, short-term investments consist of variable rate demand notes and auction rate securities. The Company defines short-term investments as securities with original maturities of greater than three months but less than one year. Investments in debt and equity securities are classified by individual security as either available-for-sale or held-to-maturity. Variable rate demand notes and auction rate securities are classified as available-for-sale investments and are classified as short-term. Available-for-sale investments are carried on the balance sheet at fair value with current period adjustments to carrying value recorded in Accumulated other comprehensive income within Shareholders' equity, net of tax. Debt securities which the Company has the positive intent and ability to hold to maturity, are classified as held-to-maturity and are carried on the balance sheet at amortized cost. The effects of amortizing these securities are recorded in current earnings. Realized gains and losses are recorded in income in the period of sale.

Note 7. Investments

At December 31, 2006, available-for-sale investments consisted of variable rate demand notes. At December 31, 2005, available-for-sale investments consisted of auction rate securities, U.S. Treasury Notes, and municipal, corporate, and asset-backed bonds. These investments are stated at fair market value based on current quotes. At December 31, 2006, held-to-maturity investments consisted of Missouri state bonds. At December 31, 2005, held-to-maturity investments consisted of a Commonwealth of Puerto Rico bond. These held-to-maturity investments have been stated at amortized cost. There were no securities during 2006 and 2005 that were classified as trading investments.

The following table sets forth selected data with respect to the Company's investments at December 31, (in millions):

	2006					2005				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for-sale investments	$35.9	$ —	$ —	$35.9	$35.9	$179.4	$ —	$(0.6)	$178.8	$178.8
Held-to-maturity investments	0.3	—	—	0.3	0.3	21.3	0.1	—	21.4	21.3
Total investments	$36.2	$ —	$ —	$36.2	$36.2	$200.7	$0.1	$(0.6)	$200.2	$200.1

Contractual maturities of available-for-sale and held-to-maturity investments at December 31, 2006 were as follows (in millions):

	Amortized Cost	Fair Value
Available-for-sale investments		
Due after 10 years	$35.9	$35.9
Total	$35.9	$35.9
Held-to-maturity investments		
Due within 1 year	$ 0.1	$ 0.1
After 1 year but within 5 years	0.2	0.2
Total	$ 0.3	$ 0.3

Included in the available-for-sale amounts above are variable rate demand notes of $35.9 million and auction rate securities of $100 million as of December 31, 2006 and 2005, respectively. These securities are reset to current interest rates periodically, typically every 28, 35 or 49 days. The 2006 amounts have been classified as having maturities beyond ten years in the table above.

In 2006, the Company recorded a $0.3 million credit to net unrealized gain/(loss) on available-for-sale securities that has been included in Accumulated other comprehensive income (loss), net of tax. In both 2005 and 2004, the Company recorded $0.3 million of charges to net unrealized gains/(loss). The cost basis used in computing the gain or loss on these securities was through specific identification. Realized gains and losses were immaterial in 2006, 2005 and 2004.

6.34

RETAIL VENTURES, INC. (JAN)

(In thousands)	2007	2006	2005
Cash flows from investing activities:			
Restricted cash	$ (511)	$ —	$ —
Cash paid for property and equipment	(65,584)	(46,499)	(85,443)
Proceeds from sale of assets	30	165	119
Purchases of available-for-sale investments	(188,250)		
Maturities and sales from available-for-sale investments	89,600		
Tradename acquisitions			(4,066)
Net cash used in investing activities	$(164,715)	$(46,334)	$(89,390)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Short-Term Investments

Short-term investments include investment grade variable-rate debt obligations and auction rate securities and are classified as available-for-sale securities. These securities are recorded at cost, which approximates fair value due to their variable interest rates, which typically reset every 33 to 182 days, and despite the long-term nature of their stated contractual maturities, the Company has the intent and ability to quickly liquidate these securities. Because the fair value approximates the cost, there are no accumulated unrealized holding gains or losses in other comprehensive income from these investments. All income generated from these investments is recorded as interest income. As of February 3, 2007, the Company held $98.7 million in short-term investments and at January 28, 2006, the Company had no short-term investments.

4. Investments

During the year ended February 3, 2007, $188.2 million of cash, respectively, was used to purchase available-for-sale securities while $89.6 million of cash, respectively, was generated by the sale of available-for-sale securities. As of February 3, 2007, the Company held $98.7 million in short-term investments and at January 28, 2006, the Company had no short-term investments. Because the fair value approximates the cost, there are no accumulated unrealized holding gains or losses in other comprehensive income from these investments.

Business Combinations

6.35

SILGAN HOLDINGS INC. (DEC)

(Dollars in thousands)	2006	2005	2004
Cash flows provided by (used in) investing activities:			
Purchases of businesses, net of cash acquired	$(318,231)	$ —	$ —
Capital expenditures	(121,672)	(89,132)	(102,868)
Proceeds from asset sales	1,457	3,154	$ (9,983)
Net cash used in investing activities	$(438,446)	$(85,978)	$ (92,885)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Acquisitions

White Cap

We acquired the White Cap closures operations in Europe on June 1, 2006, in Turkey on July 1, 2006 and in China and the Philippines in December 2006 from Amcor Limited. White Cap is a leading supplier of an extensive range of vacuum closures to consumer goods packaging companies in the food and beverage industries. White Cap has been combined with our previously acquired White Cap U.S. closures operations to create a global leader in vacuum closures for hot filled and retortable food and beverage products. At the respective closings, we paid an aggregate of $276.4 million for White Cap, including acquisition fees, net of cash actually acquired of $3.3 million. As part of the acquisitions of the operations in Turkey, China and the Philippines, we assumed $18.2 million of indebtedness of such operations.

In January 2007, we acquired the White Cap closures operations in Venezuela. The acquisition of the remaining White Cap closures operations in Brazil is subject to the satisfaction of specified conditions as provided in the purchase agreement with Amcor Limited.

The White Cap acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the respective dates of acquisition, and the results of operations have been included in our consolidated financial statements as of the respective dates of acquisition. The acquired White Cap operations have been combined with our pre-existing U.S. closures operations previously reported as part of our metal food containers business segment to form a new closures business segment.

The following summarizes the estimated fair values of the assets acquired and liabilities assumed at the respective acquisition dates in 2006 in connection with the White Cap acquisition. We have completed the valuation of certain assets and liabilities including property, plant and equipment, intangible assets and pension obligations. We have made certain adjustments to previously reported allocations, primarily to goodwill and other intangible assets, based upon these final valuations. The valuation of certain other assets and liabilities is still in process, and therefore the actual fair value may vary from these preliminary estimates. Adjustments to the acquired net assets resulting from final valuations are not expected to be significant.

The estimated valuation of acquired net assets at the respective acquisition dates in connection with the White Cap acquisition is as follows (dollars in thousands):

Trade accounts receivable	$ 54,952
Inventories	68,687
Property, plant and equipment	130,987
Goodwill	75,109
Other intangible assets	49,122
Other assets	13,572
Trade accounts payable and accrued liabilities	(46,614)
Foreign bank revolving loans	(18,219)
Other liabilities, primarily pension liabilities	(51,177)
Purchase price, net of cash acquired	$276,419

Other intangible assets consist of the following (dollars in thousands):

	Amount	Life
Trade names	$32,140	Indefinite
Intellectual property	9,589	6 years
Customer relationships	6,942	20 years
Backlog	451	7 months
	$49,122	

The following unaudited pro forma financial information includes our historical results of operations for the years ended December 31, 2006 and 2005 and gives pro forma effect to the White Cap acquisition as if it had been completed as of the beginning of the periods indicated. The pro forma results of operations include interest expense related to incremental borrowings used to finance the White Cap acquisition and adjustments to depreciation and amortization expense for the valuation of property, plant and equipment and intangible assets. The pro forma results of operations do not give effect to potential synergies or additional costs resulting from the integration of White Cap with our existing operations, nor do they reflect expected total savings from the impact of headcount reductions completed by the White Cap operations prior to the acquisition.

The unaudited pro forma financial information is not intended to represent or be indicative of our consolidated results of operations or financial condition that would have been reported had the White Cap acquisition been completed as of the beginning of the periods presented, nor should it be taken as indicative of our future consolidated results of operations or financial condition.

Unaudited pro forma financial information for the years ended December 31:

(Dollars in thousands, except per share data)	2006	2005
Net sales	$2,786,081	$2,778,357
Net income	106,336	86,727
Earnings per share:		
Basic net income per share	$ 2.84	$ 2.34
Diluted net income per share	2.80	2.31

Net income for the year ended December 31, 2006 includes the pre-tax negative impact of $3.7 million from the inventory write-up for the White Cap closures operations as a result of purchase accounting in connection with the acquisition.

Net income for the year ended December 31, 2005 includes pre-tax rationalization charges in addition to those recognized in the Consolidated Financial Statements of $5.1 million for severance expense recognized by White Cap prior to the acquisition.

Cousins-Currie Limited

In December 2006, we acquired substantially all of the assets of Cousins-Currie Limited, or Cousins-Currie, a leading manufacturer in Canada of larger-size custom designed plastic containers. The purchase price of $41.8 million was financed primarily with Canadian dollar borrowings under our senior secured credit facility.

The acquisition of Cousins-Currie was accounted for using the purchase method of accounting. Accordingly, the purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair value at the acquisition date. We are in the process of determining the valuation of goodwill and other intangible assets. Therefore, the total estimated value of intangible assets of $27.1 million has been included in goodwill at December 31, 2006. However, some of this amount is likely to be subsequently allocated to other intangible assets. Cousins-Currie's results of operations since the acquisition date were not significant to our Consolidated Statement of Income.

Sale of Discontinued Operations

6.36

ARKANSAS BEST CORPORATION (DEC)

($ thousands)	2006	2005	2004
Investing activities			
Purchases of property, plant and equipment, less capitalized leases	$(147,463)	$ (93,119)	$ (79,533)
Proceeds from asset sales	11,913	29,129	15,910
Proceeds from disposal of discontinued operations	21,450	—	—
Purchases of short-term investment securities	(386,358)	(378,445)	(38,501)
Proceeds from sales of short-term investment securities	372,280	295,680	
Capitalization of Internally developed software and other	(4,117)	(4,026)	(3,986)
Net cash used by investing activities	$(132,295)	$(150,781)	$(106,110)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note R (In Part): Sale of Clipper and Discontinued Operations

On June 15, 2006, the Company completed the sale of Clipper for $21.5 million in cash. After recording costs associated with the transaction, the Company recognized a pre-tax gain of $4.9 million and $3.1 million after-tax or $0.12 per diluted share. Pursuant to the sale agreement, the Company has agreed to indemnify the purchaser upon the occurrence of certain events. The accompanying consolidated balance sheets and statements of income have been restated for all prior periods presented to reflect Clipper as a discontinued operation. Cash flows associated with the discontinued operations of Clipper have been combined within operating, investing and financing cash flows, as appropriate, in the accompanying consolidated cash flow statements.

Notes Receivable

6.37

LOUISIANA-PACIFIC CORPORATION (DEC)

(Dollar amounts in millions)	2006	2005	2004
Cash flows from investing activities			
Property, plant, and equipment additions	$ (236.5)	$ (173.7)	$ (147.7)
Proceeds from asset sales	4.1	53.4	40.4
Receipt of proceeds from notes receivable	70.8	—	—
Decrease in restricted cash under letters of credit	16.7	9.9	45.2
Cash paid for purchase of investments	(4,989.7)	(3,813.9)	(2,598.1)
Proceeds from sale of investments	4,898.8	3,724.8	1,960.4
Investment in and advances to joint ventures	(8.7)	(83.9)	(32.0)
Other investing activities, net	(3.0)	1.9	3.4
Net cash used in investing activities	$ (247.5)	$ (281.5)	$ (728.4)

NOTES TO THE FINANCIAL STATEMENTS

5. Notes Receivable From Asset Sales

Notes receivable from asset sales are related to transactions that occurred during 1997 and 1998. These notes receivable provide collateral for LP's limited recourse notes payable (see Note 11). LP monitors the collectibility of these notes on a regular basis.

(Dollar amounts in millions)	Interest Rate 2006	2006	2005
Notes receivable (unsecured), maturing 2008–2012, interest rates fixed	5.6–7.5%	$ 49.9	$ 49.9
Notes receivable (secured), maturing 2008–2018, interest rates fixed	6.8–7.3%	283.1	353.9
Total		333.0	403.8
Current portion		—	(70.8)
Long-term portion		$333.0	$333.0

The weighted average interest rate for all notes receivable from asset sales at December 31, 2006 and 2005 was approximately 7.0 percent. The notes mature as follows:

2007	$ —
2008	74.4
2009	20.0
2010	115.2
2011	—
2012 and after	123.4
Total	$333.0

LP estimates that the fair value of these notes at December 31, 2006 and 2005 was approximately $346.4 million and $430.5 million, respectively.

11 (In Part): Long-Term Debt

LP issued $348.6 million of senior debt in June 1998 in a private placement to institutional investors. The remaining $278.9 million of notes mature in principal amounts of $53.5 million in 2008, $113.4 million in 2010, $90.0 million in 2013 and $22.0 million in 2018. The notes are secured by $283.1 million of notes receivable from Green Diamond Resource Company (Green Diamond). Pursuant to the terms of the notes payable, in the event of a default by Green Diamond, LP would be liable to pay only 10% of the indebtedness represented by the notes payable.

Capitalized Software

6.38

SYBASE, INC. (DEC)

(Dollars in thousands)	2006	2005	2004
Cash flows from investing activities:			
(Increase) Decrease in restricted cash	$ (641)	$ 2,583	$ 191
Purchases of available-for-sale cash investments	(468,518)	(837,237)	(201,417)
Maturities of available-for-sale cash investments	282,403	439,737	149,923
Sales of available-for-sale cash investments	365,962	127,648	116,462
Business combinations, net of cash acquired	(399,676)	(71,890)	(81,255)
Purchases of property, equipment and improvements	(18,356)	(16,366)	(30,445)
Proceeds from sale of fixed assets	9	25	205
Capitalized software development costs	(37,531)	(33,906)	(36,484)
Decrease in other assets—investing	13	2	2
Net cash used for investing activities	$(276,335)	$(389,404)	$ (82,818)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Capitalized Software

The Company capitalizes software development costs in accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed," (SFAS 86), under which certain software development costs incurred subsequent to the establishment of technological feasibility may be capitalized and amortized over the estimated lives of the related products. The Company determines technological feasibility to be established upon the internal release of a detailed program design as specified by SFAS 86. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding three years, based on the estimated economic life of the product. Capitalized software costs amounted to $322.6 million and $285.1 million, at December 31, 2006 and 2005, respectively, and related accumulated amortization was $251.4 million, and $219.2 million, respectively. Software amortization charges included in cost of license fees were $31.2 million, $29.7 million and $33.6 million for 2006, 2005 and 2004, respectively.

SFAS 86 also requires that the unamortized capitalized costs of a computer software product be compared to the net realizable value of such product at each reporting date. To the extent the unamortized capitalized cost exceeds the net realizable value of a software product based upon its estimated future gross revenues reduced by estimated future costs of completing and disposing of the product, the excess is written off. If the estimated future gross revenue associated with certain of the Company's software products were to be reduced, write-offs of capitalized software costs might be required. There were no significant write-offs in 2006, 2005 or 2004.

Restricted Cash

6.39

LAS VEGAS SANDS CORP. (DEC)

(In thousands)	2006	2005	2004
Cash flows from investing activities:			
Proceeds from sale of The Grand Canal Shops mall, net of transaction costs	$ —	$ —	$ 649,568
Change in restricted cash	(310,565)	(265,386)	(235,675)
Change in receivables from stockholders	—	—	205
Capital expenditures	(1,925,291)	(860,621)	(465,748)
Net cash used in investing activities	$(2,235,856)	$(1,126,007)	$ (51,650)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Restricted Cash

As required by the Company's Senior Secured Credit Facility, certain proceeds pursuant to draws under this facility have been deposited into restricted accounts, invested in cash and pledged to a disbursement agent for the Senior Secured Credit Facility lenders. This restricted cash amount will be used as required for The Palazzo project costs under disbursement terms specified in this facility. The disbursement account is subject to a security interest in favor of the lenders under the Senior Secured Credit Facility. As of December 31, 2006 and 2005, The Palazzo disbursement account balance was $374.8 million and $571.1 million, respectively.

As required by the Company's Macao credit facility entered into in May 2006, certain proceeds pursuant to draws under this facility have been deposited into restricted accounts, invested in cash and pledged to a disbursement agent for the Macao credit facility lenders. This restricted cash amount will be used as required for The Sands Macao, The Venetian Macao and other Cotai Strip project costs under disbursement terms specified in this facility. The disbursement account is subject to a security interest in favor of the lenders under the Macao credit facility. As of December 31, 2006, the restricted cash balance was $465.4 million.

Restricted cash also includes $19.3 million and $21.7 million consisting primarily of advance customer deposits for convention facility rentals that have been paid pursuant to contractual terms for the years ended December 31, 2006 and 2005, respectively, and are classified as restricted in accordance with The Sands Expo Center mortgage loan. In addition, restricted cash includes a restricted cash deposit of $50.0 million related to the gaming license in Pennsylvania as of December 31, 2006 and 2005, $19.6 million related to the Marina Bay Sands project in Singapore as of December 31, 2006 and $24.8 million related to The Palazzo and the Phase II mall as of December 31, 2006.

Insurance Proceeds

6.40

GLOBALSANTAFE CORPORATION (DEC)

(In millions)	2006	2005	2004
Cash flows from investing activities:			
Capital expenditures	$ (546.5)	$(411.0)	$(405.6)
Proceeds from sale of land drilling fleet assets	—	—	316.5
Cash received from insurance for involuntary conversion of long-lived assets	109.3	—	40.0
Proceeds from disposals of property and equipment	33.7	29.6	58.7
Purchases of held-to-maturity marketable securities	—	—	(169.2)
Proceeds from maturities of held-to-maturity marketable securities	—	—	254.0
Purchases of available-for-sale marketable securities	(1,214.0)	(882.0)	(195.9)
Proceeds from sales of available-for-sale marketable securities	1,474.4	815.6	115.9
Other	2.7	—	—
Net cash flow provided by (used in) investing activities	$ (140.4)	$(447.8)	$ 14.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Involuntary Conversion of Long-Lived Assets and Related Recoveries

During the third quarter of 2005, a number of our rigs were damaged as a result of hurricanes Katrina and Rita. All these rigs returned to work with the exception of the *GSF High Island III* and the *GSF Adriatic VII.* During the second quarter of 2006, we recorded gains of $32.8 million on the *GSF High Island III* and $30.9 million on the *GSF Adriatic VII*, which represent expected recoveries of partial losses under our insurance policy, less amounts previously recognized when the rigs were written down to salvage value. These amounts were collected in the third quarter of 2006. In December 2006, we sold the *GSF Adriatic VII* to a third party for a net purchase price of approximately $29.4 million, net of selling costs, and recorded a gain of $28 million, which represents the selling price less the $1.4 million salvage value. In addition, we increased the gain recognized in the second quarter of 2006 related to the *GSF Adriatic VII* by $3.2 million to include additional costs reimbursable under the insurance policy. We collected the $29.4 million during the fourth quarter of 2006. Subsequent to December 31, 2006 we entered into a contract to sell the *GSF High Island III* to a third party for approximately $26.3 million and expect to complete the sale during the first quarter of 2007. Any gain recorded on the sale will be equal to the proceeds from the sale, net of expenses, less the rig salvage value of $1.2 million. As of December 31, 2006, we have collected a total of $138.7 million in insurance recoveries and proceeds from the rig sale related to hurricanes Katrina and Rita, including the amounts collected on the *GSF High Island III* and the *GSF Adriatic VII* discussed above.

All of the rigs that were damaged in the hurricanes were covered for physical damage under the hull and machinery provision of our insurance policy, which carried a deductible of $10 million per occurrence. In addition, three rigs damaged in Hurricane Katrina, the *GSF Arctic I*, the *GSF Development Driller I*, and *GSF Development Driller II*, were covered by loss of hire insurance under which we are reimbursed for 100 percent of their contracted dayrate for up to a maximum of 270 days following 60 days (the "waiting period") of lost revenue.

Our insurance policy provided that if claims for a single event are filed under both the hull and machinery and loss of hire sections of the policy, we would bear only a single deductible from that occurrence of no more than the highest deductible from any individual section. Hurricanes Katrina and Rita are each considered to be a separate occurrence. Based on remediations completed for the three rigs covered under the loss of hire insurance, the amount of revenue we lost during the waiting period was higher than the $10 million hull and machinery deductible. Therefore, the 60-day waiting period under our loss of hire insurance will serve as the only deductible for the Hurricane Katrina event. The application of the 60-day waiting period provision with regard to the *GSF Development Driller I*, the only rig that was still out of service after the 60-day waiting period, is complicated by the fact that at the time of the hurricane, the rig was undergoing thruster remediations and, accordingly, we had already put our underwriters on notice as to a claim under the loss of hire section of the policy. we recorded $21.6 million for loss of hire recoveries in the first half of 2006 with respect to the *GSF Development Driller I.* None of the jackup rigs damaged during Hurricane Rita was insured for loss of hire and, therefore, a single $10 million hull and machinery deductible applied for damage to the rigs caused by Hurricane Rita and was recognized as a loss in the third quarter of 2005.

A summary of the effects that the estimates of rig damages and estimated insurance recoveries had on our financial statements for the periods indicated are as follows:

(In millions)	2005	2006	Cumulative to Date
Amounts affecting income statement:			
Effects of estimated rig damage:			
Estimated recoveries	$ 117.0	$ 94.9	$ 211.9
Losses recognized	(127.0)	—	(127.0)
Net effect of rig damage—gain (loss)	(10.0)	94.9	84.9
Estimated insurance recoveries—loss of hire	3.8	21.6	25.4
Net pretax gain (loss)	$ (6.2)	$ 116.5	$ 110.3
Amounts affecting balance sheet:			
Accounts receivable from insurers, balance at beginning of period	$ —	$ 120.8	$ —
Additions	120.8	123.6	244.4
Collections	—	(109.3)	(109.3)
Accounts receivable from insurers attributable to hurricanes, balance at end of period	120.8	135.1	135.1
Add: Other receivables from insurers, at end of period	2.8	3.8	3.8
Total accounts receivable from insurers, as reported, at end of period	$ 123.6	$ 138.9	$ 138.9

Additions to accounts receivable from insurers in the table above includes additions due to revised estimates of rig damages and anticipated loss of hire recoveries, both of which affected pretax income as shown in the table. Capital costs incurred to remediate damage to the rigs were added to the capitalized value of the rigs. Also included in additions to accounts receivable from insurers for 2006 in the table above are anticipated reimbursements for cash outlays to salvage the *GSF High Island III* and the *GSF Adriatic VII*, necessitated by the significant damage suffered by those rigs during Hurricane Rita, which did not affect pretax income, totaling $35.2 million for 2006.

In August 2004, the jackup *GSF Adriatic IV* encountered well control problems, caught fire and sank while drilling in the Mediterranean Sea off the coast of Egypt. All of our personnel on board the rig were evacuated safely, although the rig was a total loss. We received insurance proceeds totaling $40.0 million, net of our deductible, and recorded a gain of $24.0 million, net of taxes, in the third quarter of 2004.

Business Combination Adjustment

6.41

3COM CORPORATION (MAY)

(In thousands)	2006	2005	2004
Cash flows from investing activities:			
Purchases of investments	$(421,279)	$(618,320)	$(908,874)
Proceeds from maturities and sales of investments	629,036	931,122	1,056,597
Purchases of property and equipment	(17,404)	(21,121)	(16,014)
Businesses acquired in purchase transactions, net of cash acquired	110,407	(355,686)	—
Proceeds from sale of property and equipment	—	51,300	134,855
Investment in Huawei-3Com joint venture	—	—	(160,000)
Net cash provided by (used in) investing activities	$ 300,760	$ (12,705)	$ 106,564

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of 3Com, its wholly-owned subsidiaries, and Huawei-3Com "H-3C", a majority owned joint venture. All significant intercompany balances and transactions are eliminated in consolidation. As discussed in Note 4 and 6, we accounted for our investment in the H-3C joint venture by the equity method until we purchased an additional 2% equity to give us a majority (51%) ownership in H-3C. As of January 27, 2006, the date of the incremental purchase, we have determined it is appropriate to consolidate H-3C. For convenience of close purposes the operating results of H-3C are consolidated beginning February 1, 2006. H-3C follows a calendar year basis of reporting and therefore results are consolidated on a two-month time lag.

Note 4 (In Part): Acquisitions

Huawei-3Com

On November 17, 2003, we formed the Huawei-3Com joint venture (H-3C) with a subsidiary of Huawei Technologies, Ltd. (Huawei). H-3C is domiciled in Hong Kong, and has its principal operating center in Hangzhou, China.

At the time of formation, we contributed cash of $160.0 million, assets related to our operations in China and Japan, and licenses related to certain intellectual property in exchange for a 49 percent ownership interest. We recorded our initial investment in H-3C at $160.1 million, reflecting our carrying value for the cash and assets contributed. Huawei contributed its enterprise networking business assets—including Local Area Network (LAN) switches and routers; engineering, sales and marketing resources and personnel; and licenses to its related intellectual property—in exchange for a 51 percent ownership interest. Huawei's contributed assets were valued at $178.2 million at the time of formation. Two years after formation of H-3C, we had the one-time option to purchase an additional two percent ownership interest from Huawei. On October 28, 2005, we exercised this right and entered into an agreement to purchase an additional two percent ownership interest in H-3C from Huawei for an aggregate purchase price of $28.0 million. We were granted regulatory approval by the Chinese government and subsequently completed this transaction on January 27, 2006 (date of acquisition). Consequently, we now own a majority interest in the joint venture and have determined that the criteria of Emerging Issues Task Force No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights" have been met and, therefore, consolidated H-3C's financial statements beginning February 1, 2006, a date used under the principle of a convenience close. Under the terms of our existing shareholders' agreement, and as previously disclosed, we each have the right, commencing on and after November 15, 2006, to initiate a bid process to purchase the equity interest in H-3C held by the other.

During the three months ended May 31, 2006, we completed our preliminary purchase price allocation. The acquisition will be accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed are included in the consolidated balance sheet as of May 31, 2006. The operating results of H-3C for the period February 1, 2006 to March 31, 2006 are included in the consolidated financial statements, resulting in the latter two months of H-3C's three months ended March 31, 2006 being included in our year ended May 31, 2006 statement of operations.

The purchase price categories are shown below (in millions):

	2006 Investment
Cash paid for common stock	$28.0
Assets contributed	—
Acquisition direct costs	0.2
Total purchase price	$28.2

In accordance with SFAS No. 141, "Business Combinations," the purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed, including in-process research and development, based on their estimated fair values. The excess purchase price over those values is recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, and other information compiled by management. Goodwill recorded as a result of this acquisition is not deductible for tax purposes. In accordance with SFAS No. 142, goodwill is not amortized but will be reviewed at least annually for impairment. Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective estimated useful lives. The total purchase price has been allocated on a preliminary basis as follows (in millions):

	2006 Investment
Net tangible assets assumed	$ 7.4
Amortizable intangible assets:	
Existing technology	17.8
Distributor agreements	0.4
Total amortizable intangible assets	18.2
In-process research and development	0.7
Goodwill	1.9
Total preliminary purchase price allocation	$28.2

The 2006 purchase price allocation is preliminary and may be revised as a result of revisions to estimates of fair values made at the date of the purchase.

Our Consolidated Statements of Cash Flows reflect $110.4 million of the line item businesses acquired in purchase transactions, net of cash acquired. This reflects acquired cash of $138.4 million on January 31, 2006 offset by the purchase price payment of $28.0 million for an additional 2% ownership of H-3C.

CASH FLOWS FROM FINANCING ACTIVITIES

6.42 Paragraphs 18–20 of *SFAS No. 95* define those transactions and events which constitute financing cash receipts and payments. With the exception of certain transactions described in paragraphs 12 and 13 of *SFAS No. 95* and paragraph 7 of *SFAS No. 104*, which amends *SFAS No. 95*, cash receipts and payments should be reported separately and not netted. Examples of reporting cash flows from financing activities follow.

Debt Proceeds/Repayments

6.43

REGAL BELOIT CORPORATION (DEC)

(In thousands of dollars)	2006	2005	2004
Cash flows from financing activities:			
Proceeds from stock offerings	$ —	$ 53,026	$ —
Proceeds from long-term debt	8,500	—	116,319
Payments of long-term debt	(1,294)	(1,285)	—
Net proceeds from commercial paper borrowings	24,000	25,000	—
Net borrowings (repayments) under revolving credit facility	(69,900)	(159,400)	235,500
Proceeds from the exercise of stock options	6,942	1,956	848
Excess tax benefits from stock-based compensation	3,949	—	
Repurchase of common stock	—	—	(12,501)
Financing fees paid	—	(1,374)	(5,851)
Distributions to minority partners	(2,538)	(1,315)	—
Dividends paid to shareholders	(16,627)	(14,730)	(11,879)
Net cash (used in) provided from financing activities	$(46,968)	$ (98,122)	$322,436

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5) (In Part): Debt and Bank Credit Facilities

Long-term debt consists of the following:

(In thousands of dollars)	2006	2005
Revolving credit facility	$197,200	$267,100
Convertible senior subordinated debt	115,000	115,000
Other	12,122	4,916
	324,322	387,016
Less: current maturities	376	684
Non-current portion	$323,946	$386,332

During 2006 the Company borrowed $8.5 million secured by certain equipment. The note bears interest at 6.3% and is payable in monthly installments of principal and interest with a balloon payment of $6.5 million due in ten years.

Based on the borrowing rates currently available to the Company for bank loans and for convertible senior subordinated debt, the fair market value of the long-term debt is not materially different from the carrying value.

6.44

SABRE HOLDINGS CORPORATION (DEC)

(In thousands)	2006	2005	2004
Financing activities			
Proceeds from bridge facility	$ —	$800,000	$ —
Proceeds from share-based payment arrangements	35,547	9,750	15,744
Dividends paid	(56,745)	(47,281)	(41,431)
Prepayment of bridge facility	(800,000)	—	—
Proceeds from borrowings on revolving credit facility	180,000	—	—
Payments on borrowings on revolving credit facility	(25,000)	—	—
Proceeds from issuance of senior unsecured notes	397,136	—	—
Excess tax benefits from stock-based compensation arrangements	890	—	—
Purchases of treasury stock	(23,387)	(63,212)	(227,814)
Other financing activities	(7,114)	(1,200)	(1,892)
Cash provided by (used for) financing activities	$(298,673)	$698,057	$(255,393)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Debt

Bridge Financing Arrangement

On May 12, 2005, Sabre, Inc. entered into an $800 million, unsecured bridge loan agreement in order to provide short-term financing in connection with the lastminute.com acquisition and to satisfy legal requirements for certainty of funding for the acquisition. On July 22, 2005, we enterd into an amendment to the bridge facility whereby all the rights and obligations of Sabre Inc. under the bridge facility were assumed by Sabre Holdings and Sabre Inc. was discharged from its obligations thereunder.

Effective August 1, 2005, we borrowed $800 million under the bridge facility in order to fund a portion of the purchase of the shares of lastminute.com in connection with the lastminute.com acquisition.

During the three months ended March 31, 2006, we prepaid the entire $800 million outstanding under the bridge facility with $580 million of debt (see Publicly Issued Senior Unsecured Notes and Revolving Credit Agreement below) and $220 million of our existing cash and cash equivalents.

Publicly Issued Senior Unsecured Notes (In Part)

In March 2006, Sabre Holdings Corporation issued $400 million in senior unsecured notes (“2016 Notes”), bearing interest at a fixed rate of 6.35% and maturing March 15, 2016, in an underwritten public offering resulting in net cash proceeds after expenses of approximately $397 million. The 2016 Notes include certain non-financial covenants, including restrictions on incurring certain types of debt or entering into certain sale and leaseback transactions. We used all of the net proceeds plus available cash and cash equivalents and marketable securities to prepay $400 million of the bridge facility. Under the terms of the 2016 Notes we are obligated to pay $25 million in interest charges in 2007, and $25 million per year afterwards until 2016. The interest rate payable on the notes may increase if, after the sale of the Company to Texas Pacific Group and Silver Lake Partners (see Note 5), the rating of the notes from Moody’s Investors Service falls below Baa3, or the rating of the notes from Standard & Poor’s falls below BBB. As of December 31, 2006, we were in compliance with all covenants under the indenture for the 2016 Notes.

Revolving Credit Agreement (In Part)

On March 17, 2006, we borrowed $180 million under our revolving credit agreement. We used the proceeds to prepay $180 million of the outstanding principal on the bridge facility. The interest rate on this indebtedness is based on the London Interbank Offered Rate (“LIBOR”) plus a borrowing spread, and is sensitive to our credit rating. At December 31, 2006, the interest rate was 5.95%. All or part of this indebtedness can be extended month-to-month at our option but it must be repaid on or before June 15, 2009. The indebtedness may be accelerated in certain circumstances that are described in the revolving credit agreement. We may repay the revolving credit loans outstanding under the revolving credit agreement at any time without significant penalty prior to the maturity date. In May 2006, we repaid $25 million of the outstanding borrowings under the revolving credit agreement. Based on the terms of this agreement, we have $205 million of unused borrowing capacity under this facility at December 31, 2006.

Capital Stock Proceeds/Payments

6.45

SEALY CORPORATION (NOV)

(In thousands)	2006	2005	2004
Cash flows from financing activities:			
Proceeds from initial public offering of common stock, net of underwriting discount and other direct costs of $24,489	$ 295,348	$ —	$ —
Cash dividends	(138,648)	—	(50,353)
Cash flows associated with financing of the recapitalization:			
Proceeds from issuance of common stock	—	—	436,050
Treasury stock repurchase	—	—	(748,146)
Proceeds from issuance of new long term obligations	—	—	1,050,000
Repayment of existing long term debt	—	—	(737,128)
Debt issuance costs	—	—	(36,403)
Issuance of Senior Subordinated PIK Notes	—	—	75,000
Borrowings under new credit facilities	440,000	—	—
Repayments of existing long term debt	(611,614)	(120,642)	(90,000)
Borrowings under revolving credit facilities	172,181	208,404	85,800
Repayments of amounts borrowed under revolving credit facilities	(177,155)	(195,233)	(80,800)
Exercise of employee stock options, including related excess tax benefits	2,559	478	47,361
Treasury stock repurchase, including direct expenses	—	—	(68,250)
Other	(1,609)	5,470	848
Net cash used in financing activities	$ (18,938)	$(101,523)	$ (116,021)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Initial Public Offering of Common Stock and Use of Proceeds

On April 12, 2006, the Company completed an initial public offering ("IPO") of its common stock, raising $299.2 million of net proceeds after deducting the underwriting discount. The following table presents the sources and uses of cash from the IPO:

(In millions)	
Source:	
Gross proceeds from issuance of 20 million shares of common stock at $16.00 per share	$320.0
Use of proceeds:	
Cash dividend to shareholders of record immediately prior to the IPO	$125.0
Repayment of Senior Subordinated PIK Notes, including 1% prepayment penalty thereon[1]	90.0
Repurchase of $47.5 million aggregate principal amount of the Notes, plus market premiums of $2.7 million[1] and accrued interest of $1.4 million	51.6
Underwriting discount at $1.04 per share for 20 million shares	20.8
Cash bonuses to members of management[2]	17.5
Management Services Agreement termination fee paid to KKR[2]	11.0
Other fees and expenses associated with the IPO[3]	3.9
Net cash available for use by the Company	0.2
Total uses of proceeds from the IPO	$320.0

(1) PIK Note penalty of $0.9 million and Note repurchase premium of $2.7 million are included in "debt extinguishment and refinancing expenses" in the condensed consolidated statements of operations for the year ended November 26, 2006.

(2) Bonuses of $17.5 million and fee of $11.0 million are included in "expenses associated with initial public offering of common stock" in the accompanying statements of operations for the year ended November 26, 2006.

(3) Direct costs of IPO were charged against additional paid in capital in the accompanying balance sheet. At November 26, 2006 there are no material unpaid fees associated with the IPO.

