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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1988 Commission file number 1-5409

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TYLER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation)	75-1225029 (I.R.S. Employer Identification No.)
3200 San Jacinto Tower Dallas, Texas (Address of principal executive offices)	75201 (Zip Code)

Registrant's telephone number, including area code: (214) 754-7800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 par value	New York Stock Exchange Philadelphia Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Philadelphia Stock Exchange
10-1/2% Subordinated Debentures due 1998	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

The aggregate market value of the voting stock held by non-affiliates of the registrant on February 21, 1989, was $134,706,296.

The number of shares of common stock of the registrant outstanding on February 21, 1989, was 21,474,047.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Parts I and II of this Annual Report is incorporated by reference from the registrant's 1988 Annual Report to Shareholders and information required by Part III of this Annual Report is incorporated by reference from the registrant's definitive proxy statement for its annual meeting of shareholders to be held on April 19, 1989.

PLAINTIFF'S EXHIBIT
TPI-544

PART I

Item 1. Business.

General. Tyler Corporation ("Tyler"), through its three operating subsidiaries, Atlas Powder Company, Reliance Universal Inc., and Tyler Pipe Industries, Inc., manufactures and distributes commercial and industrial explosives for the coal mining, quarrying, construction, metal mining and seismic exploration industries; manufactures and distributes specialty industrial coatings for industrial customers; and manufactures and distributes cast iron pipe, fittings and related building materials used primarily in commercial, industrial and residential construction and by municipalities. In August 1988 Tyler sold Hall-Mark Electronics Corporation, a distributor of electronic components and systems.

Industry Segments. For financial information about industry segments of Tyler, reference is made to the "Industry Segments" note to the consolidated financial statements on page 31 of Tyler's 1988 Annual Report to Shareholders which is incorporated by reference. This information should be read in conjunction with the consolidated financial statements and accompanying notes.

Principal Products and Services.

Commercial and Industrial Explosives. Tyler, through Atlas Powder Company ("Atlas") and its subsidiaries, manufactures and distributes a complete line of commercial and industrial explosives for a variety of end users whose demands and requirements differ widely according to industry, location, blasting conditions and technical sophistication. Atlas also manufactures nitrated esters for use in propellants for the aerospace industry. The business was founded in 1912 and acquired by Tyler in July 1973.

The major user of commercial and industrial explosives, on the basis of total tonnage, is the coal mining industry, followed by the quarrying, construction, metal mining and seismic exploration industries. With headquarters in Dallas, Atlas has production facilities in Joplin, Missouri and Tamaqua, Pennsylvania, where it manufactures nitroglycerine-based explosives, emulsions, electric and nonelectric detonators, other blasting supplies and ammonium nitrate. Atlas maintains 18 mix plants throughout the United States for mixing and storage of its ANFO (ammonium nitrate mixed with fuel oil) products. Emulsion blasting agents are manufactured at nine Atlas field locations in addition to the Joplin emulsion facility. Atlas' products are sold by salesmen and distributors nationwide. In recent years Atlas has continued to expand its distribution activities and currently owns and operates 16 explosives distributors. Principal raw materials used in the manufacture of Atlas' products include ammonia, fuel oil, ethylene glycol, glycerine, copper and ammonium nitrate. No shortages of raw materials appear imminent or likely at this time.

Atlas' research and development laboratory is located in Tamaqua, Pennsylvania. Its research and development program is a key contributor to Atlas' technical leadership position in explosives research, particularly in the area of emulsion technology.

Atlas ranks first in sales of commercial and industrial explosives products within the United States. Product reliability and performance, technical assistance to end users, proximity of distributors to blasting operations and price are important factors affecting usage of commercial and industrial explosives. The commercial and industrial explosives business is somewhat seasonal to the extent that the quarrying and strip mining industries are affected by weather. Atlas' largest competitors are Ireco Incorporated, Austin Powder Company and Explosives Technology International (formerly a division of E.I. du Pont de Nemours). Atlas also competes with several smaller concerns.

