

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars unless otherwise indicated)

	2004	2003	2002
Net income, as reported ..	\$393,254	\$332,058	\$127,565
Add: Total stock-based compensation expense included in the determination of net income as reported, net of related tax effects.....	7,778	3,667	2,013
Less: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects.....	(14,576)	(12,138)	(11,455)
Pro-forma net income.....	<u>\$386,456</u>	<u>\$323,587</u>	<u>\$118,123</u>
Income per share:			
Basic - as reported.....	\$ 2.79	\$ 2.29	\$ .85
Basic - pro-forma .....	\$ 2.74	\$ 2.23	\$ .79
Diluted - as reported ....	\$ 2.72	\$ 2.26	\$ .84
Diluted - pro-forma.....	\$ 2.67	\$ 2.20	\$ .78

The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions for all options granted:

	2004	2003	2002
Risk-free interest rate.....	2.87%	2.24%	2.15%
Expected life of option.....	3 years	3 years	3 years
Expected dividend yield of stock	2.28%	2.28%	2.18%
Expected volatility of stock.....	.225	.290	.333

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is management's opinion that the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

**Earnings per share.** Shares of preferred stock held in an unallocated account of the ESOP (see Note 11) and common stock held in a revocable trust (see Note 10) were not considered outstanding shares for basic or diluted income per share calculations. All references to "shares or per share information" throughout this report relate to common shares, unless otherwise indicated. Basic income per common share amounts were computed based on the weighted-average number of common shares outstanding during the year. Diluted income per common share amounts were computed based on the weighted-average number of common

shares outstanding plus all dilutive securities potentially outstanding during the year. See Note 15. All references to income or losses per common share throughout this report are stated on a diluted per common share basis, unless otherwise indicated.

**Product warranties.** The Company offers product warranties for certain products. The specific terms and conditions of such warranties vary depending on the product or customer contract requirements. Management estimated and accrued the costs of unsettled product warranty claims based on historical results and experience. Management periodically assesses the adequacy of the accrual for product warranty claims and adjusts the accrual as necessary.

Changes in the Company's accrual for product warranty claims during 2004, 2003 and 2002, including customer satisfaction settlements during the year, were as follows:

	2004	2003	2002
Balance at January 1 .....	\$ 16,555	\$ 15,510	\$ 14,074
Charges to expense .....	32,541	28,745	25,023
Settlements.....	(30,998)	(27,700)	(23,587)
Balance at December 31 ....	<u>\$ 18,098</u>	<u>\$ 16,555</u>	<u>\$ 15,510</u>

**Impact of recently issued accounting standards.** In April 2004, the Emerging Issues Task Force (EITF) issued EITF No. 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share." EITF No. 03-6 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The pronouncement also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF No. 03-6 is effective for fiscal periods beginning after March 31, 2004. Adoption of this pronouncement had no significant effect on the Company's reported earnings per share.

In May 2004, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) No. 106-2