

FLAWS JAMES B  
Form 4  
November 14, 2005

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
FLAWS JAMES B

(Last) (First) (Middle)

ONE RIVERFRONT PLAZA

(Street)

CORNING, NY 14831

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
CORNING INC /NY [GLW]

3. Date of Earliest Transaction  
(Month/Day/Year)  
11/10/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

VICE CHAIRMAN & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock	11/10/2005		M	50,000 A \$ 9.95	404,325	D	
Common Stock	11/10/2005		S	50,000 D \$ 19.26	354,325	D	
Common Stock	11/11/2005		M	50,000 A \$ 9.95	404,325	D	
Common Stock	11/11/2005		S	50,000 D \$ 19.7	354,325	D	
Common Stock					4,200 <sup>(1)</sup>	I	HELD BY WIFE



## Explanation of Responses:

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Reporting Person disclaims beneficial ownership of all securities held by wife.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. e="Times New Roman" style="font-size:1.0pt;">

6,735

6,735

**Balance at January 31,  
2005**

12,224

6,112

20,004

(4,506

)

188,507

7,766

\$

35,225

Net income

42,051

\$

42,051

Dividends (\$.54 per share)

(6,691

)

Common stock issued

312

156

2,631

Tax benefit from exercise of stock options

1,183

Deferred compensation from stock appreciation rights

(4,734

)

4,734

Share-based compensation

Explanation of Responses:



2,506

(228

)

Translation adjustment

592

592

Minimum pension liability adjustment, net of tax benefit of \$393

(677

)

(677

)

**Balance at January 31,  
2006**

12,536

6,268

21,590

223,867

7,681

\$

41,966

Net income

45,481

\$

45,481

Dividends (\$.61 per share)

(7,603

)

Common stock issued

291

145

3,296

Tax benefit from exercise of stock options

1,083

Common stock repurchase

Explanation of Responses:

(757

)

(378

)

(30,002

)

(8,438

)

Share-based compensation



4,033

Translation adjustment

4,008

4,008

Minimum pension/postretirement liability adjustment, net of tax benefit of \$360

605

605

**Balance at January 31,  
2007**

12,070

\$

6,035

\$

\$

\$

253,307

\$

12,294

\$

50,094

The accompanying notes are an integral part of the consolidated financial statements.

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## Cascade Corporation

## Consolidated Statements of Cash Flows

	Year Ended January 31		
	2007	2006	2005
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net income	\$ 45,481	\$ 42,051	\$ 28,490
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,225	16,005	14,570
Share-based compensation	4,033	2,278	2,492
Deferred income taxes	(1,132 )	(2,995 )	2,062
Loss (gain) on disposition of assets	(552 )	385	3
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	(3,878 )	2,023	(12,803 )
Inventories	2,898	(12,026 )	(8,320 )
Prepaid expenses and other	(2,667 )	(141 )	34
Accounts payable and accrued expenses	863	2,378	8,342
Current income tax payable and receivable	(3,159 )	245	2,210
Other assets and liabilities	(3 )	222	728
Net cash provided by operating activities	57,109	50,425	37,808
<b>Cash flows from investing activities:</b>			
Capital expenditures	(18,078 )	(10,580 )	(13,581 )
Sale of marketable securities	36,604	71,549	21,246
Purchase of marketable securities	(13,600 )	(93,050 )	(17,791 )
Business acquisitions	(40,255 )		(6,236 )
Proceeds from sale of assets	1,747	358	314
Other assets			147
Proceeds from sale of investment			1,044
Net cash used in investing activities	(33,582 )	(31,723 )	(14,857 )
<b>Cash flows from financing activities:</b>			
Cash dividends paid	(7,603 )	(6,691 )	(5,478 )
Payments on long-term debt and capital leases	(38,033 )	(12,922 )	(13,026 )
Notes payable to banks, net	(2,501 )	2,452	(344 )
Proceeds from long-term debt	58,000		
Common stock issued under share-based compensation plans	3,441	2,787	1,616
Common stock repurchased	(36,540 )		
Excess tax benefit from exercise of share-based compensation awards	1,083	1,183	340
Net cash used in financing activities	(22,153 )	(13,191 )	(16,892 )
<b>Effect of exchange rate changes</b>			
Change in cash and cash equivalents	1,100	5,011	4,898
Cash and cash equivalents at beginning of year	35,493	30,482	25,584
Cash and cash equivalents at end of period	\$ 36,593	\$ 35,493	\$ 30,482

## Supplemental disclosure of noncash information:

See Note 7 to Consolidated Financial Statements

The accompanying notes are an integral part of the consolidated financial statements.