The condensed consolidated statements of operations for the year ended November 26, 2006 also include the following charges related to the IPO and associated debt extinguishments:

(In millions)	
Cash charges:	
Compensation expense associated with transaction bonuses	$17.5
Fee paid to KKR for termination of Management Services Agreement	11.0
Total charges included in "expenses associated with initial public offering of common stock"	28.5
Cash premiums and prepayment penalties totaling $3.6 million plus noncash charges of $1.7 million resulting from the repurchase of Notes and retirement of PIK Notes, included in "debt extinguishment and refinancing expenses"	5.3
Noncash compensation resulting from the conversion of certain equity share options into common stock, included in "selling, general and administrative expenses"	0.4
Total charges related to the IPO	$34.2

6.46

TRW AUTOMOTIVE HOLDINGS CORP. (DEC)

(Dollars in millions)	2006	2005	2004
Financing activities			
Change in short-term debt	$ (40)	$ 9	$ 18
Proceeds from issuance of long-term debt	37	1,635	1,593
Redemption of long-term debt	(304)	(1,603)	(1,867)
Repurchase of Seller Note	—	—	(534)
Debt issue costs	—	(6)	(15)
Issuance of capital stock (net of fees)	153	143	635
Repurchase of capital stock	(209)	(143)	(319)
Proceeds from exercise of stock options	23	3	—
Net cash provided by (used in) financing activities	$(340)	$ 38	$ (489)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Capital Stock

Repurchase of Northrop Shares

On November 10, 2006, the Company repurchased from an affiliate of Northrop Grumman Corporation ("Northrop") 9,743,500 shares of Common Stock for approximately $209 million in cash. These shares were immediately retired following the repurchase. On March 8, 2005, the Company entered into two stock purchase agreements with Northrop and an affiliate of Northrop pursuant to which Northrop and its affiliate agreed to sell to the Company an aggregate of 7,256,500 shares of Common Stock for an aggregate consideration of approximately $143 million in cash. The closing of this sale occurred on March 11, 2005. These shares were immediately retired following the repurchase by the Company. As a result of the repurchases, Norrthrop and its affiliate hold no shares of Common Stock.

Issuance and Registration of Shares

On November 7, 2006, the Company entered into an underwriting agreement with Lehman Brothers relating to a public offering of 6,743,500 newly issued shares of Common Stock pursuant to the Company's universal shelf registration statement filed with the Securities and Exchange Commission ("SEC") on November 6, 2006. The Company received approximately $153 million of net proceeds from this offering, which were used to fund a portion of the November 10, 2006 share purchase from an affiliate of Northrop referenced above. The remainder of the share purchase was initially funded from cash on hand.

On March 8, 2005, the Company entered into Stock Purchase and Registration Rights Agreements with T. Rowe Price Group, Inc., as investment adviser to certain mutual funds and institutional accounts, and with certain investment advisory clients of Wellington Management Company, llp. Pursuant to the agreements, on March 11, 2005, the Company sold a total of 7,256,500 newly issued shares of Common Stock for an aggregate consideration of approximately $143 million. Pursuant to an effective registration statement on Form S-3, the purchasers of these shares are able to sell them into the market from time to time.

The proceeds from these share issuances initially were used to return cash and/or reduce liquidity line balances to the levels that existed immediately prior to the March 8, 2005 share purchases from an affiliate of Northrop referenced above took place. On May 3, 2005, a portion of the proceeds from these share issuances was then used to repurchase €48 million principal amount of the Company's 10 1/8% Senior Notes.

Initial Public Offering

On February 6, 2004, the Company completed an initial public offering of 24,137,931 shares of Common Stock. Net proceeds from the offering, after deducting underwriting discounts and offering expenses, were approximately $636 million. The Company used approximately $319 million of the net proceeds from the offering to repurchase 12,068,965 shares of Common Stock held by an affiliate of The Blackstone Group L.P. ("Blackstone") and approximately $317 million of such proceeds to repay a portion of each of the dollar and euro Senior Notes and Senior Subordinated Notes.

Exercise of Stock Options and Related Tax Effect

6.47

EATON CORPORATION (DEC)

(Millions)	2006	2005	2004
Net cash (used in) provided by financing activities			
Borrowings with original maturities of more than three months			
Proceeds	$ 706	$ 393	$ 75
Payments	(617)	(63)	(248)
Borrowings with original maturities of less than three months—net, primarily commercial paper	(35)	392	(33)
Cash dividends paid	(220)	(184)	(163)
Proceeds from exercise of employee stock options	108	68	138
Income tax benefit from exercise of employee stock options	28		
Purchase of Common Shares	(386)	(450)	(250)
Other—net		2	
	$(416)	$ 158	$(481)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Accounting Policies (In Part)

Stock Options Granted to Employees & Directors

As described in “Stock Options” in the Notes below, effective January 1, 2006, in accordance with SFAS No. 123(R), “Share-Based Payment,” Eaton has recorded compensation expense under the “fair-value-based” method of accounting for stock options granted to employees and directors. The Company adopted SFAS No. 123(R) using the “modified prospective application” method and, consequently, financial results for periods prior to 2006 were not restated for this accounting change. Under the modified prospective method, compensation expense for stock options includes expense for all options granted prior to, but not yet vested as of the end of 2005, and expense for options granted beginning in 2006, based on the grant date fair value of the options. Expense is recognized on a straight-line basis over the period the employee or director is required to provide service in exchange for the award. Prior to 2006, as allowed by SFAS No. 123, “Accounting for Stock-Based Compensation,” stock options were accounted for using the intrinsic-value-based method in Accounting Principles Board (APB) Opinion No. 25. Under that method, no compensation expense was recognized on the grant date, since on that date the option exercise price equaled the market price of the underlying Common Shares.

Shareholders’ Equity (In Part)

Stock Options (In Part)

Under various plans, stock options have been granted to certain employees and directors to purchase Common Shares at prices equal to fair market value on the date of grant. Substantially all of these options vest ratably during the three-year period following the date of grant and expire 10 years from the date of grant. During 1997 and 1998, stock options were granted that have a provision for accelerated vesting if the Company achieves certain earnings per Common Share targets or certain Common Share market price targets. One-half of these options vest based on the achievement of earnings per share targets and the other half vest based on the achievement of Common Share market price targets. If the targets are not achieved, these options vest 10 days before the expiration of their 10-year term. Subseqent to the issuance of these options, the Common Share price targets were achieved and the related options vested. As of December 31, 2006, 1.8 million stock options with earnings per share targets were outstanding that have not vested, because the earnings per share targets have not been achieved. Of these options, 1.4 million became exercisable, and were exercised during the second and third weeks of January 2007.

Effective January 1, 2006, in accordance with SFAS No. 123(R), “Share-Based Payment”, Eaton began to record compensation expense under the “fair-value-based” method of accounting for stock options granted to employees and directors. Expense for stock options in 2006 was $27 pretax ($20 after-tax, or $.13 per Common Share both assuming dilution and basic). Additionally, the adoption of SFAS No. 123(R) reduced cash provided by operating activities by $28 in 2006 and increased cash provided by financing activities by $28, because the new Statement requires, for the first time, certain income tax benefits resulting from exercises of stock options to be included in cash provided by financing activities.

The Company adopted SFAS No. 123(R) using the “modified prospective application” method and, consequently, financial results for periods prior to 2006 were not restated for this accounting change. Under the modified prospective method, compensation expense for stock options includes expense for all options granted prior to but not yet vested as of the end of 2005, and expense for options granted beginning in 2006, based on the grant date fair value of the options. Expense is recognized on a straight-line basis over the period the employee or director is required to provide service in exchange for the award. Prior to 2006, as allowed by SFAS No. 123, “Accounting for Stock-Based Compensation,” stock options were accounted for using the intrinsic-value-based method in Accounting Principles Board (APB) Opinion No. 25. Under that method, no compensation expense was recognized on the grant date, since on that date the option exericse price equaled the market price of the underlying Common Shares.

The weighted-average fair value of stock options granted per option was $16.80 in 2006, $16.73 in 2005, and $13.29 in 2004. The total fair value of stock options vesting was $29 in 2006, $24 in 2005 and $21 in 2004. As of December 31, 2006, the total compensation expense not yet recognized related to nonvested stock options was $38, and the weighted-average period in which the expense is expected to be recognized is 1.5 years.

A summary of stock option activity for 2006 follows (shares in millions):

	Weighted-Average Price per Option	Options	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding January 1	$42.95	14.4		
Granted	68.67	1.9		
Exercised	35.82	(3.1)		
Canceled	62.73	(.2)		
Outstanding December 31	$48.01	13.0	5.3	$352
Exercisable December 31	$42.25	7.3	4.9	$239
Reserved for future grants December 31		5.2		

The aggregate intrinsic value in the table above represents the total pretax difference between the $75.14 closing price of Eaton Common Shares on the last trading day of 2006 over the exercise price of the stock option, multiplied by the number of options outstanding and exercisable. Under SFAS No. 123(R), the aggregate intrinsic value is not recorded for financial accounting purposes and the value changes based on the daily changes in the fair market value of the Company's Common Shares.

Information related to stock options exercised follows:

	2006	2005	2004
Proceeds from stock options exercised	$108	$68	$138
Income tax benefits related to stock options exercised			
Reported in operating activities in statement of cash flows	8	21	44
Reported in financing activities in statement of cash flows	28		
Intrinsic value of stock options exercised	102	74	142

Dividends Paid

6.48

STEEL DYNAMICS, INC. (DEC)

(In thousands)	2006	2005	2004
Financing activities			
Issuance of long-term debt	$ 330,000	$ 268,706	$ 188,292
Repayments of long-term debt	(297,231)	(276,510)	(347,487)
Issuance of common stock (net of expenses) and proceeds and tax benefits from exercise of stock options	28,503	15,401	27,899
Purchase of treasury stock	(247,411)	(186,764)	(55,179)
Dividends paid	(37,545)	(18,276)	(7,452)
Debt issuance costs	—	(2,088)	(1,097)
Net cash used in financing activities	$(223,684)	$(199,531)	$(195,024)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Shareholders' Equity

Cash Dividends

The company declared cash dividends of $47.8 million, or $.500 per share, during 2006; $17.7 million, or $.200 per share, during 2005; and $12.3 million, or $.125 per share, during 2004. The company paid cash dividends of $37.5 million, $18.3 million and $7.5 million during 2006, 2005 and 2004, respectively.

Debt Issuance Costs

6.49

BLOUNT INTERNATIONAL, INC. (DEC)

(Amounts in thousands)	2006	2005	2004
Cash flows from financing activities:			
Net borrowings under revolving credit facility	$ 27,000		
Issuance of long-term debt			$ 435,500
Repayment of long-term debt	(83,848)	$(86,488)	(559,535)
Issuance costs related to debt	(700)	(2,554)	(15,963)
Issuance costs related to stock		(1,425)	(9,368)
Proceeds from issuance of stock		6,123	138,000
Debt redemption costs			(31,195)
Purchase of treasury stock		(6,123)	
Excess tax benefit from share-based compensation	747		
Proceeds from exercise of stock options	993	8,669	1,682
Net cash used in financing activities	$(55,808)	$(81,798)	$ (40,879)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Deferred Financing Costs

Deferred financing costs represent costs incurred in conjunction with the Company's debt financing activities and are amortized over the term of the related debt instruments. Deferred financing costs and the related amortization expense are adjusted when any pre-payments of principal are made to the related outstanding term loan. During the year ended December 31, 2006, the following occurred:

(Amounts in thousands)	
Balance at December 31, 2005	$17,603
Financing costs deferred	700
Write off during period due to prepayments of principal	(1)
Amortization during period	(3,728)
Balance at December 31, 2006	$14,574

Scheduled amortization for future years, assuming no further prepayments of principal, is as follows:

(Amounts in thousands)	Estimated Annual Amortization
2007	$ 3,922
2008	3,922
2009	3,250
2010	1,791
2011 and beyond	1,689
Total amortization	$14,574

Note 7 (In Part): Debt and Financing Agreements

Long-term debt consisted of the following:

(Amounts in thousands)	2006	2005
Revolving credit facility borrowings	$ 27,000	
Term loans	148,875	$232,723
$8\frac{7}{8}$% Senior subordinated notes	175,000	175,000
Total debt	350,875	407,723
Less current maturities	(1,500)	(2,360)
Total long-term debt	$349,375	$405,363

Lease Obligation Payments

6.50

ARDEN GROUP, INC. (DEC)

(In thousands)	2006	2005	2004
Cash flows from financing activities:			
Purchase and retirement of Company stock	$(19,999)	$ (334)	
Principal payments under capital lease obligations	(221)	(216)	$ (246)
Proceeds from exercise of stock options			58
Cash dividends paid	(3,267)	(3,382)	(70,911)
Net cash used in financing activities	$(23,487)	$(3,932)	$(71,099)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment (In Part)

Property, plant and equipment is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of individual assets or classes of assets as follows:

Buildings and improvements	5 to 20 years
Store fixtures and office equipment	3 to 8 years
Transportation equipment	3 to 5 years
Machinery and equipment	3 to 8 years

Leasehold interests and improvements to leased properties are amortized over their estimated useful lives or lease period, whichever is shorter.

Leased property meeting certain capital lease criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on the straight-line method over the shorter of the estimated useful life or the initial lease term.

6. Property, Plant and Equipment

(In thousands)	2006	2005
Land	$ 8,633	$ 8,633
Buildings and improvements	9,693	9,693
Store fixtures and office equipment	42,623	40,903
Transportation equipment	3,831	2,789
Machinery and equipment	1,810	1,752
Leasehold improvements	48,018	47,513
Leasehold interests	4,538	4,538
Assets under construction	1,289	2,485
Assets under capital leases	2,200	2,200
	122,635	120,506
Accumulated depreciation and amortization	(74,863)	(70,481)
	$ 47,772	$ 50,025

As of December 30, 2006, approximately $34,480,000 of property, plant and equipment (at cost) was fully depreciated and is still being used in operations. As of December 30, 2006 and December 31, 2005, the Company recorded $2,119,000 and $2,031,000, respectively, in accumulated amortization for assets under capital lease.

8 (In Part): Long-Term Debt

	Current		Non-Current	
(In thousands)	2006	2005	2006	2005
Obligations under capital leases	$225	$221	$	$ 225
7% Subordinated income debentures due September 1, 2014			1,228	1,228
	$225	$221	$1,228	$1,453

14 (In Part): Leases

The principal kinds of property leased by the Company and its subsidiaries are supermarket buildings. The most significant obligations assumed under the lease terms, other than rental payments, are the upkeep of the facilities, insurance and property taxes. Most supermarket leases contain contingent rental provisions based on sales volume and have renewal options. The Company's decision to exercise renewal options is primarily dependent on the level of business conducted at the location and the profitability thereof.

All leases and subleases with an initial term greater than one year are accounted for under SFAS 13, "Accounting for Leases." These leases are classified as either capital leases, operating leases or subleases, as appropriate.

Assets Under Capital Leases

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. Contingent rentals associated with capital leases in 2006, 2005 and 2004 were $242,000, $193,000 and $464,000, respectively, and accordingly have been charged to expense as incurred. Following is an analysis of assets under capital leases:

(In thousands)	2006	2005
Buildings:		
Cost	$ 2,200	$ 2,200
Accumulated amortization	(2,119)	(2,031)
	$ 81	$ 169

Future minimum lease payments for assets under capital leases at December 30, 2006 are as follows:

(In thousands)	
Total minimum obligations—2007	$ 238
Interest	(13)
Present value of net minimum obligations	225
Current portion	(225)
Long-term obligations	$ 0

FOREIGN CURRENCY CASH FLOWS

6.51 Paragraph 25 of *SFAS No. 95* specifies the effect of exchange rate changes on cash balances held in foreign currencies be reported as a separate part of the Statement of Cash Flows. Examples of reporting foreign currency cash flows follow.

6.52

CACI INTERNATIONAL INC. (JUN)

(Amounts in thousands)	2006	2005	2004
Cash flows from operating activities			
Net income	$ 84,840	$ 79,725	$ 57,714
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	33,437	32,022	19,036
Amortization of deferred financing costs	1,421	1,344	224
Stock-based compensation expense	15,496	11,207	9,786
Deferred income tax expense (benefit)	1,140	(9,665)	(9,620)
Changes in operating assets and liabilities, net of effect of business acquisitions:			
Accounts receivable, net	161	5,493	(42,491)
Prepaid expenses and other current assets	(8,487)	(1,390)	(9,728)
Accounts payable and other accrued expenses	(16,207)	(11,920)	20,565
Accrued compensation and benefits	(3,324)	8,293	26,300
Income taxes payable and receivable	(10,572)	4,366	(7,937)
Deferred rent expense	1,226	1,206	2,014
Supplemental retirement savings plan obligations and other long-term liabilities	7,956	5,875	5,824
Net cash provided by operating activities	107,087	126,556	71,687
Cash flows from investing activities			
Capital expenditures	(9,521)	(8,793)	(8,703)
Cash paid for business acquisitions, net of cash acquired	(244,293)	(6,647)	(503,331)
Purchase of marketable securities	—	—	(62)
Proceeds from sale of marketable securities	—	515	15,352
Other long-term assets	(5,279)	(1,634)	73
Net cash used in investing activities	(259,093)	(16,559)	(496,671)
Cash flows from financing activities			
Proceeds from borrowings under credit facilities	25,000	—	422,575
Principal payments made under long-term debt obligations	(3,641)	(65,729)	(11,250)
Payment of financing costs	—	—	(8,221)
Proceeds from employee stock purchase plans	7,158	7,261	3,495
Proceeds from exercise of stock options	10,422	16,351	6,967
Repurchases of common stock	(7,512)	(8,362)	(4,883)
Incremental tax benefit from stock compensation	11,883	10,490	4,128
Net cash provided by (used in) financing activities	43,310	(39,989)	412,811
Effect of exchange rate changes on cash and cash equivalents	381	(72)	1,467
Net (decrease) increase in cash and cash equivalents	(108,315)	69,936	(10,706)
Cash and cash equivalents, beginning of year	132,965	63,029	73,735
Cash and cash equivalents, end of year	$ 24,650	$132,965	$ 63,029

6.53

LENNOX INTERNATIONAL INC. (DEC)

(In millions)	2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	$ 166.0	$150.7	$(134.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in earnings of unconsolidated affiliates	(8.0)	(14.2)	(9.1)
Dividends from affiliates	5.4	—	2.8
Minority interest	0.5	0.3	1.0
Non-cash restructuring expenses	7.9	0.9	—
Non-cash impairment of long-lived assets and goodwill	—	—	208.0
Unrealized loss (gain) on futures contracts	20.8	(23.3)	—
Stock-based compensation expense	24.4	28.8	11.9
Depreciation and amortization	44.3	37.4	42.6
Deferred income taxes	(26.3)	11.9	3.2
Other (gains), losses and expenses, net	(0.3)	(2.9)	13.7
Changes in assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts and notes receivable	11.1	(53.6)	(57.3)
Inventories	(47.3)	0.1	(28.3)
Other current assets	(0.8)	(16.2)	(8.0)
Accounts payable	(25.9)	64.4	(15.4)
Accrued expenses	(2.1)	40.3	2.4
Income taxes payable and receivable	11.0	23.1	(6.4)
Long-term warranty, deferred income and other liabilities	19.0	(16.9)	(2.6)
Net cash (used in) provided by operating activities from discontinued operations	—	(2.1)	36.1
Net cash provided by operating activities	199.7	228.7	60.2
Cash flows from investing activities:			
Proceeds from the disposal of property, plant and equipment	3.5	0.7	1.5
Purchases of property, plant and equipment	(73.8)	(63.3)	(40.3)
Additional investments in affiliates	(24.2)	—	(3.7)
Proceeds from disposal of investments (continuing operations)	—	39.3	—
Net cash provided by investing activities from discontinued operations	—	2.5	21.8
Net cash used in investing activities	(94.5)	(20.8)	(20.7)
Cash flows from financing activities:			
Short-term (repayments) borrowings, net	(0.4)	(4.2)	2.0
Long-term debt repayments, net	(11.2)	(36.3)	(56.3)
Revolver long-term (repayments) borrowings, net	—	(5.0)	2.0
Sales of common stock	19.8	25.8	20.4
Payments of deferred financing costs	(0.3)	(1.7)	(0.3)
Repurchases of common stock	(163.4)	(15.8)	(0.1)
Excess tax benefits related to share based payments	11.3	5.1	—
Cash dividends paid	(31.3)	(24.8)	(22.8)
Net cash used in financing activities	(175.5)	(56.9)	(55.1)
(Decrease) increase in cash and cash equivalents	(70.3)	151.0	(15.6)
Effect of exchange rates on cash and cash equivalents	1.1	1.6	0.4
Cash and cash equivalents, beginning of year	213.5	60.9	76.1
Cash and cash equivalents, end of year	$ 144.3	$213.5	$ 60.9

NONCASH ACTIVITIES

6.54 Paragraph 32 of *SFAS No. 95* requires the disclosure of information about noncash investing and financing activities. Examples of the disclosure of noncash activities follow.

6.55

AK STEEL HOLDING CORPORATION (DEC)

(Dollars in millions)	2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	$ 12.0	$ (2.3)	$ 238.4
Adjustments to reconcile net income (loss) to cash flows from operating activities of continuing operations:			
Depreciation	194.0	196.4	206.2
Amortization	9.7	8.5	12.9
Provision for doubtful accounts	4.8	4.6	4.3
Deferred income taxes	(11.3)	25.4	(234.0)
Contribution to pension trust	(209.0)	(150.0)	—
Pension and other postretirement benefit corridor charge	133.2	54.2	330.8
Asset impairment charges	—	31.7	—
Curtailment charge	10.8	12.9	—
Labor contract charges	5.0	—	—
Impairment of equity investment	—	33.9	—
Cumulative effect of accounting change	—	1.5	—
Exclusion of income from and gain on sale of discontinued operations	—	—	(207.9)
Charge on retirement of long-term debt	—	—	8.7
Other items, net	(8.0)	10.7	(6.4)
Changes in assets and liabilities:			
Accounts receivable	(130.3)	60.2	(231.2)
Inventories	(51.3)	(126.0)	52.2
Accounts payable and other current liabilities	106.5	65.5	7.0
Other assets	1.0	(3.0)	7.7
Pension asset and obligation	51.8	63.0	65.5
Postretirement benefit obligation	(40.8)	(3.2)	(18.8)
Other liabilities	(9.9)	(4.0)	(20.8)
Total adjustments	56.2	282.3	(23.8)
Net cash flows from operating activities of continuing operations	68.2	280.0	214.6
Cash flows from investing activities:			
Capital investments	(76.2)	(173.8)	(89.3)
Purchase of long-term investments	—	—	(2.5)
Proceeds from the sale of discontinued operations	—	—	333.8
Proceeds from the sale of investments and property, plant and equipment	6.5	1.2	49.3
Proceeds from draw on restricted funds for emission control expenditures	8.5	33.6	21.3
Restricted cash to collateralize letter of credit	(12.6)	—	—
Other items, net	0.2	1.2	—
Net cash flows from investing activities of continuing operations	(73.6)	(137.8)	312.6
Cash flows from financing activities:			
Redemption of long-term debt	—	—	(213.4)
Fees related to new credit facility or new debt	(0.1)	—	(3.7)
Premium on redemption of long-term debt	—	—	(5.0)
Conversion of stock options	3.3	3.1	3.5
Purchase of treasury stock	(0.9)	(0.6)	(0.2)
Other items, net	2.9	(2.2)	1.5
Net cash flows from financing activities of continuing operations	5.2	0.3	(217.3)
Cash flows from discontinued operations:			
Cash flows from operating activities of discontinued operations	—	—	13.2
Cash flows from investing activities of discontinued operations	—	—	(0.7)
Net cash flows from discontinued operations	—	—	12.5
Net increase (decrease) in cash and cash equivalents	(0.2)	142.5	322.4
Cash and cash equivalents, beginning of year	519.6	377.1	54.7
Cash and cash equivalents, end of year	$ 519.4	$ 519.6	$ 377.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Supplemental Cash Flow Information Regarding Non-Cash Investing and Financing Activities

The Company granted to certain employees common stock with values, net of cancellations, of $2.0, $4.8 and $1.0 in 2006, 2005 and 2004, respectively, under its restricted stock award programs. The Company received restricted cash in 2005 of $5.0 to be used for construction of emission control equipment at Middletown Works The Company had open accounts payables and accruals at December 31, 2006 and 2005 of $11.3 and $15.5 respectively, related to property, plant and equipment purchases.

6.56

AVNET, INC. (JUN)

(Thousands)	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 204,547	$ 168,239	$ 72,897
Non-cash and other reconciling items:			
Depreciation and amortization	66,526	61,746	64,540
Deferred income taxes	52,169	63,734	(2,815)
Non-cash restructuring and other charges	15,308	—	31,409
Other, net	65,763	47,115	47,649
Changes in (net of effects from business acquisitions):			
Receivables	(254,691)	(168,892)	(271,311)
Inventories	(142,563)	144,004	(240,520)
Accounts payable	99,670	191,270	285,386
Accrued expenses and other, net	(125,843)	(45,380)	77,414
Net cash flows (used for) provided from operating activities	(19,114)	461,836	64,649
Cash flows from financing activities:			
Issuance of notes in public offerings, net of issuance costs	246,483	—	292,500
Repayment of notes	(369,965)	(89,589)	(444,245)
Proceeds from (repayment of) bank debt, net	89,511	(10,789)	55,974
Payment of other debt, net	(643)	(86)	(504)
Other, net	30,991	2,274	13,914
Net cash flows used for financing activities	(3,623)	(98,190)	(82,361)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(51,803)	(31,338)	(28,623)
Cash proceeds from sales of property, plant and equipment	4,368	7,271	5,229
Acquisitions and investments, net	(317,114)	(3,563)	(50,528)
Cash proceeds from divestitures, net	22,779	—	—
Net cash flows used for investing activities	(341,770)	(27,630)	(73,922)
Effect of exchange rate changes on cash and cash equivalents	3,353	(10,816)	8,834
Cash and cash equivalents:			
—(decrease) increase	(361,154)	325,200	(82,800)
—at beginning of year	637,867	312,667	395,467
—at end of year	$ 276,713	$ 637,867	$ 312,667

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Additional Cash Flow Information

Non-cash activity during the fiscal 2006 that was a result of the Memec acquisition consisted of $418,205,000 of common stock issued as part of the consideration, $447,499,000 of liabilities assumed and $27,343,000 of debt assumed. Other non-cash activities included amounts recorded through comprehensive income and, therefore, are not included in the consolidated statement of cash flows. Fiscal 2006 included a reversal of a portion of additional minimum pension liabilities (including non-US pension liabilities) of $32,979,000 which was recorded net of related deferred tax benefit of $13,059,000 in other comprehensive income, and the exercise of a facility lease purchase option through the assumption of debt in the amount of $3,987,000.

Non-cash activity in fiscal 2005 and 2004 related to the impact of minimum pension liabilities recorded through other comprehensive income. In fiscal 2005, the Company recognized through other comprehensive income additional minimum pension liabilities or $30,542,000, net of the related deferred tax benefit of $11,877,000. In fiscal 2004, the Company reversed through other comprehensive income a portion of the additional minimum pension liability amounting to $4,169,000 net of the related deferred tax benefit of $1,651,000.

6.57

FOSTER WHEELER LTD. (DEC)

(In thousands of dollars)	2006	2005	2004
Cash flows from operating activities			
Net income/(loss)	$ 261,984	$(109,749)	$(285,294)
Adjustments to reconcile net income/(loss) to cash flows from operating activities:			
Depreciation and amortization	30,877	28,215	32,755
Net asbestos-related (gains)/provision	(66,603)	113,680	60,600
Loss on debt reduction initiatives	5,206	51,491	163,857
Prior domestic senior credit agreement fees and expenses	9,488	—	—
Share-based compensation	16,474	8,919	1,724
Excess tax benefit related to equity-based incentive program	(2,796)	—	—
Deferred tax	14,302	10,527	32,351
Interest expense on subordinated deferrable interest debentures	—	5,288	16,567
Gain on sale of assets	(1,464)	(1,582)	(15,834)
Earnings on equity interests, net of dividends	(7,837)	(9,303)	(16,389)
Other noncash items	(4,555)	8,021	7,235
Changes in assets and liabilities:			
(Increase)/decrease in receivables	(225,158)	(7,563)	89,890
(Increase)/decrease in contracts in process	(8,061)	95,924	23,215
Increase/(decrease) in accounts payable and accrued expenses	39,908	(28,904)	(93,117)
Increase/(decrease) in billings in excess of costs and estimated earnings on uncompleted contracts	185,411	(111,054)	(74,847)
Increase/(decrease) in income taxes	27,614	(14,756)	(2,215)
Net change in other assets and liabilities	(11,129)	11,659	28,639
Net cash provided by/(used in) operating activities	263,661	50,813	(30,863)
Cash flows from investing activities			
Acquisition of business, net of cash acquired	457	—	—
Change in restricted cash	8,940	46,186	(17,941)
Capital expenditures	(30,293)	(10,809)	(9,613)
Proceeds from sale of assets	1,914	4,853	17,495
Increase in investments and advances	(6,573)	(1,067)	(14)
Decrease/(increase) in short-term investments	—	24,424	(9,426)
Net cash (used in)/provided by investing activities	(25,555)	63,587	(19,499)
Cash flows from financing activities			
Partnership distributions to minority partners	(1,950)	(2,233)	(2,663)
Proceeds from common share purchase warrant exercises	75,683	4,451	—
Proceeds from stock option exercises	17,595	1,200	—
Excess tax benefit related to equity-based incentive program	2,796	—	—
Payment of deferred financing costs	(5,710)	(13,724)	—
Decrease in short-term debt	—	—	(121)
Proceeds from issuance of long-term debt	2,138	371	120,000
Repayment of long-term debt and capital lease obligations	(90,082)	(31,516)	(147,722)
Net cash provided by/(used in) financing activities	470	(41,451)	(30,506)
Effect of exchange rate changes on cash and cash equivalents	21,642	(13,847)	8,340
Increase/(decrease) in cash and cash equivalents	260,218	59,102	(72,528)
Cash and cash equivalents at beginning of year	350,669	291,567	364,095
Cash and cash equivalents at end of year	$ 610,887	$ 350,669	$ 291,567
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 25,102	$ 47,295	$ 53,952
Income taxes	$ 38,611	$ 22,361	$ 23,446

NON-CASH FINANCING ACTIVITIES

In April 2006, 1,277,900 common shares were exchanged for $50,000 of aggregate principal amount of 2011 senior notes.

In 2005, 71,289 preferred shares were converted into 4,637,949 common shares resulting in a $1 reduction in preferred share capital, a $46 increase in common share capital and a $45 reduction in paid-in capital.

In August 2005, 5,634,464 common shares were exchanged for $65,214 of trust preferred securities.

In November 2005, 6,026,981 common shares were exchanged for $150,003 of 2011 senior notes.

In 2004, 524,460 preferred shares were converted into 34,089,900 common shares resulting in a $5 reduction in preferred share capital, a $341 increase in common share capital and a $336 reduction in paid-in capital.

In September 2004, 3,062,574 common shares, 599,944 preferred shares, warrants to purchase 6,994,059 common shares and $147,130 of long-term debt were exchanged for $593,102 of existing debt and trust preferred securities.

6.58

STANDARD PACIFIC CORP. (DEC)

(Dollars in thousands)	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 123,693	$ 440,984	$ 315,817
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
(Income) loss from unconsolidated joint ventures	1,880	(61,196)	(45,906)
Cash distributions of income from unconsolidated joint ventures	75,422	61,725	67,457
Depreciation and amortization	7,745	5,941	4,044
Loss on early extinguishment of debt	—	5,938	10,154
Amortization of stock-based compensation	16,539	13,250	6,498
Excess tax benefits from share-based payment arrangements	(2,697)	—	—
Deferred income taxes	(126,587)	(20,700)	(11,620)
Noncash inventory impairment charges and write-offs of deposits and capitalized preacquisition costs	308,472	—	—
Noncash goodwill impairment charges	19,560	—	—
Changes in cash and equivalents due to:			
Trade and other receivables	(2,739)	(47,869)	4,479
Mortgage loans held for sale	(125,123)	(41,265)	(10,986)
Inventories-owned	(590,008)	(559,766)	(281,171)
Inventories-not owned	68,993	(69,407)	(50,611)
Other assets	189	(14,114)	(5,594)
Accounts payable	(5,638)	16,267	16,326
Accrued liabilities	(60,281)	64,968	84,738
Liabilities from inventories not owned	—	—	(3,958)
Net cash provided by (used in) operating activities	(290,580)	(205,244)	99,667
Cash flows from investing activities:			
Net cash paid for acquistions	(7,530)	(115,609)	(25,078)
Investments in and advances to unconsolidated homebuilding joint ventures	(225,832)	(219,627)	(160,746)
Capital distributions and repayments of advances from unconsolidated homebuilding joint ventures	111,041	90,441	84,151
Net additions to property and equipment	(11,207)	(12,499)	(6,627)
Net cash used in investing activities	(133,528)	(257,294)	(108,300)
Cash flows from financing activities:			
Net proceeds from revolving credit facility	106,400	183,100	—
Principal payments on trust deed and other notes payable	(46,837)	(48,177)	(32,087)
Redemption of senior notes payable	—	(130,938)	(259,045)
Proceeds from the issuance of senior notes payable	350,000	346,330	297,240
Net proceeds from mortgage credit facilities	127,481	41,534	22,575
Excess tax benefits from share-based payment arrangements	2,805	—	—
Dividends paid	(10,500)	(10,866)	(10,783)
Repurchases of common stock	(104,705)	(52,035)	(38,754)
Proceeds from the exercise of stock options	2,944	11,409	9,808
Net cash provided (used in) by financing activities	427,588	340,357	(11,046)
Net increase (decrease) in cash and equivalents	3,480	(122,181)	(19,679)
Cash and equivalents at beginning of year	28,623	150,804	170,483
Cash and equivalents at end of year	$ 32,103	$ 28,623	$ 150,804

(continued)

(Dollars in thousands)	2006	2005	2004
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$139,877	$ 85,381	$ 80,624
Income taxes	235,881	283,659	178,698
Supplemental disclosure of noncash activities:			
Inventory financed by trust deed and other notes payable	$ 2,304	$118,868	$ 33,519
Inventory received as distributions from unconsolidated homebuilding joint ventures	17,637	59,254	13,960
Deferred purchase price recorded in connection with acquisitions	2,712	13,129	6,982
Expenses capitalized in connection with the issuance of senior notes payable	—	3,670	2,760
Excess tax benefits from share-based payment arrangements	—	14,422	6,208
Increase/decrease in inventories not owned	274,791	252,880	88,964
Increase/decrease in liabilities from inventories not owned	34,412	16,347	16,733
Increase/decrease in minority interests	309,203	236,533	72,231

CASH AND CASH EQUIVALENTS

6.59 A Statement of Cash Flows explains the change during a period in cash and cash equivalents. The amount of cash and cash equivalents reported on a Statement of Cash Flows should agree with the amount of cash and cash equivalents reported on a Statement of Financial Position. Paragraph 10 of *SFAS No. 95* requires that an entity disclose what items are treated as cash equivalents. Table 6-5 shows the descriptive terms used by the survey companies to describe a change in cash and cash equivalents. Examples of cash and cash equivalents disclosure follow.

6.60

TABLE 6-5: CASH AND CASH EQUIVALENTS

	2006	**2005**	**2004**	**2003**
Cash and cash equivalents	527	515	514	500
Cash and equivalents	42	44	41	40
Cash	19	25	31	40
Cash and short-term cash investments	6	6	5	7
Cash and short-term investments	5	6	6	9
Cash and temporary investments	1	2	2	2
Other descriptive captions	—	2	1	2
Total Companies	**600**	**600**	**600**	**600**

6.61

AETNA INC. (DEC)

Consolidated Balance Sheets

(Millions)	2006	2005
Current assets:		
Cash and cash equivalents	$ 880.0	$ 1,192.6
Investment securities	13,437.2	13,366.2
Other investments	210.4	96.8
Premiums receivable, net	363.1	349.2
Other receivables, net	530.1	366.7
Accrued investment income	183.1	184.9
Collateral received under securities loan agreements	1,054.3	1,138.8
Loaned securities	1,018.1	1,115.7
Deferred income taxes	120.8	—
Other current assets	$506.7	423.8
Total current assets	$18,303.8	$18,234.7

Consolidated Statements of Cash Flows

(Millions)	2006	2005	2004
Net decrease in cash and cash equivalents	$ (312.6)	$ (203.4)	$ (37.4)
Cash and cash equivalents, beginning of period	1,192.6	1,396.0	1,433.4
Cash and cash equivalents, end of period	$ 880.0	$1,192.6	$1,396.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and other debt securities with a maturity of three months or less when purchased. The carrying value of cash equivalents approximates fair value due to the short-term maturity of these investments.