Specialty Industrial Coatings. Tyler, through Reliance Universal Inc. ("Reliance") and its subsidiaries, manufactures and distributes specialty industrial coatings. The 69-year-old company, acquired by Tyler in 1981, is a major supplier of factory-applied coatings for wood, metal, plastic and paper products. Principal users of Reliance's products are manufacturers of furniture and cabinetry, wall paneling, major appliances, metal siding and building panels, office furnishings and equipment, food and beverage containers, paper publications and packaging products. Reliance also manufactures specialty resin polymers.

With its corporate office and research center in Louisville, Kentucky, Reliance has 16 manufacturing plants and locations throughout the United States, Canada and Western Europe. Distribution of specialty industrial coatings is accomplished through company salesmen and technical servicemen. These salesmen and servicemen are highly trained and work closely with customers in developing the exact characteristics of the finish needed for a particular application. The finishes formulated by each operation's laboratory are produced only after orders have been received from customers. There are few standard finishes, and only a limited amount of finished goods inventory is kept in stock.

Research and development plays a key role in all product areas. In addition to new product development, research and development is also responsible for improving products and reducing ingredient costs.

Raw materials and supplies for its specialty industrial coatings consist principally of solvents, pigments and synthetic resins. Reliance has no long-term supply contracts for these raw materials. Certain raw materials are in limited supply, but Reliance believes it will be able to obtain sufficient quantities necessary to support current levels of activity.

The specialty coatings industry is highly competitive. Competition is based on product quality, customer service and price. Reliance competes with numerous manufacturers, including PPG Industries, Inc., The Sherwin-Williams Company, The Valspar Corporation, The Glidden Co. and Lilly Industrial Coatings, Inc. Reliance believes that it is one of the five largest manufacturers of specialty industrial coatings in the United States.

Pipe and Fittings. Tyler, through Tyler Pipe Industries, Inc. ("Tyler Pipe") and its subsidiaries, manufactures and distributes cast iron pipe, fittings and related building materials used primarily in drain, waste and vent ("DWV") applications in commercial, industrial and residential construction and cast iron water and sewage fittings for use by municipalities. Tyler Pipe, which was founded in 1935 and acquired by Tyler in 1968, sells substantially all of its DWV products as finished products to wholesale plumbing and supply houses. Water and sewage fittings are sold primarily to waterworks jobbers and municipalities. The pipe and fittings business is seasonal to the extent that the construction industry is affected by weather.

Tyler Pipe manufactures a complete line of cast iron DWV pipe and fittings in diameters from 1-1/2 inches to 15 inches. Tyler Pipe also manufactures fittings for use in water and sewage treatment systems in both gray and ductile iron. Gray iron fittings are currently manufactured in diameters from 2 inches to 30 inches, and ductile iron fittings are currently manufactured in diameters from 3 inches to 24 inches. Ductile iron is sometimes specified in certain applications because of its higher strength yet lighter weight.

Tyler Pipe has developed a number of products and manufacturing processes including introducing soil pipe in ten-foot lengths; developing the Ty-Seal gasket, a neoprene compression gasket, which replaced the lead and oakum joints used to connect cast iron pipe and fittings; and producing complete self-contained plumbing walls for use in modular construction. Tyler Pipe also was the first domestic manufacturer to use the unlined water-cooled cupola; to employ centrifugal casting machines utilizing one-piece metal molds for casting soil pipe; and to produce cast iron soil pipe fittings in permanent metal molds.

Tyler Pipe has its headquarters and major foundry and manufacturing facility in Tyler, Texas. A second foundry is in Macungie, Pennsylvania. Tyler Pipe also has a plant in Marshfield, Missouri, where it manufactures stainless steel clamps and gaskets used to join soil pipe and fittings. The majority of sales are handled directly through offices maintained at the Tyler, Texas plant. Sales are made both through Tyler Pipe's sales representatives and independent manufacturers' representatives throughout the United States. Transportation costs, pricing, product quality and performance, and the ability to service customers promptly are material factors affecting sales of Tyler Pipe's products as are the general level and mix of spending in the construction industry.

