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

In January 2004, the FASB issued FSP No. FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003* (FSP No. FAS 106-1). The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) to which FSP No. FAS 106-1 relates, which was signed into law in December 2003, introduces a prescription drug benefit under Medicare as well as a federal subsidy, under certain conditions, to sponsors of retiree healthcare benefit plans. We have elected a one-time deferral of the accounting for the effects of the Act, as permitted by FSP No. FAS 106-1. In May 2004, the FASB issued FSP No. FAS 106-2, which superseded FSP No. FAS 106-1. FSP No. FAS 106-2 is effective for us for the year ended December 31, 2004 and allows two alternate methods of transition, retroactive application to the date of enactment of the Act or prospective application from the date of adoption of this statement. FSP No. FAS 106-2 requires a remeasurement of the applicable plans' assets and benefit obligations at the applicable date. We have determined that the effects of the Act are not a significant event for us and not material to our financial position or results of operations. Using the guidance issued in January 2005 on the definition of "actuarially equivalent," we believe that the prescription drug benefits we provide will be actuarially equivalent. Based on this assumption, the estimated subsidy resulting from the Act is incorporated prospectively into our postretirement healthcare benefit plan obligation as of the 2004 measurement date as an actuarial gain. The effect of the federal subsidy on the accumulated benefit obligation of our postretirement healthcare benefit plans was approximately $1 million, which was reflected in the benefit obligation as of December 31, 2004. The effect of the federal subsidy on future annual expense of our postretirement healthcare benefit plans is insignificant.

In 2004, the FASB EITF reached a consensus on EITF Issue No. 04-08, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share* (Issue No. 04-8), that contingently convertible instruments, which generally become convertible into common stock only if one or more events occur, such as the underlying common stock achieving a specified market price target, should be included in diluted earnings per share computations (if dilutive) regardless of whether the market price target (or other contingent features) have been met. The EITF concluded that Issue No. 04-8 would be applied by restating diluted earnings per share for all prior periods presented. Issue No. 04-8 is effective for periods ending after December 15, 2004. We have applied Issue No. 04-8 to our consolidated statements of income for the year ended December 31, 2004 and have restated diluted earnings per share for the years ended December 31, 2003 and 2002 to include the weighted average common shares that are issuable upon the conversion of our convertible notes.

New Accounting Pronouncements In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* (SFAS No. 123R), that requires all share-based payments, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123R is effective for the first interim or annual periods beginning July 1, 2005. Retroactive application of the requirements of SFAS No. 123 to the beginning of the fiscal year that includes the effective date would be permitted. We currently report stock compensation based on APB 25, *Accounting for Stock Issued to Employees,* with pro forma disclosures.

In December 2004, the FASB deferred the issuance of their final standard on earnings per share No. SFAS 128R, *Earnings per Share, an amendment to FAS 128.* The final standard will be effective in 2005 and will require retrospective application for all prior periods presented. The significant proposed changes to the earnings per share (EPS) computation are changes to the treasury stock method and contingent share guidance for computing year-to-date diluted EPS, removal of the ability to overcome the presumption of share settlement when computing diluted EPS when there is a choice of share or cash settlement and inclusion of mandatorily convertible securities in basic EPS. We are currently evaluating the proposed provisions of this amendment to determine the impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29.* APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. Under APB Opinion No. 29, an exchange of a productive asset for a similar productive asset was based on the recorded amount of the asset relinquished. SFAS No. 153 eliminates this exception and replaces it with an exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective prospectively for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.