6.62

ALLERGAN, INC. (DEC)

Consolidated Balance Sheets

(In millions)	2006	2005
Current assets:		
Cash and equivalents	$1,369.4	$1,296.3
Trade receivables, net	386.9	246.1
Inventories	168.5	90.1
Other current assets	205.5	193.1
Total current assets	$2,130.3	$1,825.6

Consolidated Statements of Cash Flows

(In millions)	2006	2005	2004
Net increase in cash and equivalents	$ 73.1	$ 401.5	$387.2
Cash and equivalents at beginning of year	1,296.3	894.8	507.6
Cash and equivalents at end of year	$1,369.4	$1,296.3	$894.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Equivalents

The Company considers cash in banks, repurchase agreements, commercial paper and deposits with financial institutions with maturities of three months or less and that can be liquidated without prior notice or penalty, to be cash and equivalents.

6.63

AMPHENOL CORPORATION (DEC)

Consolidated Balance Sheets

(Dollars in thousands)	2006	2005
Current assets:		
Cash and short-term cash investments	$ 74,135	$ 38,669
Accounts receivable, less allowance for doubtful accounts of $14,677 and $11,162, respectively	383,858	302,867
Inventories:		
Raw materials and supplies	94,830	101,042
Work in process	214,190	141,944
Finished goods	107,479	82,879
	416,499	325,865
Prepaid expenses and other assets	60,113	42,413
Total current assets	$934,605	$709,814

Consolidated Statements of Cash Flow

(Dollars in thousands)	2006	2005	2004
Net change in cash and short-term cash investments	$35,466	$ 8,497	$ 6,639
Cash and short-term cash investments balance, beginning of period	38,669	30,172	23,533
Cash and short-term cash investments balance, end of period	$74,135	$38,669	$30,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

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

Cash and Short-Term Cash Investments

Cash and short-term cash investments consist of cash and liquid investments with an original maturity of less than three months. The carrying amount approximates fair value of those instruments.

6.64

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

Consolidated Balance Sheet

(In millions, except per share)	2006	2005
Current assets		
Cash	$ 219.2	$ 225.8
Accounts receivable	720.2	681.4
Inventories	694.9	654.5
Other current assets	195.2	197.0
Total current assets	$1,829.5	$1,758.7

Consolidated Statement of Cash Flows

(In millions)	2006	2005	2004
Net increase in cash during the year	$ (6.6)	$ (2.3)	$ 37.0
Cash, beginning of year	225.8	228.1	191.1
Cash, end of year	$219.2	$225.8	$228.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I (In Part): Summary of Significant Accounting Policies

Cash

Cash includes cash in banks, demand deposits, and investments in short-term marketable securities with original maturities of 90 days or less.

Section 7: Independent Auditors' Report

PRESENTATION IN ANNUAL REPORT

7.01 This section reviews the format and content of Independent Auditors' Reports appearing in the annual reports of the 600 survey companies. Statement on Auditing Standards (SAS) No. 58, *Reports on Audited Financial Statements*, and its amendments, applies to auditors' reports issued in connection with audits of historical financial statements that are intended to present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

7.02 Commencing with auditors' reports issued or reissued on or after May 24, 2004, the format and content of independent auditors' reports appearing in the annual reports of public companies are determined by the auditing standards set by the Public Company Accounting Oversight Board (PCAOB). The Sarbanes-Oxley Act of 2002 established the PCAOB. The PCAOB is appointed by the Securities and Exchange Commission (SEC), and provides oversight for auditors of public companies. Section 103(a) of the Sarbanes-Oxley Act authorized the PCAOB to establish auditing and related professional practice standards to be used by public accounting firms registered with the PCAOB. PCAOB Rule 3100, *Compliance With Auditing and Related Professional Practice Standards*, requires auditors to comply with all applicable auditing and related professional practice standards of the PCAOB. On an initial, transitional basis, PCAOB adopted, as interim standards, the generally accepted auditing standards described in the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board's SAS No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003, to the extent not superseded or amended by the PCAOB.

7.03 Table 7-1 shows where, in relation to the financial statements and notes thereto, the Independent Auditors' Reports were presented in the annual reports to stockholders.

7.04

TABLE 7-1: PRESENTATION IN ANNUAL REPORT

	2006	2005	2004	2003
Precedes financial statements and notes	420	406	383	354
Follows financial statements and notes	179	193	216	245
Between financial statements and notes	1	1	1	1
Total Companies	**600**	**600**	**600**	**600**

TITLE

7.05 Paragraph 8a of *SAS No. 58* states that the title of an auditors' report should include the word *independent*. With one exception, the auditors' report is entitled "*Report of Independent Registered Public Accounting Firm.*"

ADDRESSEE

7.06 Paragraph 9 of *SAS No. 58* states:

> The report may be addressed to the Company whose financial statements are being audited or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to audit the financial statements of a Company that is not his client; in such a case, the report is customarily addressed to the client and not to the directors or stockholders of the Company whose financial statements are being audited.

7.07 Table 7-2 summarizes the addressee mentioned in the auditors' reports of the survey companies.

7.08

TABLE 7-2: ADDRESSEE OF AUDITORS' REPORTS

	2006	2005	2004	2003
Board of Directors and Stockholders	572	561	545	509
Board of Directors	17	20	30	49
Stockholders	7	12	17	28
Company	3	6	5	8
Other or no addressee	1	1	3	6
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

7.09 Paragraph 8 of *SAS No. 58* presents examples of auditors' standard reports for single-year financial statements and for comparative two-year financial statements. The examples presented in paragraph 8 of *SAS No. 58*, as amended by SAS No. 93, *Omnibus Statement on Auditing Standards—2000*, follow:

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of X Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 20XX, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of X Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

7.10 Most of the survey companies present a balance sheet for 2 years and the other basic financial statements for 3 years. Appropriate wording in this situation is stated in footnote 8 to paragraph 8 of *SAS No. 58*.

7.11 As permitted by Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, 96 survey companies reported components of comprehensive income in either a separate financial statement or a combined statement of income and comprehensive income. Alternatively, *SFAS No. 130* allows components of comprehensive income to be reported in a statement of stockholders' equity. Although a Company may include the term "comprehensive income" in the title of the statement in which it is presented, *SFAS No. 130* does not require the use of the term in a Company's financial statements. *SFAS No. 130* acknowledges the use of equivalent terms. Standard auditors' reports for each situation follow.

Statement of Comprehensive Income

7.12

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
The Brink's Company

We have audited the accompanying consolidated balance sheets of The Brink's Company and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Brink's Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As disclosed in note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, on January 1, 2006, Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, on December 31, 2006, and Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, on December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2007, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Statement of Operations and Comprehensive Income

7.13

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders
Lee Enterprises, Incorporated

We have audited the accompanying Consolidated Balance Sheets of Lee Enterprises, Incorporated and subsidiaries (the "Company") as of September 30, 2006 and 2005, and the related Consolidated Statements of Income and Comprehensive income, Stockholders' Equity, and Cash Flows for each of the three years in the period ended September 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Lee Enterprises, Incorporated and subsidiaries at September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of September 30, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 14, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Statement of Changes in Shareholders' Equity

7.14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited the accompanying consolidated balance sheets of FedEx Corporation as of May 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' investment and comprehensive income, and cash flows for each of the three years in the period ended May 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 FedEx Corporation at May 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of FedEx Corporation's internal control over financial reporting as of May 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations

of the Treadway Commission and our report dated July 11, 2006 expressed an unqualified opinion thereon.

AUDITORS' STANDARD REPORT OF A PUBLIC COMPANY

7.15 For audits of public companies (i.e., issuers as defined by the Sarbanes-Oxley Act of 2002, and other entities when prescribed by the rules of the SEC), PCAOB Auditing Standard (AS) No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, directs auditors to state that the engagement was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)" whenever the auditor has performed the engagement in accordance with the PCAOB's standards. *AS No. 1* is effective for auditors' reports issued or reissued after May 24, 2004. In addition, the PCAOB adopted as interim standards the generally accepted auditing standards of the AICPA as they existed on April 16, 2003. Consequently, reference to "the standards of the Public Company Accounting Oversight Board" with respect to audits performed prior to the effective date of this standard is equivalent to the previously required reference to generally accepted auditing standards. Accordingly, upon adoption of *AS No. 1*, reference to "generally accepted auditing standards" is no longer appropriate or necessary.

7.16 An example of a standard independent registered auditor's report presented in the Appendix to *AS No. 1* follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the company as of December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.

REFERENCE TO REPORT OF OTHER AUDITORS

7.17 When the opinion of a principal auditor is based in part on the report of another auditor, SAS No. 1, section 543, *Part of Audit Performed by Other Independent Auditors*, as amended by SAS No. 64, *Omnibus Statement on Auditing Standards—1990*, provides guidance to the principal auditor. Paragraph 7 of *section 543* states:

> When the principal auditor decides that he will make reference to the audit of the other auditor, his report should indicate clearly, in both the introductory, scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own audit and that covered by the audit of the other auditor. The report should disclose the magnitude of the portion of the financial statements audited by the other auditor. This may be done by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the other auditor. The other auditor may be named but only with his express permission and provided his report is presented together with that of the principal auditor.

7.18 Paragraphs 12 and 13 of *SAS No. 58* reaffirm the requirements of *section 543.* Paragraph 13 presents an example of an auditors' report referring to the report of other auditors.

7.19 The auditors' report for 13 survey companies made reference to the report of other auditors. The reference to other auditors in four of these reports related to prior year financial statements. Examples of auditors' reports making reference to reports of other auditors follow.

7.20

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Mohawk Industries, Inc.

We have audited the accompanying consolidated balance sheets of Mohawk Industries, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the combined consolidated financial statements of Unilin Flooring BVBA and Unilin Holding Inc. and their respective subsidiaries (Unilin Group), which financial statements reflect total assets constituting approximately 40 and 41 percent and total revenues constituting approximately 16 and 3 percent in 2006 and 2005, respectively, of the

related consolidated totals. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Unilin Group, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mohawk Industries, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 11 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, effective January 1, 2006. As discussed in Note 4 to the consolidated financial statements, the Company changed its method of accounting for all inventories not previously accounted for on the first-in first-out ("FIFO") method from the last-in first-out ("LIFO") method to the FIFO method during 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Mohawk Industries, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

7.21

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
SPX Corporation

We have audited the accompanying Consolidated Balance Sheets of SPX CORPORATION AND SUBSIDIARIES (the "Company") as of December 31, 2006 and 2005 and the related Consolidated Statements of Operations, Shareholders' Equity and Comprehensive Income, and Cash Flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of EGS Electrical Group, LLC and Subsidiaries ("EGS") for the years ended September 30, 2006, 2005 and 2004, the Company's investment in which is accounted for by use of the equity method (see Notes 1 and 9 to the consolidated financial statements). The Company's equity in income of EGS for the years ended September 30, 2006, 2005 and 2004 was $40.2 million, $22.4 million, and $25.8 million, respectively. The financial statements of EGS were audited by other auditors whose report has been furnished to us, and our opinion on the Company's 2006, 2005 and 2004 consolidated financial statements, insofar as it relates to the amounts included for such company, is based solely on the report of such auditors.

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

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of SPX CORPORATION AND SUBSIDIARIES at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the consolidated financial statements, the Company changed its method of recognizing compensation expense for share-based awards to conform to Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*. Also, as discussed in Note 10 to the consolidated financial statements, the Company changed its method of accounting for pension and post retirement benefits as of December 31, 2006 to conform to SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106 and 132(R)*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our report dated March 1, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

UNCERTAINTIES

7.22 SAS No. 79, *Amendment to Auditing Standards No. 58*, amends *SAS No. 58* to eliminate the requirement for an explanatory paragraph for uncertainties as defined in paragraphs 29 and 30 of amended *SAS No. 58. SAS No. 79* does not apply to uncertainties related to going concern situations for which SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended, and SAS No. 85, *Management Representations*, provide guidance.

7.23 Table 7-3 summarizes the nature of uncertainties for which an explanatory paragraph was included in an auditors' report. Examples of explanatory language for a going concern situation follow.

7.24

TABLE 7-3: UNCERTAINTIES

	2006	2005	2004	2003
Going concern	9	10	6	11
Other	—	—	4	2
Total Uncertainties	**9**	**10**	**10**	**13**
Total Companies	**9**	**10**	**8**	**12**

7.25

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Magnetek, Inc.

We have audited the accompanying consolidated balance sheets of Magnetek, Inc. as of July 2, 2006 and July 3, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 2, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Magnetek, Inc. at July 2, 2006 and July 3, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 2, 2006, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Magnetek, Inc. will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses, has not complied with certain covenants of loan agreements with banks and has significant future cash flow commitments. These conditions 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 to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As discussed in Note 1 to the financial statements, the Company adopted Statement of Financial Accounting Standard No. 123(R) "Share Based Payment", effective July 4, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Magnetek, Inc.'s internal control over financial reporting as of July 2, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 28, 2006, expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All amounts in the notes to consolidated financial statements are expressed in thousands unless otherwise noted)

1 (In Part): Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the basis of Magnetek continuing as a going concern. During recent years, the Company has incurred significant net losses; primarily related to discontinued operations and an adverse decision in a patent arbitration (see Notes 2 and 11 of Notes to Consolidated Financial Statements). As a result the Company is not in compliance with certain financial covenants included in its credit agreements (see Note 5 of Notes to Consolidated Financial Statements). Additionally, future cash flows will be negatively impacted by scheduled debt repayments and mandatory contributions to the Company's defined benefit pension plan. The Company's term loan requires quarterly principal payments of $1.0 million beginning October 1, 2006. Based upon current pension funding regulations, actuarial projections indicate required contributions of $41.0 million to the Company's defined benefit pension plan within the next three fiscal years. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

As previously disclosed in its filing on Form 10-Q for the three months ended April 2, 2006 the Company began a review of various cash raising alternatives that would enable it to address its pending obligations. During the fourth quarter of fiscal 2006, the Company completed its review and committed to a plan to divest its power electronics business. The Company intends to use proceeds from the sale of this

business (see Note 20 of Notes to Consolidated Financial Statements) to repay its debt and substantially fund its pension plan which will result in a significant reduction in interest cost and pension expense. In addition, in light of its anticipated smaller size, the Company intends to further reduce its corporate overhead expenses. Management believes these actions will enable the Company to both address its pending obligations and improve future profitability and cash flow in its continuing operations. As a result, 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 outcome of the Company's ability to continue as a going concern.

2. Discontinued Operations

The Company's power electronics business and telecom power business, as well as certain expenses incurred related to businesses the Company no longer owns, are classified as discontinued operations. The results of discontinued operations are as follows:

	2006	2005	2004
Net sales	$175,375	$176,737	$174,981
Income (loss) from discontinued operations before interest and income taxes	$ (41,415)	$ (19,988)	$ 792
Interest expense, net	1,357	1,249	1,422
Other income	—	(1,300)	—
Provision (benefit) for income taxes	(3,014)	1,396	1,761
Loss from discontinued operations	$ (39,758)	$ (21,333)	$ (2,391)

Loss from discontinued operations for the year ended July 2, 2006 includes asset impairment charges of $37,843, comprised of charges for goodwill impairment of $22,412, the write-off of the net basis of assets held for sale related to reclassification of accumulated currency translation adjustment amounts of $10,589, inventories of $4,526, and property, plant and equipment of $316. Loss from discontinued operations for the year ended July 3, 2005 includes a charge of $21,977 related to a patent infringement claim. Loss from discontinued operations for fiscal 2004 includes a net loss of $411 from the Company's telecom service business, divested in the first quarter of fiscal 2004.

Loss from discontinued operations for fiscal years 2006, 2005 and 2004 also includes charges of $3,615, $4,698 and $1,261 respectively, for legal fees and other costs related to the patent infringement claim and appeal of the judgment, product liability claims, environmental issues, and asbestos claims. These issues primarily relate to indemnification agreements provided by the Company upon the sale of previously owned businesses in years prior to fiscal 2004.

During the fourth quarter of fiscal year 2006, the Company committed to a plan to divest its power electronics business. Subsequent to July 2, 2006, the Company entered into an agreement to sell the business to Power-One, Inc. (see Note 20 of Notes to Consolidated Financial Statements). Management determined that the assets and liabilities to be sold constituted a disposal group under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and that all of the "assets held for sale" criteria outlined in SFAS No. 144 were met. As a result, the Company reclassified the assets and liabilities as held for sale and the results of this business as discontinued operations. The Company's power electronics business is comprised mainly of its wholly-owned subsidiaries Magnetek S.p.A. (Italy), Magnetek Kft. (Hungary) and Magnetek Electronics Co., Ltd. (China), and a North American division located in Chatsworth, California.

The results of the Company's power electronics business are as follows:

	2006	2005	2004
Net sales	$156,820	$166,390	$162,427
Income (loss) from discontinued operations before interest and income taxes	$ (37,388)	$ 7,701	$ 4,393
Interest expense, net	1,357	1,249	1,422
Other income	—	(1,300)	—
Provision (benefit) for income taxes	(3,014)	1,396	1,761
Income (loss) from discontinued operations	$ (35,731)	$ 6,356	$ 1,210

Given the Company's plan to divest of the power electronics business, in accordance with EITF 01-5, *Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will be Disposed Of*, the accumulated foreign currency translation adjustments (CTA) related to the business have been included as part of the carrying amount of the investment in subsidiary when evaluating impairment. The estimated fair value of the disposal group at July 2, 2006 is $68.4 million, which approximates the expected proceeds, net of estimated transaction costs, from the divestiture of the business. Based upon its determination of fair value, in the fourth quarter of fiscal 2006, the Company recorded a goodwill impairment charge of $22.4 million and an additional net asset impairment charge of $10.6 million, equal to the net basis of assets held for sale related to reclassification of accumulated CTA amounts, which reduced the carrying value of the business to the estimated fair value at July 2, 2006. The impairment charges are included in loss from discontinued operations in fiscal 2006 in the accompanying consolidated statements of operations.

Assets and liabilities of the Company's power electronics business classified as held for sale as of July 2, 2006 and July 3, 2005, are as follows:

	2006	2005
Cash and equivalents	$ 1,491	$ 6,259
Accounts receivable	51,431	41,839
Inventories	45,586	40,890
Net property, plant and equipment	27,320	27,853
Other assets	18,485	42,054
Assets of discontinued power electronics business	$144,313	$158,895
Eliminations	(3,616)	(852)
Total assets	$140,697	$158,043
Accounts payable	$ 34,985	$ 29,564
Other current liabilities	5,926	4,830
Other long term liabilities	10,728	15,663
Long term debt	24,294	19,475
Liabilities of discontinued power electronics business	$ 75,933	$ 69,532

During fiscal year 2005, the Company committed to a plan to divest its telecom power business, and as a result, reclassified assets and liabilities as held for sale and the results of this business as discontinued operations. While the Company has not yet divested its telecom power business as of July 2, 2006, the business is being actively marketed to potential interested parties at a price that is reasonable. Accordingly, the operating results of the telecom power business have continued to be classified as discontinued operations in the accompanying consolidated statements of operations and its assets and liabilities as held for sale in the accompanying consolidated balance sheets for all periods presented.

The results of the Company's telecom power business are as follows:

	2006	2005	2004
Net sales	$18,555	$10,347	$11,567
Loss from discontinued operations	$ (412)	$ (1,014)	$ (1,929)

No interest expense or provision for income tax was allocated to the Company's telecom power business for any of the periods presented above.

The estimated fair value of the telecom power disposal group at July 2, 2006 is $3.5 million. Based upon its determination of fair value, the Company recorded a write-down in the carrying value of the business of $0.5 million, which is included in loss from discontinued operations in fiscal 2005 in the accompanying consolidated statements of operations. The estimated fair value at July 2, 2006 is comprised of $4.5 million in assets and $1.0 million in liabilities, as reflected in the accompanying consolidated balance sheets. Management is currently in negotiations with prospective buyers and expects the proceeds from the sale to approximate the adjusted carrying value.

5. Long-Term Debt and Bank Borrowing Arrangements

Long-term debt consists of the following:

	2006	2005
Term loan	$18,000	$ —
Revolving bank loans	9,412	3,927
Capital leases	43	53
	27,455	3,980
Less current portion	27,412	3,927
	$ 43	$ 53

Bank Borrowing Arrangements

On September 30, 2005, the Company entered into an agreement with Ableco Finance LLC (Ableco) providing for an $18 million term loan and an agreement with Wells Fargo Foothill, Inc. (WFF) providing for a $13 million revolving credit facility. Borrowings under the term loan bear interest at the lender's reference rate plus 5%, or, at the Company's option, the London Interbank Offering Rate (LIBOR) plus 7.5% (12.6% at July 2, 2006). Such rates may be increased by up to one percentage point depending upon the level of U.S. funded debt to EBITDA as defined in the agreement. The term loan requires quarterly principal payments of $1 million beginning October 1, 2006. Borrowings under the revolving credit facility bear interest at the bank's prime lending rate plus 2.5% or, at the Company's option, LIBOR plus 4% (9.1% at July 2, 2006). Borrowings under the revolving credit facility are determined by a borrowing base formula as defined in the agreement, based on the level of eligible domestic accounts receivable and inventory. The revolving credit facility also supports the issuance of letters of credit. Borrowings under the term loan and revolving credit facility are secured by substantially all of the Company's domestic assets. The Company used the proceeds from the revolving credit facility to fully repay all outstanding obligations under its previous financing agreement with Chase Bank.

In November 2005, under terms of the financing agreements with WFF and Ableco, the Company deposited $22.6 million into an escrow account to fund the Nilssen arbitration award in the event that its appeal of the award is not successful (see Note 11 of Notes to Consolidated Financial Statements). The deposit was funded by the $18.0 million term loan and borrowings of $4.6 million from the revolving credit facility, and is reported as restricted cash in the accompanying consolidated balance sheet as of July 2, 2006. As of July 2, 2006, the $18.0 million term loan and approximately $9.4 million was outstanding under the revolving credit facility. The total of these two amounts, $27.4 million, is included in current portion of long-term debt in the accompanying condensed consolidated balance sheet. This classification reflects certain provisions in the term loan and revolving credit agreements which allow the lenders to declare a default and accelerate the loans should certain events occur which could be expected to result in a "Material Adverse Effect" (as defined in the agreements) on the Company. Such provisions are considered "subjective acceleration" clauses under accounting guidelines which require the classification of debt balances as current although the related agreements have termination dates that are beyond one year from the balance sheet date.

As a result of lower than planned performance and certain expenses of discontinued operations, the Company was in violation of certain financial covenants included in its credit agreements for the quarter ended July 2, 2006. As discussed in Notes 2 and 20 of the Notes to Consolidated Financial Statements, the Company is in the process of divesting its power electronics business. The Company expects to use the proceeds of the divestiture to repay borrowings outstanding under its term loan and revolving credit facility. Accordingly, the Company has entered into a forbearance agreement with its lenders whereby the lenders have agreed not to take any action with respect to the covenant violations through October 31, 2006. In addition, Ableco has agreed to defer the initial $1 million term loan principal payment to October 31, 2006.

Aggregate principal maturities on long-term debt outstanding at July 2, 2006 of the Company's continuing operations based on the terms of the Company's credit agreements are as follows:

Fiscal Year	
2007	$ 4,011
2008	23,423
2009	12
2010	9
2011	—
Thereafter	—
	$27,455

The table above does not include debt outstanding at July 2, 2006 of the Company's discontinued operations, which total $24.3 million.

Discontinued Operations

The Company's European subsidiary maintains revolving borrowing arrangements with local banks, primarily to support working capital needs. The European subsidiary is part of the power electronics business which the Company is in the process of divesting. Available borrowings under these arrangements aggregate approximately Euro 20.0 million depending in part upon levels of accounts receivable, and bear interest at various rates ranging from 3% to 8%. In addition, the Company's European subsidiary has an agreement with a European bank to provide borrowings secured by the subsidiary's land and building. Borrowings under this agreement bear interest at EURIBOR plus 1.5%. The initial commitment to lend under this agreement was Euro 7.0 million, and the commitment has been reduced ratably on a quarterly basis beginning March 31, 2004 and ending September 30, 2013. As of July 2, 2006, the total amount outstanding under all European borrowing arrangements was $24.3 million, which is included in liabilities held for sale in the accompanying consolidated balance sheet as of July 2, 2006.

11 (In Part): Commitments and Contingencies

Litigation

Patent Infringement

In April 1998, Ole K. Nilssen filed a lawsuit in the U.S. District Court for the Northern District of Illinois alleging infringement by the Company of seven of his patents pertaining to electronic ballast technology, and seeking unspecified damages and injunctive relief to preclude the Company from making, using or selling products allegedly infringing his patents. The Company denied that its products infringed any valid patent and filed a response asserting affirmative defenses, as well as a counterclaim for a judicial declaration that its products do not infringe the patents asserted by Mr. Nilssen and also that the asserted patents are invalid. In June 2001, the Company sold its lighting business to Universal Lighting Technologies, Inc. ("ULT"), and agreed to provide a limited indemnification against certain claims of infringement that Nilssen might allege against ULT. In April 2003, Nilssen's lawsuit and the counterclaims were dismissed with prejudice and both parties agreed to submit limited issues in dispute to binding arbitration before an arbitrator with a relevant technical background. The arbitration occurred in November, 2004 and a decision awarding Nilssen $23.4 million was issued on May 3, 2005, to be paid within ten days of the award. Nilssen's counsel filed a motion to enter the award in U.S. District Court for the Northern District of Illinois, and Magnetek filed a counter-motion to vacate the award for a number of reasons, including that the award was fraudulently obtained. Magnetek's request for oral argument was granted and the hearing took place on October 19, 2005. A decision has not been announced. An unfavorable decision by the Court would likely result in payment of the award to Nilssen.

In February 2003, Nilssen filed a second lawsuit in the U.S. District Court for the Northern District of Illinois alleging infringement by ULT of twenty-nine of his patents pertaining to electronic ballast technology, and seeking unspecified damages and injunctive relief to preclude ULT from making, using or selling products allegedly infringing his patents. ULT made a claim for indemnification, which the Company accepted, subject to the limitations set forth in the sale agreement. The case is now pending in the Central District of Tennessee. Nilssen voluntarily dismissed all but four of the patents from the lawsuit. The Company denies that the products for which it has an indemnification obligation to ULT infringe any valid patent and responded on behalf of ULT asserting affirmative defenses, as well as a counterclaim for a judicial declaration that the patents are unenforceable and invalid and that the products do not infringe Nilssen's patents. ULT requested a re-examination of the patents at issue by the Patent and Trademark Office and the request was granted. Meanwhile, the case against ULT has been stayed pending Nilssen's appeal of an unfavorable decision against him in another case that could influence the outcome of his lawsuits against ULT. The Company will continue to aggressively defend the claims against ULT that are subject to defense and indemnification; however, an unfavorable decision could have a material adverse effect on the Company's financial position, cash flows and results of operations.

13 (In Part): Employee Benefit Plans

The Company maintains a defined benefit retirement plan (the Plan) for the benefit of eligible employees, former employees and retirees in the U.S. Effective June 30, 2003, the Plan was frozen and no future compensation credits will be accrued to participants' individual accounts. Participant accounts will continue to be credited with interest. The Company funds the Plan in accordance with applicable employee benefit and tax laws, and did not make any contributions to the Plan during fiscal 2006. Based upon current contribution credits available under pension funding regulations, actuarial projections indicate no mandatory contributions to the plan would be required through fiscal year 2007 although the Company may elect to make contributions prior to that time. The Company elected to contribute 535,000 shares of its common stock valued at $2,391 during fiscal 2004.

Pension benefit obligations at year-end, fair value of plan assets and prepaid benefit costs for the years ended July 2, 2006 and July 3, 2005, were as follows:

	2006	2005
Change in benefit obligation:		
Benefit obligation at beginning of year	$191,448	$166,496
Interest cost	9,788	10,302
Actuarial (gain) loss	(23,869)	25,504
Benefits paid	(11,062)	(10,854)
Benefit obligation at end of year	$166,305	$191,448
Change in plan assets:		
Fair value of plan assets at beginning of year	$120,880	$135,130
Actual return on plan assets	10,994	(3,396)
Employer contributions	—	—
Benefits paid	(11,062)	(10,854)
Fair value of plan assets at end of year	$120,812	$120,880
Funded status	$ (45,494)	$ (70,568)
Unrecognized net actuarial loss	97,837	126,655
Prepaid benefit cost	$ 52,343	$ 56,087
Amounts recognized in statement of financial position:		
Accrued benefit liability	(45,494)	(70,568)
Accumulated other comprehensive income	97,837	126,655
Net amount recognized	$ 52,343	$ 56,087

Pension plan assets do not include any shares of Company common stock as of July 2, 2006, and include 900,000 shares of Company common stock valued at $2,286 as of July 3, 2005.

Under SFAS No. 87, *Employers' Accounting for Pensions*, when the accumulated benefit obligation ("ABO") exceeds the fair value of the plan assets, a minimum liability (net of related income tax benefit) must be established on the balance sheet with a corresponding amount in other comprehensive income (loss) in stockholders' equity. The minimum pension liability must also include any prepaid pension asset balance (the amount by which contributions to a plan have exceeded expense recorded under SFAS No. 87) as of the measurement date. Pursuant to SFAS No. 87, the Company recorded a minimum pension liability of $97,837 and $126,655 at July 2, 2006 and July 3, 2005, respectively. These amounts, net of tax benefits of $17,000, have been recorded as a reduction to equity in "Accumulated Other Comprehensive Loss" on the Company's consolidated balance sheets as of July 2, 2006 and July 3, 2005.

Weighted average assumptions used to determine benefit cost and benefit obligation for the Plan follows:

	2006	2005
Discount rate	6.38%	5.25%
Expected return on plan assets	9.00%	9.00%
Rate of compensation increase	N/A	N/A
Measurement date for pension benefit obligations	July 2, 2006	July 3, 2005

The rate of increase in future compensation levels is not applicable due the freezing of the Plan in 2003. The Company determines the expected return on plan assets based upon the overall expected long-term rate of return over the period that benefits are expected to be paid. This estimate considers the targeted allocation of plan assets among securities with various risk and return profiles and incorporates historical data as well as anticipated economic and market conditions. Plan assets are invested in a diversified mix of funds containing equity and debt securities through a professional investment manager with the objective to achieve targeted risk adjusted returns while maintaining liquidity sufficient to fund current benefit payments. Expected future benefit payments under the Plan for fiscal years are as follows: $9,917 in 2007; $9,972 in 2008; $10,154 in 2009; $10,008 in 2010; $10,304 in 2011; and $57,397 in 2012 through 2016.

20. Subsequent Events (Unaudited)

Subsequent to July 2, 2006, on September 28, 2006 the Company entered into an agreement to sell its power electronics business (the "Business") to Power One, Inc. for $71.7 million in cash plus the assumption of approximately $16.7 million in debt, subject to customary pre-closing and post-closing tangible net worth and net debt adjustments. Pursuant to the Purchase and Sale Agreement (the "Agreement") dated September 28, 2006, by and between the Company and Power One, Inc., Power-One will purchase the Business through the acquisition of all of the outstanding shares of Magnetek, S.p.A., a subsidiary of the Company, and of the assets and liabilities of the U.S. division of the Business. The terms of the Agreement were negotiated at arms-length.

The Agreement provides for indemnification for breaches of representations and warranties and other customary matters that the Company believes are typical for this type of transaction, and for the satisfaction or waiver of customary closing conditions. The Company intends to use the proceeds from the sale of the Business primarily to repay debt and fund pension obligations, as well as fund ongoing operations. The Company expects the transaction to be completed during October 2006.

7.26

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
MAXXAM Inc.

We have audited the accompanying consolidated balance sheets of MAXXAM Inc. and subsidiaries (collectively the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, cash flows, and stockholders' deficit for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits. We did not audit the financial statements of Sam Houston Race Park, Ltd. (a subsidiary), which statements reflect total revenue constituting 16.0 percent, 11.4 percent and 14.5 percent of the Company's consolidated

total revenues for the years ended December 31, 2006, 2005, and 2004, respectively. Such financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sam Houston Race Park, Ltd., is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of MAXXAM Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, based on our audits and (as to the amounts included for Sam Houston Race Park, Ltd.) the report of other auditors, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that MAXXAM Inc., and its subsidiaries will continue as going concerns. As discussed in Note 1 to the consolidated financial statements, on January 18, 2007, MAXXAM Inc.'s wholly owned subsidiary, The Pacific Lumber Company ("Palco") and its five wholly owned subsidiaries, including Scotia Pacific Company LLC ("Scopac"), filed separate voluntary petitions in the United States Bankruptcy Court for the Southern District of Texas for reorganization under Chapter 11 of the Bankruptcy Code. The six companies that filed for voluntary protection are as follows: Palco, Britt Lumber Co., Inc. ("Britt"), Scotia Development LLC, Salmon Creek LLC, Scotia Inn Inc. and Scopac (the "Debtors"). The proceedings of the Debtors are collectively referred to as the "Bankruptcy Cases." The filing of the Bankruptcy Cases was precipitated by liquidity shortfalls at Palco and Scopac and their resultant inability to make January 2007 interest payments on their respective debt obligations, arising from regulatory restrictions and limitations on timber harvest, increased timber harvesting costs and cyclical lumber prices. Additionally, Palco and Britt did not meet the minimum required EBIDTA maintenance covenant required by their debt facilities for the three month period ended December 31, 2006. Management's plans concerning these matters are also discussed in Note 1 to the consolidated financial statements. The Bankruptcy Cases raise substantial doubts about Palco's and Scopac's ability to continue as going concerns. Further, the Bankruptcy Cases raise substantial doubt about the ability of MAXXAM Inc. and subsidiaries to realize their timber-related assets and discharge their timber-related liabilities in the normal course of business and to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Presentation (In Part)

MAXXAM Parent conducts the substantial portion of its operations through its subsidiaries, which operate in three principal industries:

- Forest products, through MAXXAM Group Inc. ("MGI") and MGI's wholly owned subsidiaries, principally The Pacific Lumber Company ("Palco"), Scotia Pacific Company LLC ("Scopac"), Britt Lumber Co., Inc. ("Britt") and Scotia Development LLC ("SDLLC"). MGI and its subsidiaries engage primarily in the growing and harvesting of redwood and Douglas-fir timber, the milling of logs into lumber and related operations and activities. A substantial portion of the Company's consolidated assets, liabilities, revenues and results of operations are attributable to the forest products subsidiaries. On January 18, 2007, Palco, Scopac, Britt, SDLLC and Palco's other subsidiaries (the "Debtors") filed for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code"). See "Reorganization Proceedings of Palco and its Subsidiaries" below for further information.
- Real estate investment and development, through MAXXAM Property Company ("MPC") and other wholly owned subsidiaries of the Company, as well as joint ventures. These subsidiaries are engaged in the business of residential and commercial real estate investment and development, primarily in Arizona, California, Puerto Rico and Texas, including associated golf course or resort operations in certain locations, and also own several commercial real estate properties that are subject to long-term lease arrangements. A substantial portion of the Company's consolidated cash flows are attributable to the real estate subsidiaries.
- Racing operations, through Sam Houston Race Park, Ltd. ("SHRP, Ltd."), a Texas limited partnership wholly owned by the Company. SHRP, Ltd. owns and operates a Texas Class 1 pari-mutuel horse racing facility in the greater Houston metropolitan area, and a pari-mutuel greyhound racing facility in Harlingen, Texas.

In addition to the above, the Company previously owned 50,000,000 common shares (the "Kaiser Shares") of Kaiser Aluminum Corporation ("Kaiser"), which represented approximately 63% of Kaiser's common stock. In July 2006, the Kaiser Shares were cancelled as part of Kaiser's

Chapter 11 plan of reorganization. As a result, the Company no longer has any ownership interest in or affiliation with Kaiser. See the "Deconsolidation of Kaiser" below and Note 10 for further information regarding this matter.

Financial Reporting by Entities in Reorganization Under the Bankruptcy Code

On January 18, 2007 (the "Filing Date"), the Debtors (Palco and its subsidiaries) filed for reorganization under Chapter 11 of the Bankruptcy Code. As a result, the Company expects to discontinue consolidating the Debtors' financial results beginning January 18, 2007, and begin reporting its net investment in the Debtors using the cost method. See the "Reorganization Proceedings of Palco and its Subsidiaries" section below for further information regarding the status of the Debtors' reorganization proceedings.