Tyler Pipe obtains iron, the basic raw material used in its products, by melting and refining iron and steel scrap to the required specifications. Most of the scrap material is purchased directly from scrap dealers in areas where Tyler Pipe's trucks make deliveries and is returned to the plants by its trucks as backhaul. Other basic materials used include coke, limestone, fluorspar, resin, bentonite, silicon, sand and core oils, all of which have been generally available from multiple sources. Tyler Pipe experienced no problems in obtaining these materials during 1988. No shortages of basic raw materials appear imminent or likely. Tyler Pipe has no material contractual arrangements with any of its suppliers of raw materials.

In the sale and distribution of DWV pipe and fittings, Tyler Pipe competes with a number of companies, such as United States Pipe & Foundry Co., a division of Jim Walter Corp., Charlotte Pipe and several smaller companies whose sales are generally concentrated close to their plants in various regions of the United States. In water and sewage fittings, Tyler Pipe competes with United States Pipe & Foundry Co., American Cast Iron Pipe Company, Griffin Pipe Products Co., McWane Inc. and others. In addition, Tyler Pipe's pipe and fittings products compete with those made of other materials, including vitrified clay, plastic, asbestos cement, steel, fiber and copper. Tyler Pipe is the largest manufacturer of cast iron soil pipe and fittings sold in the national market for DWV applications.

Employees. At December 31, 1988, Tyler had 5,801 employees, of whom 1,476 were employed by Atlas, 1,576 by Reliance and 2,715 by Tyler Pipe. There were 638 employees covered by collective bargaining agreements with various unions. Tyler has experienced no significant work stoppages or strikes and generally has had good relations with its employees.

Item 2. Properties.

Tyler occupies offices, production, research, storage and maintenance facilities that contain approximately 4.2 million square feet of floor space. The principal plants, warehouses and offices, all of which are owned by Tyler or one of its subsidiaries, are described as follows:

Location	Approximate Sq. Feet of Floor Space	Primary Use
Joplin, Missouri	*	Ammonium nitrate and nitric acid production facility used in the commercial and industrial explosives business.
Tamaqua, Pennsylvania	323,000	Research and production facility used in the commercial and industrial explosives business.
Joplin, Missouri	280,000	Production facility used in the commercial and industrial explosives business.
Columbus, Ohio	115,000	Offices, storage, laboratory and production facility used in the specialty industrial coatings business.

* Consists of a facility having an annual capacity of approximately 150,000 tons of ammonium nitrate and approximately 160,000 tons of nitric acid.

Location	Approximate Sq. Feet of Floor Space	Primary Use
Louisville, Kentucky	193,000	Offices, storage, laboratory and production facility used in the specialty industrial coatings business.
Mechelen, Belgium	138,000	Offices, storage, laboratory and production facility used in the specialty industrial coatings business.
High Point, North Carolina	156,000	Offices, storage, laboratory and production facility used in the specialty industrial coatings business.
Zion, Illinois	81,000	Offices, storage, laboratory and production facility used in the specialty industrial coatings business.
Roanoke, Virginia	63,000	Offices, storage, laboratory and production facility used in the specialty industrial coatings business.
Salem, Oregon	59,000	Offices, storage, laboratory and production facility used in the specialty industrial coatings business.
Swan (Tyler), Texas	1,379,000	Offices, foundries, shops and warehouses used in the pipe and fittings business.
Macungie, Pennsylvania	152,000	Offices, foundry and warehouse used in the pipe and fittings business.
Marshfield, Missouri	55,000	Offices, plant and warehouse used in the pipe and fittings business.