**Cascade Corporation**  
**Notes to Consolidated Financial Statements**

**Note 1 Description of Business**

Cascade Corporation is an international company engaged in the manufacture of materials handling products that are widely used on industrial lift trucks and, to a lesser extent, on construction, mining and agricultural vehicles. Accordingly, our sales are largely dependent on the sales of lift trucks and on the sales of replacement parts. Our sales are made throughout the world, but primarily in North America and Europe. We are headquartered in Fairview, Oregon, employing approximately 2,100 people and maintaining operations in 15 countries outside the United States.

**Note 2 Summary of Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the company and our subsidiaries. All significant intercompany accounts and transactions have been eliminated.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit and highly liquid investments with maturities of three months or less at the date of purchase.

**Marketable Securities**

Marketable securities consisted of auction rate and variable rate demand note securities issued by various state agencies throughout the United States. We classified these securities as available-for-sale securities. These securities were insured either through third party agencies, reinsured through the federal government or secured by a letter of credit from a bank. The specific identification method was used to determine the cost of securities sold. There were no realized or unrealized gains or losses related to our marketable securities. The securities were long-term instruments maturing through 2039; however, the interest rates and maturities were reset approximately every month, at which time we could have sold the securities. Accordingly, we have classified the securities as current assets in our consolidated balance sheets.

**Allowances for Trade Accounts Receivable**

Trade accounts receivable are stated net of an allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses on accounts receivable resulting from the inability of our customers to make required payments. Such allowances are based on evaluation of the credit worthiness of our customers, an ongoing review of customer payments against terms, historical trends and economic circumstances.

**Inventories**

Inventories are stated at the lower of average cost or market. Cost is computed on a standard basis, which approximates actual cost.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is generally provided using the straight-line method over the estimated useful lives of the assets. Tooling costs are capitalized as machinery and equipment. Useful lives range from thirty to forty years for

buildings, fifteen years for land improvements and two to ten years for machinery and equipment. Maintenance and repairs are expensed as incurred and costs of improvements and renewals are capitalized. Upon disposal, cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in operations.

### **Intangible Assets**

Intangible assets represent items such as customer relationships, intellectual property, primarily patents and trade names, and non-compete agreements that are assigned a fair value at the date of acquisition. We amortize these finite-lived assets on a straight-line basis over the periods that expected economic benefits will be provided. Useful lives range from six to ten years for customer relationships, four to ten years for intellectual property and one to five years for other intangible assets.

### **Goodwill**

Goodwill represents the excess of the cost of acquired businesses over the fair value of the net identifiable assets acquired. We perform an annual review for impairment at the reporting unit level, North America, Europe, PSM and Australia. The tests are performed by determining the fair values of the reporting units using a discounted cash flow model and comparing those fair values to the carrying values of the reporting units, including goodwill. The factors considered in performing this assessment include current and projected future operating results and changes in the intended uses of the assets, as well as the effects of obsolescence, demand, competition, and other industry and economic trends. We have completed our annual review for impairment and determined that there has been no impairment of goodwill.

### **Impairment of Long-Lived Assets**

Long-lived assets, primarily property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the assets and eventual disposition in comparison with the carrying value. Measurement of an impairment loss for long-lived assets that we expect to hold and use is based on the fair value of the asset.

### **Common Stock**

We follow the practice of recording amounts received upon the exercise of awards by crediting common stock and additional paid-in capital. In addition, we credit additional paid-in-capital upon the recognition of share-based compensation expense. We realize an income tax benefit from the exercise or early disposition of certain stock awards. This benefit results in a decrease in current income taxes payable and an increase in additional paid-in capital.

During the third quarter of fiscal 2007, we started a program to repurchase common stock of up to \$80 million over a two-year period. As of January 31, 2007 we repurchased 757,000 shares for \$36.5 million, net of \$2.3 million recorded as a liability on our consolidated balance sheet. The repurchase of shares of common stock is recorded as a reduction in additional paid-in capital until the account balance is zero, then future repurchases are recorded as a reduction in retained earnings.