Under generally accepted accounting principles, entities in reorganization proceedings under the Bankruptcy Code generally continue to apply the financial reporting principles they applied before filing petitions; accordingly, these consolidated financial statements do not reflect changes in the Debtors' financial condition that may result from the Bankruptcy Cases. The automatic stay provisions of Chapter 11 of the Bankruptcy Code make it unnecessary to reclassify prepetition long-term liabilities as of the Filing Date even though prepetition creditors might demand payment or there is a violation of a covenant in the debt agreement. Additionally, debt discounts as well as debt issuance costs on debts that are not subject to compromise, such as fully secured claims, should not be adjusted. Accordingly, the Debtors' long-term debt obligations, except for the Palco Term Loan (as defined below), where the Borrowers' did not meet the required minimum EBITDA maintenance covenant for the three months ended December 31, 2006, have been classified according to their contractual terms in the accompanying consolidated financial statements and there have been no adjustments made to debt discounts, or debt issuance costs as a result of the reorganization proceedings.

Deconsolidation of Kaiser

On February 12, 2002, Kaiser and certain of its subsidiaries filed for reorganization under Chapter 11 of the Bankruptcy Code. As a result, the Company discontinued consolidating Kaiser's financial results beginning February 12, 2002, and began reporting its investment in Kaiser using the cost method, under which the investment was reflected as a single amount on the Company's consolidated balance sheet and the recording of earnings or losses from Kaiser was discontinued after February 11, 2002.

Kaiser's plan of reorganization provided for the cancellation of Kaiser's equity, including the Company's Kaiser Shares, without consideration or obligation. Kaiser's plan of reorganization became effective on July 6, 2006, and Kaiser emerged from bankruptcy. As a result, the Company no longer has any ownership interest in or affiliation with Kaiser. Since the Company's Kaiser Shares were cancelled without obligation, the Company reversed the $516.2 million of losses in excess of its investment in Kaiser along with the accumulated other comprehensive losses of $85.3 million related to Kaiser, resulting in a net gain of $430.9 million, recognized in the third quarter of 2006. As a result of the cancellation of the Company's Kaiser Shares in 2006, the Company expects it will take a worthless stock deduction on its 2006 consolidated federal income tax return. However, it is uncertain whether the deduction meets certain criteria required for asset recognition purposes. Accordingly, the Company has not recorded the resulting tax asset of approximately $135.8 million in its consolidated balance sheet as of December 31, 2006.

Reorganization Proceedings of Palco and Its Subsidiaries (Subsequent Event)

On January 18, 2007, Palco and its five wholly owned subsidiaries, including Scopac, filed separate voluntary petitions in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court") for reorganization under Chapter 11 of the Bankruptcy Code. The six companies that filed for voluntary protection are Palco, Britt, SDLLC, Salmon Creek LLC ("Salmon Creek") and Scotia Inn ("Scotia Inn") (the "Palco Debtors") and Scopac. The proceedings of the Debtors are collectively referred to as the "Bankruptcy Cases." For purposes of these financial statements, the term "Filing Date" shall mean January 18, 2007. The Bankruptcy Cases are being jointly administered, with the Debtors managing their business in the ordinary course as debtors-in-possession subject to the control and supervision of the Bankruptcy Court.

The filing of the Bankruptcy Cases was precipitated by liquidity shortfalls at Palco and Scopac and their resultant inability to make January 2007 interest payments on their respective debt obligations, arising from regulatory restrictions and limitations on timber harvest, increased timber harvesting costs and cyclical lumber prices. Both Scopac and Palco undertook various efforts in 2006 to generate additional liquidity to satisfy their respective debt service obligations; however, the cash generated from their efforts, together with their cash flows from operations, was not sufficient to cover their respective interest payment shortfalls in January 2007.

Scopac's indebtedness consists of its 6.55% Class A-1, 7.11% Class A-2 and 7.71% Class A-3 Timber Collateralized Notes due 2028 (the "Scopac Timber Notes") ($713.8 million principal outstanding as of December 31, 2006) and a line of credit with a group of banks pursuant to which Scopac was permitted to borrow to pay interest on the Scopac Timber Notes (the "Scopac Line of Credit") ($36.2 million principal outstanding as of December 31, 2006), and each being secured by (i) Scopac's timber, timberlands and timber rights, (ii) certain contract rights and other assets, (iii) the proceeds of the foregoing and (iv) the funds held by the Trustee in various accounts related to the Scopac Timber Notes. Annual interest obligations related to Scopac's debt facilities were approximately $55.4 million as of December 31, 2006. See Note 7 for further information regarding Scopac's debt obligations.

Palco's indebtedness consists of a five-year $85.0 million secured term loan (the "Palco Term Loan") ($84.3 million principal outstanding as of December 31, 2006) and a five-year $60.0 million secured asset-based revolving credit facility (the "Palco Revolving Credit Facility") ($24.1 million of borrowings outstanding and $13.7 million of letters of credit issued as of December 31, 2006). These facilities are secured by the stock of Palco held by MGI, and substantially all of the assets of the Palco Debtors (other than Palco's equity interest in Scopac). Annual interest obligations related to Palco's long-term debt obligations were approximately $17.1 million as of December 31, 2006. See Note 7 for further information regarding Palco's debt obligations.

The Debtors' overall objectives in the Bankruptcy Cases are to achieve an operational and financial restructuring of each of the Debtors' long-term debt obligations in view of estimated lower harvest levels, increased regulatory compliance costs, cyclical lumber prices, and also to continue their businesses. There can be no assurance that the Debtors will be able to attain these objectives and achieve a successful operational and financial reorganization. In the event the Debtors are unsuccessful in attaining a successful operational and financial reorganization, the Debtors could be forced to surrender all or substantially all of their assets to their creditors. Many of the matters discussed elsewhere in this document could adversely affect the Debtors' ability to achieve an operational and financial restructuring. The outcome of the Bankruptcy Cases is impossible to predict and could have a material adverse effect on the businesses of the Debtors, on the interests of creditors, and on the Company.

As provided by the Bankruptcy Code, each of the Debtors generally has the exclusive right to propose a plan of reorganization the Exclusivity Period, a 120 day period following the date of filing of the Bankruptcy Cases, unless certain statutory exceptions apply to the Bankruptcy Court orders otherwise. For instance, a group of holders of Scopac Timber Notes has filed a motion that, if granted, might have the effect of shortening the Exclusivity Period. Palco and Scopac have each engaged The Blackstone Group ("Blackstone") to serve as its financial advisor and assist in the development of a plan of reorganization for each of Palco and Scopac. If the Debtors fail to file such plan(s) of reorganization during the Exclusivity Period or any extension thereof, or such plan(s) are not accepted by the requisite number of creditors and equity holders entitled to vote on the plan(s), other parties in interest in the Bankruptcy Cases may be permitted to propose their own plan(s) of reorganization for the Debtors.

As a result of the commencement of the Bankruptcy Cases, the outstanding principal of, and accrued interest on, all long-term debt of the Debtors became immediately due and payable. However, the vast majority of the claims in existence at the Filing Date (including claims for principal and accrued interest on the Debtors' indebtedness, and substantially all legal proceedings) are stayed (deferred) while the Debtors continue to operate the businesses as debtors-in-possession. Accordingly, the Debtors' long-term debt obligations, except for the Palco Term Loan, where the Borrowers' did not meet the required minimum EBITDA maintenance covenant for the three months ended December 31, 2006, have been classified in accordance with their contractual terms in the accompanying consolidated financial statements. The Bankruptcy Court has, however, upon motion by the Debtors, permitted the Debtors to pay or otherwise honor certain unsecured pre-Filing Date claims, including employee wages and benefits and customary claims in the ordinary course of business, subject to certain limitations. The Debtors also have the right to assume or reject executory contracts, subject to Bankruptcy Court approval and certain other limitations. In this context, "assumption" means that the Debtors agree to perform their obligations and cure certain existing defaults under an executory contract and "rejection" means that the Debtors are relieved from their obligations to perform further under an executory contract and are subject only to a claim for damages and the breach thereof. Any claim for damages resulting from the rejection of an executory contract is treated as a general unsecured claim in the Bankruptcy Cases.

The Debtors anticipate that substantially all liabilities of the Debtors as of the Filing Date will be resolved under one or more plans of reorganization to be proposed and voted on in the Bankruptcy Cases and in accordance with the provisions of the Bankruptcy Code. However, there can be no assurance that the liabilities of the Debtors will not be ultimately found to exceed the fair value of its assets. If a Debtor's creditors are not paid in full, the Bankruptcy Code provides that a Debtor's equity holder will not be entitled to retain its equity interest, unless certain exceptions apply. If the liabilities of one or more of the Debtors are ultimately found to exceed the fair value of their assets, claims of creditors could be paid at less than 100% of their face value. In that event, Palco could lose all or a material portion of its equity ownership in Scopac and Palco's other subsidiaries, MGI could lose all or a material portion of its equity ownership in Palco, or the value of such equity ownership interests could be diluted, impaired or eliminated. There is substantial uncertainty as to when the Debtors will be able to file such plan(s), and the Debtors' efforts to obtain approval of such plan(s) by the creditors and equity holders entitled to vote on the plan(s), and to obtain confirmation by the Bankruptcy Court of such plan(s), may not be successful.

The financial information of the Debtors contained herein and consolidated with the Company's results has been prepared on a "going concern" basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business; however, as a result of the commencement of the Bankruptcy Cases, such realization of assets and liquidation of liabilities are subject to a significant number of uncertainties. Specifically, but not all-inclusive, the financial information of the Debtors for the year ended December 31, 2006, contained herein does not present: (a) the realizable value of assets on a liquidation basis, (b) the estimated costs and expenses associated with the Bankruptcy Cases, (c) the amount that will ultimately be paid to settle liabilities and contingencies which may be allowed in the Bankruptcy Cases, or (d) the effect of any changes that may be made in connection with the Company's investment in the Debtors or with the Debtors' operations resulting from a plan of reorganization. Because of the ongoing nature of the Bankruptcy Cases, the discussions and financial information of the Debtors contained herein are subject to material uncertainties.

Financial Difficulties of Forest Products Entities

Future Harvest Levels

Scopac has conducted extensive reviews and analyses of its assets, operations and future prospects. As a result of these extensive reviews and analyses Scopac has concluded that, in the absence of significant regulatory relief and accommodations, its future annual timber harvest levels and cash flows from operations for the foreseeable future will be substantially below both historical harvest levels and the minimum levels necessary to allow Scopac to satisfy the principal and interest specified by the Scopac Indenture. Scopac has estimated that its average annual harvest levels over the ten-year period that began in 2006 is not likely to exceed approximately 95 million board feet per year. This revised estimated harvest level reflects Scopac's further analysis of the cumulative impact of ongoing regulatory limitations, watershed prescriptions, the requirements of its comprehensive multi-species habitat conservation plan (the "HCP") and other matters, and is based on a number of assumptions that may or may not

prove to be accurate. Actual harvest levels are expected to vary significantly from year to year. Moreover, the average annual harvest level over the ten-year period could be even lower due to, among other things, the various matters discussed elsewhere in this document.

Regulatory Matters

Regulatory and environmental matters as well as legal actions have had and are expected to continue to have a significant adverse effect on the Company's forest products operations and liquidity. The ability to harvest Scopac Timber (as defined below) depends in large part upon Scopac's ability to obtain regulatory approval of its timber harvest plans ("THPs"). Scopac has experienced difficulties and delays in the approval of its THPs as the result of regulatory and litigation challenges and expects these challenges to persist. The foregoing matters have resulted in declines in actual and expected harvest levels and cash flows, significant increases in the cost of logging operations and increased costs related to timber harvest litigation, all of which have severely impacted the historical cash flows of both Palco and Scopac. These adverse effects are expected to continue. The timber on the timberlands owned by Scopac (the "Scopac Timberlands") and the timber that Scopac has the exclusive right to harvest ("Scopac Timber Rights") is collectively referred to as the "Scopac Timber". The timberlands in respect of the Scopac Timber are referred to as the "Scopac Timber Property". The Scopac Timber Property and the timberlands owned by Palco and Salmon Creek are referred to as the "Palco Timberlands."

Scopac Liquidity

As noted above, in the absence of significant regulatory relief and accommodations, Scopac's annual timber harvest levels and cash flows from operations will, for the foreseeable future, be substantially below both historical levels and the minimum levels necessary to allow Scopac to satisfy the principal and interest payments specified by the Scopac Indenture.

In an effort to address expected future interest payment shortfalls, Scopac in 2005 initiated a program to sell certain timberland properties, as well as various non-timberland properties, such as ranchlands and recreational areas (the "Scopac Land Sale Program"). The Scopac Land Sale Program generated proceeds of $13.1 million during 2006, however, the proceeds generated from the Scopac Land Sale Program, together with other available liquidity, were not sufficient to cover the expected interest payment shortfall on the January 20, 2007, Scopac Timber Notes payment date.

Scopac experienced liquidity shortfalls during 2006. On the Scopac Timber Notes payment date in January 2006, Scopac used its existing cash resources, all of the remaining funds available under the Scopac Line of Credit, and the additional funds made available from a $2.3 million timber/log purchase by MGI, to pay all of the $27.7 million of interest due ($25.8 million net of interest due in respect of Scopac Timber Notes held in the Scheduled Amortization Reserve Account; "SAR Account"). Using funds held in the SAR Account, Scopac also repaid $19.3 million of principal on the Scopac Timber Notes ($11.9 million net of principal in respect of Scopac Timber Notes held in the SAR Account) in accordance with Scheduled Amortization. "Scheduled Amortization" is the amount of principal that Scopac must pay (on a cumulative basis) through any Scopac Timber Notes payment date in order to avoid prepayment or deficiency premiums. See Note 7, "Scopac Timber Notes" for further information regarding Scheduled Amortization and the SAR Account.

In April 2006, Scopac and MGI consummated a timber/log purchase that provided Scopac $2.1 million of additional liquidity to pay its operating expenses.

On the Scopac Timber Notes payment date in July 2006, Scopac used its existing cash resources, all of the remaining funds available under the Scopac Line of Credit, $10.2 million of funds from the Scopac Land Sale Program, a $3.7 million timber/log purchase by MGI, and a $2.1 million early log payment by Palco to pay all of the $27.1 million of interest due ($25.4 million net of interest due in respect of Scopac Timber Notes held in the SAR Account). Scopac also repaid $10.0 million of principal on the Scopac Timber Notes ($6.2 million net of principal in respect of Scopac Timber Notes held in the SAR Account), an amount equal to Scheduled Amortization, using funds held in the SAR Account.

As the January 2007 Scopac Timber Notes payment date approached, it became apparent to Scopac that it would not have sufficient liquidity to make the interest payment. The failure of Scopac to pay all of the interest on the Scopac Timber Notes when due constitutes an event of default under the indenture governing the Scopac Timber Notes ("Scopac Indenture"). In the event of a failure to pay interest on the Scopac Timber Notes in full when due, the trustee under the Scopac Indenture (the "Trustee") or the holders of at least 25% of the aggregate outstanding principal amount of the Scopac Timber Notes were entitled to cause all principal, interest and other amounts related to the Scopac Timber Notes to become immediately due and payable. In the event of any such acceleration, the Agent under the Scopac Line of Credit was also entitled to accelerate the advances then outstanding thereunder. If such accelerations of Scopac Timber Notes and/or advances under the Scopac Line of Credit were to occur, the Trustee was entitled to exercise all rights under the Scopac Indenture and related security documents, including applying funds to pay accelerated amounts, and selling the Scopac Timberlands, the Scopac Timber Rights and Scopac's other assets and using the proceeds thereof to pay accelerated amounts. Based upon a review of its alternatives under the circumstance and consultation with its legal advisors, on January 18, 2007, Scopac elected to file for voluntary protection under Chapter 11 of the Bankruptcy Code. As a result of the commencement of the Bankruptcy Cases, lender claims are stayed (deferred) while the Debtors continue to operate the businesses as debtors-in-possession.

Scopac has been authorized by the Bankruptcy Court to fund budgeted ongoing operating and bankruptcy-related costs using operating cash flow and, to the extent needed, funds available in the SAR Account (subject to no more than $5.0 million in withdrawals from the SAR Account being outstanding at any given time). If these sources of liquidity are not adequate, and if Scopac is unable to obtain additional sources of liquidity and the necessary Bankruptcy Court approval to utilize such additional sources of liquidity, Scopac may not be able to continue operations and reorganize successfully under Chapter 11 of the Bankruptcy Code.

Palco Liquidity

As of December 31, 2005, and June 30, 2006, Palco and Britt were in default under the prior Palco-Britt term loan and prior Palco-Britt revolving credit facility (the "Prior Palco-Britt Facilities") due to financial covenant breaches. In the

first half of 2006, additional liquidity was needed at Palco and Palco borrowed an aggregate of $20.0 million from MGI to meet its cash shortfalls.

On July 18, 2006, Palco and Britt, as Borrowers, closed on the Palco Term Loan, a five-year $85.0 million secured term loan (the "Palco Term Loan"), and the Palco Revolving Credit Facility, a five-year $60.0 million secured asset-based revolving credit facility (the "Palco Revolving Credit Facility"), and terminated the Prior Palco-Britt Facilities. The Palco Term Loan was fully funded at closing. The Palco Term Loan and the Palco Revolving Credit Facility required MGI to provide a $10.0 million subordinated loan to the Borrowers, which was also funded at closing. The Borrowers used approximately $56.5 million of the Palco Term Loan to pay off the Prior Palco-Britt Facilities and cash collateralize previously-existing letters of credit; and $6.0 million to pay transaction costs. The remaining $32.5 million of loan proceeds were used for general corporate purposes. As of December 31, 2006, $84.3 million was outstanding under the Palco Term Loan, and $24.1 million of borrowings were outstanding and $13.7 million of letters of credit were issued under the Palco Revolving Credit Facility.

The Borrowers did not meet the required minimum EBITDA maintenance covenant for the three-month period ended September 30, 2006, due to an unplanned severance charge and a legal settlement. On November 20, 2006, MGI made a loan to Palco, enabling the Borrowers to exercise their cure right under the two debt facilities. The Borrowers also notified the lenders that changing market conditions and other factors would likely adversely affect the Borrowers' ability to comply with the financial covenants at December 31, 2006 and in future periods.

The Borrowers did not meet the required minimum EBITDA maintenance covenant for the three-month period ended December 31, 2006. Accordingly, the Palco Term Loan has been reclassified as a current liability in the Company's consolidated balance sheet.

In January 2007, Palco did not have sufficient liquidity to pay all of the interest due on the Palco Term Loan. Based upon a review of its alternatives under the circumstance, and consultation with its legal advisors, on January 18, 2007, Palco elected to file for voluntary protection under Chapter 11 of the Bankruptcy Code. As a result of the commencement of the Bankruptcy Cases, lender claims are stayed (deferred) while the Debtors continue to operate the businesses as debtors-in-possession.

The liquidity shortfalls experienced by Palco throughout 2005 and 2006 resulted primarily from reduced log supply from Scopac and operational inefficiencies related to Palco's Scotia sawmill. Additional liquidity shortfalls are expected in 2007. Additionally, in 2006, Palco initiated an asset sale program ("Palco Asset Sale Program"), including real property associated with Palco's former Fortuna and Carlotta sawmills and Palco-owned homes in Scotia, California with the objective of reducing Palco's overall debt levels. The Palco Asset Sale Program did not generate any cash flow in 2006 and is not expected to generate liquidity in 2007 as, among other things, a substantial portion of the properties must be subdivided and/or rezoned before such properties can be sold.

The Palco Debtors estimate that they will have liquidity shortfalls in 2007. The Palco Debtors are pursuing discussions with lenders in an effort to obtain debtor-in-possession financing in order to have sufficient liquidity to fund the Palco Debtors' ongoing operating cash needs, including bankruptcy-related costs. The Palco Debtors may not be successful in obtaining additional liquidity or the necessary Bankruptcy Court approval, in which case the Palco Debtors may not be able to continue operations and reorganize successfully under Chapter 11 of the Bankruptcy Code.

Potential Impact on Registrant and Certain Related Entities

The Bankruptcy Cases, and the liquidity issues being experienced by Scopac and Palco, could result in claims against and could have adverse impacts on MAXXAM Parent and its affiliates, including MGHI and/or MGI. For example, under ERISA, if Palco's pension plan were to be terminated, MAXXAM Parent and its wholly owned subsidiaries would be jointly and severally liable for any unfunded pension plan obligations. The unfunded termination obligation attributable to Palco's pension plan as of December 31, 2006, is estimated to have been approximately $23.0 million based upon annuity placement interest rate assumptions as of such date. In addition, it is possible that certain transactions could be completed in connection with a potential restructuring or reorganization of the Debtors, such as a sale of all or a portion of the equity ownership in the Debtors, a sale of a substantial portion of the Debtors' assets and/or a cancellation of some or all of the Debtors' indebtedness, which could require the utilization of all or a substantial portion of, or the loss of a significant portion of, the Company's net operating losses or other tax attributes for federal and state income tax purposes and could require tax payments. In addition, the Company may be required to establish certain deferred tax liabilities as a result of loss of control of the Debtors effective as of the Filing Date.

The following condensed pro forma financial information reflects the results of operation of the Company, excluding the Debtors, for the period presented (in millions):

	2006
Revenues	$ 151.5
Costs and expenses	(140.4)
Reversal of net investment in Kaiser	430.9
Operating income (loss)	442.0
Debtors' loss	(79.0)
Other income (expenses), net	7.9
Cumulative effect of accounting change	(0.7)
Income tax benefit	4.2
Net income	$ 374.4

The following condensed pro forma financial data reflects the deconsolidation of the Debtors, as of the date presented (in millions):

	2006
Current assets	$ 183.4
Property, plant, and equipment, net	228.8
Other assets	158.6
Total assets	$ 570.8
Current liabilities	36.0
Long-term debt, less current maturities	215.5
Other liabilities	12.8
Net investment in Debtors[(1)]	518.3
Total liabilities	782.6
Stockholder's deficit	(211.8)
Total liabilities and stockholder's deficit	$ 570.8

[(1)] This amount represents the net book value of the Debtors' assets minus liabilities stated in accordance with generally accepted accounting principles.

Use of Estimates and Assumptions (In Part)

Risks and uncertainties are inherent with respect to the ultimate outcome of Bankruptcy Cases and the matters discussed in Note 11. Scopac's estimate of its future harvest levels is based on a number of assumptions that may or may not prove to be accurate and, accordingly, is subject to significant uncertainty. The results of a resolution of such uncertainties could have a material effect on the Company's consolidated financial position, results of operations or liquidity. In addition, uncertainties related to the projection of future taxable income could affect the realization of the Company's deferred tax assets discussed in Note 8. Estimates of future benefit payments used to measure the Company's pension and other postretirement benefit obligations discussed in Note 9 are subject to a number of assumptions about future experience, as are the estimated future cash flows projected in the evaluation of long-lived assets for possible impairment. To the extent there are material differences between these estimates and actual results, the Company's consolidated financial position, results of operations and/or liquidity could be affected.

7 (In Part): Debt

Principal amounts of outstanding debt consist of the following (in millions):

	2006	2005
Prior Palco-Britt Facilities	$ —	$ 58.7
Palco Revolving Credit Facility due July 18, 2011	24.1	—
Palco Term Loan due July 18, 2011	84.3	—
Scopac Line of Credit, due July 2006	36.2	31.3
6.55% Scopac Class A-1 Scopac Timber Notes due July 20, 2028	7.3	36.6
7.11% Scopac Class A-2 Scopac Timber Notes due July 20, 2028	243.2	243.2
7.71% Scopac Class A-3 Scopac Timber Notes due July 20, 2028	463.3	463.3
7.56% Lakepointe Notes due June 8, 2021	113.5	114.8
7.03% Motel Notes due May 1, 2018	44.7	46.1
6.08% Beltway Notes due November 9, 2024	28.6	29.2
7.12% Palmas Notes due December 20, 2030	28.7	29.2
Other notes and contracts, primarily secured by receivables, buildings, real estate and equipment	5.3	5.1
Total principal outstanding	1,079.2	1,057.5
Less: short term borrowings and current maturities	(180.7)	(112.5)
Class A-1 Scopac Timber Notes held in the SAR Account, at par value[(1)]	(2.8)	(13.9)
Class A-2 Scopac Timber Notes held in the SAR Account, at par value[(1)(2)]	—	(41.5)
Discount on sale of Class A-2 Scopac Timber Notes held in SAR Account	(10.3)	—
	$ 885.4	$ 889.6

[(1)] The Scopac Indenture provides that a Scopac Timber Note does not cease to be outstanding because Scopac holds the instrument. Consequently, Scopac is required to pay and has paid interest and principal on the Scopac Timber Notes repurchased and held in the SAR Account.

[(2)] The Class A-2 Scopac Timber Notes held in the SAR Account were sold in October 2006.

On January 18, 2007, the Debtors (Palco and its five wholly owned subsidiaries, including Scopac), filed for protection under Chapter 11 of the Bankruptcy Code. As a result of the commencement of the Bankruptcy Cases, the operative documents provide that the outstanding principal of, and accrued interest on, all obligation debts of the Debtors became immediately due and payable. However, claims for principal and accrued interest on the Debtors' indebtedness are stayed (deferred) while the Debtors continue to operate the businesses as debtors-in-possession. The automatic stay provisions of Chapter 11 of the Bankruptcy Code make it

unnecessary to reclassify prepetition long-term liabilities as of the Filing Date even though prepetition creditors might demand payment or there is a violation of a covenant in the debt agreement. Accordingly, the Debtors' long-term debt obligations, except for the Palco Term Loan, where the Borrowers did not meet the required minimum EBITDA maintenance covenant for the three months ended December 31, 2006, have been classified in accordance with their contractual terms in the accompanying consolidated financial statements.

Short Borrowings and Current Maturities

Short term borrowings and current maturities include the Palco Revolving Credit Facility and the Scopac Line of Credit, as well as the current maturities of long-term indebtedness.

Also included in short-term borrowings and current maturities at December 31, 2006, is the Palco Term Loan resulting from the Borrowers not meeting the required minimum EBITDA maintenance covenant for the three months ended December 31, 2006.

Palco Credit Agreements

At December 31, 2005, and June 30, 2006, Palco and Britt were in default under the Prior Palco-Britt Facilities due to financial covenant breaches. The existence of the defaults required Palco to pay interest on amounts borrowed under the Prior Palco-Britt Facilities at a per annum rate 2% higher than the rate at which interest would have been owed had no default existed.

On July 18, 2006, Palco and Britt, as Borrowers, closed on the Palco Term Loan, a five-year $85.0 million secured term loan, and the Palco Revolving Credit Facility, a five-year $60.0 million secured asset-based revolving credit facility, and terminated the Prior Palco-Britt Facilities. The Palco Term Loan was fully funded at closing. The Palco Term Loan and the Palco Revolving Credit Facility required MGI to provide a $10.0 million subordinated loan to the Borrowers, which was also funded at closing. The Borrowers used approximately (i) $56.5 million of the Palco Term Loan to pay off the Prior Palco-Britt Facilities and cash collateralize previously-existing letters of credit; and $6.0 million to pay transaction costs. The remaining $32.5 million of loan proceeds were used for general corporate purposes. As of December 31, 2006, $84.3 million was outstanding under the Palco Term Loan and $24.1 million of borrowings were outstanding and $13.7 million of letters of credit were issued under the Palco Revolving Credit Facility.

The amount available for borrowings under the Palco Revolving Credit Facility was normally the sum of 85% of the Borrowers' eligible accounts receivable plus the lesser of (i) 80% of the book value of Borrowers' eligible inventory or (ii) 85% of the net orderly liquidation value of such inventory. However, during each period from October 15 through January 15, the amount available for borrowing under the Palco Revolving Credit Facility was the sum of 95% of Borrowers' eligible accounts receivable plus the lesser of (i) 90% of the book value of Borrowers' eligible inventory or (ii) 95% of the net orderly liquidation value of such inventory. The amount available under the Palco Revolving Credit Facility could not exceed $60.0 million.

The Palco Term Loan bore interest at the rate of LIBOR plus 8.75%. Loans under the Palco Revolving Credit Facility bore interest at the rate of LIBOR plus 2.75% or prime plus 0.75%, at the Borrowers' option; however, incremental borrowings made during the period from October 15 through January 15 bore interest at the rate of LIBOR plus 4.50% or prime plus 2.50%, as applicable.

Both the Palco Term Loan and the Palco Revolving Credit Facility contained substantially identical restrictive covenants that limited the Borrowers' ability to incur debt, grant liens, make investments, pay dividends, make capital expenditures or merge or consolidate, and required the Borrowers to maintain specified minimum levels of EBITDA throughout the life of the facilities and specified minimum fixed charge coverage ratios and maximum leverage ratios commencing December 31, 2007. The Palco Term Loan also required the Borrowers to repay a substantial portion of the outstanding principal of the Palco Term Loan with the net proceeds from various required asset sales, including the real property associated with Palco's former Fortuna and Carlotta sawmills, and Palco-owned homes in Scotia, California to be sold after certain milestones had been met. Any remaining principal balance of the Palco Term Loan was due on the maturity date. The Palco Term Loan and the Palco Revolving Credit Facility contained customary events of default and customary remedies with respect to the occurrence of an event of default and each was secured by a security interest in the stock of Palco held by MGI, and substantially all of the assets of the Borrowers (other than Palco's equity interest in Scopac).

The Borrowers did not meet the required minimum EBITDA maintenance covenant for the three-month period ended September 30, 2006, due to an unplanned severance charge and a legal settlement. On November 20, 2006, MGI made a loan to Palco, enabling the Borrowers to exercise their cure right under the two debt facilities. The Borrowers also notified the lenders that changing market conditions and other factors would likely adversely affect the Borrowers' ability to comply with the financial covenants at December 31, 2006 and in future periods.

The Borrowers did not meet the required minimum EBITDA maintenance covenant for the three-month period ended December 31, 2006. Accordingly, the Palco Term Loan has been reclassified as a current liability in the Company's consolidated balance sheet.

In January 2007, Palco did not have sufficient liquidity to pay all of the interest due on the Palco Term Loan. Based upon a review of its alternatives under the circumstance, and consultation with its legal advisors, on January 18, 2007, Palco elected to file for voluntary protection under Chapter 11 of the Bankruptcy Code. As a result of the commencement of the Bankruptcy Cases, lender claims are stayed (deferred) while the Debtors continue to operate the businesses as debtors-in-possession.

The Palco Term Loan and Palco Revolving Credit Facility each included prepayment premiums of 3%, 2% and 1% that would have been payable in connection with any prepayment of the Palco Term Loan or reduction or termination of the Palco Revolving Credit Facility during the first, second and third years, respectively.

Scopac Credit Agreements

Scopac's indebtedness consists of the Scopac Timber Notes ($713.8 million principal outstanding as of December 31, 2006) and the Scopac Line of Credit ($36.2 million principal outstanding as of December 31, 2006), each being secured by (i) Scopac's timberlands and timber rights, (ii) certain contract rights and other assets, (iii) the proceeds of the

foregoing, and (iv) the funds held by the Trustee in various accounts related to the Scopac Timber Notes.

Scopac Line of Credit

The Scopac Line of Credit allowed Scopac to borrow up to one year's interest on the aggregate outstanding principal balance of the Scopac Timber Notes. On May 18, 2006, the Scopac Line of Credit was extended to July 6, 2007.

Borrowings under the Scopac Line of Credit generally bore interest at the Base Rate (as defined in the agreement) plus 0.25% or at LIBOR plus 1.0% (at any time that borrowings have not been continually outstanding for more than six months).

Scopac Timber Notes

General

In July 1998, Scopac issued $867.2 million aggregate principal amount of Scopac Timber Notes, which are due July 20, 2028. The Scopac Timber Notes are senior secured obligations of Scopac and do not constitute obligations of, and are not guaranteed by, Palco or any other person. The Scopac Timber Notes were issued in three classes: Class A-1 Scopac Timber Notes aggregating $160.7 million, Class A-2 Scopac Timber Notes aggregating $243.2 million, and Class A-3 Scopac Timber Notes aggregating $463.3 million.

The Scopac Timber Notes were structured to link, to the extent of cash available, the deemed depletion of Scopac Timber (through the harvest and sale of logs) to the required amortization of the Scopac Timber Notes. The required amount of amortization on any Scopac Timber Notes payment date was determined by various mathematical formulas set forth in the Scopac Indenture. The amount of principal Scopac was required to pay (on a cumulative basis and subject to available cash) through any Scopac Timber Notes payment date is referred to as "Minimum Principal Amortization." If the Scopac Timber Notes were amortized in accordance with Minimum Principal Amortization, the final installment of principal would have been paid on January 20, 2010, July 20, 2017 and July 20, 2028 for the Class A-1, Class A-2 and Class A-3 Scopac Timber Notes, respectively. Scheduled Amortization is the amount of principal which Scopac was required to pay (on a cumulative basis) through any Scopac Timber Notes payment date in order to avoid prepayment or deficiency premiums. If all payments of principal were made in accordance with Scheduled Amortization, Scopac would have paid the final installment of principal on January 20, 2014. Such final installment would have included a single "bullet" principal payment of $463.3 million related to the Class A-3 Scopac Timber Notes.

Scopac Timber Note Payment Dates

Amounts payable on the Scopac Timber Notes were due semi-annually, generally on January 20 and July 20 of each year).

On the note payment date in January 2005, Scopac used the funds available under the Scopac Line of Credit to pay the $28.5 million of interest due ($26.3 million net of interest due in respect of Scopac Timber Notes held in the SAR Account). Using funds held in the SAR Account, Scopac also repaid $17.1 million of principal on the Scopac Timber Notes, an amount equal to Scheduled Amortization ($10.6) million net of principal in respect of Scopac Timber Notes held in the SAR Account). See "SAR Account" for information regarding the SAR Account.

On the note payment date in July 2005, Scopac used its existing cash resources, all of the remaining funds available under the Scopac Line of Credit and a $2.2 million early log payment by Palco, to pay all of the $27.9 million of interest due ($25.9 million net of interest due in respect of Scopac Timber Notes held in the SAR Account). Using funds held in the SAR Account, Scopac also repaid $8.0 million of principal on the Scopac Timber Notes, an amount equal to Scheduled Amortization ($5.0 million net of principal in respect of Scopac Timber Notes held in the SAR Account).

On the note payment date in January 2006, Scopac used its existing cash resources, all of the remaining funds available under the Scopac Line of Credit and the additional funds made available from a $2.3 million timber/log purchase by MGI, to pay all of the $27.7 million of interest due ($25.8 million net of interest due in respect of Scopac Timber Notes held in the SAR Account). Using funds held in the SAR Account, Scopac also repaid $19.3 million of principal on the Scopac Timber Notes ($11.9 million net of principal in respect of Scopac Timber Notes held in the SAR Account), an amount equal to Scheduled Amortization.

On the note payment date in July 2006, Scopac used its existing cash resources, all of the remaining funds available under the Scopac Line of Credit, $10.2 million of funds from the Scopac Land Sale Program, a $3.7 million timber/log purchase by MGI, and a $2.1 million early log payment by Palco to pay all of the $27.1 million of interest due ($25.4 million net of interest due in respect of Scopac Timber Notes held in the SAR Account). Using funds held in the SAR Account, Scopac also repaid $10.0 million of principal on the Scopac Timber Notes ($6.2 million net of principal in respect of Scopac Timber Notes held in the SAR Account).

As the January 2007 Scopac Timber Notes payment date approached, it became apparent that Scopac would not have sufficient liquidity to make the interest payment. The failure of Scopac to pay all of the interest on the Scopac Timber Notes when due constitutes an event of default under the Scopac Indenture. In the event of a failure to pay interest on the Scopac Timber Notes in full when due, the Trustee under the Scopac Indenture or the holders of at least 25% of the aggregate outstanding principal amount of the Scopac Timber Notes were entitled to cause all principal, interest and other amounts related to the Scopac Timber Notes to become immediately due and payable. In the event of any such acceleration, the Agent under the Scopac Line of Credit was also entitled to accelerate the advances then outstanding thereunder. If such accelerations of Scopac Timber Notes and/or advances under the Scopac Line of Credit were to occur, the Trustee was entitled to exercise all rights under the Scopac Indenture and related security documents, including applying funds to pay accelerated amounts, and selling the Scopac Timberlands, the Scopac Timber Rights and Scopac's other assets and using the proceeds thereof to pay accelerated amounts. Based upon a review of its alternatives under the circumstance and consultation with its legal advisors, on January 18, 2007, Scopac elected to file for voluntary protection under Chapter 11 of the Bankruptcy Code. As a result of the commencement of the Bankruptcy Cases, lender claims are stayed (deferred) while the Debtors continue to operate the businesses as debtors-in-possession.