The machinery, equipment, buildings and facilities owned and leased by Tyler and its subsidiaries are generally well maintained and suitable for their operations.

Item 3. Legal Proceedings.

On December 3, 1986, the Environmental Protection Agency ("EPA") instituted a suit against Atlas alleging that its explosives manufacturing facility near Tamaqua, Pennsylvania exceeded pollutant limitations in its wastewater discharge permits. In June 1988 the court entered an order confirming the settlement agreement reached between the EPA and Atlas. Pursuant to the settlement agreement and subsequent negotiations regarding compliance with the settlement agreement, Atlas has incurred $1,084,000 in penalties and may be subject to additional stipulated penalties for failure to comply with pollutant limitations and the construction schedule contained in the settlement agreement. Tyler expects that the outcome of those proceedings will not have a material adverse effect on its consolidated financial position or results of operations.

In May 1983 Reliance received a letter from the EPA requesting its participation, along with other companies, in a voluntary cleanup program at a waste disposal site in Bullit County, Kentucky. The EPA has also named Reliance as a potentially responsible party for cleanup costs at waste sites in Illinois, Indiana and Oklahoma. Numerous companies were notified by the EPA in each of these proceedings. Tyler expects that the outcome of those proceedings will not have a material adverse effect on its consolidated financial position or results of operations.

In January 1983 a small group of landowners in the vicinity of Tyler, Texas instituted a suit against Tyler Pipe. The landowners alleged that waste discharges from the Tyler Pipe plant had polluted a stream that runs through their properties. The suit, which is pending in state district court, Smith County, Texas, asks for actual damages in excess of $667,000 and $50 million in exemplary damages. Tyler Pipe has denied all of the plaintiffs' allegations and believes the claim for actual damages is speculative and the claim for exemplary damages is totally without merit. This suit has been dormant for several years. Tyler expects that the outcome of the suit will not have a material adverse effect on its consolidated financial position or results of operations.

Tyler Pipe has been notified by the EPA that it is a potentially responsible party at the Novak Sanitary Landfill Superfund site in Lehigh County, Pennsylvania. A number of other potentially responsible parties have also been identified and notified by the EPA. Tyler Pipe is contesting its inclusion on the list of potentially responsible parties based upon the nonhazardous character of the wastes it sent to the site. Tyler expects that the outcome of this proceeding will not have a material adverse effect on its consolidated financial position or results of operations.

Other than ordinary routine litigation incidental to the business of Tyler and its subsidiaries and except as described or incorporated herein by reference, there are no material legal proceedings pending to which Tyler or any of its subsidiaries is a party or to which any of its or their properties is subject.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Tyler's Common Stock is traded on both the New York and Philadelphia Stock Exchanges. At December 31, 1988, Tyler had over 13,000 shareholders and approximately 5,200 shareholders of record. The following information is incorporated by reference from the indicated pages of Tyler's 1988 Annual Report to Shareholders: (a) stock trading price range and dividends paid per share in each quarter for the last two years - page 33 and (b) restrictions on retained earnings available for dividends - page 27.

Item 6. Selected Financial Data.

The information required by this Item is incorporated by reference from Tyler's 1988 Annual Report to Shareholders, pages 14-15.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required by this Item is incorporated by reference from the following portions of Tyler's 1988 Annual Report to Shareholders: Management's Discussion and Analysis of Operations - pages 20-21 and Financial Comment - pages 10-12.

Item 8. Financial Statements and Supplementary Data.

The following consolidated financial statements and unaudited supplementary quarterly financial data are incorporated by reference from the indicated pages in Tyler's 1988 Annual Report to Shareholders.

