

FINANCIAL REVIEW

Calton Corporation

A summary of long-term debt, excluding the current portion, follows:

December 31	1993	1992
(Millions of dollars)		
9% notes payable, due 2001	\$100	\$100
8% debentures, due 2006 (due 1996 at option of debenture holder)	86	86
8.9% debentures, due 2006	100	100
7% debentures, due 2011, net of unamortized discount of \$95 million in 1993 and \$96 million in 1992 (effective interest rate 14.6%)	105	104
8.7/8% debentures, due 2019 (due 2004 at option of debenture holder)	38	38
8.1% debentures, due 2022	100	100
Notes payable of Employee Stock Ownership Plan due through 1999	82	96
8.5% sinking fund debentures		89
9% sinking fund debentures		74
Other	38	46
	<u>\$649</u>	<u>\$833</u>

During 1993, the Company called for redemption the \$74 million outstanding balance of its 9% debentures and the \$89 million outstanding balance of its 8.5% debentures, resulting in an extraordinary loss of \$7 million.

Notes payable of the Employee Stock Ownership Plan (ESOP), which are guaranteed by the Company, consist of \$65 million at a floating interest rate (3.00% at December 31, 1993) based on LIBOR and \$31 million at a fixed interest rate of 7.62%. The Company has entered into a series of interest rate swaps, which expire ratably through 1999, and which change the interest rate on the \$31 million of fixed interest rate notes payable to fixed interest rates of 7.07% and 6.85% as to \$9 million and \$18 million, respectively, and to a floating interest rate (2.075% at December 31, 1993) based on LIBOR as to \$4 million.

In 1991, an unrelated party exercised its option under a 1990 agreement to enter into an interest rate swap expiring in 2000 with the Company. The agreement effectively converts \$100 million of floating rate debt into fixed rate obligations. Payments are received at a floating interest rate (3.375% at December 31, 1993) based on LIBOR and are made at a fixed interest rate of 9%.

Aggregate mandatory sinking fund requirements and annual maturities of long-term debt are as follows (in millions): 1994, \$110; 1995, \$21; 1996, \$106; 1997, \$21; and 1998, \$22. The amount for 1994 includes \$89 million of 8.5% debentures called for redemption in January 1994. The amount for 1996 includes \$86 million of 8% debentures due in 1996 at the option of the debenture holder.

Interest cost capitalized as part of acquisition or construction of major assets (in millions) was \$12, \$8, and \$7 in 1993, 1992 and 1991, respectively. Interest paid (in millions) was \$90, \$94 and \$81 in 1993, 1992 and 1991, respectively.

At December 31, 1993, the Company held foreign currency forward exchange contracts and options, which primarily mature in 1994, for purchase or sale of largely European and Canadian currencies to hedge foreign currency transactions and net investment positions. Open purchase contracts totaled \$63 million and open sales contracts totaled \$290 million.

Counterparties to various hedging instruments are a number of major international financial institutions. While the Company may be exposed to credit losses in the event of nonperformance by these counterparties, it does not anticipate losses due to its control over the limit of positions entered into with any one party and the strong credit ratings of these institutions.

The following table summarizes the carrying amount and fair value of financial instruments:

December 31	1993		1992	
	Carrying amount	Fair value	Carrying amount	Fair value
(Millions of dollars)				
Cash and short-term investments	\$ 300	\$ 300	\$ 216	\$ 216
Equity investments and marketable securities, included in other assets	53	61	54	67
Short-term debt	(14)	(14)	(30)	(30)
Long-term debt and current portion of long-term debt	(759)	(941)	(852)	(954)
Foreign currency forward exchange contracts and options	6	7	8	14
Interest rate derivatives		(13)		(12)

The fair value of equity investments, marketable securities, long-term debt and interest rate derivatives was principally based on quoted market prices. The fair value of foreign currency forward exchange contracts and options was estimated based on quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences. The carrying amount of financial instruments is not affected by the fair value measurement.

PROTECTION OF THE ENVIRONMENT

The Company has been named a potentially responsible party (PRP) under the Federal Superfund law at a number of waste disposal sites. Although this law technically imposes joint and several liability upon each PRP at each site, the extent of the Company's required financial contribution to the cleanup of these sites is expected to be limited based on the number and financial strength of the other named PRP's and the volumes of waste involved which might be attributable to the Company. The Company is also involved in remedial response and voluntary environmental cleanup expenditures at a number of other sites which are not the subject of any Superfund law proceeding, including certain of its currently-owned or formerly-owned plants. Although it is difficult to quantify the potential financial impact of compliance with environmental protection laws, management estimates that there is a reasonable possibility that the remediation and other costs associated with all of these sites may range between \$10 million and \$68 million, and that such costs would be incurred over a period of several years. The Company accrues for these costs when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. At December 31, 1993, the Company's balance sheet included an accrual for the estimated remediation and other environmental costs of approximately \$14 million. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Subject to the difficulty in estimating future environmental costs, the Company expects that any sum it may be required to