Trustee

U.S. Bank, the Trustee under the Scopac Indenture, resigned effective May 1, 2006. Scopac appointed Deutsche Bank National Trust Company as successor Trustee, which appointment became effective May 1, 2006. Deutsche Bank National Trust Company resigned effective August 25, 2006 and Scopac appointed Bank of New York as successor Trustee, which appointment became effective August 25, 2006.

SAR Account

In November 1999, $169.0 million of funds from the sale of 5,600 acres of timberlands owned principally by Salmon Creek and Palco were contributed to Scopac and set aside in the SAR Account (Scheduled Amortization Reserve Account). Amounts in the SAR Account are part of the collateral securing the Scopac Timber Notes and were used to make principal payments to the extent that cash flows from operations are insufficient to pay Scheduled Amortization on the Scopac Timber Notes. In addition, on or after January 20, 2014, any amounts then remaining in the SAR Account were to be used to amortize the Class A-3 Scopac Timber Notes. Funds could be released to Scopac from the SAR Account if the amount in the account at that time exceeded the Required Scheduled Amortization Reserve Balance (as defined and set forth in the Scopac Indenture). If the balance in the SAR Account fell below the Required Scheduled Amortization Reserve Balance, up to 50% of any Remaining Funds (funds that could otherwise be released to Scopac free of the lien securing the Scopac Timber Notes) were required to be used on each monthly deposit date to replenish the SAR Account. As of December 31, 2006, the amount held in the SAR Account was $79.5 million below the Required Scheduled Amortization Reserve Balance.

If the amount on deposit in the SAR Account on a Scopac Timber Notes payment date was less than what was needed to reduce outstanding principal in accordance with Scheduled Amortization, only the amount on deposit in the SAR Account was required to be paid as a principal payment on the Scopac Timber Notes. At December 31, 2006, the SAR Account balance was $42.3 million (consisting of $2.8 million of Class A-1 Scopac Timber Notes held in the SAR Account and $39.5 million in marketable securities). On October 11, 2006, Scopac completed a private placement of the $41.5 million par value of repurchased Class A-2 Scopac Timber Notes held in the SAR Account at a sales price of $750 per $1,000 principal amount, plus accrued interest from July 20, 2006. The net proceeds of approximately $30.2 million were deposited into the SAR Account. The difference between the net proceeds and the par value of the Scopac Timber Notes that were sold is recorded as a contra-debt account and will be amortized to principal over the remaining contractual term of the notes.

Letters of Credit

At December 31, 2006, Palco had $13.7 million of letters of credit issued in the aggregate, principally a $9.9 million letter of credit with the State of California to secure its workers compensation liabilities and a $3.5 million letter of credit to satisfy certain liability insurance obligations.

At December 31, 2006, the Company's real estate segment had letters of credit outstanding in the amount of $3.5 million to satisfy certain liability insurance policy requirements.

Contractual Maturities

Contractual maturities of outstanding indebtedness at December 31, 2006, are as follows (in millions):

	2007	2008	2009	2010	2011	Thereafter
Palco Term Loan	$ 84.3	$ —	$ —	$ —	$ —	$ —
Palco Revolving Credit Facility	24.1	—	—	—	—	—
Scopac Line of Credit	36.2	—	—	—	—	—
Scopac Timber Notes[1]	33.8	30.2	23.7	27.5	31.7	566.9
Lakepointe Notes	1.7	1.8	2.0	2.1	2.5	103.4
Motel Notes	1.4	1.8	2.2	2.3	2.5	34.5
Beltway Notes	0.7	0.7	0.8	0.8	0.8	24.8
Palmas Notes	0.5	0.5	0.6	0.6	0.6	25.9
Other	0.8	0.6	0.2	0.3	0.3	3.1
	$183.5	$35.6	$29.5	$33.6	$38.4	$758.6

[1] The Scopac Indenture provides that a Scopac Timber Note does not cease to be outstanding because Scopac holds the instrument. Accordingly, the amounts shown in the table above reflect total amounts outstanding, including amounts related to Scopac Timber Notes held in the SAR Account.

Capitalized Interest

There was no interest capitalized during 2006. Interest capitalized during the years ended December 31, 2005 and 2004 was $0.4 million and $0.8 million, respectively. Interest capitalized related to Palco's new sawmill amounted to $0.4 million for the year ended December 31, 2005.

Loan Covenants

In addition to the previously discussed Palco Term Loan and Palco Revolving Credit Facility, certain other debt instruments restrict the ability of the Company's subsidiaries to

transfer assets, make loans and advances or pay dividends to the Company, and require certain subsidiaries to maintain a minimum net worth.

Estimated Fair Value

The Company's publicly traded debt instruments (the Scopac Timber Notes) are thinly traded financial instruments; accordingly, their market prices at any balance sheet date may not be representative of the prices that would be derived from a more active market. The fair value of publicly traded debt is determined based on quoted market prices. The fair value of debt which is not publicly traded is estimated using cash flows discounted at current borrowing rates. At December 31, 2006, the estimated fair value of current and long-term debt was $791.6 million. At December 31, 2005, the estimated fair value of the Company's current and long-term debt was $864.5 million.

10. Investment in Kaiser

Under generally accepted accounting principles for entities consolidated through voting interests, consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee, except when control is not held by the majority owner. Under these rules, legal reorganization or bankruptcy represent conditions which can preclude consolidation in instances where control rests with the bankruptcy court, rather than the majority owner. On February 12, 2002, Kaiser and certain of its subsidiaries filed for reorganization under Chapter 11 of the Bankruptcy Code. As a result, the Company discontinued consolidating Kaiser's financial results beginning February 12, 2002, and began reporting its investment in Kaiser using the cost method.

In February 2002, Kaiser and certain of its subsidiaries filed for reorganization under Chapter 11 of the Bankruptcy Code. Kaiser's plan of reorganization provided for the cancellation of Kaiser's equity, including the Company's Kaiser Shares, without consideration or obligation. Kaiser's plan of reorganization became effective on July 6, 2006, and Kaiser emerged from bankruptcy. As a result, the Company no longer has any ownership interest in or affiliation with Kaiser. Since the Company's Kaiser Shares were cancelled without obligation, the Company reversed the $516.2 million of losses in excess of its investment in Kaiser along with the accumulated other comprehensive losses of $85.3 million related to Kaiser, resulting in a net gain of $430.9 million, recognized in the third quarter of 2006. As a result of the cancellation of the Company's Kaiser Shares in 2006, the Company expects it will take a worthless stock deduction on its 2006 consolidated federal income tax return. However, it is uncertain whether the deduction meets certain criteria required for asset recognition purposes. Accordingly, the Company has not recorded the resulting tax asset of approximately $135.8 million in its consolidated balance sheet as of December 31, 2006.

11 (In Part): Commitments, Regulatory and Environmental Factors and Contingencies

Contingencies

Forest Products Reorganization Proceedings

On January 18, 2007, Palco and its five wholly owned subsidiaries, including Scopac, filed separate voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code. See Note 1, "Reorganization Proceedings of Palco and its Subsidiaries" for further information regarding the bankruptcy proceedings of Palco and its subsidiaries, including potential adverse impacts on MAXXAM Parent and its affiliates. Also see Item 1A. "Risk Factors—Risks Related to the Bankruptcy Cases" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition and Investing and Financing Activities—Forest Products Operations."

LACK OF CONSISTENCY

7.27 Table 7-4 summarizes the accounting changes for which auditors expressed unqualified opinions but included explanatory language in their reports as required by paragraphs 16–18 of *SAS No. 58*, as amended by *SAS No. 79*. Of the 731 references to lack of consistency, 67 relate to changes made in years prior to 2006. Examples of references to lack of consistency follow.

7.28

TABLE 7-4: LACK OF CONSISTENCY

	2006	2005	2004	2003
Stock-based compensation	361	42	35	36
Employee benefits	259	3	5	N/C*
Asset retirement obligations	41	73	52	54
Variable interest entities	13	36	49	30
Inventories	9	10	5	3
Goodwill not amortized	3	11	154	358
Income tax uncertainties	1	N/C*	N/C*	N/C*
Impairment of long-lived assets	1	—	2	14
Financial instruments with liability & equity characteristics	—	6	10	6
Revenue recognition	—	5	9	9
Accounting changes & corrections	—	3	N/C*	N/C*
Exit/disposal activity costs	—	1	3	4
Sales incentives	—	1	—	5
Derivatives	—	—	6	47
Early extinguishment of debt	—	—	2	5
Guarantees	—	—	2	1
Business combinations	—	—	—	4
Other—described	41	22	36	17
Total References	**729**	**213**	**370**	**593**
Total Companies	**439**	**149**	**239**	**386**

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

Stock-Based Compensation

7.29

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Univision Communications Inc.

We have audited the accompanying consolidated balance sheets of Univision Communications Inc. and subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule of Univision Communications Inc. and subsidiaries listed in index at Item 15(b). These financial statements and the schedule are the responsibility of management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Univision Communications Inc. and subsidiaries at December 31, 2006 and 2005 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, Univision Communications Inc. and Subsidiaries adopted Financial Accounting Standards Board Statement No. 123R, "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Univision Communications Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2007 expressed an unqualified opinion thereon.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

3 (In Part): Significant Accounting Policies

Share-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123R "Share-Based Payment," which requires compensation expense relating to share-based payments to be recognized in net income using a fair-value measurement method. The Company has elected to use the straight-line attribution method of recognizing compensation expense over the vesting period. The fair value of each new stock option award will be estimated on the date of grant using the Black-Scholes-Merton option-pricing model, which is the same model that was used by the Company prior to the adoption of SFAS No. 123R. The Company elected the modified prospective method and therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of January 1, 2006.

On September 14, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of vesting of substantially all unvested stock options outstanding whose exercise price was above the then current market price of $25.56. The Compensation Committee's decision to accelerate the vesting of the affected stock options was based upon the issuance of SFAS No. 123R, which requires the Company to treat unvested stock options as compensation expense effective January 1, 2006. Because the Company accounted for stock based compensation using the intrinsic value method prescribed in APB No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") at the time of the acceleration, and because these options were priced above current market on that date, the acceleration of vesting of these options did not result in a charge in the Company's financial statements. The acceleration of the vesting increased pro forma share-based compensation expense under the provisions of SFAS No. 123 by approximately $59 million before income tax.

The Company granted 1,207,100 stock options and 818,400 restricted stock awards on January 13, 2006 under the 2004 Performance Award Plan (the "Plan") and also granted 933,025 restricted stock awards on December 29, 2006 under the Plan. These awards vest 25% each year over a four year vesting period.

Share-based compensation expense reduced the Company's results of operations as follows:

(In thousands, except per share data)	December 31, 2006
Income from continuing operations before income taxes	$12,678
Net income	7,607
Net income per common share:	
Basic	$ 0.02
Diluted	0.02

For the year ended December 31, 2006, share-based compensation is net of an adjustment for forfeitures (before tax) of $46.

Prior to January 1, 2006, the Company accounted for share-based employee compensation under the provisions of SFAS No. 123 using the intrinsic value method prescribed by APB No. 25 and related interpretations. Under the intrinsic value method, no compensation expense was recognized for stock options, as the exercise price of employee stock options equaled the market value of the Company's stock on the date of grant. The following pro-forma net income and earnings per share information has been determined as if the Company had accounted for its share-based compensation awards issued using the fair value method. Prior to January 1, 2006, the Company used the accelerated attribution method, which recognizes a greater amount of compensation expense in the earlier vesting years. In 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of vesting of substantially all unvested stock options outstanding whose exercise price was above the then current market price of $25.56. This vesting acceleration increased pro forma share-based employee compensation, before tax, by approximately $59 million.

(In thousands, except per share data)	2005	2004
Net Income—as reported	$187,179	$255,883
Share-based compensation expense, net of tax—actual	3,201	2,962
Share-based employee compensation, net of tax—pro forma	(71,116)	(40,275)
Net income—pro forma	$119,264	$218,570
Net income per common share:		
Basic—as reported	$ 0.59	$ 0.79
Basic—pro forma	0.38	0.68
Diluted—as reported	0.54	0.72
Diluted—pro forma	0.35	0.62

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted-average assumptions used for stock options granted in 2006, 2005 and 2004, respectively: dividend yield of 0%, expected volatility of 29.29%, 45.589%, and 46.546%, risk-free interest rate of 4.31%, 4.08%, and 3.72% and expected life of approximately six years. The Black-Scholes-Merton option-pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected stock price volatility and expected life.

In years prior to 2006, historical volatility was used to estimate the expected volatility of the share price, whereas in 2006 implied volatility is used. Management believes the implied volatility factor reflects the market's expectations of future volatility. Market prices of traded options and shares were analyzed around the time of the 2006 stock option grant along with the analysis of other factors to estimate the implied volatility of the stock options granted in 2006. Restricted stock units vest 25% on each of the first, second, third and fourth anniversaries of the award date. The fair value of all restricted stock units is based on the market value of the Company's stock on the date of grant. The restricted stock awards granted on January 13, 2006 had a fair value of $31.59 per share. During the three months ended June 30, 2006, the Company issued 400,000 restricted stock units to certain executive officers, which will vest upon change in control under the Company's change in control retention bonus plan. The value of the 400,000 restricted stock units will be expensed upon consummation of the Merger.

13. Performance Award and Incentive Plans

The Company has a 1996 and 2004 Performance Award Plan (the "Plans"). The 2004 Performance Award Plan (the "Plan") reserves shares of Class A Common Stock for issuance to Company officers, key employees and other eligible persons as determined by the Board of Directors or Plan Committee (as appointed by the Board). The Company no longer issues new awards under its 1996 Performance Award Plan ("1996 Plan") but the plan continues to have grants outstanding.

The 2004 Plan was adopted as of May 2004, in part, to increase the maximum number of shares of Class A Common Stock currently available under the 1996 Plan and to give the Company sufficient authority and flexibility to adequately provide for future incentives. A total of 15,936,550 shares of Class A Common Stock were registered under the 2004 Plan, 12,600,000 shares were made available under the 2004 Plan and 3,336,550 shares were made available from the 1996 Plan. As of December 31, 2006, 9,097,575 shares remain available for award under the original share authorization of the 2004 Plan.

The maximum number of shares that may be granted to any individual during any calendar year is 3,000,000. The maximum number of shares that may be granted during any calendar year is 5,000,000 (not including those shares, if any, that have been cancelled during the same year they were granted) unless the Plan Committee gives its unanimous consent. The Plan provides that shares granted come from the Company's authorized but unissued Class A Common Stock and any shares of the Company's Class A Common Stock held as treasury shares. Grants may be in the form of either nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance share awards, stock bonuses or cash bonus awards.

The price of the options granted pursuant to the Plans may not be less than 100% of the fair market value of the shares on the date of grant (110% in the case of an incentive stock option granted to any person owning more than 10% of the Company's total combined voting power). No award will be exercisable after ten years from the date granted. Unless approved by the Plan Committee, no award may vest at a rate greater than 25% per year, other than in the case of awards granted in lieu of cash bonuses, which may vest at the rate of 50% per year.

On September 14, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of vesting of substantially all unvested stock options outstanding whose exercise price was above the then current market price of $25.56. The Compensation Committee's decision to accelerate the vesting of the affected stock options was based upon the issuance of SFAS No. 123R, which requires the Company to treat unvested stock options as compensation expense effective January 1, 2006. Because the Company accounted for stock based compensation using the intrinsic value method prescribed in APB No. 25, and because these options were priced above current market on that date, the acceleration of vesting of these options did

not result in a charge in the Company's financial statements. The acceleration of the vesting increased pro forma share-based compensation expense under the provisions of SFAS No. 123 by approximately $59 million before income tax.

In connection with the acquisition of HBC on September 22, 2003, the Company assumed outstanding stock options previously issued under the HBC Long-Term Incentive Plan. The assumed stock option and their respective grant price have been converted in accordance with the acquisition agreement. No new awards were granted under this plan upon and following the acquisition. The maximum term of each assumed option is ten years from the original grant date, subject to earlier termination in connection with the recipient's termination of employment with or service to the Company. The assumed options vest in accordance with the HBC Long-Term Incentive Plan and the acquisition agreement.

On January 1, 2006, the Company adopted SFAS No. 123R, which requires compensation expense relating to share-based payments to be recognized in net income using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on a straight-line basis over the requisite service period, which is generally the vesting period. The Company elected the modified prospective method and therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of January 1, 2006.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the below weighted-average assumptions used for grants in 2006, 2005 and 2004. The Black-Scholes-Merton option-pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected stock price volatility and expected life.

	2006	2005	2004
Volatility	29.29%	45.59%	46.55%
Dividends	0.00%	0.00%	0.00%
Expected term	6	6	6
Risk-free interest rate	4.31%	4.08%	3.72%

In years prior to 2006, historical volatility was used to estimate the expected volatility of the share price, whereas in 2006 implied volatility is used. Management feels the implied volatility factor reflects the market's expectations of future volatility. Market prices of traded options and shares were analyzed around the time of the 2006 stock option grant along with the analysis of other factors to estimate the implied volatility of the stock options granted in 2006.

A summary of activity under the 2004 Plan as of December 31, 2006, and changes during the year then ended is presented below:

	Stock Options	Weighted Average Conversion Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at December 31, 2005	29,569,296	$29.76		
Granted	1,207,100	$31.59		
Exercised	4,939,246	$18.51		
Forfeited, canceled, or expired	383,498	$36.22		
Outstanding at December 31, 2006	25,453,652	$31.93	5.16	$88,883
Exercisable at December 31, 2006	24,012,562	$31.97	4.95	$82,843

The weighted-average grant-date fair value of options granted during the years 2006, 2005, and 2004 was $12.01, $13.22, and $14.25 per share.

Cash received from the exercise of stock options in 2006, 2005 and 2004 was $91,577, $10,625 and $24,548, respectively. The actual tax benefit realized for tax deductions from stock options exercised during the years 2006, 2005 and 2004 was $32,106, $4,236 and $5,026, respectively. The total intrinsic value of stock options exercised during the years 2006, 2005 and 2004 was $80,384, $11,004 and $12,636, respectively.

	Restricted Stock Units	Weighted Average Grant Price
Balance at December 31, 2005	—	$ —
Granted	1,752,925	$33.63
Converted	9,600	$31.59
Forfeited, canceled, or expired	13,550	$31.59
Outstanding at December 31, 2006	1,729,775	$33.66

The weighted-average grant-date fair value of restricted stock units granted during 2006 was $33.63 per share. The Company did not grant restricted stock unit awards prior to 2006.

Total compensation cost related to nonvested awards not yet recognized at December 31, 2006 is approximately $66 million and the weighted period over which it is expected to be recognized is approximately 3.5 years.

7.30

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Winnebago Industries, Inc.

We have audited the accompanying consolidated balance sheets of Winnebago Industries, Inc. and subsidiaries (the "Company") as of August 26, 2006 and August 27, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended August 26, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements referred to above. 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 August 26, 2006 and August 27, 2005, and the results of their operations and their cash flows for each of the three years in the period ended August 26, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the consolidated financial statements, the Company changed its method of accounting for share-based payments to conform to Statement of Financial Accounting Standards No. 123R in the quarter ended November 26, 2005.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of August 26, 2006, based on the criteria established in *Internal Control–Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated November 9, 2006, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Stock-Based Compensation

Effective August 28, 2005, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (123R), requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected the modified prospective transition method as permitted by SFAS No. 123R; accordingly, results from prior periods have not been restated. (See Note 9 to the Consolidated Financial Statements)

The table below illustrates the effect on net earnings and earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation during Fiscal 2005 and Fiscal 2004.

(In thousands, except per share data)	2005	2004
Net income		
As reported	$65,073	$70,641
Pro forma	62,035	68,271
Income per share (basic)		
As reported	$ 1.95	$ 2.06
Pro forma	1.86	2.00
Income per share (diluted)		
As reported	$ 1.92	$ 2.03
Pro forma	1.84	1.97
Weighted average shares outstanding for basic earnings per share	33,382	34,214
Weighted average shares outstanding assuming dilution	33,755	34,662

Note 9: Stock-Based Compensation Plans

We have a 2004 Incentive Compensation Plan (the "Plan") in place which allows us to grant stock options and other equity compensation to key employees. To date, we have only granted options under the Plan. The Plan also allows us to provide equity compensation to our nonemployee directors. The grant price of an option under the Plan is determined by the mean of the high and low prices of our common stock on the date of grant and the term of any options granted under the Plan may not exceed 10 years from the date of the grant. Options issued to key employees generally vest over a three-year period in equal annual installments with immediate vesting upon retirement or upon a change of control (as defined in the Plan), if earlier. Historically, options issued to directors vested six months after grant. However, options issued to directors in Fiscal 2006 vest one year after grant. No more than 4,000,000 shares of common stock may be issued under the Plan and no more than 2,000,000 of those shares may be used for awards other than stock options or stock appreciation rights. (Adjusted for the 2-for-1 stock split on March 5, 2004.) Shares subject to awards that are forfeited, terminated, expire unexercised, settled in cash, exchanged for other awards, tendered to satisfy the purchase price of an award, withheld to satisfy tax obligations or otherwise lapse again become available for awards. The Plan replaced the 1997 Stock Option Plan. Any stock options previously granted under the 1997 Stock Option Plan shall continue to

vest and/or be exercisable in accordance with their original terms and conditions.

Prior to August 28, 2005, we applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for options. No stock-based compensation expense for stock options was recognized in our consolidated statements of income prior to Fiscal 2006, as the exercise price of all options granted was not less than 100 percent of fair market value of the common stock on the date of grant.

Effective August 28, 2005, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (123R), requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected the modified prospective transition method as permitted by SFAS No. 123R; accordingly, results from prior periods have not been restated.

Under this transition method, stock-based compensation expense for the fiscal year ended August 26, 2006 includes:

- (a) compensation expense for all stock-based compensation awards granted prior to August 27, 2005, but not yet vested at the date of adoption, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and
- (b) compensation expense for all stock-based compensation awards granted subsequent to August 27, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R.

Historically, for SFAS No. 123 pro forma disclosure on stock-based compensation, we have recognized compensation expense for stock option awards issued to employees on a straight-line basis over the vesting period of three years. This policy differs from the policy required to be applied to awards granted after the adoption of SFAS No. 123R, which requires that compensation expense be recognized for awards over the requisite service period of the award or to an employee's eligible retirement date, if earlier. We will continue to recognize compensation expense over the three-year vesting periods for awards granted prior to adoption of SFAS No. 123R, but for all awards granted after August 27, 2005, compensation expense will be recognized over the requisite service period of the award or over a period ending with an employee's eligible retirement date, if earlier. Total stock option expense included in our statements of income for the fiscal year ended August 26, 2006, August 27, 2005 and August 28, 2004, was $4.6 million ($3.8 million net of tax or 12 cents per diluted share), $-0- and $-0-, respectively. Of the $4.6 million option expense included in our statements of income for the fiscal year ended August 26, 2006, $2.5 million relates to awards granted prior to Fiscal 2006 which continued to be expensed over the three-year vesting period.

Prior to the adoption of SFAS No. 123R, we reported all tax benefits resulting from the exercise of stock options as operating cash flows in our consolidated statements of cash flows. In accordance with SFAS No. 123R, for the fiscal year ended August 26, 2006, the presentation of our statement of cash flows has changed from prior periods to report the excess tax benefits from the exercise of stock options as financing cash flows. For the fiscal year ended August 26, 2006, $501,000 of excess tax benefits were reported as financing cash flows rather than operating cash flows.

A summary of stock option activity for Fiscal 2006, 2005 and 2004 is as follows:

	2006			2005			2004		
	Shares	Price per Share	Wtd. Avg. Exercise Price/Sh.	Shares	Price per Share	Wtd. Avg. Exercise Price/Sh.	Shares	Price per Share	Wtd. Avg. Exercise Price/Sh.
Outstanding at beginning of year	1,374,088	$3–$36	$22.24	1,235,040	$3–$35	$17.93	1,296,738	$3–$20	$11.19
Options granted	340,000	26–34	27.68	402,500	31–36	31.84	458,000	26–35	27.30
Options exercised	(122,412)	3–32	15.35	(263,452)	5–27	16.70	(519,698)	3–27	9.36
Options canceled	—	—	—	—	—	—	—	—	—
Outstanding at end of year	1,591,676	$4–$36	$23.93	1,374,088	$3–$36	$22.24	1,235,040	$3–$35	$17.93
Exercisable at end of year	920,324	$4–$36	$20.50	696,628	$3–$36	$17.11	521.400	$3–$35	$12.53

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

	2006	2005	2004
Dividend yield	1.27%	0.70%	0.72%
Risk-free interest rate	4.3%	3.2%	2.8%
Expected life	4.2 years	3 years	4 years
Expected volatility	35.62–36.93%	46.35–46.56%	48.19–48.54%
Estimated per share fair value of options granted	$8.68	$10.87	$10.04

The weighted average remaining contractual life for options outstanding and exercisable at August 26, 2006 was 6.87 years and 5.71 years, respectively. The aggregate intrinsic value of options outstanding and exercisable at August 26, 2006 was $9.0 million and $8.3 million, respectively.

As of August 26, 2006, there was $2.1 million of unrecognized compensation expense related to nonvested option awards that is expected to be recognized over a weighted average period of 1.3 years.

Other values related to options are as follows:

(In thousands)	2006	2005	2004
Aggregate intrinsic value of options exercised	$1,941	$4,812	$10,904
Net cash proceeds from the exercise of stock options	1,878	4,400	4,865
Actual income tax benefit realized from stock option exercises	501	1,177	2,573

Employee Benefits

7.31

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Lufkin Industries, Inc.

We have audited the accompanying consolidated balance sheets of Lufkin Industries, Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and the financial statement schedule, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also, in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the

Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, the Company adopted SFAS 123(R), *Share-Based Payment*, on January 1, 2006, and SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* on December 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements (In Part)

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 ("SFAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS 158 defines the funded status of a benefit plan as the difference between the fair value of the plan assets and the projected benefit obligation for pension plans or the accumulated postretirement benefit obligation for other postretirement plans. Previously unrecognized items such as gains or losses, prior service credits and transition assets or liabilities will be recognized in other comprehensive income and will be subsequently recognized through net periodic benefit cost pursuant to the provisions of Statements 87 and 106. Employers with issued equity securities must recognize the funded status of postretirement plans as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement is effective for fiscal years ending after December 15, 2008. On December 31, 2006, the Company adopted SFAS 158. The incremental effect of applying SFAS 158 on individual line items of the balance sheet is disclosed in Footnote 12.

12) Incremental Effect of Applying FASB Statement No. 158

The following table illustrates the incremental effect on individual lines of the Consolidated Balance Sheets of applying FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)" on December 31, 2006. See Footnote 1 for additional information on this statement.

(Thousands of dollars)	Before Application of Statement 158	Adjustments	After Application of Statement 158
Prepaid pension costs	$ 64,966	$(8,110)	$ 56,856
Total assets	437,179	(8,110)	429,069
Other accrued liabilities	17,414	(1,437)	15,977
Total current liabilities	62,932	(1,437)	61,495
Deferred income tax liabilities	30,407	(2,385)	28,022
Postretirement benefits	11,271	(2,796)	8,475
Other liabilities	—	2,937	2,937
Accumulated other comprehensive income	2,958	(4,429)	(1,471)
Total shareholders' equity	332,569	(4,429)	328,140

13) Other Comprehensive Income

The following table illustrates the related tax effect allocated to each component of other comprehensive income:

(Thousands of dollars)	Pre-Tax Amount	Tax (Expense)/ Benefit	Net Amount
Year ended December 31, 2004			
Foreign currency translation adjustments	$ 1,467	$ —	$ 1,467
Other comprehensive income	$ 1,467	$ —	$ 1,467
Year ended December 31, 2005			
Foreign currency translation adjustments	$ (727)	$ —	$ (727)
Other comprehensive income	$ (727)	$ —	$ (727)
Year ended December 31, 2006			
Foreign currency translation adjustments	$ 1,012	$ —	$ 1,012
Initial application of FAS 158:			
Defined benefit pension plans:			
Net prior service cost	(7,294)	2,553	(4,741)
Net loss	(3,129)	1,095	(2,034)
Net transition asset	1,565	(548)	1,017
Total defined benefit pension plans	(8,858)	3,100	(5,758)
Defined benefit postretirement plans:			
Net gain	2,046	(717)	1,329
Total defined benefit postretirement plans	2,046	(717)	1,329
Other comprehensive income	$(5,800)	$2,383	$(3,417)

The following table illustrates the balances of accumulated other comprehensive income:

(Thousands of dollars)	Foreign Currency Translation	Defined Benefit Pension Plans	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance, Dec. 31, 2004	$2,673	$ —	$ —	$ 2,673
Current-period change	(727)	—	—	(727)
Balance, Dec. 31, 2005	1,946	—	—	1,946
Current-period change	1,012	—	—	1,012
Initial application of FAS 158	—	(5,758)	1,329	(4,429)
Balance, Dec. 31, 2006	$2,958	$(5,758)	$1,329	$(1,471)

16 (In Part): Retirement Benefits

The Company has a qualified noncontributory pension plan covering substantially all U.S. employees. The benefits provided by these plans are measured by length of service, compensation and other factors, and are currently funded by trusts established under the plans. Funding of retirement costs for these plans complies with the minimum funding requirements specified by the Employee Retirement Income Security Act, as amended. In addition, the Company has two unfunded non-qualified deferred compensation pensions plans for certain U.S. employees. The Pension Restoration Plan provides supplemental retirement benefits. The benefit is based on the same benefit formula as the qualified pension plan except that it does not limit the amount of a participant's compensation or maximum benefit. The Company also provides a supplemental Executive Retirement Plan that credits an individual with 0.5 years of service for each year of service credited under the qualified plan. The benefits calculated under the non-qualified pension plans are offset by the participant's benefit payable under the qualified plan. The liabilities for the non-qualified deferred compensation pensions plans are included in "Other accrued liabilities" on the Consolidated Balance Sheet.

The Company sponsors two defined benefit postretirement plans that cover both salaried and hourly employees. One plan provides medical benefits, and the other plan provides life insurance benefits. Both plans are contributory, with retiree contributions adjusted periodically. The Company accrues the estimated costs of the plans over the employee's service periods. The Company's postretirement health care plan is unfunded. For measurement purposes, the submitted claims medical trend was assumed to be 9.25% in 1997. Thereafter, the Company's obligation is fixed at the amount of the Company's contribution for 1997.

The Company also has qualified defined contribution retirement plans covering substantially all of its U.S. and Canadian employees. For U.S. employees, the Company makes contributions of 75% of employee contributions up to a maximum employee contribution of 6% of employee earnings. Employees may contribute up to an additional 18% (in 1% increments), which is not subject to match by the Company. For Canadian employees, the Company makes contributions

of 3%–8% of an employee's salary with no individual employee match required. All obligations of the Company are funded through December 31, 2006. In addition, the Company provides an unfunded non-qualified deferred compensation defined contribution plan for certain U.S. employees. The Company's and individual's contributions are based on the same formula as the qualified contribution plan except that it does not limit the amount of a participant's compensation or maximum benefit. The contribution calculated under the non-qualified defined contribution plan is offset by the Company's and participant's contributions under the qualified plan. The Company's expense for these plans totaled $3.3 million, $2.5 million and $2.5 million in the years ended December 31, 2006, 2005 and 2004, respectively. The liability for the non-qualified deferred defined contribution plan is included in "Other accrued liabilities" on the Consolidated Balance Sheet.

Obligations and Funded Status

	Pension Benefits		Other Benefits	
(Thousands of dollars)	2006	2005	2006	2005
Changes in benefit obligation				
Benefit obligation at beginning of year	$182,375	$157,353	$13,087	$ 11,865
Service cost	5,178	4,769	172	280
Interest cost	9,104	9,421	502	704
Plan participants' contributions	—	—	1,045	1,213
Plan change	—	3,653	—	—
Actuarial loss (gain)	(18,262)	11,562	(3,895)	527
Benefits paid	(7,534)	(7,247)	(1,686)	(1,502)
Benefit obligation at end of year	170,861	179,511	9,225	13,087
Change in plan assets				
Fair value of plan assets at beginning of year	209,560	200,373	—	—
Actual return on plan assets	22,567	16,434	—	—
Employer contributions	33	—	641	289
Plan participants' contributions	—	—	1,045	1,213
Benefits paid	(7,534)	(7,247)	(1,686)	(1,502)
Fair value of plan assets at end of year	224,626	209,560	—	—
Funded (unfunded) status at end of year	$ 53,765	$ 30,049	$ (9,225)	$(13,087)
Unrecognized net actuarial loss (gain)		26,667		1,693
Unrecognized prior service cost (benefit)		7,840		—
Unrecognized net transition asset		(2,491)		—
Net amount recognized		$ 62,065		$(11,394)

Amounts recognized in the balance sheet consist of:

	Pension Benefits		Other Benefits	
(Thousands of dollars)	2006	2005	2006	2005
Prepaid pension costs	$56,856	$62,065	$ —	$ —
Other current accrued liabilities	(154)	—	(750)	—
Postretirement benefits	—	—	(8,475)	(11,394)
Other non-current liabilities	(2,937)	—	—	—
	$53,765	$62,065	$(9,225)	$(11,394)

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefits		Other Benefits	
(Thousands of dollars)	2006	2005	2006	2005
Prior service cost	$ 4,741	$—	$ —	$—
Net loss (gain)	2,034	—	(1,329)	—
Transition asset	(1,017)	—	—	—
	$ 5,758	$—	$(1,329)	$—

The accumulated benefit obligation for all defined benefit pension plans was $158.4 million and $164.9 million at December 31, 2006, and 2005, respectively.

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

	Pension Benefits		Other Benefits	
(Thousands of dollars)	2006	2005	2006	2005
Net periodic benefit cost				
Service cost	$ 5,178	$ 4,769	$ 172	$ 280
Interest cost	9,104	9,421	502	704
Expected return on plan assets	(16,458)	(15,887)	—	—
Amortization of prior service cost	566	374	—	—
Amortization of net (gain) loss	61	134	(156)	52
Amortization of transition asset	(926)	(926)	—	—
Net periodic benefit cost (income)	$ (2,475)	$ (2,115)	$ 518	$1,036

The estimated net loss, prior service cost and transition asset for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $49,000, $596,000 and ($926,000), respectively. The estimated net gain for the defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is ($180,000).

7.32

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
United States Steel Corporation

We have completed integrated audits of United States Steel Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements and Financial Statement Schedule

In our opinion, the consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of United States Steel Corporation and its subsidiaries (the Company) at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 15 to the consolidated financial statements, the Company adopted Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans," as of December 31, 2006 and accordingly changed the manner in which it accounts for defined benefit pension and other postretirement plans. As discussed in Note 14 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board interpretation No. 46R, "Consolidation of Variable Interest Entities" and, accordingly, began consolidating Clairton 1314B Partnership as of January 1, 2004.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in Management's Reports to Stockholders—internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal*

Control—Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Pensions, Other Postretirement and Postemployment Benefits

U.S. Steel has noncontributory defined benefit pension plans and defined benefit retiree health care and life insurance plans (Other Benefits) that cover the majority of its employees in the United States on their retirement. Effective May 21, 2003, newly hired United Steelworkers (USW) union employees and union employees hired with the purchase of substantially all of the integrated steelmaking assets of National Steel Corporation (National) receive pension benefits through the Steelworkers Pension Trust (SPT), a multi-employer pension plan, based upon an hourly contribution rate. Since July 1, 2003 all newly-hired non-union salaried employees in the United States, including all those hired from National, participate in a defined contribution plan whereby U.S. Steel contributes a certain percentage of salary based upon attained age each year. Government-sponsored programs into which U.S. Steel makes required annual contributions cover the majority of U.S. Steel's European employees. The net pension and Other Benefits obligations and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets, salary increases, the mortality of participants and the current level and future escalation of health care costs. Additionally, U.S. Steel recognizes an obligation to provide postemployment benefits for disability-related claims covering indemnity and medical payments for certain employees in the United States. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions. Actuarial gains and losses are deferred and amortized over future periods.

15 (In Part): Pensions and Other Benefits

U.S. Steel has noncontributory defined benefit pension plans covering the majority of employees in the United States. Benefits under these plans are based upon years of service and final average pensionable earnings, or a minimum benefit based upon years of service, whichever is greater. In addition, pension benefits are also provided to most domestic salaried employees based upon a percent of total career pensionable earnings. The main U.S. Steel defined benefit pension plan was closed to new participants in 2003.

Effective May 21, 2003, newly-hired union employees and union employees hired with the purchase of National receive pension benefits through the Steelworkers Pension Trust (SPT), a multi-employer pension plan, based upon an hourly company contribution. Since July 1, 2003 all newly-hired non-union salaried employees in the United States, including all those hired from National, receive pension benefits through a defined contribution plan whereby U.S. Steel contributes a certain annual percentage of salary based upon attained age each year.