	Pages of Annual Report to Shareholders
Consolidated statements of income for each of the three years in the period ended December 31, 1988	22
Consolidated balance sheets at December 31, 1988 and 1987	23
Consolidated statements of shareholders' equity for each of the three years in the period ended December 31, 1988	24
Consolidated statements of cash flows for each of the three years in the period ended December 31, 1988	25
Notes to consolidated financial statements	26-31
Report of independent public accountants	32
Unaudited supplementary quarterly financial data	33

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

PART III

The information required by Items 10 through 13 of Part III is incorporated by reference from the indicated pages of Tyler's definitive proxy statement for its annual meeting of shareholders to be held on April 19, 1989.

	Pages of Proxy Statement
Item 10. Directors and Executive Officers of the Registrant.	3-5
Item 11. Executive Compensation.	5-9, 12
Item 12. Security Ownership of Certain Beneficial Owners and Management.	1-3
Item 13. Certain Relationships and Related Transactions.	9

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as a part of this report:

1. Consolidated financial statements (see Item 8).

2. Consolidated financial statement schedules.

Consolidated financial statement schedules for each of the three years in the period ended December 31, 1988:

		Page Reference
V	Property, plant and equipment	S-1/S-3
VI	Allowance for depreciation of property, plant and equipment	S-4/S-6
VIII	Allowance for losses	S-7
X	Supplementary income statement information	S-8

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements, including the notes thereto.

3. Exhibits.

3.1 Restated Certificate of Incorporation of Tyler, as amended through December 2, 1987 (filed as Exhibit 3.1 to Tyler's Form 10-K for the fiscal year ended December 31, 1987 and incorporated herein by reference).

3.2 Tyler Bylaws, as amended through March 16, 1981 (filed as Exhibit 3.2 to Tyler's Form 10-K for the fiscal year ended December 31, 1985 and incorporated herein by reference).

4.1 Form of loan agreement for lines of credit totaling $125,000,000, dated December 13, 1988.

4.2 Indenture dated as of July 1, 1987, between Tyler and The Bank of New York, relating to Tyler's 11% Senior Subordinated Debentures due July 15, 1997 (filed as Exhibit 4.1 to Tyler's Form 8-K dated July 15, 1987 and incorporated herein by reference).

4.3 Form of 11% Senior Subordinated Debentures due July 15, 1997 (filed as Exhibit 4.2 to Tyler's Form 8-K dated July 15, 1987 and incorporated herein by reference).

4.4 Supplemental Indenture dated as of January 14, 1988, between Tyler and The Bank of New York, relating to Tyler's 11% Senior Subordinated Debentures Due 1997 (filed as Exhibit 4.4 to Tyler's Form 10-K for the fiscal year ended December 31, 1987 and incorporated herein by reference).

4.5 Rights Agreement dated as of December 1, 1987, between Tyler and First RepublicBank Dallas, N.A., which includes the form of Rights Certificate as Exhibit B, as amended April 20, 1988 (filed, respectively, as Exhibit 4 in Tyler's Form 8-A dated December 1, 1987, and

Exhibit 19.2 to Tyler's Form 10-Q for the quarter ended March 31, 1988 and incorporated herein by reference).

10.2 Tyler Stock Option Plan, as amended through January 31, 1986 (filed as Exhibit 10.2 to Tyler's Form 10-K for the fiscal year ended December 31, 1985 and incorporated herein by reference).

10.3 Tyler Salary Continuation Agreement (filed as Exhibit 10.3 to Tyler's Form 10-K for the fiscal year ended December 31, 1986 and incorporated herein by reference).

10.4 Tyler Management Security Agreement (filed as Exhibit 10.4 to Tyler's Form 10-K for the fiscal year ended December 31, 1986 and incorporated herein by reference).

10.5 Agreement with H. Joseph Burchell regarding retirement benefits.

10.6 Reliance Supplemental Executive Retirement Plan (filed as Exhibit 10.6 to Tyler's Form 10-K for the fiscal year ended December 31, 1986 and incorporated herein by reference).

10.7 Reliance Long-Term Disability Plan (filed as Exhibit 10.7 to Tyler's Form 10-K for the fiscal year ended December 31, 1986 and incorporated herein by reference).