### **Minimum Pension/Postretirement Liability Adjustment**

We record a minimum pension/postretirement liability adjustment to the extent that the accumulated benefit obligation exceeds the fair value of plan assets and accrued pension/postretirement liabilities. This adjustment is reflected as a reduction in shareholders' equity, net of income tax benefits. During the year

ended January 31, 2007, we adopted Statement of Financial Accounting Standards (SFAS) No. 158 (SFAS 158) Employees Accounting for Defined Benefit Pension and Other Post retirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). See Note 8 Benefit Plans for further details regarding our accounting under SFAS 158.

### **Share-Based Compensation**

Prior to May 1, 2005 we accounted for our stock options under Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, which permitted the use of intrinsic value accounting. No stock-based compensation cost was reflected in net income for stock options, as all options granted had an exercise price equal to the market price of the underlying common stock on the date of grant. We had adopted disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure-an Amendment of FASB Statement No. 123.

We also granted awards under a stock appreciation rights (SARS) plan. Under Financial Interpretation No. (FIN) 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans, SARS were accounted for under variable plan accounting. Accordingly, we recorded deferred compensation as a reduction of shareholders' equity, equal to the excess of the market value of our common stock on the balance sheet date or date of exercise over the base price at the date of grant. The deferred compensation was recognized as an expense over the vesting period based on the periods in which the executives and directors performed services.

In the second quarter of fiscal 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment (123R). This standard is a revision of SFAS 123, Accounting for Stock-Based Compensation and supersedes APB 25 and FIN 28. SFAS 123R addresses the accounting for share-based compensation in which we receive employee services in exchange for our equity instruments. Under SFAS 123R, we are required to recognize compensation cost for share-based compensation issued to or purchased by employees, net of estimated forfeitures, under share-based compensation plans using a fair value method. We adopted SFAS 123R using the modified prospective method as of May 1, 2005. Accordingly, no prior periods were restated. Under this method, we recorded compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remained outstanding as of the beginning of the period of adoption. See Note 9, Share-based Compensation for further details regarding our accounting under SFAS 123R.

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The following table illustrates the pro forma effect on net income and earnings per share if we had recorded compensation expense based on the fair value method for all share-based compensation awards (in thousands, except per share amount):

	Year Ended January 31		
	2007	2006	2005
	(In thousands, except per share amounts)		
Net income as reported	\$ 45,481	\$ 42,051	\$ 28,490
Add: SARS amortization, net of income taxes of \$80 in 2006 and \$822 in 2005		(148 )	1,671
Net income excluding SARS amortization	45,481	41,903	30,161
Deduct: total stock-based compensation, net of income taxes of \$140 in 2006 and \$499 in 2005, determined under fair value based method		(297 )	(1,115 )
Net income pro forma	\$ 45,481	\$ 41,606	\$ 29,046
Basic earnings per share as reported	\$ 3.64	\$ 3.40	\$ 2.34
Basic earnings per share pro forma	\$ 3.64	\$ 3.37	\$ 2.39
Diluted earnings per share as reported	\$ 3.48	\$ 3.27	\$ 2.24
Diluted earnings per share pro forma	\$ 3.48	\$ 3.24	\$ 2.28

We calculated share-based compensation cost using the Black-Scholes option pricing model. The range of assumptions used to compute share-based compensation are as follows:

	Year Ended January 31		
	2007	2006	2005
Risk-free interest rate	5.0	% 4.1	% 3.8
Expected volatility	41	% 40	% 42
Expected dividend yield	1.6	% 1.1	% 2.1
Expected life (in years)	6	6	5
Weighted average fair value at date of grant	\$ 15.24	\$ 17.86	\$ 7.46

Expected volatility is based on the historical volatility of the price of our common shares over the past six years. We use historical information to estimate award exercise and forfeitures within the valuation model. The expected term of awards is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. 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. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

### Foreign Currency Translation

We translate the balance sheets of our foreign subsidiaries using fiscal year-end exchange rates. The cumulative effect on such translations is included in shareholders' equity. The consolidated statements of income and cash flows are translated using the average exchange rates for the period.

### Environmental Remediation

We accrue environmental costs if it is probable a liability has been incurred at the financial statement date and the amount can be reasonably estimated. Recorded liabilities have not been discounted. Environmental compliance and legal costs are expensed as incurred. Assets related to the reimbursement of amounts expended for environmental expenses are recognized only when realization is probable.