U.S. Steel also has defined benefit retiree health care and life insurance plans (Other Benefits) covering most employees in the United States upon their retirement. Health care benefits are provided through comprehensive hospital, surgical, major medical and drug benefit provisions or through health maintenance organizations, both subject to various cost sharing features, and in many cases, an employer cap on total costs. Since 2003, most salaried employees in the United States are no longer covered by a company medicare benefit and for most, their pre-medicare company benefit has been modified to be paid from the retiree insurance plan rather than the pension plan. Life insurance benefits are provided to nonunion retiree beneficiaries primarily based on the employee's annual base salary at retirement. For union retirees in the United States, life insurance benefits are provided primarily based on fixed amounts negotiated in union labor contracts.

Beginning in 2006, U.S. Steel concluded that annual payments to certain surviving spouses of union retirees over the remainder of their lives should be included in the calculation of the obligation for its retiree life insurance plan; in the past these payments were included as part of the main defined benefit pension plan. The current USW labor contract requires these payments only until the end of the contract

term in 2008; however, since the payments have been provided under labor agreements in the past, in accordance with current accounting requirements, U.S. Steel assumes that these payments will continue for the lifetime of the surviving spouses in its liability development.

The majority of U.S. Steel's European employees are covered by government-sponsored programs into which U.S. Steel makes required annual contributions. Also, U.S. Steel sponsors defined benefit plans for most European employees covering benefit payments due to employees upon their retirement, some of which are government mandated. These same employees receive service awards ("jubilee awards") from U.S. Steel throughout their careers based on stipulated service and, in some cases, age and service requirements.

In September 2006, the FASB issued FAS 158. U.S. Steel adopted the recognition provisions of FAS 158 as of December 31, 2006, which require that the funded status of defined benefit pension and other benefit plans be fully recognized on the balance sheet. The adoption of FAS 158 had no effect on the recognition of pension related costs in the income statement. Overfunded plans are recognized as an asset and underfunded plans are recognized as a liability. The initial impact of the standard due to unrecognized prior service costs or credits and net actuarial gains or losses as well as subsequent changes in the funded status are recognized as changes to accumulated other comprehensive income (AOCI) in shareholder's equity. FAS 158 also requires additional disclosures about the annual effects on net periodic benefit cost arising from the recognition of the deferred actuarial gains or losses and prior service costs or credits. Additional minimum pension liabilities (AMLs) and the related intangible assets, if any, are no longer required.

As of December 31, 2005, the actuarial measurement of the main defined benefit pension plan's liabilities indicated that it was underfunded on an accumulated benefit obligation (ABO) basis and an AML was needed. This caused a non-cash charge to equity (net of tax) of $1,366 million in 2005. As of December 31, 2006 and prior to the adoption of FAS 158, the actuarial measurement indicated that the plan was overfunded and an AML was not required.

Several other smaller non-qualified plans are not funded and a pre-tax AML of $15 million was recognized at December 31, 2006 prior to the adoption of FAS 158. These same plans required a pre-tax AML of $19 million at December 31, 2005.

The following tables summarize the effects of adopting FAS 158 on individual benefit items within the consolidated balance sheet line items as of December 31, 2006:

Pensions

(In millions)	Prior to AML and FAS 158 Adjustments	AML Adjustment	FAS 158 Adjustment	After AML and FAS 158 Adjustments
Prepaid pensions/(accrued liability)	$ (171)	$ 2,490	$(1,989)	$ 330
Intangible pension asset	252	(252)	—	—
Payroll and benefits payable	(7)	—	—	(7)
Employee benefits	(93)	5	(25)	(113)
Deferred income tax benefits	$ 881	$ (875)	$ 763	$ 769
Accumulated other comprehensive loss	1,377	(1,368)	1,251	1,260
(AOCI, pre-tax)	2,258	(2,243)	2,014	2,029

Other Benefits

(In millions)	Prior to FAS 158 Adjustments	FAS 158 Adjustment	After FAS 158 Adjustments
Payroll and benefits payable	$ (270)	$ —	$ (270)
Employee benefits	(1,448)	(489)	(1,937)
Deferred income tax benefits	$ —	$ 186	$ 186
Accumulated other comprehensive loss	—	303	303
(AOCI, pre-tax)	—	489	489

U.S. Steel uses a December 31 measurement data for its plans, and may have an interim measurement date if significant events occur. Below are details relating to Pension Benefits and Other Benefits.

	Pension Benefits		Other Benefits	
(In millions)	2006	2005	2006	2005
Change in benefit obligations				
Benefit obligations at January 1	$7,784	$7,935	$ 2,811	$ 2,730
Service cost	98	95	14	12
Interest cost	407	430	148	150
Plan amendments	(103)	1	105	13
Actuarial (gains) losses	(120)	185	64	152
Exchange rate (gain) loss	5	(3)	—	—
Settlements, curtailments and termination benefits	(1)	14	—	—
Benefits paid	(764)	(873)	(275)	(246)
Benefit obligations at December 31	$7,306	$7,784	$ 2,867	$ 2,811
Change in plan assets				
Fair value of plan at January 1	$7,178	$7,554	$ 532	$ 466
Actual return on plan assets	951	349	71	12
Employer contributions	140	130	80	82
Settlements paid from plan assets	—	(3)	—	—
Benefits paid from plan assets	(753)	(852)	(23)	(28)
Fair value of plan assets at December 31	$7,516	$7,178	$ 660	$ 532
Funded status of plans at December 31	$ 210	$ (606)	$(2,207)	$(2,279)
Unrecognized prior service cost		252		(432)
Unrecognized actuarial losses		2,608		771
Net amount recognized		$2,254		$(1,940)

	Pension Benefits	Other Benefits
(In millions)	2006	2006
Amounts recognized in accumulated other comprehensive income:		
Prior service cost	$ 86	$(281)
Actuarial losses	1,943	770

As of December 31, 2006 and 2005, the following amounts were recognized in the balance sheet:

	Pension Benefits		Other Benefits	
(In millions)	2006	2005	2006	2005
Noncurrent assets	$ 330	$ 251	$ —	$ —
Current liabilities	(7)	(137)	(270)	(223)
Noncurrent liabilities	(113)	(118)	(1,937)	(1,715)
Accumulated other comprehensive loss[(a)]	2,029	2,258	489	—
Net amount recognized	$2,239	$2,254	$(1,718)	$(1,938)

[(a)] Accumulated other comprehensive loss effects for the adoption of FAS 158 and minimum pension liability adjustments at December 31, 2006 and minimum pension liability adjustments at December 31, 2005, respectively, are reflected net of tax of $955 million and $881 million respectively, on the Statement of Stockholder's Equity.

The ABO for all defined benefit pension plans was $6,937 million and $7,429 million at December 31,2006 and 2005, respectively.

(In millions)	2006	2005
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Aggregate accumulated benefit obligations (ABO)	$ (94)	$(7,429)
Aggregate projected benefit obligations (PBO)	(120)	(7,784)
Aggregate fair value of plan assets	—	7,178

The aggregate ABO in excess of plan assets reflected above is included in the payroll and benefits payable and employee benefits lines on the balance sheet.

Following are the details of net periodic benefit costs related to Pension and Other Benefits:

	Pension Benefits			Other Benefits		
(In millions)	2006	2005	2004	2006	2005	2004
Components of net periodic benefit cost:						
Service cost	$ 98	$ 95	$ 94	$ 14	$ 12	$ 12
Interest cost	407	430	459	148	150	153
Expected return on plan assets	(558)	(548)	(570)	(44)	(36)	(35)
Amortization—prior service costs	62	95	95	(45)	(46)	(44)
—actuarial losses	153	158	128	37	29	20
Net periodic benefit cost, excluding below	162	230	206	110	109	106
Multiemployer plans	28	27	26	—	—	—
Settlement, termination and curtailment losses	12	23	22	—	—	—
Net periodic benefit cost	$ 202	$ 280	$ 254	$110	$109	$106

Net periodic benefit cost for pensions and other benefits is projected to be $113 million and $124 million, respectively, in 2007. The amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost during 2007 are as follows:

(In millions)	Pension Benefits 2007	Other Benefits 2007
Amortization of actuarial loss	$ 24	$(34)
Amortization of prior service cost	127	40
Total recognized from other comprehensive income	$151	$ 6

Coal Act Changes

The Coal Industry Retiree Health Benefit Act of 1992 (“the Coal Act”) assigned a tax-like obligation to U.S. Steel for the postretirement medical and death benefit obligations of former United Mine Workers of America (UMWA) miners, including many who may have worked for the Company at one point prior to 1987 and some who are considered orphans of the mining industry since the coal companies they retired from are no longer in existence. The Company’s obligation under the Coal Act is considered part of Other Benefits for accounting purposes and is part of the obligation shown that was subject to the FAS 158 changes that required that the total liability, including amounts that were previously permitted to be deferred, be recorded on the balance sheet as of December 31, 2006. The differences between the total liability and the amounts previously accrued are now recognized in accumulated other comprehensive income. The total liability as of December 31, 2006, recognizes new legislation effective in December 2006 that amended the Coal Act, provided alternative funding mechanisms for the plans covered by the Coal Act, and reduced the exposure to orphan miner and other beneficiary costs for signatories assigned by the Coal Act. As a result of this amendment, U.S. Steel recognized a reduction of $44 million to its accumulated post retirement benefit obligation (APBO) projected under the Coal Act.

Other Postemployment Benefits

The Company provides benefits to former or inactive employees after employment but before retirement. Certain benefits including workers’ compensation and black lung benefits represent material obligations to the Company and under the provisions of Financial Accounting Standards Board Statement No. 112, “Employers’ Accounting for Postemployment Benefits,” have historically been treated as accrued benefit obligations, similar to the accounting treatment provided for pensions and other benefits. Effective with the adoption of FAS 158 at December 31, 2006, these obligations are directly recorded on the balance sheet. A $35 million credit, which is the difference between the accrued and actual APBO obligations as of December 31, 2006, is included as part of accumulated other comprehensive income. APBO obligations recorded at December 31, 2006, total $138 million for these benefits as compared to $151 million at December 31, 2005. Obligation amounts were developed assuming a discount rate of 5.75% and 5.50% at December 31, 2006 and 2005, respectively. Net periodic benefit cost for these benefits is projected to be $12 million in 2007 compared to $12 million in 2006 and 2005, respectively. The projected cost in 2007 includes $5 million in unrecognized actuarial gains that will be recorded against all other comprehensive income.

Asset Retirement Obligations

7.33

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of
Rockwell Automation, Inc.

We have audited the accompanying consolidated balance sheets of Rockwell Automation, Inc. and subsidiaries (the “Company”) as of September 30, 2006 and 2005, and the related consolidated statements of operations, shareowners’

equity, cash flows, and comprehensive income for each of the three years in the period ended September 30, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rockwell Automation, Inc. and subsidiaries at September 30, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described in Note 11 to the Consolidated Financial Statements, on October 1, 2005, the Company adopted Statement of Financial Accounting Standard No. 123R, *Shared Based Payments.* As described in Note 17 to the Consolidated Financial Statements, on September 30, 2006, the Company adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of September 30, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 9, 2006 expressed an unqualified opinion on management's assessment of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Conditional Asset Retirement Obligations

We account for conditional asset retirement obligations under Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). We accrue for costs related to a legal obligation associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, development or the normal operation of the long-lived asset. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional. See Note 17 for additional information related to these obligations.

17 (In Part): Commitments and Contingent Liabilities

Conditional Asset Retirement Obligations

Effective September 30, 2006, we adopted FIN 47, which clarifies the guidance included in SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). Under FIN 47, companies must accrue for costs related to a legal obligation associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, development or the normal operation of the long-lived asset. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

Identified conditional asset retirement obligations include asbestos abatement and remediation of soil contamination beneath current and previously divested facilities. We estimated conditional asset retirement obligations using site-specific knowledge and historical industry expertise. The application of FIN 47 resulted in a charge, net of tax, of $18.1 million included in the Consolidated Statement of Operations for the year ended September 30, 2006 as the cumulative effect of a change in accounting principle. The liability for conditional asset retirement obligations recognized at September 30, 2006 as the result of the application of FIN 47 was $29.3 million and is recorded in Other liabilities in the Consolidated Balance Sheet.

Pro forma amounts, as if FIN 47 had been applied for all periods, are (dollars in millions, except per share amounts):

	2006	2005	2004
Net income, as reported	$607.0	$540.0	$414.9
Add: FIN 47 cumulative effect adjustment, net of tax	18.1	—	—
Less: FIN 47 depreciation and accretion expense, net of tax	(1.0)	(0.9)	(0.9)
Pro forma net income	$624.1	$539.1	$414.0
Earnings per share:			
Basic—as reported	$ 3.44	$ 2.95	$ 2.24
Basic—pro forma	3.53	2.94	2.23
Diluted—as reported	3.37	2.88	2.17
Diluted—pro forma	3.47	2.88	2.17
Pro forma asset retirement obligation, end of period	29.3	27.6	26.0

7.34

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Circuit City Stores, Inc.

We have audited the accompanying consolidated balance sheets of Circuit City Stores, Inc. and subsidiaries (the Company) as of February 28, 2006 and February 28, 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the fiscal years in the three-year period ended

February 28, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Circuit City Stores, Inc. and subsidiaries as of February 28, 2006 and February 28, 2005, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 28, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 21 to the consolidated financial statements, the Company changed its method of accounting for conditional asset retirement obligations in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Circuit City Stores, Inc.'s internal control over financial reporting as of February 28, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 10, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 (In Part): Recent Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of SFAS 143, "Asset Retirement Obligations." FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143 includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and/or method of settlement is conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. The provision is effective for fiscal years ending after December 15, 2005. The company adopted FIN 47 on February 28, 2006. For the company, this interpretation only applied to legal obligations associated with surrendering its leased properties. The impact of adopting FIN 47 was the recognition of additional net assets amounting to $1.5 million; an asset retirement obligation of $5.1 million; and a charge of $3.7 million ($2.4 million, net of tax), which was included in cumulative effect of change in accounting principle in the consolidated statement of operations. Pro forma disclosures are not presented due to their inconsequential impact.

Inventories

7.35

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Ball Corporation

We have completed integrated audits of Ball Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Ball Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for inventory in 2006.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in *Management's Report on Internal Control Over Financial Reporting* appearing in Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based

on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in *Management's Report on Internal Control Over Financial Reporting* appearing in Item 9A, management has excluded the operations of U.S. Can Corporation (USCan) and operations of Alcan Packaging (Alcan) from its assessment of internal control over financial reporting as of December 31, 2006 because they were acquired by the Company in purchase business combinations during 2006. We have also excluded USCan and Alcan from our audit of internal control over financial reporting. USCan and Alcan are operated by wholly-owned subsidiaries of the Company and had combined assets and combined net sales representing 17 percent and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Critical and Significant Accounting Policies

Significant Accounting Policies (In Part)

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting. Prior to the fourth quarter of 2006, the majority of the U.S. inventories in the metal beverage packaging, Americas, and metal food and household products packaging, Americas, segments were accounted for using the last-in, first-out (LIFO) method of accounting. During the fourth quarter of 2006, management changed its method of accounting for these inventories from the LIFO method to the FIFO method. The FIFO method of inventory accounting better matches revenues and expenses in accordance with sales contract terms. All periods have been retrospectively adjusted on a FIFO basis in accordance with SFAS No. 154. Additional details are available in Note 7.

New Accounting Pronouncements (In Part)

In May 2005 the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a Replacement of APB Opinion No. 20 and FASB Statement No. 3." The new standard changes the requirements for the accounting for and reporting of a change in accounting principle and applies to all such voluntary changes. The previous accounting required that most changes in accounting principle be recognized in net earnings by including a cumulative effect of the change in the period of the change. SFAS No. 154, which was effective for Ball beginning January 1, 2006, requires retroactive application to prior periods' financial statements. The company applied SFAS No. 154 to its change from the LIFO to the FIFO method of accounting for certain inventories, which occurred in the fourth quarter of 2006.

In November 2004 the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) to be recognized as current-period charges. It also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 was effective for inventory costs incurred by Ball beginning on January 1, 2006. The adoption of SFAS No. 151 had an insignificant effect on Ball's consolidated financial statements.

7. Inventories

($ in millions)	2006	2005
Raw materials and supplies	$445.6	$277.4
Work in process and finished goods	489.8	422.5
	$935.4	$699.9

Historically the cost of the majority of metal beverage packaging, Americas, and metal food and household products packaging, Americas, inventories were determined using the LIFO method of accounting. During the fourth quarter of 2006, the company determined that the FIFO method of inventory accounting better matches revenues and expenses in accordance with sales contract terms. Therefore, in the

fourth quarter of 2006, the accounting policy was changed to record all inventories using the FIFO method of accounting. For comparative purposes, all periods presented have been retrospectively adjusted on a FIFO basis in accordance with SFAS No. 154, resulting in a $1 million increase in retained earnings as of January 1, 2004.

The following table summarizes the effect of the accounting change on the company's consolidated financial statements:

	2005		2004	
($ in millions, except per share amounts)	As Originally Reported	As Adjusted for Accounting Change	As Originally Reported	As Adjusted for Accounting Change
Consolidated statements of earnings				
Cost of sales	$4,822.4	$4,802.7	$4,433.5	$4,421.9
Tax provision	(99.3)	(106.2)	(139.2)	(143.4)
Net earnings	261.5	272.1	295.6	302.1
Basic earnings per share	2.43	2.52	2.67	2.73
Diluted earnings per share	2.38	2.48	2.60	2.65
Consolidated balance sheets				
Inventories	670.3	699.9	629.5	641.6
Deferred taxes and prepaid expenses	117.9	106.4	70.6	65.8
Retained earnings	1,227.9	1,246.0	1,007.5	1,015.0
Consolidated statements of cash flows				
Deferred taxes	(58.5)	(51.6)	42.8	47.0
Inventory working capital change	(54.2)	(71.7)	(49.3)	(60.0)

If the company had not changed its method of inventory accounting from LIFO to FIFO, cost of sales for the year ended December 31, 2006, would have been $ 14.7 million higher than reported in the consolidated statement of earnings, the tax provision would have been $5.8 million lower and net earnings would have been $8.9 million lower. On a per share basis, basic earnings per share would have been lower by $0.09 and diluted earnings per share would have been lower by $0.08.

Treasury Stock

7.36

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Procter & Gamble Company

We have audited the accompanying consolidated balance sheets of The Procter & Gamble Company and subsidiaries (the "Company") as of June 30, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2006. These financial statements are the responsibility of the Company's management Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2006 and 2005, and the results of its operations and cash flows for each of the three years in the period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the accompanying consolidated financial statements have been retrospectively adjusted for the adoption of SFAS No. 123 (Revised 2004), "Share-Based Payment" and the change in the Company's method of accounting for Treasury Stock in order to present Treasury Stock as a separate component of Shareholders' Equity.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of June 30, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 8, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting Pronouncements and Policies

Change in Treasury Stock Accounting

On July 1, 2005, we elected to change our method of accounting for treasury stock. We previously accounted for share repurchases as if the treasury stock were constructively retired by reducing common stock and retained earnings within Shareholders' Equity. Our new method of accounting presents treasury stock as a separate component of Shareholders' Equity. We believe that our new accounting method is preferable as it more closely depicts the underlying intent of the share repurchases in which the shares are not retired and are held for reissuance. In addition, we believe that our new presentation of Shareholders' Equity provides greater visibility of our share repurchase activity.

We reflected this new accounting method retrospectively by adjusting prior periods under SFAS 154, "Accounting Changes and Error Corrections." This reclassification is limited to changes within Shareholders' Equity and has no effect on our net earnings, cash flows or total assets.

Financial Statement Misstatements

7.37

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Sealed Air Corporation

We have audited the accompanying consolidated balance sheets of Sealed Air Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited consolidated financial statement Schedule II—Valuation and qualifying accounts and reserves. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sealed Air Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2 and 21 to the consolidated financial statements, the Company changed its method of quantifying errors effective January 1, 2006. Also, as discussed in Note 14 to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other post-retirement plans effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sealed Air Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in "Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)," and our report dated February 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in tables in millions of dollars)

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

Basis of Presentation (In Part)

The Company, in accordance with Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," (SAB 108) increased its beginning retained earnings for fiscal 2006 in the accompanying consolidated financial statements. See Note 21 for additional information on the application of SAB 108.

Note 21. Staff Accounting Bulletin No. 108

In September 2006, the SEC released SAB 108. SAB 108 provides guidance on how to evaluate prior period financial statement misstatements for purposes of assessing their materiality in the current period. There are two widely recognized methods for quantifying the effects of financial statement misstatements: the "rollover" or income statement method and the "iron curtain" or balance sheet method. Historically, the Company used the "rollover" method. Under this method, the Company quantified its financial statement misstatements based on the amount of errors originating in the current-year income statement, and as result did not consider the effects of correcting the portion of the current year balance sheet misstatement that originated in prior years. SAB 108 now requires that the Company must consider both the rollover and iron curtain methods ("dual method") when quantifying misstatements in the financial statements. The iron curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of

the misstatement's origination. Upon application, SAB 108 permits the Company to adjust for the cumulative effect of errors that were previously considered immaterial under the rollover method that are now considered material under the dual method. The SAB 108 adjustment affects the carrying amount of assets and liabilities as of the beginning of the current year, with an offsetting adjustment to the opening balance of retained earnings on January 1, 2006.

In accordance with SAB 108, the Company has adjusted its opening retained earnings for 2006 for the items described below. These errors had previously been considered immaterial to the Company's consolidated financial statements using the rollover method.

Capitalization of Overhead in Inventories

The Company adjusted its beginning retained earnings for 2006 to reflect the capitalization of certain manufacturing-related overhead costs in inventories. These costs were previously expensed as incurred for a number of years. As a result of this adjustment, the Company recorded an increase of $40.6 million to inventory and a corresponding increase to retained earnings, before income taxes.

General Inventory Reserve

The Company had maintained a general inventory reserve on its consolidated balance sheet. This reserve was established a number of years ago to recognize exposures regarding the valuation of inventories that the Company believed existed at that time. This amount was reversed under SAB No. 108, which resulted in an increase to inventories of $6.0 million and a corresponding increase, before income taxes, to retained earnings.

Equipment Depreciation

The Company adjusted its beginning retained earnings for 2006 for a historical misstatement related to the use of incorrect useful lives for the depreciation of certain equipment. This adjustment accumulated over several years and resulted in an increase to accumulated depreciation of $4.4 million and a corresponding reduction, before income taxes, to retained earnings.

Tax Valuation Allowance

The Company adjusted its beginning retained earnings for 2006 for a historical misstatement related to income tax valuation allowances that exceeded the net deferred tax assets in certain jurisdications, which accumulated over a period of several years. These excess valuation allowances were reversed under SAB No. 108, which resulted in an increase to deferred tax assets of $3.0 million and a corresponding increase to retained earnings.

Impact of Adjustments

The impact of each of the items noted above on 2006 opening retained earnings is presented below.

	Inventory Adjustments	Equipment Depreciation Adjustment	Tax Valuation Allowance Adjustment	Total Adjustment
Cumulative effect on retained earnings as of January 1, 2006, net of $13.4 tax	$31.5	($2.7)	$3.0	$31.8

The aggregate impact of these adjustments is summarized below.

	SAB 108 Adjustment
Inventories	$46.6
Equipment accumulated depreciation	$ 4.4
Current deferred income tax asset	$ (1.3)
Non-current deferred income tax asset	$ 3.7
Current deferred income tax liability	$12.8

EMPHASIS OF A MATTER

7.38 Paragraph 19 of *SAS No. 58*, as amended by *SAS No. 79*, states:

> 19. In any report on financial statements, the auditor may emphasize a matter regarding the financial statements. Such explanatory information should be presented in a separate paragraph of the auditors' report. Phrases such as "with the foregoing (following) explanation" should not be used in the opinion paragraph if an emphasis paragraph is included in the auditors' report. Emphasis paragraphs are never required; they may be added solely at the auditors' discretion. Examples of matters the auditor may wish to emphasize are—
>
> - That the entity is a component of a larger business enterprise.
> - That the entity has had significant transactions with related parties.
> - Unusually important subsequent events.
> - Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

7.39 The auditors' reports for ten survey companies included explanatory information emphasizing a matter regarding the financial statements. Examples of such explanatory information follow.

7.40

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Directors and Stockholders
General Motors Corporation

We have audited the accompanying Consolidated Balance Sheets of General Motors Corporation and subsidiaries (the Corporation) as of December 31, 2006 and 2005, and the related Consolidated Statements of Operations, Cash Flows, and Stockholders' Equity (Deficit) for each of the three years in the period ended December 31, 2006. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of General Motors Corporation and subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the accompanying 2005 and 2004 consolidated financial statements have been restated.

As discussed in Note 3 to the consolidated financial statements, the Corporation: (1) effective December 31, 2006, began to recognize the funded status of its benefit plans in its consolidated balance sheet to conform to Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, and (2) effective December 31, 2005, began to account for the estimated fair value of conditional asset retirement obligations to conform to FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations.*

As discussed in Note 4 to the consolidated financial statements, on November 30, 2006, the Corporation sold a 51% controlling interest in GMAC LLC, its former wholly-owned finance subsidiary. Effective December 1, 2006, the Corporation's remaining 49% interest in GMAC LLC is accounted for as an equity method investment.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's Internal control over financial reporting and an adverse opinion on the effectiveness of the Corporation's internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Acquisition and Disposal of Businesses

Sale of 51% Controlling Interest in GMAC

On November 30, 2006, GM completed the sale of a 51% controlling interest in GMAC for a purchase price of $7.4 billion to FIM Holdings LLC (FIM Holdings). FIM Holdings is a consortium of investors including Cerberus FIM investors LLC, Citigroup inc., Aozora Bank Limited, and a subsidiary of The PNC Financial Services Group, Inc. GM has retained a 49% Interest in GMAC's Common Membership Interests. In addition, FIM Holdings purchased 555,000 of GMAC's Preferred Membership Interests for a cash purchase price of $500 million and GM purchased 1,555,000 Preferred Membership Interests for a cash purchase price of $1.4 billion. The total value of the cash proceeds and distributions to GM after repayment of certain Intercompany obligations, and before it purchased the preferred membership interests of GMAC was expected to be approximately $14 billion over three years, comprised of the $7.4 billion purchase price and $2.7 billion cash dividend at closing, and other transaction related cash flows including the monetization of certain retained assets. Subsequent to December 31, 2006, it was determined that GM would be required to make a capital contribution to GMAC of approximately $1 billion to restore its adjusted tangible equity balance to the contractually required amount of $14.4 billion, due to the decrease in the adjusted tangible equity balance of GMAC as of November 30, 2006.

Prior to consummation of the transaction, (i) certain assets with respect to automotive leases owned by GMAC and its affiliates having a net book value of approximately $4 billion and related deferred tax liabilities of $1.8 billion, were transferred to GM, (ii) GM assumed or retained certain of GMAC's postemployment benefit obligations totaling $842 million and related deferred tax assets of $302 million, (iii) GMAC transferred to GM certain entities that hold a fee interest in certain real properties, (iv) GMAC paid cash dividends to GM based upon GMAC's anticipated net income for the period September 30, 2005 to November 30, 2006 totaling $1.9 billion, (v) GM repaid certain indebtedness owing to GMAC and specified intercompany unsecured obligations owing to GMAC, and (vi) GMAC made a one-time distribution to GM of $2.7 billion of cash to reflect the increase in GMAC's equity resulting from the transfer of a portion of GMAC's net deferred tax liabilities arising from the conversion of GMAC and certain of its subsidiaries to limited liability company form.

In accordance with the terms of the sale agreement, in the second quarter of 2006, GM settled its estimated outstanding liability with respect to a residual support and risk sharing agreement that was in place with GMAC related to certain operating lease portfolios in the amount of $1.4 billion. Under this arrangement, the customer's contractual residual value was set above GMAC's standard residual values. GM reimbursed GMAC to the extent that remarketing sales proceeds were less than the customer's contractual residual value limited to GMAC's standard residual sales value. GM also participated in a risk sharing arrangement whereby GM shared equally in residual losses to the extent that remarketing proceeds were below GMAC standard residual values limited to a floor. The amount of the liability previously recorded by GM amounted to approximately $1.8 billion, resulting in a gain on settlement of approximately $390 million. Approximately $252 million of the gain was recognized in 2006 with the remainder reflected as a deferred gain which will be recognized in future periods as the leases terminate.

GM recognized a non-cash impairment charge of approximately $2.9 billion in Other expenses in 2006. The charge is comprised of the write-down of the carrying value of GMAC assets that were sold on November 30, 2006, partially offset by the realization of 51% of the unrecognized net gains reflected in GMAC's other comprehensive income.

For the eleven months ended November 30, 2006, GMAC's earnings and cash flows are fully consolidated in GM's Consolidated Statements of Operations and Statements of Cash Flows. After November 30, 2006, GM's remaining 49% interest in GMAC's common membership interests is reflected as an equity method investment. Also, GM's interest in GMAC's preferred membership interests is reflected as a cost method investment.

As part of the agreement, GM retained an option, for 10 years after the closing date, to repurchase from GMAC certain assets related to the automotive finance business of the North American Operations and International Operations of GMAC. GM's exercise of the option is conditional on GM's credit rating being investment grade or higher than GMAC's credit rating. The call option price is calculated as the higher of (i) fair market value or (ii) 9.5 times the consolidated net income of GMAC's automotive finance business in either the calendar year the call option is exercised or the calendar year immediately following the year the call option is exercised. No value was assigned to this fair value option.

GM and GMAC entered into a number of agreements that were intended to continue the mutually-beneficial global relationship between GM and GMAC. These agreements, in substance, were consistent with the existing and historical practices between GM and GMAC, Including requiring GMAC to continue to allocate capital to automotive financing thereby continuing to provide critical financing support to a significant share of GM's global sales. While GMAC retains the right to make individual credit decisions, GMAC has committed to fund a broad spectrum of customers and dealers consistent with historical practice in the relevant jurisdiction. Subject to GMAC's fulfillment of certain conditions, GM has granted GMAC exclusivity for U.S., Canadian, and International GM-sponsored consumer and wholesale marketing incentives for GM products in specified markets around the world, with the exception of Saturn branded products. Refer to Note 28 for additional information of the ongoing arrangements between GM and GMAC.

7.41

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
The Pepsi Bottling Group, Inc.

We have audited the accompanying consolidated balance sheets of The Pepsi Bottling Group, Inc. and subsidiaries (the "Company") as of December 30, 2006 and December 31, 2005, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of the Company for the year ended December 25, 2004, before the effects of the retrospective adjustments to the disclosures for a change in the composition of reportable segments described in Note 16 to the consolidated financial statements, were audited by other auditors whose report, dated February 25, 2005, expressed an unqualified opinion on those statements.

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

In our opinion, such 2006 and 2005 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2006 and December 31, 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," as revised, effective January 1, 2006. As discussed in Note 14 to the consolidated financial statements, in 2006 the Company adopted Statement on Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R)," effective December 30, 2006 related to the requirement to recognize the funded status of a benefit plan.

We also have audited the adjustments to the 2004 consolidated financial statements to retrospectively adjust the disclosures for a change in the composition of reportable segments during 2006, as discussed in Note 16 to the consolidated financial statements. Our procedures included

(1) comparing the adjustment amounts of segment revenues, operating income and assets to the Company's underlying analysis obtained from management, and (2) testing the mathematical accuracy of the reconciliation of segment amounts to the consolidated financial statements. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2004 consolidated financial statements of the Company other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2004 consolidated financial statements taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 30, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2007 expresses an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollars in millions)

Note 16. Segment Information

We operate in one industry, carbonated soft drinks and other ready-to-drink beverages and all of our segments derive revenue from these products. We conduct business in all or a portion of the United States, Mexico, Canada, Spain, Russia, Greece and Turkey. Beginning with the fiscal quarter ended March 25, 2006, PBG changed its financial reporting methodology to three reportable segments—U.S. & Canada, Europe (which includes Spain, Russia, Greece and Turkey) and Mexico. The operating segments of the U.S. and Canada are aggregated into a single reportable segment due to their economic similarity as well as similarity across products, manufacturing and distribution methods, types of customers and regulatory environments.

Operationally, the Company is organized along geographic lines with specific regional management teams having responsibility for the financial results in each reportable segment. We evaluate the performance of these segments based on operating income or loss. Operating income or loss is exclusive of net interest expense, minority interest, foreign exchange gains and losses and income taxes.

The Company has restated prior periods' segment information presented in the tables below to conform to the current segment reporting structure.

	Net Revenues		
	2006	2005	2004
U.S. & Canada	$ 9,910	$ 9,342	$ 8,613
Europe	1,534	1,366	1,222
Mexico	1,286	1,177	1,071
Worldwide net revenues	$12,730	$11,885	$10,906

Net revenues in the U.S. were $8,901, $8,438 and $7,818 in 2006, 2005 and 2004, respectively. In 2006, 2005 and 2004, the Company did not have one individual customer that represented 10% of total revenues.

	Operating Income		
	2006	2005	2004
U.S. & Canada	$ 878	$ 926	$ 871
Europe	57	35	54
Mexico	82	62	51
Worldwide operating income	1,017	1,023	976
Interest expense, net	266	250	230
Other non-operating expenses, net	11	1	1
Minority interest	59	59	56
Income before income taxes	$ 681	$ 713	$ 689

For the fiscal year ended 2006, operating income includes the impact of adopting SFAS 123R. The comparable period in 2005 has not been restated as described in Note 4.

	Total Assets			Long-Lived Assets[(1)]		
	2006	2005	2004	2006	2005	2004
U.S. & Canada	$ 9,044	$ 8,869	$ 8,498	$7,150	$7,175	$6,844
Europe	1,072	894	810	554	459	475
Mexico	1,811	1,761	1,629	1,474	1,478	1,435
Worldwide total	$11,927	$11,524	$10,937	$9,178	$9,112	$8,754

(1) Long-lived assets represent property, plant and equipment, other intangible assets, goodwill and other assets.

Long-lived assets in the U.S. were $6,108, $6,129 and $5,875 in 2006, 2005 and 2004, respectively.

	Capital Expenditures			Depreciation and Amortization		
	2006	2005	2004	2006	2005	2004
U.S. & Canada	$558	$546	$534	$514	$486	$463
Europe	99	96	82	52	63	56
Mexico	68	73	72	83	81	74
Worldwide total	$725	$715	$688	$649	$630	$593

DEPARTURES FROM UNQUALIFIED OPINIONS

7.42 *SAS No. 58* does not require auditors to express qualified opinions as to the effects of uncertainties or as to lack of consistency. Under *SAS No. 58*, departures from unqualified opinions include opinions qualified because of a scope limitation or a departure from generally accepted accounting principles, adverse opinions, and disclaimers of opinion. Paragraphs 20–63 of *SAS No. 58*, as amended by *SAS No. 79*, discuss these departures. None of the auditors' reports issued in connection with the financial statements of the survey companies contained a departure as defined by *SAS No. 58*.

REPORTS ON COMPARATIVE FINANCIAL STATEMENTS

7.43 Paragraphs 65–74 of *SAS No. 58*, as amended by *SAS No. 79*, discuss Reports on Comparative Financial Statements. None of the auditors' reports for the survey companies expressed an opinion on prior year financial statements that differed from the opinion originally expressed.

7.44 In 2006, 15 auditor reports indicated that a change in auditors had occurred in the current year. An example of such a report follows.

7.45

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Alliance One International, Inc.

We have audited the accompanying consolidated balance sheet of Alliance One International, Inc. (the "Company") as of March 31, 2006, and the related statement of consolidated income and comprehensive income, stockholders' equity, and consolidated cash flow for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15a. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit. The consolidated financial statements of the Company for the year ended March 31, 2005 were audited by other auditors whose report, dated June 10, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, such 2006 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 23, 2006, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Alliance One International, Inc. (formerly DIMON Incorporated)

We have audited the accompanying consolidated balance sheets of Alliance One International, Inc. and subsidiaries as of March 31, 2005, and the related consolidated statements of income and comprehensive income, stockholders' equity

and cash flows for the year ended March 31, 2005 and the nine month period ended March 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 financial statements referred to above present fairly. in all material respects, the consolidated financial position of Alliance One International, Inc. and subsidiaries at March, 31, 2005, and the consolidated results of their operations and their cash flows for the year ended March 31, 2005 and the nine month period ended March 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

7.46 Many survey companies provide to stockholders a copy of the Securities and Exchange Commission Form 10-K in lieu of the annual report. The auditors' report included in the Form 10-K generally expresses an opinion on supplementary financial information to the basic financial statements, such as valuation account schedules. During 2006, 152 survey companies expressed an opinion on supplementary financial information. An example of such a report follows.