10.8 Split-dollar life insurance agreement with Joseph F. McKinney (filed as Exhibit 10.8 to Tyler's Form 10-K for the fiscal year ended December 31, 1985 and incorporated herein by reference).

10.9 Tyler Supplemental Retirement Plan (filed as Exhibit 10.9 to Tyler's Form 10-K for the fiscal year ended December 31, 1986 and incorporated herein by reference).

10.11 Consulting Agreement dated as of January 1, 1987, between Tyler and Frederick R. Meyer (filed as Exhibit 10.11 to Tyler's Form 10-K for the fiscal year ended December 31, 1986 and incorporated herein by reference).

10.12 Form of Phantom Stock Award Agreement (filed as Exhibit 10.12 to Tyler's Form 10-K for the fiscal year ended December 31, 1986 and incorporated herein by reference).

10.13 Reliance Restated Executive Security Plan (filed as Exhibit 10.13 to Tyler's Form 10-K for the fiscal year ended December 31, 1987 and incorporated herein by reference).

10.14 Form of Indemnification Agreement (included as Exhibit B to Tyler's 1987 Proxy Statement and incorporated herein by reference).

10.15 Merger Agreement dated June 27, 1988, among Tyler, Hall-Mark Electronics Corporation, RFS Hall-Mark Holding Corporation, and RFS Hall-Mark Acquisition Corporation, as amended August 2, 1988 (filed as Exhibit 2 to Tyler's Form 10-Q for the quarter ended June 30, 1988 and incorporated herein by reference).

13 1988 Annual Report to Shareholders. With the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 1988 Annual Report to Shareholders is not to be deemed filed as part of this Form 10-K.

22 Subsidiaries of Tyler.

24 Consent of Arthur Young & Company (see page 16).

Tyler will furnish copies of these exhibits to shareholders upon written request and payment of $0.15 per page.

(b) Reports on Form 8-K.

Tyler did not file any Current Reports on Form 8-K during the fourth quarter of 1988.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TYLER CORPORATION

Date: March 16, 1989 By: ______________________
J. F. McKinney
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 16, 1989 By: ______________________
J. F. McKinney
Chairman of the Board, President, and Chief Executive Officer (principal executive officer)

Date: March 16, 1989 By: ______________________
Richard W. Margerison
Executive Vice President (a principal executive officer)

Date: March 16, 1989 By: ______________________
David L. Smart
Vice President and Treasurer (a principal financial officer)

Date: March 16, 1989 By: ______________________
Linda K. Hill
Controller (a principal financial officer and principal accounting officer)

Date: March __, 1989 By: ______________________
H. Joseph Burchell
Director

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TYLER CORPORATION

Date: March __, 1989 By: ______________________
J. F. McKinney
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March __, 1989 By: ______________________
J. F. McKinney
Chairman of the Board, President, and Chief Executive Officer (principal executive officer)

Date: March __, 1989 By: ______________________
Richard W. Margerison
Executive Vice President
(a principal executive officer)

Date: March __, 1989 By: ______________________
David L. Smart
Vice President and Treasurer
(a principal financial officer)

Date: March __, 1989 By: ______________________
Linda K. Hill
Controller (a principal financial officer and principal accounting officer)

