

(3) Stock Repurchase Transaction

On December 23, 2004 the company repurchased 1,808,774 shares of its common stock and 271,000 options from William F. Whitman, Jr., the former Chairman of the company's Board of Directors, members of his family and trusts controlled by his family (collectively, the "Whitmans") in a private transaction for a total aggregate purchase price of \$83,974,578 in cash. The repurchased shares represented 19.6% of the company's outstanding shares and were repurchased for \$75,968,508 at \$42.00 per share which represented a 12.8% discount to the closing market price of \$48.19 of the company's common stock on December 23, 2004 and a 21.7% discount from the \$53.64 average closing price over the thirty trading days prior to the repurchase. The company incurred \$1.2 million of transaction costs associated with the repurchase of these shares. The 271,000 stock options were purchased for \$8,006,070, which represented the difference between \$42.00 and the exercise price of the option. In conjunction with the stock repurchase, the Whitmans resigned as directors of the company.

The company financed the share repurchase with borrowings under a \$160.0 million senior bank facility that was established in connection with this transaction. The newly established senior bank facility provides for \$70.0 million in term loan borrowings and \$90.0 million of borrowing availability under a revolving credit facility.

In conjunction with the transaction the company recorded \$13.8 million of expenses, which are comprised of the following items (dollars in thousands):

Compensation related expense	\$ 8,225
Pension settlement	1,947
Financial advisor fees	1,899
Other professional fees	576
Subtotal	12,647
Debt extinguishment costs	1,154
Total	\$ 13,801

The \$8.2 million in compensation expense includes the value of the 271,000 repurchased stock options along with the employer portion of related payroll taxes.

In February 2005, the company settled all pension obligations associated with William F. Whitman, Jr., the former Chairman of the company's Board of Directors for \$7.5 million in cash. In conjunction with this transaction, the company recorded \$1.9 million in settlement costs representing the difference between the settlement amount and the accrued pension liability at the time of the transaction.

Debt extinguishment costs of \$1.2 million represent the write-off of deferred financing costs pertaining to the company's prior financing agreements which were paid prior to the maturity of the agreement utilizing funds under the company's new senior debt agreement completed in order to finance the stock repurchase transaction.

(4) Summary of Significant Accounting Policies

(A) BASIS OF PRESENTATION The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The company's fiscal year ends on the Saturday nearest December 31. Fiscal years 2004, 2003 and 2002 ended on January 1, 2005, January 3, 2004 and December 28, 2002, respectively, and each included 52, 53 and 52 weeks, respectively.

(B) CASH AND CASH EQUIVALENTS The company considers all short-term investments with original maturities of three months or less when acquired to be cash equivalents. The company's policy is to invest its excess cash in U.S. Government securities, interest-bearing deposits with major banks, municipal notes and bonds and commercial paper of companies with strong credit ratings that are subject to minimal credit and market risk.

(C) ACCOUNTS RECEIVABLE Accounts receivable, as shown in the consolidated balance sheets, are net of allowances for doubtful accounts of \$3,382,000 and \$3,146,000 at January 1, 2005 and January 3, 2004, respectively.

(D) INVENTORIES Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for inventories at two of the company's manufacturing facilities have been determined using the last-in, first-out ("LIFO") method. These inventories under the LIFO method amounted to \$14.4 million in 2004 and \$10.9 million in 2003 and represented approximately 44% and 43% of the total inventory in each respective year. Costs for all other inventory have been determined using the first-in, first-out ("FIFO") method. The company estimates