7.47

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
A. Schulman, Inc.

We have completed integrated audits of A. Schulman, Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of August 31, 2006, and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements and Financial Statement Schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of A. Schulman, Inc. and Its subsidiaries at August 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 9 to the consolidated financial statements, the Company changed the manner in which it accounts for stock-based compensation in fiscal 2006.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of August 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria, Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's managements is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and

evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE F-1

(In thousands)	Balance at Beginning of Period	Charges to Cost and Expenses	Net Write-Offs	Translation Adjustment	Other	Balance at Close of Period
Reserve for doubtful accounts						
Year ended August 31, 2006	$ 8,227	$2,453	$(1,458)	$187	$ —	$ 9,409
Year ended August 31, 2005	$ 9,268	$1,363	$(2,599)	$195	$ —	$ 8,227
Year ended August 31, 2004	$ 8,814	$2,402	$(2,345)	$397	$ —	$ 9,268
Inventory Reserve						
Year ended August 31, 2006	$11,235	$1,801	$(4,659)	$161	$ —	$ 8,538
Year ended August 31, 2005	$10,522	$5,803	$(5,246)	$156	$ —	$11,235
Year ended August 31, 2004	$ 7,954	$7,035	$(5,092)	$625	$ —	$10,522
Valuation allowance — deferred tax assets						
Year ended August 31, 2006	$42,445	$ —	$ —	$ —	$2,157	$44,602
Year ended August 31, 2005	$39,789	$ —	$ —	$ —	$2,656	$42,445
Year ended August 31, 2004	$33,763	$ —	$ —	$ —	$6,026	$39,789

DATING OF REPORT

7.48 SAS No. 1, Section 530, *Dating of the Independent Auditor's Report,* as amended by SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents,* SAS No. 98, *Omnibus Statement on Auditing Standards—2002,* and SAS No. 103, *Audit Documentation,* discusses dating of the independent auditor's report. Paragraphs 1 and 5 of *section 530* state:

> 1. The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. Paragraph.05 describes the procedure to be followed when a subsequent event occurring after the date of the auditor's report is disclosed in the financial statements.
>
> 5. The independent auditor has two methods available for dating his report when a subsequent event disclosed in the financial statements occurs after the original date of the auditor's report but before issuance of the related financial statements. The auditor may use "dual dating," for example, "February 16, 20__, except for Note__, as to which the date is March 1, 20__," or may date the report as of the later date. In the former instance, his responsibility for events occurring subsequent to the original report date is limited to the specific event referred to in the note (or otherwise disclosed). In the latter instance, the independent auditor's responsibility for subsequent events extends to the date of the report and, accordingly, the procedures outlined in Section 560.12 generally should be extended to that date.

7.49 Auditors' reports for two survey companies used dual dating. Examples of dual dating follow.

7.50

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareowners
ADC Telecommunications, Inc.

We have audited the accompanying consolidated balance sheets of ADC Telecommunications, Inc. and subsidiaries as

of October 31, 2006 and 2005, and the related consolidated statements of operations, shareowners' investment and cash flows for each of the three years in the period ended October 31, 2006. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ADC Telecommunications, Inc. and subsidiaries at October 31, 2006, and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed m Note 12 to the consolidated financial statements, in 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment.*

As discussed in Note 18 to the consolidated financial statements, the consolidated financial statements have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ADC Telecommunications, Inc. and subsidiaries' internal control over financial reporting as of October 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 8, 2007, except for the effect of the material weakness described in that report, as to which the date is March 9, 2007, expressed an unqualified opinion on management's restated assessment of the effectiveness of internal control over financial reporting and an adverse opinion on the effectiveness of internal control over financial reporting.

January 8, 2007,
except for Note 18,
as to which the date is March 9, 2007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Restatement of Consolidated Financial Statements

In the third quarter of fiscal 2006, our Board of Directors approved a plan to divest APS France. As a result, we classified APS France as discontinued operations in the third quarter of fiscal 2006 and recorded a related impairment charge of $10.6 million. At the time we recorded the $10.6 million impairment charge in the third quarter of fiscal 2006, we should have included an additional impairment charge of $6.7 million (and an additional $0.3 million in the fourth quarter) related to the write off of the currency translation adjustment account balance, in accordance with the requirements of EITF 01-5. In accordance with FASB Statement No. 154, "*Accounting Changes and Error Corrections*", the consolidated statements of operations, shareowners' investment and notes 4, 10, 13 and 17 for the year ended October 31, 2006 have been restated. The following table sets forth the effects of the restatement on certain line items within our previously reported consolidated statements of operations, consolidated balance sheets and consolidated statements of shareowners' investment (in millions, except per share data):

	Year Ended October 31, 2006 as Reported	Adjustment	Year Ended October 31, 2006 as Restated
Total loss on discontinued operations, net of tax	$ (22.1)	$ (7.0)	$ (29.1)
Cumulative effect of a change in accounting principle	$ 0.6	$ —	$ 0.6
Net income	$ 72.7	$ (7.0)	$ 65.7
Average common shares outstanding—basic	117.1		117.1
Average common shares outstanding—diluted	117.4		117.4
Basic income (loss) per share			
Discontinued operations	$ (0.19)	$(0.06)	$ (0.25)
Net income	0.62	(0.06)	0.56
Diluted income (loss) per share			
Discontinued operations	$ (0.19)	$(0.06)	$ (0.25)
Net income	0.62	(0.06)	0.56

	October 31, 2006 as Reported	Adjustment	October 31, 2006 as Restated
Net income	$ 72.7	$(7.0)	$ 65.7
Other comprehensive income, net of tax:			
Translation gain, net of taxes of $0.0	$ 4.8	$ 7.0	$ 11.8
Accumulated other comprehensive loss	(17.2)	7.0	(10.2)
Accumulated deficit	(550.2)	(7.0)	(557.2)

7.51

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders and Board of Directors of
Brown Shoe Company, Inc.

We have audited the accompanying consolidated balance sheets of Brown Shoe Company, Inc. as of February 3, 2007, and January 28, 2006, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended February 3, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brown Shoe Company, Inc. at February 3, 2007, and January 28, 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 3, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted SFAS No. 158 related to defined benefit pension and other postretirement plans effective February 3, 2007. Additionally, as discussed in Note 1 to the consolidated financial statements, the Company adopted SFAS No. 123(R) accounting for stock-based compensation effective January 29, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Brown Shoe Company, Inc.'s internal control over financial reporting as of February 3, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 20, 2007, expressed an unqualified opinion thereon.

March 20, 2007,
except for the third paragraph of Note 14,
as to which the date is April 2, 2007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Common Stock

Subsequent Event—Stock Split (April 2007)

On March 7, 2007, the Company's Board of Directors authorized a three-for-two split of its common stock, to be effected in the form of a dividend of one share of stock for every two shares outstanding. The dividend was paid on April 2, 2007 to shareholders of record on March 19, 2007. As a result of the stock split, the Company reclassified $49.5 million and $4.6 million from additional paid-in capital and retained earnings, respectively, to common stock. All share and per share data provided herein gives effect to this stock split, applied retroactively.

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

7.52 Section 404(a) of the Sarbanes-Oxley Act of 2002 requires that management of a public company assess the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year, and to include in the company's annual report management's conclusions as to the effectiveness of the company's internal control structure and procedures. Management is required to state a direct conclusion about whether the company's internal control over financial reporting is effective. Management's report on internal control over financial reporting is required to include the following:

- A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the company;
- A statement identifying the framework used by management to conduct the required assessment of the effectiveness of the company's internal control over financial reporting;
- An assessment of the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year, including an explicit statement as to whether that internal control over financial reporting is effective; and
- A statement that the registered public accounting firm that audited the financial statements included in the annual report has issued an attestation report on the management's assessment of the company's internal control over financial reporting.

7.53 Under section 404(b) of the Sarbanes-Oxley Act of 2002, the auditor that audits the public company's financial statements included in the annual report is required to audit the company's internal control over financial reporting. In addition, the auditor is required to audit and report on management's assessment of the effectiveness of internal control over financial reporting. AS No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*, establishes professional standards governing the auditor's attestation. In July 2007, the SEC approved AS No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements. AS No. 5* supersedes *AS No. 2* and is

effective for audits of internal control over financial reporting required by section 404(b) of the Sarbanes-Oxley Act of 2002 for fiscal years ending on or after November 15, 2007, with conditioned early adoption permitted. Under *AS No. 5,* the auditor's objective in an audit of internal control over financial reporting is to express an opinion on the effectiveness of the company's internal control over financial reporting. The audit of internal control over financial reporting should be integrated with the audit of the financial statements. Accordingly, independent auditors engaged to audit the financial statements of such companies also are required to audit and report on the company's internal control over financial reporting as of the end of such fiscal year. Further, if the auditor determines that elements of management's annual report on internal control over financial reporting are incomplete or improperly presented, the auditor should modify the report to include an explanatory paragraph describing the reasons for this determination, and identify and fairly describe any material weakness. Paragraph 86 of *AS No. 5* allows the auditor to issue a combined report (i.e., one report containing both an opinion on the financial statements and an opinion on internal control over financial reporting), or separate reports on the company's financial statements and on internal control over financial reporting.

7.54 During 2006, 578 of the companies surveyed presented a management's report on internal control over financial reporting. 549 of those companies presented the management report on internal control over financial reporting separate from the general report of management. Accompanying each management's report on internal control was the related auditor's report on internal control over financial reporting. 179 of those companies had the auditor's report on internal control over financial reporting combined with the auditor's report on financial statements. Examples of auditors' reports on internal control over financial reporting and their related management reports follow.

Separate Report on Internal Control

7.55

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Cleveland-Cliffs Inc

We have audited management's assessment, included in the accompanying Management Report on Internal Controls Over Financial Reporting in Item 9A, that Cleveland-Cliffs Inc and subsidiaries (the "Company") did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the material weakness identified in management's assessment, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company' s internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment resulting from deficiencies in the design of the control:

> The Company did not maintain a sufficient complement of personnel with an appropriate level of technical accounting knowledge, experience and training to consistently perform independent secondary reviews and to appropriately interpret and apply complex accounting standards. This was evidenced by the number of adjustments noted during the year-end closing process including the assessment that the Company's previous interpretation and related documentation of the revenue recognition criteria for collect and

hold transactions was not appropriate. This material weakness, if not remediated, has the potential to cause a material misstatement in the future.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2006, of the Company and this report does not affect our report on such financial statements.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006, of the Company and our report dated May 25, 2007, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of new accounting standards.

MANAGEMENT REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework.* Based on its assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting were not effective, based on those criteria.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in there being a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In our assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, we determined that there was a control deficiency that constituted a material weakness.

The Company did not maintain a sufficient complement of personnel with an appropriate level of technical accounting knowledge, experience and training to consistently perform independent secondary reviews and to appropriately interpret and apply complex accounting standards. This was evidenced by the number of adjustments noted during the year-end closing process including the assessment that the Company's previous interpretation and related documentation of the revenue recognition criteria for collect and hold transactions was not appropriate. This material weakness, if not remediated, has the potential to cause a material misstatement in the future.

7.56

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareowners of
The Stanley Works

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that The Stanley Works maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Stanley Works' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely

detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Facom S.A. and Besco Pneumatic Corporation, companies acquired in January and July of 2006, which are included in the 2006 Consolidated Financial Statements of The Stanley Works and constituted total assets of approximately $915 million at December 30, 2006 and revenues of approximately $480 million, respectively, for the year then ended.

In our opinion, management's assessment that The Stanley Works maintained effective internal control over financial reporting as of December 30, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, The Stanley Works maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of The Stanley Works and subsidiaries as of December 30, 2006 and December 31, 2005, and the related Consolidated Statements of Operations, changes in shareowners' equity, and cash flows for each of the three fiscal years in the period ended December 30, 2006 and our report dated February 20, 2007 expressed an unqualified opinion thereon.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of The Stanley Works is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of The Stanley Works' internal control over financial reporting as of December 30, 2006. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control—Integrated Framework. Management concluded that based on its assessment, The Stanley Works' internal control over financial reporting was effective as of December 30, 2006. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Facom S.A. and Besco Pneumatic Corporation, companies acquired in January and July of 2006, respectively, which are included in the 2006 Consolidated Financial Statements of The Stanley Works and constituted total assets of approximately $915 million at December 30, 2006 and approximately $480 million of revenues for the year then ended. Ernst & Young LLP, the auditor of the financial statements included in this annual report, has issued an attestation report on management's assessment of internal controls.

Combined Report on Financial Statements and Internal Control

7.57

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Avery Dennison Corporation

We have completed integrated audits of Avery Dennison Corporation's consolidated financial statements and of its internal control over financial reporting as of December 30, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 30, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 and Note 9, the Company changed the manner in which it accounts for stock-based compensation in 2006. As discussed in Note 6, the Company changed the manner in which it accounts for pensions and other postretirement benefits in 2006.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying "Management's Report on Internal

Control Over Financial Reporting." that the Company maintained effective internal control over financial reporting as of December 30, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control—Integrated Framework*, management has concluded that internal control over financial reporting was effective as of December 30, 2006. Management's assessment of the effectiveness of internal control over financial reporting as of December 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

GENERAL MANAGEMENT AND SPECIAL PURPOSE COMMITTEE REPORTS

7.58 There were 198 survey companies that presented a Report of Management on Financial Statements. These reports may include:

- Description of management's responsibility for preparing the financial statements,
- Identification of independent auditors,
- Statement about management's representations to the independent auditors,
- Statement about financial records and related data made available to the independent auditors,
- Description of special purpose committees of the Board of Directors,
- General description of the company's system of internal control, and
- Description of the company's code of conduct.

Occasionally, survey companies presented a report of a special purpose committee, such as the Audit Committee or the Compensation Committee.

7.59 Examples of a Report of Management on Financial Statements and certain special purpose committee reports follow.

Report of Management on Financial Statements

7.60

PEPSICO, INC. (DEC)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To Our Shareholders

At PepsiCo, our actions—the actions of all our associates—are governed by our Worldwide Code of Conduct. This code is clearly aligned with our stated values—a commitment to sustained growth, through empowered people, operating with responsibility and building trust. Both the code and our

core values enable us to operate with integrity—both within the letter and the spirit of the law. Our code of conduct is reinforced consistently at all levels and in all countries. We have maintained strong governance policies and practices for many years.

The management of PepsiCo is responsible for the objectivity and integrity of our consolidated financial statements. The Audit Committee of the Board of Directors has engaged independent registered public accounting firm, KPMG LLP, to audit our consolidated financial statements and they have expressed an unqualified opinion.

We are committed to providing timely, accurate and understandable information to investors. Our commitment encompasses the following:

Maintaining strong controls over financial reporting. Our system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, Internal Control—Integrated Framework. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in the U.S. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified time periods. We monitor these internal controls through self-assessments and an ongoing program of internal audits. Our internal controls are reinforced through our Worldwide Code of Conduct, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law.

Exerting rigorous oversight of the business. We continuously review our business results and strategies. This encompasses financial discipline in our strategic and daily business decisions. Our Executive Committee is actively involved—from understanding strategies and alternatives to reviewing key initiatives and financial performance. The intent is to ensure we remain objective in our assessments, constructively challenge our approach to potential business opportunities and issues, and monitor results and controls.

Engaging strong and effective corporate governance from our Board of Directors. We have an active, capable and diligent Board that meets the required standards for independence, and we welcome the Board's oversight as a representative of our shareholders. Our Audit Committee is comprised of independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. We review our critical accounting policies, financial reporting and internal control matters with them and encourage their direct communication with KPMG LLP, with our General Auditor, and with our General Counsel. We also have a senior compliance officer to lead and coordinate our compliance policies and practices.

Providing investors with financial results that are complete, transparent and understandable. The consolidated financial statements and financial information included in this report are the responsibility of management. This includes preparing the financial statements in accordance with accounting principles generally accepted in the U.S., which require estimates based on management's best judgment.

PepsiCo has a strong history of doing what's right. We realize that great companies are built on trust, strong ethical standards and principles. Our financial results are delivered from that culture of accountability, and we take responsibility for the quality and accuracy of our financial reporting.

Senior Vice President and Controller
Chief Financial Officer
President and Chief Executive Officer

Audit Committee Report

7.61

THE HERSHEY COMPANY (DEC)

AUDIT COMMITTEE REPORT

To Our Stockholders

Our role as the Audit Committee of the Board of Directors is to prepare this report and to assist the Board in its oversight of:

- the integrity of the Company's financial statements;
- the Company's compliance with legal and regulatory requirements;
- the independent auditors' qualifications and independence; and
- the performance of the independent auditors and the Company's internal audit function.

Our Committee operates under a written charter that was last amended and restated by the Board on February 16, 2006. The charter may be viewed on the Company's website.

Our duties as a Committee include overseeing the Company's management, internal auditors and independent auditors in their performance of the following functions, for which they are responsible:

Management

- Preparing the Company's financial statements;
- Establishing effective financial reporting systems and internal controls and procedures; and
- Reporting on the effectiveness of the Company's internal control over financial reporting.

Internal Audit Department

- Independently assessing management's system of internal controls and procedures; and
- Reporting on the effectiveness of that system.

Independent Auditors

- Auditing the Company's financial statements;
- Expressing an opinion about the financial statements' conformity with U.S. generally accepted accounting principles; and
- Annually auditing management's assessment of the effectiveness of internal control over financial reporting.

We meet periodically with management, the internal auditors and independent auditors, independently and collectively, to discuss the quality of the Company's financial reporting

process and the adequacy and effectiveness of the Company's internal controls. Prior to the Company filing its Annual Report on Form 10-K for the year ended December 31, 2006 with the SEC, we also:

- reviewed and discussed the audited financial statements with management and the independent auditors;
- discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees,* as currently in effect;
- received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as currently in effect; and
- discussed with the independent auditors their independence from the Company.

We are not employees of the Company and are not performing the functions of auditors or accountants. We are not responsible as a Committee or individually to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards. In carrying out our duties as Audit Committee members, we have relied on the information provided to us by management and the independent auditors. Consequently, we do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with U.S. generally accepted accounting principles or that the Company's auditors are in fact "independent."

Based on the reports and discussions described in this report, and subject to the limitations on our role and responsibilities as a Committee referred to above and in our charter, we recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 23, 2007.

Submitted by the Audit Committee of the Company's Board of Directors:

Chair

Compensation Committee Report

7.62

CBS CORPORATION (DEC)

COMPENSATION COMMITTEE REPORT

The Compensation Committee Charter states that the primary purpose of the Compensation Committee is to discharge the responsibilities of the Board of Directors relating to the compensation of the Company's executive officers and other senior executives. The Compensation Committee also has overall responsibility for evaluating and making recommendations to the Board regarding overall compensation packages, equity-based and incentive compensation plans, policies and programs of the Company.

Under the Charter, the Compensation Committee's authorities and duties include, among other things:

- Adopting and periodically reviewing the Company's philosophy, strategy and principles regarding the design and administration of the Company's compensation program;
- Reviewing and approving the total compensation packages for the Executive Chairman, the President and Chief Executive Officer, the Company's other executive officers, the operating unit heads who report directly to the President and Chief Executive Officer and other persons among the Company's most highly compensated executives (excluding "Talent," as such term is currently used in the media or entertainment industries); and
- Overseeing the administration of the Company's incentive compensation plans (including the bonus plan for executives subject to Section 162(m) under the Code and equity compensation plans.

The Compensation Committee retains an independent compensation consulting firm to advise the Committee in its review of senior executive compensation. The consultant reports directly to the Compensation Committee.

The full text of the Compensation Committee Charter is available on the Company's website. The Compensation Committee assesses the adequacy of its Charter at least every other year, or more frequently as the Committee may determine.

The Compensation Committee of the Board of Directors of CBS Corporation has reviewed and discussed with the Company's management the Compensation Discussion and Analysis ("CD&A"). As discussed in the CD&A, the Committee, in determining performance-based compensation for the named executive officers for 2006 including the annual bonus for 2006 performance under the Senior Executive STIP, took into account, in addition to the fact that the named executive officers met the pre-established performance goal, the following Company accomplishments:

- The Company delivered an attractive return on investment to shareholders by increasing its dividend payments by 43% from $.14 to $.20 per quarter, exceeding its earnings and cash flow financial targets, as well as significantly reducing potential shareholder dilution through the Voluntary Exchange Offer.
- Senior management aggressively and effectively positioned the Company in exploiting content on emerging platforms by strategically entering into digital media partnerships in key growing markets, including digital video, online music, Internet advertising, wireless markets and enhanced distribution which created new revenue streams for the Company.
- The Company continued to deliver high quality, broad appeal programming and content through its businesses as demonstrated by its top industry positioning in key viewer categories.

- Senior management continued to reshape the Company's portfolio mix through corporate restructuring, acquisitions and divestitures, including the formation of a new network, The CW, consolidation of Kingworld and CBS Paramount Television into a single CBS Television Distribution Group, sales of small market radio stations and Paramount Parks, as well as the acquisition of CSTV Networks, Inc.
- The Company continues to attract and retain executive and creative talent in each of its key businesses that drives the development of compelling media content.

Based on this review and these discussions, the Compensation Committee has recommended to the CBS Corporation Board of Directors that the CD&A be included in this proxy statement and incorporated by reference from this proxy statement into the Company's Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 1, 2007.

Members of the Compensation Committee
Chair

Appendix of 600 Companies

List of 600 Companies on Which Tabulations Are Based

In this edition, companies have been assigned the same number as in the Sixtieth (2006) edition. 30 companies in the 2006 edition have been eliminated and their numbers left unused. Companies not included from the prior edition were eliminated for reasons such as business combination or delisting by the SEC. Replacement companies are generally selected from the latest listing of Fortune 1000 companies. Companies are listed in alphabetical order. An additional listing in company reference number order follows.

ALPHABETICAL LISTING

Company Name	*Company Reference Number*	*Month of Fiscal Year End**
3Com Corporation	951	5
3M Company	379	12
Abbott Laboratories	10	12
ABM Industries Incorporated	30	10
Acuity Brands, Inc.	1095	8
ADC Telecommunications, Inc.	921	10
Administaff, Inc.	988	12
Advanced Micro Devices, Inc.	652	12
ADVO, Inc.	861	9
Aetna Inc.	989	12
AGCO Corporation	862	12
Air Products and Chemicals, Inc.	16	9
Airgas, Inc.	1030	3
AK Steel Holding Corporation	56	12
Alberto-Culver Company	601	9
Alcoa Inc.	24	12
Allegheny Technologies Incorporated	776	12
Allergan, Inc.	796	12
Alliance One International, Inc.	782	3
Alliant Techsystems Inc.	777	3
Allied Waste Industries, Inc.	922	12
Alltel Corporation	1031	12
Altria Group, Inc.	437	12
Amazon.com, Inc.	953	12
American Biltrite Inc.	28	12
American Greetings Corporation	33	2
American Standard Companies Inc.	41	12
Ameron International Corporation	44	11
AMETEK, Inc.	6	12
Amgen Inc.	841	12
Amkor Technology, Inc.	954	12
Ampco-Pittsburgh Corporation	46	12
Amphenol Corporation	842	12
Anadarko Petroleum Corporation	990	12
Analog Devices, Inc.	924	10
Analogic Corporation	48	7
Andrew Corporation	1180	9
Anheuser-Busch Companies, Inc.	51	12
A. O. Smith Corporation	494	12
Apple Computer, Inc.	52	9
Applied Industrial Technologies, Inc.	955	6
Applied Materials, Inc.	863	10
ARAMARK Corporation	1149	9
Archer Daniels Midland Company	53	6
Arden Group, Inc.	54	12
Arkansas Best Corporation	1072	12
Armor Holdings, Inc.	768	12
Armstrong World Industries, Inc.	1033	12
Arrow Electronics, Inc.	844	12
ArvinMeritor, Inc.	1073	9
A. Schulman, Inc.	1179	8
Ashland Inc.	60	9
AT&T Inc.	43	12
Atmel Corporation	864	12
Autodesk, Inc.	1150	1
Automatic Data Processing, Inc.	865	6
AutoNation, Inc.	1181	12
AutoZone, Inc.	991	8
Avaya Inc.	1034	9
Avery Dennison Corporation	604	12
Avnet, Inc.	65	6
Avon Products, Inc.	66	12
Badger Meter, Inc.	68	12
Baker Hughes Incorporated	70	12
Baldor Electric Company	778	12
Ball Corporation	71	12
Barnes & Noble, Inc.	992	1
Barnes Group Inc.	605	12
Bassett Furniture Industries, Incorporated	606	11
Baxter International Inc.	75	12
BE Aerospace, Inc.	866	12
Beazer Homes USA, Inc.	1151	9
Beckman Coulter, Inc.	846	12
Becton, Dickinson and Company	78	9
Bemis Company, Inc.	81	12
Best Buy Co., Inc.	993	2
BJ Services Company	896	9
The Black & Decker Corporation	85	12
Blount International, Inc.	699	12

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Company Name	*Company Reference Number*	*Month of Fiscal Year End**	*Company Name*	*Company Reference Number*	*Month of Fiscal Year End**
BMC Software, Inc.	1117	3	Constellation Brands, Inc.	1097	2
The Boeing Company	87	12	Convergys Corporation	1098	12
The Bon-Ton Stores, Inc.	1182	1	Cooper Industries, Ltd.	146	12
Boston Scientific Corporation	867	12	Cooper Tire & Rubber Company	849	12
Bowater Incorporated	607	12	Corn Products International, Inc.	1099	12
Bowne & Co., Inc.	91	12	Corning Incorporated	149	12
Boyd Gaming Corporation	1152	12	Costco Wholesale Corporation	961	8
Briggs & Stratton Corporation	93	6	Courier Corporation	150	9
Brinker International, Inc.	1074	6	Coventry Health Care, Inc.	1157	12
The Brink’s Company	1183	12	Crane Co.	152	12
Bristol-Myers Squibb Company	94	12	C. R. Bard, Inc.	845	12
Brown Shoe Company, Inc.	97	1	Crown Holdings, Inc.	154	12
Brown-Forman Corporation	657	4	CSP Inc.	107	9
Brunswick Corporation	99	12	CTS Corporation	701	12
CA, Inc.	925	3	Cummins Inc.	1100	12
Cablevision Systems Corporation	994	12	Curtiss-Wright Corporation	158	12
Cabot Corporation	108	9	CVS Corporation	372	12
CACI International Inc	1153	6	Cytec Industries Inc.	1185	12
Cameron International Corporation	900	12	Dana Corporation	161	12
Campbell Soup Company	110	7	Danaher Corporation	664	12
Career Education Corporation	1154	12	Darden Restaurants, Inc.	1043	5
Caremark Rx, Inc.	995	12	Datascope Corp.	927	6
Carlisle Companies Incorporated	897	12	Dean Foods Company	166	12
Carpenter Technology Corporation	610	6	Deere & Company	167	10
Caterpillar Inc.	113	12	Del Monte Foods Company	962	4
CBRL Group, Inc.	1118	7	Deluxe Corporation	168	12
CBS Corporation	1155	12	Devon Energy Corporation	1120	12
CDW Corporation	996	12	Diebold, Incorporated	1101	12
Centex Corporation	836	3	Dillard’s, Inc.	850	1
CenturyTel, Inc.	1037	12	The DIRECTV Group, Inc.	1186	12
Cenveo, Inc.	1119	12	The Dixie Group, Inc.	665	12
Ceridian Corporation	145	12	Dollar General Corporation	1102	1
Champion Enterprises, Inc.	740	12	Domino’s Pizza, Inc.	1121	12
Chemtura Corporation	1156	12	Donaldson Company, Inc.	744	7
Chesapeake Corporation	659	12	Dover Corporation	176	12
Chesapeake Energy Corporation	1207	12	The Dow Chemical Company	177	12
Chevron Corporation	121	12	Dow Jones & Company, Inc.	178	12
Chiquita Brands International, Inc.	557	12	D.R. Horton, Inc.	1103	9
Church & Dwight Co., Inc.	1184	12	The Dun & Bradstreet Corporation	182	12
Ciena Corporation	1039	10	EarthLink, Inc.	1078	12
CIGNA Corporation	997	12	The Eastern Company	190	12
Cintas Corporation	1040	5	Eastman Chemical Company	871	12
Circuit City Stores, Inc.	868	2	Eastman Kodak Company	191	12
Cisco Systems, Inc.	869	7	Eaton Corporation	192	12
Citizens Communications Company	1041	12	eBay Inc.	1104	12
CLARCOR Inc.	658	11	Ecolab Inc.	617	12
Clear Channel Communications, Inc.	998	12	E. I. du Pont de Nemours and Company	184	12
Cleveland-Cliffs Inc	130	12	El Paso Corporation	1122	12
The Clorox Company	131	6	Electronic Arts Inc.	1079	3
Coca-Cola Bottling Co. Consolidated	1076	12	Electronic Data Systems Corporation	964	12
The Coca-Cola Company	133	12	Eli Lilly and Company	339	12
Coca-Cola Enterprises Inc.	660	12	ElkCorp	194	6
Colgate-Palmolive Company	135	12	EMC Corporation	1005	12
Comcast Corporation	999	12	EMCOR Group, Inc.	901	12
Commercial Metals Company	140	8	Emerson Electric Co.	195	9
Computer Sciences Corporation	848	3	Energizer Holdings, Inc.	1158	9
Con-way Inc.	1075	12	Equifax Inc.	902	12
ConAgra Foods, Inc.	142	5	The Estee Lauder Companies Inc.	872	6
ConocoPhillips	438	12	Exide Technologies	873	3

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Company Name	*Company Reference Number*	*Month of Fiscal Year End**
Exxon Mobil Corporation	202	12
Federal Screw Works	747	6
Federal-Mogul Corporation	208	12
Federated Department Stores, Inc.	209	1
FedEx Corporation	1187	5
First Data Corporation	851	12
Fiserv, Inc.	1044	12
Fleetwood Enterprises, Inc.	212	4
Flowers Foods, Inc.	1080	12
Fluor Corporation	216	12
FMC Corporation	203	12
Foot Locker, Inc.	596	1
Ford Motor Company	219	12
Fortune Brands, Inc.	29	12
Foster Wheeler Ltd.	221	12
Freeport-McMoRan Copper & Gold Inc.	965	12
Furniture Brands International, Inc.	296	12
Gannett Co., Inc.	228	12
The Gap, Inc.	1008	1
Gardner Denver, Inc.	1188	12
Gateway, Inc.	874	12
GenCorp Inc.	230	11
General Cable Corporation	1189	12
General Dynamics Corporation	232	12
General Electric Company	233	12
General Mills, Inc.	237	5
General Motors Corporation	238	12
Genuine Parts Company	242	12
Georgia Gulf Corporation	748	12
GlobalSantaFe Corporation	929	12
Gold Kist Inc.	1159	9
Golden Enterprises, Inc.	247	5
Goodrich Corporation	1045	12
The Goodyear Tire & Rubber Company	249	12
Google Inc.	1123	12
The Great Atlantic & Pacific Tea Company, Inc.	254	2
Greif, Inc.	256	10
Griffon Corporation	1083	9
Halliburton Company	264	12
Harley-Davidson, Inc.	673	12
Harman International Industries, Incorporated	1105	6
Harrah's Entertainment, Inc.	829	12
Harris Corporation	269	6
Harsco Corporation	270	12
Hartmarx Corporation	271	11
Hasbro, Inc.	623	12
H.B. Fuller Company	621	11
Health Net, Inc.	1010	12
Hecla Mining Company	273	12
Hercules Incorporated	276	12
Herman Miller, Inc.	377	5
The Hershey Company	277	12
Hess Corporation	26	12
Hewitt Associates, Inc.	1124	9
Hewlett-Packard Company	278	10
Hillenbrand Industries, Inc.	624	9
Hilton Hotels Corporation	1011	12

Company Name	*Company Reference Number*	*Month of Fiscal Year End**
H.J. Heinz Company	275	4
HNI Corporation	263	12
The Home Depot, Inc.	905	1
Honeywell International Inc.	20	12
Hormel Foods Corporation	282	10
Hovnanian Enterprises, Inc.	1125	10
Hubbell Incorporated	930	12
Humana Inc.	285	12
Huntsman Corporation	1190	12
Hurco Companies, Inc.	287	10
IAC/InterActiveCorp	985	12
Idearc Inc.	1191	12
IDT Corporation	1046	7
IKON Office Solutions, Inc.	18	9
Illinois Tool Works Inc.	625	12
Ingersoll-Rand Company Limited	292	12
Ingram Micro Inc.	906	12
Intel Corporation	295	12
Interface, Inc.	753	12
Intermec, Inc.	947	12
International Business Machines Corporation	298	12
International Flavors & Fragrances Inc.	627	12
International Paper Company	302	12
The Interpublic Group of Companies, Inc.	1192	12
Intuit Inc.	1106	7
Iomega Corporation	931	12
Iron Mountain Incorporated	1126	12
ITT Corporation	291	12
Jabil Circuit, Inc.	1012	8
Jack in the Box Inc.	1160	9
Jacobs Engineering Group Inc.	754	9
Jacuzzi Brands, Inc.	948	9
Jarden Corporation	1193	12
J. C. Penney Company, Inc.	428	1
JDS Uniphase Corporation	1047	6
JLG Industries, Inc.	305	7
The J. M. Smucker Company	917	4
Johnson & Johnson	308	12
Johnson Controls, Inc.	309	9
Jones Apparel Group, Inc.	878	12
Joy Global Inc.	268	10
Kaman Corporation	629	12
KB Home	967	11
Kellogg Company	317	12
Kellwood Company	838	1
Kelly Services, Inc.	318	12
Kimball International, Inc.	853	6
Kimberly-Clark Corporation	324	12
KLA-Tencor Corporation	932	6
Kohl's Corporation	933	1
The Kroger Co.	329	1
La-Z-Boy Incorporated	879	4
LaBarge, Inc.	332	6
Lam Research Corporation	880	6
The Lamson & Sessions Co.	713	12
Lance, Inc.	854	12
Las Vegas Sands Corp.	1161	12
L. B. Foster Company	669	12