Date: March 6, 1989 By: ______________________
H. Joseph Burchell
Director

Date: March 17, 1989 By: Charles J. Fisher
Charles J. Fisher
Director

Date: March __, 1989 By: ______________________
C. Jackson Grayson, Jr.
Director

Date: March __, 1989 By: ______________________
Samuel S. Greeley
Director

Date: March __, 1989 By: ______________________
Thomas W. Landry
Director

Date: March __, 1989 By: ______________________
Perry J. Lewis
Director

Date: March __, 1989 By: ______________________
F. R. Meyer
Director

Date: March __, 1989 By: ______________________
Neil J. O'Brien
Director

Date: March __, 1989 By: ______________________
C. A. Rundell, Jr.
Director

Date: March __, 1989 By: ______________________
Fred R. Sullivan
Director

Date: March __, 1989 By: ______________________
John A. Warner
Director

0594G

Date: March __, 1989 By: ______________________
Charles J. Fisher
Director

Date: March __, 1989 By: ______________________
C. Jackson Grayson, Jr.
Director

Date: March __, 1989 By: ______________________
Samuel S. Greeley
Director

Date: March __, 1989 By: ______________________
Thomas W. Landry
Director

Date: March __, 1989 By: ______________________
Perry J. Lewis
Director

Date: March 17, 1989 By: ______________________
F. R. Meyer
Director

Date: March __, 1989 By: ______________________
Neil J. O'Brien
Director

Date: March __, 1989 By: ______________________
C. A. Rundell, Jr.
Director

Date: March __, 1989 By: ______________________
Fred R. Sullivan
Director

Date: March __, 1989 By: ______________________
John A. Warner
Director

0594G

Date: March __, 1989 By: ______________________
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Director

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Thomas W. Landry
Director

Date: March __, 1989 By: ______________________
Perry J. Lewis
Director

Date: March __, 1989 By: ______________________
F. R. Meyer
Director

Date: March 17, 1989 By: Neil J. O'Brien
Neil J. O'Brien
Director

Date: March __, 1989 By: ______________________
C. A. Rundell, Jr.
Director

Date: March __, 1989 By: ______________________
Fred R. Sullivan
Director

Date: March __, 1989 By: ______________________
John A. Warner
Director

0594G

Date: March __, 1989 By: ______________________
Charles J. Fisher
Director

Date: March __, 1989 By: ______________________
C. Jackson Grayson, Jr.
Director

Date: March __, 1989 By: ______________________
Samuel S. Greeley
Director

Date: March __, 1989 By: ______________________
Thomas W. Landry
Director

Date: March __, 1989 By: ______________________
Perry J. Lewis
Director

Date: March __, 1989 By: ______________________
F. R. Meyer
Director

Date: March __, 1989 By: ______________________
Neil J. O'Brien
Director

Date: March 14, 1989 By: C A Rundell Jr
C. A. Rundell, Jr.
Director

Date: March __, 1989 By: ______________________
Fred R. Sullivan
Director

Date: March __, 1989 By: ______________________
John A. Warner
Director

0594G

Date: March __, 1989 By: ______________________
Charles J. Fisher
Director

Date: March __, 1989 By: ______________________
C. Jackson Grayson, Jr.
Director

Date: March __, 1989 By: ______________________
Samuel S. Greeley
Director

Date: March __, 1989 By: ______________________
Thomas W. Landry
Director

Date: March __, 1989 By: ______________________
Perry J. Lewis
Director

Date: March __, 1989 By: ______________________
F. R. Meyer
Director

Date: March __, 1989 By: ______________________
Neil J. O'Brien
Director

Date: March __, 1989 By: ______________________
C. A. Rundell, Jr.
Director

Date: March 17, 1989 By: Fred R. Sullivan
Fred R. Sullivan
Director

Date: March __, 1989 By: ______________________
John A. Warner
Director

0594G

Date: March __, 1989 By: ______________________
Charles J. Fisher
Director

Date: March __, 1989 By: ______________________
C. Jackson Grayson, Jr.
Director

Date: March __, 1989 By: ______________________
Samuel S. Greeley
Director

Date: March __, 1989 By: ______________________
Thomas W. Landry
Director

Date: March __, 1989 By: ______________________
Perry J. Lewis
Director

Date: March __, 1989 By: ______________________
F. R. Meyer
Director

Date: March __, 1989 By: ______________________
Neil J. O'Brien
Director

Date: March __, 1989 By: ______________________
C. A. Rundell, Jr.
Director

Date: March __, 1989 By: ______________________
Fred R. Sullivan
Director

Date: March 13, 1989 By: John A. Warner
John A. Warner
Director

0594G

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report on Form 10-K of Tyler Corporation of our report dated January 27, 1989 included in the 1988 Annual Report to Shareholders of Tyler Corporation.