### **Foreign Currency Forward Exchange Contracts**

Gains and losses on foreign currency forward exchange contracts, which generally mature in one month or less, are recognized in operations and measured over the period of the contract by reference to the forward rate for a contract to be consummated on the same future date as the original contract.

### **Revenue Recognition**

We recognize revenue when the following criteria are met:

**Persuasive evidence of an arrangement exists** Sales arrangements are supported by written or electronic documentation or evidence from a customer.

**Delivery has occurred or services have been rendered** Revenue is recognized when title transfers and risk and rewards of ownership have passed to the customer. This generally occurs upon shipment of our product with FOB Shipping Point terms. Shipments with FOB Destination terms are recorded as revenue when products are delivered to the customer. Customers are responsible for payment even if the product is not sold to their end customer. Once shipping terms are met we have no continuing obligations or performance criteria requirements.

**Fixed or determinable sales price** Sales are at fixed or established sales prices determined prior to the time the products are shipped with no customer cancellation, price protection or termination clauses.

**Collectibility is reasonably assured** Based on our credit management policies, we generally believe collectibility is reasonably assured when product is shipped to a customer. Provisions for uncollectible accounts and return allowances are recorded at the time revenue is recognized based on our historical experience.

### **Shipping and Handling Costs**

We incur shipping, handling and other related costs for the shipment of goods to customers. These costs are recognized in the period in which the expenses occur and are classified as cost of goods sold. Amounts billed to customers for shipping, handling and related costs are reported as a component of net sales.

### **Warranty Obligations**

We record a liability on our consolidated balance sheet for costs related to certain warranties we provide with the sales of our products. This liability is estimated through historical customer claims, product failure rates, material usage and service delivery costs incurred in correcting a product failure.

### **Income Taxes**

Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and the amounts reported in the consolidated financial statements. The provision for income taxes is the tax payable for the period and the change during the period in net deferred income tax assets and liabilities. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

### **Research and Development Costs**

Research and development costs are expensed as incurred and are related to developing new products and to improving existing products or processes. These costs primarily include salaries, supplies, legal costs related to patents and design costs. We incurred research and development costs of \$3.8 million, \$3.3 million, and \$3.2 million for the years ended January 31, 2007, 2006 and 2005, respectively.



### Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, accounts receivable and foreign currency forward exchange contracts. We place our cash and cash equivalents in major financial institutions. Deposits held with the financial institutions may exceed the Federal Deposit Insurance Corporation limit.

We manage our credit risk on marketable securities by limiting the size of any one holding to 5% of the total issue, requiring a minimum issue size of \$50 million and limiting the investment in any one issue to \$5 million, except for obligations of U.S. government agencies.

Accounts receivable are with a large number of customers, primarily equipment manufacturers and dealers, dispersed across a wide geographic base. No single customer accounts for more than 10% of our consolidated net sales. Our consolidated net sales for the years ended January 31, 2007, 2006 and 2005 to all original equipment manufacturers (OEM) customers were 45%, 45% and 40% of total net sales, respectively. This percentage is consistent with recent years. We perform on-going credit evaluations and do not require collateral. Allowances are maintained for potential credit losses when deemed necessary.

See Note 11 for discussion of foreign currency forward exchange contracts.

### 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 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 revenues and expenses during the reporting period. We base our estimates on our historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Significant estimates and judgments made by our management include matters such as the collectibility of accounts receivable, realizability of deferred income tax assets, realizability of goodwill and long-lived assets, warranty liabilities, share based compensation and benefit plan assumptions and future costs of environmental matters.

### Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects potential dilution that could occur if stock options and SARS were exercised or converted into common stock using the treasury stock method.

### Recent Accounting Pronouncements

**SFAS 151** In November 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 151 (SFAS 151), Inventory Costs, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing , to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that .under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 were effective for us on February 1, 2006. The adoption of SFAS 151 did not have a material impact on our financial position or results of operations.

**SFAS 154** In May 2005, the FASB issued SFAS No. 154 (SFAS 154), *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 requires the application of a change in accounting principle be applied to prior accounting periods presented as if that principle had always been used. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 at the beginning of fiscal 2007 did not have an effect on our consolidated financial statements.

**FIN 48** In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FASB Interpretation No. 48 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. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We are currently evaluating the impact of FASB Interpretation No. 48 on our financial statements. Application of this interpretation is required for our financial statements at the beginning of fiscal year ended January 31, 2008.