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Company Name	*Company Reference Number*	*Month of Fiscal Year End**
Lear Corporation	1013	12
Lee Enterprises, Incorporated	336	9
Leggett & Platt, Incorporated	337	12
Lennar Corporation	1014	11
Lennox International Inc.	1127	12
Leucadia National Corporation	1128	12
Lexmark International, Inc.	908	12
The LGL Group, Inc.	348	12
Liberty Media Corporation	1129	12
Liz Claiborne, Inc.	611	12
Lockheed Martin Corporation	341	12
Longs Drug Stores Corporation	1130	1
Louisiana-Pacific Corporation	824	12
Lowe's Companies, Inc.	344	1
The L.S. Starrett Company	512	6
LSI Logic Corporation	907	12
The Lubrizol Corporation	345	12
Lucent Technologies Inc.	968	9
Lufkin Industries, Inc.	714	12
Lyondell Chemical Company	757	12
Magnetek, Inc.	758	6
The Manitowoc Company, Inc.	1084	12
Manpower Inc.	855	12
Marriott International, Inc.	1015	12
Masco Corporation	360	12
Mattel, Inc.	361	12
MAXXAM Inc.	760	12
The McClatchy Company	327	12
McCormick & Company, Incorporated	364	11
McDermott International, Inc.	365	12
McDonald's Corporation	366	12
The McGraw-Hill Companies, Inc.	368	12
McKesson Corporation	369	3
MeadWestvaco Corporation	1109	12
Media General, Inc.	631	12
Medtronic, Inc.	371	4
Merck & Co., Inc.	373	12
Meredith Corporation	374	6
Meritage Homes Corporation	1162	12
Merrimac Industries, Inc.	882	12
Met-Pro Corporation	375	1
Mettler-Toledo International Inc.	1086	12
Micron Technology, Inc.	787	8
Microsoft Corporation	825	6
Milacron Inc.	127	12
Mohawk Industries, Inc.	857	12
Molex Incorporated	716	6
Molson Coors Brewing Company	147	12
Monsanto Company	383	8
Motorola, Inc.	387	12
MPS Group, Inc.	1050	12
Mueller Industries, Inc.	1194	12
Murphy Oil Corporation	390	12
NACCO Industries, Inc.	403	12
Nash-Finch Company	1017	12
Nashua Corporation	761	12
National Oilwell Varco, Inc.	1132	12
National Semiconductor Corporation	398	5
Nature Vision, Inc.	686	12
NCR Corporation	392	12
Network Appliance, Inc.	1163	4
The New York Times Company	400	12
Newell Rubbermaid Inc.	680	12
NewMarket Corporation	199	12
Newmont Mining Corporation	936	12
News Corporation	1164	6
NIKE, Inc.	401	5
Noble Energy, Inc.	910	12
Nordstrom, Inc.	911	1
Northrop Grumman Corporation	405	12
Novell, Inc.	839	10
Novellus Systems, Inc.	1052	12
Nucor Corporation	633	12
NVR, Inc.	1110	12
Occidental Petroleum Corporation	408	12
Office Depot, Inc.	970	12
Olin Corporation	411	12
Omnicom Group Inc.	682	12
Oracle Corporation	972	5
OSI Restaurant Partners, Inc.	1133	12
Owens-Illinois, Inc.	416	12
Oxford Industries, Inc.	417	5
PACCAR Inc.	419	12
Pactiv Corporation	1195	12
Pall Corporation	421	7
Parker Hannifin Corporation	424	6
Pathmark Stores, Inc.	1111	1
Paychex, Inc.	1053	5
Peabody Energy Corporation	1134	12
Peerless Mfg. Co.	790	6
Pentair, Inc.	684	12
The Pepsi Bottling Group, Inc.	1019	12
PepsiAmericas, Inc.	288	12
PepsiCo, Inc.	432	12
PerkinElmer, Inc.	187	12
Perot Systems Corporation	1054	12
Pfizer Inc.	435	12
Phelps Dodge Corporation	436	12
Phillips-Van Heusen Corporation	634	1
Pilgrim's Pride Corporation	913	9
Pitney Bowes Inc.	441	12
Plum Creek Timber Company, Inc.	1135	12
Polaris Industries Inc.	883	12
Polo Ralph Lauren Corporation	974	3
PolyOne Corporation	966	12
Potlatch Corporation	446	12
PPG Industries, Inc.	418	12
Praxair, Inc.	828	12
Precision Castparts Corp.	975	3
Pride International, Inc.	1196	12
PRIMEDIA Inc.	912	12
The Procter & Gamble Company	451	6
Pulte Homes, Inc.	1021	12
QUALCOMM Incorporated	914	9
Quanex Corporation	455	10
Quantum Corporation	884	3
RadioShack Corporation	528	12
Raytheon Company	461	12

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Company Name	Company Reference Number	Month of Fiscal Year End*
The Reader's Digest Association, Inc.	792	6
Regal Beloit Corporation	1208	12
Regal Entertainment Group	1087	12
Republic Services, Inc.	976	12
Retail Ventures, Inc.	1165	1
Reynolds American Inc.	1023	12
Rite Aid Corporation	886	2
Robbins & Myers, Inc.	764	8
Robert Half International Inc.	977	12
Rock-Tenn Company	915	9
Rockwell Automation, Inc.	469	9
Rockwell Collins, Inc.	1056	9
Rohm and Haas Company	470	12
RPM International Inc.	1057	5
R.R. Donnelley & Sons Company	175	12
Ruddick Corporation	811	9
Ryder System, Inc.	1088	12
Ryerson Inc.	293	12
The Ryland Group, Inc.	1166	12
Sabre Holdings Corporation	1167	12
Safeway Inc.	478	12
Sanmina-SCI Corporation	1024	9
Sara Lee Corporation	479	6
Schering-Plough Corporation	481	12
Schlumberger Limited	482	12
Schnitzer Steel Industries, Inc.	1197	8
Scientific Industries, Inc.	765	6
The Scotts Miracle-Gro Company	833	9
Seaboard Corporation	858	12
Seagate Technology	1198	6
Sealed Air Corporation	1136	12
Sealy Corporation	1168	11
Sears Holdings Corporation	1199	1
Sensient Technologies Corporation	814	12
Sequa Corporation	519	12
Service Corporation International	487	12
The ServiceMaster Company	940	12
The Shaw Group Inc.	1169	8
The Sherwin-Williams Company	490	12
Silgan Holdings Inc.	1200	12
Silicon Graphics, Inc.	981	6
Skyworks Solutions, Inc.	23	9
SL Industries, Inc.	738	12
Smith International, Inc.	941	12
Smithfield Foods, Inc.	690	4
Smurfit-Stone Container Corporation	628	12
Snap-on Incorporated	496	12
Solectron Corporation	888	8
Sonoco Products Company	691	12
Span-America Medical Systems, Inc.	834	9
Sparton Corporation	498	6
Spectrum Brands, Inc.	1170	9
Spectrum Control, Inc.	499	11
Spherion Corporation	1059	12
Sprint Nextel Corporation	1201	12
SPX Corporation	642	12
St. Jude Medical, Inc.	1112	12
Standard Motor Products, Inc.	507	12
Standard Pacific Corp.	1202	12
The Standard Register Company	509	12
Standex International Corporation	767	6
The Stanley Works	511	12
Staples, Inc.	983	1
Starbucks Corporation	984	9
Starwood Hotels & Resorts Worldwide, Inc.	1060	12
Steel Dynamics, Inc.	1137	12
Steel Technologies Inc.	723	9
Steelcase Inc.	942	2
The Stride Rite Corporation	1203	11
Stryker Corporation	1061	12
Sun Microsystems, Inc.	769	6
Sunoco, Inc.	520	12
SUPERVALU INC.	522	2
Swift Transportation Co., Inc.	1089	12
Sybase, Inc.	889	12
Symantec Corporation	1171	3
SYSCO Corporation	887	6
Target Corporation	165	1
Tasty Baking Company	529	12
Tech Data Corporation	1026	1
Tecumseh Products Company	530	12
Tektronix, Inc.	794	5
Teleflex Incorporated	1138	12
Tellabs, Inc.	944	12
Temple-Inland Inc.	532	12
Tenet Healthcare Corporation	1027	12
Tenneco Inc.	534	12
Teradyne, Inc.	890	12
Terex Corporation	1172	12
Terra Industries Inc.	676	12
Tesoro Corporation	535	12
Texas Industries, Inc.	725	5
Texas Instruments Incorporated	537	12
Textron Inc.	538	12
Thermo Fisher Scientific Inc.	813	12
Thomas & Betts Corporation	771	12
Thor Industries, Inc.	1090	7
The Timberland Company	1139	12
Time Warner Inc.	923	12
The Timken Company	542	12
The TJX Companies, Inc.	770	1
Toll Brothers, Inc.	1140	10
The Toro Company	726	10
TransTechnology Corporation	727	3
Tribune Company	547	12
Trinity Industries, Inc.	646	12
Trump Entertainment Resorts, Inc.	1204	12
TRW Automotive Holdings Corp.	1205	12
Tupperware Brands Corporation	891	12
Twin Disc, Incorporated	728	6
Tyler Technologies, Inc.	549	12
Tyson Foods, Inc.	550	9
Unifi, Inc.	553	6
Unisys Corporation	102	12
United States Steel Corporation	561	12
United Stationers Inc.	1028	12
United Technologies Corporation	564	12

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Company Name	*Company Reference Number*	*Month of Fiscal Year End**
UnitedHealth Group Incorporated	859	12
Universal Corporation	566	3
Universal Forest Products, Inc.	949	12
Univision Communications Inc.	1141	12
URS Corporation	1142	12
USG Corporation	552	12
UST Inc.	563	12
Valero Energy Corporation	647	12
Varian Medical Systems, Inc.	571	9
Verizon Communications Inc.	1029	12
VF Corporation	570	12
Viacom Inc.	920	12
Viad Corp	893	12
Vishay Intertechnology, Inc.	731	12
Visteon Corporation	1144	12
Vulcan Materials Company	573	12
Wal-Mart Stores, Inc.	648	1
Walgreen Co.	575	8
The Walt Disney Company	174	9
Walter Industries, Inc.	1174	12
The Warnaco Group, Inc.	1145	12
Warner Music Group Corp.	1175	9
Washington Group International, Inc.	1176	12
The Washington Post Company	649	12
Waste Management, Inc.	580	12
Wausau Paper Corp.	581	12
Weatherford International Ltd.	950	12
Weis Markets, Inc.	1177	12
WellPoint, Inc.	1146	12
Wendy's International, Inc.	1115	12
Werner Enterprises, Inc.	1066	12
Western Digital Corporation	733	6
Western Refining, Inc.	1081	12
Weyerhaeuser Company	586	12
Wheeling-Pittsburgh Corporation	1147	12
Whirlpool Corporation	588	12
Whole Foods Market, Inc.	1148	9
The Williams Companies, Inc.	1067	12
Winn-Dixie Stores, Inc.	593	6
Winnebago Industries, Inc.	594	8
Wm. Wrigley Jr. Company	597	12
Wolverine World Wide, Inc.	734	12
Worthington Industries, Inc.	735	5
W. R. Grace & Co.	252	12
W.W. Grainger, Inc.	253	12
Wyeth	35	12
Wyndham Worldwide Corporation	1036	12
Xerox Corporation	1093	12
Xilinx, Inc.	1069	3
XO Holdings, Inc.	1070	12
Yahoo! Inc.	1206	12
YUM! Brands, Inc.	1094	12
Zimmer Holdings, Inc.	1178	12
VF Corporation	570	12

COMPANIES INCLUDED IN SIXTIETH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY

Company Name	*Company Reference Number*
Albertson's, Inc.	17
American Power Conversion Corporation	1116
Banta Corporation	806
BellSouth Corporation	958
Burlington Coat Factory Warehouse Corporation	959
Coherent, Inc.	742
Comdisco Holding Company, Inc.	1000
Cox Communications, Inc.	1001
Dell Inc.	963
Enesco Group, Inc.	510
Engelhard Corporation	198
The Fairchild Corporation	656
HCA Inc.	899
Intergraph Corporation	801
Kerr-McGee Corporation	320
Knape & Vogt Manufacturing Company	326
Lafarge North America Inc.	678
Maxim Integrated Products, Inc.	1049
Maytag Corporation	363
Michaels Stores, Inc.	1131
National Presto Industries, Inc.	397
The Reynolds and Reynolds Company	939
The Rowe Companies	471
Russell Corporation	832
SunGard Data Systems Inc.	1113
Symbol Technologies, Inc.	1114
Toys "R" Us, Inc	772
Universal Health Services, Inc.	1064
UTStarcom, Inc.	1143
VeriSign, Inc.	1173

*Months are numbered in calendar-year sequence, January through December (e.g., January = 1 and February = 2).

NUMERICAL LISTING

Company Reference Number	*Company Name*	*Month of Fiscal Year End**
6	AMETEK, Inc.	12
10	Abbott Laboratories	12
16	Air Products and Chemicals, Inc.	9
18	IKON Office Solutions, Inc.	9
20	Honeywell International Inc.	12
23	Skyworks Solutions, Inc.	9
24	Alcoa Inc.	12
26	Hess Corporation	12
28	American Biltrite Inc.	12
29	Fortune Brands, Inc.	12
30	ABM Industries Incorporated	10
33	American Greetings Corporation	2
35	Wyeth	12
41	American Standard Companies Inc.	12
43	AT&T Inc.	12
44	Ameron International Corporation	11
46	Ampco-Pittsburgh Corporation	12
48	Analogic Corporation	7
51	Anheuser-Busch Companies, Inc.	12
52	Apple Computer, Inc.	9
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
56	AK Steel Holding Corporation	12
60	Ashland Inc.	9
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
68	Badger Meter, Inc.	12
70	Baker Hughes Incorporated	12
71	Ball Corporation	12
75	Baxter International Inc.	12
78	Becton, Dickinson and Company	9
81	Bemis Company, Inc.	12
85	The Black & Decker Corporation	12
87	The Boeing Company	12
91	Bowne & Co., Inc.	12
93	Briggs & Stratton Corporation	6
94	Bristol-Myers Squibb Company	12
97	Brown Shoe Company, Inc.	1
99	Brunswick Corporation	12
102	Unisys Corporation	12
107	CSP Inc.	9
108	Cabot Corporation	9
110	Campbell Soup Company	7
113	Caterpillar Inc.	12
121	Chevron Corporation	12
127	Milacron Inc.	12
130	Cleveland-Cliffs Inc.	12
131	The Clorox Company	6
133	The Coca-Cola Company	12
135	Colgate-Palmolive Company	12
140	Commercial Metals Company	8
142	ConAgra Foods, Inc.	5
145	Ceridian Corporation	12
146	Cooper Industries, Ltd.	12
147	Molson Coors Brewing Company	12
149	Corning Incorporated	12

Company Reference Number	*Company Name*	*Month of Fiscal Year End**
150	Courier Corporation	9
152	Crane Co.	12
154	Crown Holdings, Inc.	12
158	Curtiss-Wright Corporation	12
161	Dana Corporation	12
165	Target Corporation	1
166	Dean Foods Company	12
167	Deere & Company	10
168	Deluxe Corporation	12
174	The Walt Disney Company	9
175	R.R. Donnelley & Sons Company	12
176	Dover Corporation	12
177	The Dow Chemical Company	12
178	Dow Jones & Company, Inc.	12
182	The Dun & Bradstreet Corporation	12
184	E. I. du Pont de Nemours and Company	12
187	PerkinElmer, Inc.	12
190	The Eastern Company	12
191	Eastman Kodak Company	12
192	Eaton Corporation	12
194	ElkCorp	6
195	Emerson Electric Co.	9
199	NewMarket Corporation	12
202	Exxon Mobil Corporation	12
203	FMC Corporation	12
208	Federal-Mogul Corporation	12
209	Federated Department Stores, Inc.	1
212	Fleetwood Enterprises, Inc.	4
216	Fluor Corporation	12
219	Ford Motor Company	12
221	Foster Wheeler Ltd.	12
228	Gannett Co., Inc.	12
230	GenCorp Inc.	11
232	General Dynamics Corporation	12
233	General Electric Company	12
237	General Mills, Inc.	5
238	General Motors Corporation	12
242	Genuine Parts Company	12
247	Golden Enterprises, Inc.	5
249	The Goodyear Tire & Rubber Company	12
252	W. R. Grace & Co.	12
253	W.W. Grainger, Inc.	12
254	The Great Atlantic & Pacific Tea Company, Inc.	2
256	Greif, Inc.	10
263	HNI Corporation	12
264	Halliburton Company	12
268	Joy Global Inc.	10
269	Harris Corporation	6
270	Harsco Corporation	12
271	Hartmarx Corporation	11
273	Hecla Mining Company	12
275	H.J. Heinz Company	4
276	Hercules Incorporated	12
277	The Hershey Company	12
278	Hewlett-Packard Company	10
282	Hormel Foods Corporation	10

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Company Reference Number	*Company Name*	*Month of Fiscal Year End**
285	Humana Inc.	12
287	Hurco Companies, Inc.	10
288	PepsiAmericas, Inc.	12
291	ITT Corporation	12
292	Ingersoll-Rand Company Limited	12
293	Ryerson Inc.	12
295	Intel Corporation	12
296	Furniture Brands International, Inc.	12
298	International Business Machines Corporation	12
302	International Paper Company	12
305	JLG Industries, Inc.	7
308	Johnson & Johnson	12
309	Johnson Controls, Inc.	9
317	Kellogg Company	12
318	Kelly Services, Inc.	12
324	Kimberly-Clark Corporation	12
327	The McClatchy Company	12
329	The Kroger Co.	1
332	LaBarge, Inc.	6
336	Lee Enterprises, Incorporated	9
337	Leggett & Platt, Incorporated	12
339	Eli Lilly and Company	12
341	Lockheed Martin Corporation	12
344	Lowe’s Companies, Inc.	1
345	The Lubrizol Corporation	12
348	The LGL Group, Inc.	12
360	Masco Corporation	12
361	Mattel, Inc.	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	12
366	McDonald’s Corporation	12
368	The McGraw-Hill Companies, Inc.	12
369	McKesson Corporation	3
371	Medtronic, Inc.	4
372	CVS Corporation	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
375	Met-Pro Corporation	1
377	Herman Miller, Inc.	5
379	3M Company	12
383	Monsanto Company	8
387	Motorola, Inc.	12
390	Murphy Oil Corporation	12
392	NCR Corporation	12
398	National Semiconductor Corporation	5
400	The New York Times Company	12
401	NIKE, Inc.	5
403	NACCO Industries, Inc.	12
405	Northrop Grumman Corporation	12
408	Occidental Petroleum Corporation	12
411	Olin Corporation	12
416	Owens-Illinois, Inc.	12
417	Oxford Industries, Inc.	5
418	PPG Industries, Inc.	12
419	PACCAR Inc.	12
421	Pall Corporation	7
424	Parker Hannifin Corporation	6
428	J. C. Penney Company, Inc.	1
432	PepsiCo, Inc.	12
435	Pfizer Inc.	12
436	Phelps Dodge Corporation	12
437	Altria Group, Inc.	12
438	ConocoPhillips	12
441	Pitney Bowes Inc.	12
446	Potlatch Corporation	12
451	The Procter & Gamble Company	6
455	Quanex Corporation	10
461	Raytheon Company	12
469	Rockwell Automation, Inc.	9
470	Rohm and Haas Company	12
478	Safeway Inc.	12
479	Sara Lee Corporation	6
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
487	Service Corporation International	12
490	The Sherwin-Williams Company	12
494	A. O. Smith Corporation	12
496	Snap-on Incorporated	12
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
507	Standard Motor Products, Inc.	12
509	The Standard Register Company	12
511	The Stanley Works	12
512	The L.S. Starrett Company	6
519	Sequa Corporation	12
520	Sunoco, Inc.	12
522	SUPERVALU INC.	2
528	RadioShack Corporation	12
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
532	Temple-Inland Inc.	12
534	Tenneco Inc.	12
535	Tesoro Corporation	12
537	Texas Instruments Incorporated	12
538	Textron Inc.	12
542	The Timken Company	12
547	Tribune Company	12
549	Tyler Technologies, Inc.	12
550	Tyson Foods, Inc.	9
552	USG Corporation	12
553	Unifi, Inc.	6
557	Chiquita Brands International, Inc.	12
561	United States Steel Corporation	12
563	UST Inc.	12
564	United Technologies Corporation	12
566	Universal Corporation	3
570	VF Corporation	12
571	Varian Medical Systems, Inc.	9
573	Vulcan Materials Company	12
575	Walgreen Co.	8
580	Waste Management, Inc.	12
581	Wausau Paper Corp.	12
586	Weyerhaeuser Company	12
588	Whirlpool Corporation	12
593	Winn-Dixie Stores, Inc.	6
594	Winnebago Industries, Inc.	8
596	Foot Locker, Inc.	1
597	Wm. Wrigley Jr. Company	12

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Company Reference Number	Company Name	Month of Fiscal Year End*
COMPANIES ADDED FOR 1987 EDITION		
601	Alberto-Culver Company	9
604	Avery Dennison Corporation	12
605	Barnes Group Inc.	12
606	Bassett Furniture Industries, Incorporated	11
607	Bowater Incorporated	12
610	Carpenter Technology Corporation	6
611	Liz Claiborne, Inc.	12
617	Ecolab Inc.	12
621	H.B. Fuller Company	11
623	Hasbro, Inc.	12
624	Hillenbrand Industries, Inc.	9
625	Illinois Tool Works Inc.	12
627	International Flavors & Fragrances Inc.	12
628	Smurfit-Stone Container Corporation	12
629	Kaman Corporation	12
631	Media General, Inc.	12
633	Nucor Corporation	12
634	Phillips-Van Heusen Corporation	1
642	SPX Corporation	12
646	Trinity Industries, Inc.	12
647	Valero Energy Corporation	12
648	Wal-Mart Stores, Inc.	1
649	The Washington Post Company	12
COMPANIES ADDED FOR 1988 EDITION		
652	Advanced Micro Devices, Inc.	12
657	Brown-Forman Corporation	4
658	CLARCOR Inc.	11
659	Chesapeake Corporation	12
660	Coca-Cola Enterprises Inc.	12
664	Danaher Corporation	12
665	The Dixie Group, Inc.	12
669	L. B. Foster Company	12
673	Harley-Davidson, Inc.	12
676	Terra Industries Inc.	12
680	Newell Rubbermaid Inc.	12
682	Omnicom Group Inc.	12
684	Pentair, Inc.	12
686	Nature Vision, Inc.	12
690	Smithfield Foods, Inc.	4
691	Sonoco Products Company	12
COMPANIES ADDED FOR 1989 EDITION		
699	Blount International, Inc.	12
701	CTS Corporation	12
713	The Lamson & Sessions Co.	12
714	Lufkin Industries, Inc.	12
716	Molex Incorporated	6
723	Steel Technologies Inc.	9
725	Texas Industries, Inc.	5
726	The Toro Company	10
727	TransTechnology Corporation	3
728	Twin Disc, Incorporated	6
731	Vishay Intertechnology, Inc.	12
733	Western Digital Corporation	6
734	Wolverine World Wide, Inc.	12
735	Worthington Industries, Inc.	5
COMPANIES ADDED FOR 1990 EDITION		
738	SL Industries, Inc.	12
740	Champion Enterprises, Inc.	12
744	Donaldson Company, Inc.	7
747	Federal Screw Works	6
748	Georgia Gulf Corporation	12
753	Interface, Inc.	12
754	Jacobs Engineering Group Inc.	9
757	Lyondell Chemical Company	12
758	Magnetek, Inc.	6
760	MAXXAM Inc.	12
761	Nashua Corporation	12
764	Robbins & Myers, Inc.	8
765	Scientific Industries, Inc.	6
767	Standex International Corporation	6
768	Armor Holdings, Inc.	12
769	Sun Microsystems, Inc.	6
770	The TJX Companies, Inc.	1
771	Thomas & Betts Corporation	12
COMPANIES ADDED FOR 1991 EDITION		
776	Allegheny Technologies Incorporated	12
777	Alliant Techsytems Inc.	3
778	Baldor Electric Company	12
782	Alliance One International, Inc.	3
787	Micron Technology, Inc.	8
790	Peerless Mfg. Co.	6
792	The Reader's Digest Association, Inc.	6
794	Tektronix, Inc.	5
COMPANIES ADDED FOR 1992 EDITION		
796	Allergan, Inc.	12
COMPANIES ADDED FOR 1993 EDITION		
811	Ruddick Corporation	9
813	Thermo Fisher Scientific Inc.	12
814	Sensient Technologies Corporation	12
COMPANIES ADDED FOR 1994 EDITION		
824	Louisiana-Pacific Corporation	12
825	Microsoft Corporation	6
828	Praxair, Inc.	12

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Company Reference Number	Company Name	Month of Fiscal Year End*
829	Harrah's Entertainment, Inc.	12
833	The Scotts Miracle-Gro Company	9
834	Span-America Medical Systems, Inc.	9

COMPANIES ADDED FOR 1995 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
836	Centex Corporation	3
838	Kellwood Company	1
839	Novell, Inc.	10

COMPANIES ADDED FOR 1996 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
841	Amgen Inc.	12
842	Amphenol Corporation	12
844	Arrow Electronics, Inc.	12
845	C. R. Bard, Inc.	12
846	Beckman Coulter, Inc.	12
848	Computer Sciences Corporation	3
849	Cooper Tire & Rubber Company	12
850	Dillard's, Inc.	1
851	First Data Corporation	12
853	Kimball International, Inc.	6
854	Lance, Inc.	12
855	Manpower Inc.	12
857	Mohawk Industries, Inc.	12
858	Seaboard Corporation	12
859	UnitedHealth Group Incorporated	12

COMPANIES ADDED FOR 1997 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
861	ADVO, Inc.	9
862	AGCO Corporation	12
863	Applied Materials, Inc.	10
864	Atmel Corporation	12
865	Automatic Data Processing, Inc.	6
866	BE Aerospace, Inc.	12
867	Boston Scientific Corporation	12
868	Circuit City Stores, Inc.	2
869	Cisco Systems, Inc.	7
871	Eastman Chemical Company	12
872	The Estee Lauder Companies Inc.	6
873	Exide Technologies	3
874	Gateway, Inc.	12
878	Jones Apparel Group, Inc.	12
879	La-Z-Boy Incorporated	4
880	Lam Research Corporation	6
882	Merrimac Industries, Inc.	12
883	Polaris Industries Inc.	12
884	Quantum Corporation	3
886	Rite Aid Corporation	2
887	SYSCO Corporation	6
888	Solectron Corporation	8
889	Sybase, Inc.	12
890	Teradyne, Inc.	12
891	Tupperware Brands Corporation	12
893	Viad Corp.	12

COMPANIES ADDED FOR 1998 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
896	BJ Services Company	9
897	Carlisle Companies Incorporated	12
900	Cameron International Corporation	12
901	EMCOR Group, Inc.	12
902	Equifax Inc.	12
905	The Home Depot, Inc.	1
906	Ingram Micro Inc.	12
907	LSI Logic Corporation	12
908	Lexmark International, Inc.	12
910	Noble Energy, Inc.	12
911	Nordstrom, Inc.	1
912	PRIMEDIA Inc.	12
913	Pilgrim's Pride Corporation	9
914	QUALCOMM Incorporated	9
915	Rock-Tenn Company	9
917	The J. M. Smucker Company	4
920	Viacom Inc.	12

COMPANIES ADDED FOR 1999 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
921	ADC Telecommunications, Inc.	10
922	Allied Waste Industries, Inc.	12
923	Time Warner Inc.	12
924	Analog Devices, Inc.	10
925	CA, Inc.	3
927	Datascope Corp.	6
929	Global SantaFe Corporation	12
930	Hubbell Incorporated	12
931	Iomega Corporation	12
932	KLA-Tencor Corporation	6
933	Kohl's Corporation	1
936	Newmont Mining Corporation	12
940	The ServiceMaster Company	12
941	Smith International, Inc.	12
942	Steelcase Inc.	2
944	Tellabs, Inc.	12
947	Intermec, Inc.	12
948	Jacuzzi Brands, Inc.	9
949	Universal Forest Products, Inc.	12
950	Weatherford International Ltd.	12

COMPANIES ADDED FOR 2000 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
951	3Com Corporation	5
953	Amazon.com, Inc.	12
954	Amkor Technology, Inc.	12
955	Applied Industrial Technologies, Inc.	6
961	Costco Wholesale Corporation	8
962	Del Monte Foods Company	4
964	Electronic Data Systems Corporation	12
965	Freeport-McMoRan Copper & Gold Inc.	12
966	PolyOne Corporation	12
967	KB Home	11
968	Lucent Technologies Inc.	9
970	Office Depot, Inc.	12

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Company Reference Number	Company Name	Month of Fiscal Year End*
972	Oracle Corporation	5
974	Polo Ralph Lauren Corporation	3
975	Precision Castparts Corp.	3
976	Republic Services, Inc.	12
977	Robert Half International Inc.	12
981	Silicon Graphics, Inc.	6
983	Staples, Inc.	1
984	Starbucks Corporation	9
985	IAC/InterActiveCorp	12

COMPANIES ADDED FOR 2001 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
988	Administaff, Inc.	12
989	Aetna Inc.	12
990	Anadarko Petroleum Corporation	12
991	AutoZone, Inc.	8
992	Barnes & Noble, Inc.	1
993	Best Buy Co., Inc.	2
994	Cablevision Systems Corporation	12
995	Caremark Rx, Inc.	12
996	CDW Corporation	12
997	CIGNA Corporation	12
998	Clear Channel Communications, Inc.	12
999	Comcast Corporation	12
1005	EMC Corporation	12
1008	The Gap, Inc.	1
1010	Health Net, Inc.	12
1011	Hilton Hotels Corporation	12
1012	Jabil Circuit, Inc.	8
1013	Lear Corporation	12
1014	Lennar Corporation	11
1015	Marriott International, Inc.	12
1017	Nash-Finch Company	12
1019	The Pepsi Bottling Group, Inc.	12
1021	Pulte Homes, Inc.	12
1023	Reynolds American Inc.	12
1024	Sanmina-SCI Corporation	9
1026	Tech Data Corporation	1
1027	Tenet Healthcare Corporation	12
1028	United Stationers Inc.	12
1029	Verizon Communications Inc.	12

COMPANIES ADDED FOR 2002 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
1030	Airgas, Inc.	3
1031	Alltel Corporation	12
1033	Armstrong World Industries, Inc.	12
1034	Avaya Inc.	9
1036	Wyndham Worldwide Corporation	12
1037	CenturyTel, Inc.	12
1039	Ciena Corporation	10
1040	Cintas Corporation	5
1041	Citizens Communications Company	12
1043	Darden Restaurants, Inc.	5
1044	Fiserv, Inc.	12
1045	Goodrich Corporation	12
1046	IDT Corporation	7
1047	JDS Uniphase Corporation	6
1050	MPS Group, Inc.	12
1052	Novellus Systems, Inc.	12
1053	Paychex, Inc.	5
1054	Perot Systems Corporation	12
1056	Rockwell Collins, Inc.	9
1057	RPM International Inc.	5
1059	Spherion Corporation	12
1060	Starwood Hotels & Resorts Worldwide, Inc.	12
1061	Stryker Corporation	12
1066	Werner Enterprises, Inc.	12
1067	The Williams Companies, Inc.	12
1069	Xilinx, Inc.	3
1070	XO Holdings, Inc.	12

COMPANIES ADDED FOR 2003 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
1072	Arkansas Best Corporation	12
1073	ArvinMeritor, Inc.	9
1074	Brinker International, Inc.	6
1075	Con-way Inc.	12
1076	Coca-Cola Bottling Co. Consolidated	12
1078	EarthLink, Inc.	12
1079	Electronic Arts Inc.	3
1080	Flowers Foods, Inc.	12
1081	Western Refining, Inc.	12
1083	Griffon Corporation	9
1084	The Manitowoc Company, Inc.	12
1086	Mettler-Toledo International Inc.	12
1087	Regal Entertainment Group	12
1088	Ryder System, Inc.	12
1089	Swift Transportation Co., Inc.	12
1090	Thor Industries, Inc.	7
1093	Xerox Corporation	12
1094	YUM! Brands, Inc.	12

COMPANIES ADDED FOR 2004 EDITION

Company Reference Number	Company Name	Month of Fiscal Year End*
1095	Acuity Brands, Inc.	8
1097	Constellation Brands, Inc.	2
1098	Convergys Corporation	12
1099	Corn Products International, Inc.	12
1100	Cummins Inc.	12
1101	Diebold, Incorporated	12
1102	Dollar General Corporation	1
1103	D.R. Horton, Inc.	9
1104	eBay Inc.	12
1105	Harman International Industries, Incorporated	6
1106	Intuit Inc.	7
1109	MeadWestvaco Corporation	12
1110	NVR, Inc.	12
1111	Pathmark Stores, Inc.	1
1112	St. Jude Medical, Inc.	12
1115	Wendy's International, Inc.	12

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Company Reference Number	*Company Name*	*Month of Fiscal Year End**
COMPANIES ADDED FOR 2005 EDITION		
1117	BMC Software, Inc.	3
1118	CBRL Group, Inc.	7
1119	Cenveo, Inc.	12
1120	Devon Energy Corporation	12
1121	Domino's Pizza, Inc.	12
1122	El Paso Corporation	12
1123	Google Inc.	12
1124	Hewitt Associates, Inc.	9
1125	Hovnanian Enterprises, Inc.	10
1126	Iron Mountain Incorporated	12
1127	Lennox International Inc.	12
1128	Leucadia National Corporation	12
1129	Liberty Media Corporation	12
1130	Longs Drug Stores Corporation	1
1132	National Oilwell Varco, Inc.	12
1133	OSI Restaurant Partners, Inc.	12
1134	Peabody Energy Corporation	12
1135	Plum Creek Timber Company, Inc.	12
1136	Sealed Air Corporation	12
1137	Steel Dynamics, Inc.	12
1138	Teleflex Incorporated	12
1139	The Timberland Company	12
1140	Toll Brothers, Inc.	10
1141	Univision Communications Inc.	12
1142	URS Corporation	12
1144	Visteon Corporation	12
1145	The Warnaco Group, Inc.	12
1146	WellPoint, Inc.	12
1147	Wheeling-Pittsburgh Corporation	12
1148	Whole Foods Market, Inc.	9
COMPANIES ADDED FOR 2006 EDITION		
1149	ARAMARK Corporation	9
1150	Autodesk, Inc.	1
1151	Beazer Homes USA, Inc.	9
1152	Boyd Gaming Corporation	12
1153	CACI International Inc	6
1154	Career Education Corporation	12
1155	CBS Corporation	12
1156	Chemtura Corporation	12
1157	Coventry Health Care, Inc.	12
1158	Energizer Holdings, Inc.	9
1159	Gold Kist Inc.	9
1160	Jack in the Box Inc.	9
1161	Las Vegas Sands Corp.	12
1162	Meritage Homes Corporation	12
1163	Network Appliance, Inc.	4
1164	News Corporation	6
1165	Retail Ventures, Inc.	1
1166	The Ryland Group, Inc.	12
1167	Sabre Holdings Corporation	12
1168	Sealy Corporation	11
1169	The Shaw Group Inc.	8
1170	Spectrum Brands, Inc.	9
1171	Symantec Corporation	3
1172	Terex Corporation	12
1174	Walter Industries, Inc.	12
1175	Warner Music Group Corp.	9
1176	Washington Group International, Inc.	12
1177	Weis Markets, Inc.	12
1178	Zimmer Holdings, Inc.	12
COMPANIES ADDED FOR 2007 EDITION		
1179	A. Schulman, Inc.	8
1180	Andrew Corporation	9
1181	AutoNation, Inc.	12
1182	The Bon-Ton Stores, Inc.	1
1183	The Brink's Company	12
1184	Church & Dwight Co., Inc.	12
1185	Cytec Industries Inc.	12
1186	The DIRECTV Group, Inc.	12
1187	FedEx Corporation	5
1188	Gardner Denver, Inc.	12
1189	General Cable Corporation	12
1190	Huntsman Corporation	12
1191	Idearc Inc.	12
1192	The Interpublic Group of Companies, Inc.	12
1193	Jarden Corporation	12
1194	Mueller Industries, Inc.	12
1195	Pactiv Corporation	12
1196	Pride International, Inc.	12
1197	Schnitzer Steel Industries, Inc.	8
1198	Seagate Technology	6
1199	Sears Holdings Corporation	1
1200	Silgan Holdings Inc.	12
1201	Sprint Nextel Corporation	12
1202	Standard Pacific Corp.	12
1203	The Stride Rite Corporation	11
1204	Trump Entertainment Resorts, Inc.	12
1205	TRW Automotive Holdings Corp.	12
1206	Yahoo! Inc.	12
1207	Chesapeake Energy Corporation	12
1208	Regal Beloit Corporation	12
COMPANIES INCLUDED IN SIXTIETH EDITION NOT INCLUDED IN THIS EDITION OF THE SURVEY		
17	Albertson's Inc.	
198	Engelhard Corporation	
320	Kerr-McGee Corporation	
326	Knape & Vogt Manufacturing Company	
363	Maytag Corporation	
397	National Presto Industries, Inc.	
471	The Rowe Companies	
510	Enesco Group, Inc.	
656	The Fairchild Corporation	
678	Lafarge North America Inc.	
742	Coherent, Inc.	
772	Toys "R" Us, Inc.	

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Company Reference Number	*Company Name*
801	Intergraph Corporation
806	Banta Corporation
832	Russell Corporation
899	HCA Inc.
939	The Reynolds and Reynolds Company
958	BellSouth Corporation
959	Burlington Coat Factory Warehouse Corporation
963	Dell Inc.
1000	Comdisco Holding Company, Inc.
1001	Cox Communications, Inc.
1049	Maxim Integrated Products, Inc.
1064	Universal Health Services, Inc.
1113	SunGard Data Systems Inc.
1114	Symbol Technologies, Inc.
1116	American Power Conversion Corporation
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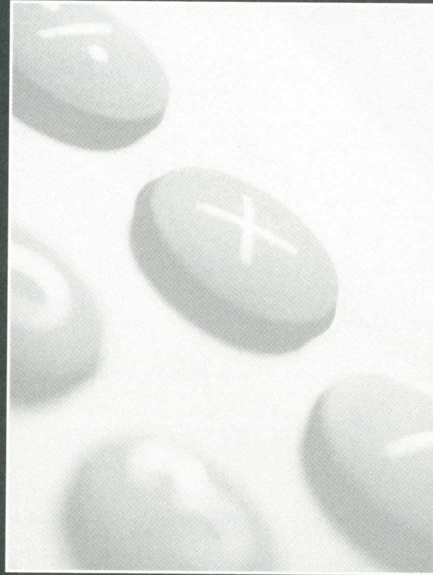

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