**SFAS 157** In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 provides a common definition of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. We are currently evaluating the impact of SFAS 157 on our financial statements. Application of SFAS 157 is required for our financial statements for the fiscal year beginning February 1, 2008.

**SFAS 158** In September 2006, the FASB issued SFAS 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). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company's fiscal year end. Presently, we use a December 31 measurement date for the postretirement benefit plan, which will need to change to coincide with our January 31 fiscal year-end date. We adopted SFAS 158 for our financial statements for the fiscal year ended January 31, 2007, except for the measurement date provision, which is effective for the fiscal year ending January 31, 2009. The impact of adopting SFAS 158 increased the employee benefit liability on our consolidated balance sheet by \$1.0 million and decreased shareholders' equity by \$657,000, net of tax.

**SAB 108** In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108) *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors considered, is material. Application of SAB 108 did not have an impact on our consolidated financial statements for the fiscal year ending January 31, 2007.



**SFAS 159** In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS 159 allows companies the choice to measure many financial instruments and certain other items at fair value. Application of SFAS 159 is required for our financial statements beginning February 1, 2008. We are currently reviewing the impact of this pronouncement on our consolidated financial statements.

**Note 3 Inventories**

	<b>January 31 2007 (In thousands)</b>	<b>2006</b>
Finished goods and components	\$ 36,716	\$ 37,236
Work in process	399	620
Raw materials	21,165	19,140
	<b>\$ 58,280</b>	<b>\$ 56,996</b>

**Note 4 Property, Plant and Equipment**

	<b>January 31 2007 (In thousands)</b>	<b>2006</b>
Land	\$ 6,069	\$ 6,415
Buildings	48,201	42,558
Machinery and equipment	164,481	149,259
	218,751	198,232
Accumulated depreciation	(134,600 )	(122,858 )
	<b>\$ 84,151</b>	<b>\$ 75,374</b>

Depreciation expense for the years ended January 31, 2007, 2006 and 2005, was \$13.8 million, \$14.6 million and \$13.9 million, respectively.

**Note 5 Debt**

	<b>January 31 2007 (In thousands)</b>	<b>2006</b>
\$125 million revolving line of credit, variable interest rate payable at 6.06% at January 31, 2007, principal payable in fiscal 2012.	\$ 34,000	\$
Senior notes, interest at 6.92% payable semi-annually, principal due annually through fiscal 2008	12,500	25,000
Other debt	73	181
	46,573	25,181
Less current portion	(12,573 )	(12,681 )
Long-term debt	<b>\$ 34,000</b>	<b>\$ 12,500</b>

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Our debt agreements contain covenants relating to net worth and leverage ratios. We were in compliance with these covenants at January 31, 2007. The average interest rate on notes payable to banks was 4.9% during fiscal 2007 and 3.0% during fiscal 2006.

Borrowing arrangements currently in place with commercial banks provide available lines of credit totaling \$125 million, of which \$3.2 million were being used at January 31, 2007 through the issuance of letters of credit. Borrowings under lines of credit were \$34 million at January 31, 2007. Amounts under the lines of credit bear interest at LIBOR plus a margin, based on certain Company financial ratios. As of January 31, 2007 the interest rate was LIBOR plus a margin of 0.75%. Commitment fees on unused amounts are 0.225%.

Future maturities of long-term debt are as follows (in thousands):

### Year ended January 31

2008	\$ 12,573
2012	34,000
	\$ 46,573

### Note 6 Income Taxes

	Year Ended January 31		
	2007	2006	2005
	(In thousands)		
Provision (benefit) for income taxes consisted of:			
Current:			
Federal	\$ 11,056	\$ 12,397	\$ 8,398
State	1,582	1,459	1,554
Foreign	12,268	9,789	7,096
	24,906	23,645	17,048
Deferred:			
Federal	(593 )	(1,160 )	(792 )
State	(91 )	13	242
Foreign	(448 )	(2,322 )	(1 )
	(1,132 )	(3,469 )	(551 )
Total provision for income taxes	\$ 23,774	\$ 20,176	\$ 16,497
Income before provision for income taxes was as follows:			
United States	\$ 36,443	\$ 36,139	\$ 26,536
Foreign	32,812	26,088	18,451
	\$ 69,255	\$ 62,227	\$ 44,987

Reconciliation of the federal statutory rate to the effective tax rate is as follows:

Federal statutory rate	35.0	%	35.0	%	35.0	%
State income taxes, net of federal tax benefit						