We also consent to the addition of the financial statement schedules, listed in Item 14(a)2 of this Annual Report on Form 10-K, to the consolidated financial statements covered by our report dated January 27, 1989, incorporated herein by reference.

We also consent to the incorporation by reference in the Registration Statement (Form S-8, File No. 2-90263), in Post-Effective Amendment No. 1 to the Registration Statement (Form S-8, File No. 2-82631), in the Registration Statement (Form S-8, File No. 2-80024), and in the Registration Statement (Form S-3, File No. 33-11305), pertaining to the Tyler Corporation Stock Option Plan, the Tyler Corporation Savings and Investment Plan, the Reliance Universal Inc. Savings and Investment Plan, and the registration covering up to $200,000,000 of debt securities, respectively, and in the related Prospectuses and Prospectus Supplements of our report dated January 27, 1989, with respect to the consolidated financial statements and consolidated financial statement schedules of Tyler Corporation included or incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1988.

Arthur Young & Company

ARTHUR YOUNG & COMPANY

Dallas, Texas
March 17, 1989

TYLER CORPORATION

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1986

Classification	Depreciation lives (in years)	Balance at beginning of year	Additions at cost	Retirements or sales	Other changes	Balance at end of year
Land	--	$ 9,308,000	$ 649,000	$ 66,000	$ --	$ $9,891,000
Buildings and leasehold improvements	10 to 40	49,417,000	6,543,000	3,417,000	(304,000)(A)	52,239,000
Machinery and equipment	5 to 20	150,504,000	16,457,000	8,166,000	304,000 (A)	159,099,000
Transportation equipment	3 to 10	19,896,000	976,000	2,037,000	--	18,835,000
		$ 229,125,000	$ 24,625,000	$ 13,686,000	$ --	$ 240,064,000

(A) Reclassification between accounts

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

TYLER CORPORATION

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1987

Classification	Depreciation lives (in years)	Balance at beginning of year	Additions at cost	Retirements or sales	Other changes	Balance at end of year
Land	--	$ 9,891,000	$ 320,000	$ 143,000	$ 109,000 (A)	$ 10,177,000
Buildings and leasehold improvements	10 to 40	52,239,000	4,490,000	748,000	236,000 (A)	56,217,000
Machinery and equipment	5 to 20	159,099,000	13,732,000	8,459,000	(282,000)(A)	164,090,000
Transportation equipment	3 to 10	18,835,000	2,444,000	2,249,000	(63,000)(A)	18,967,000
		$ 240,064,000	$ 20,986,000	$ 11,599,000	$ --	$ 249,451,000

(A) Reclassification between accounts

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

TYLER CORPORATION

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1988

Classification	Depreciation lives (in years)	Balance at beginning of year	Additions at cost	Retirements or sales	Other changes	Balance at end of year
Land	--	$ 10,177,000	$ 235,000	$ 678,000	$ --	$ 9,734,000
Buildings and leasehold improvements	10 to 40	56,217,000	3,726,000	786,000	(84,000)(A)	59,073,000
Machinery and equipment	5 to 20	164,090,000	16,290,000	4,818,000	(269,000)(A)	175,293,000
Transportation equipment	3 to 10	18,967,000	1,374,000	1,957,000	353,000 (A)	18,737,000
		$ 249,451,000	$ 21,625,000	$ 8,239,000	$ --	$ 262,837,000

(A) Reclassification between accounts

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

TYLER CORPORATION

SCHEDULE VI - ALLOWANCE FOR DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1986

Classification	Balance at beginning of year	Additions charged to cost and expense	Retirements, renewals and replacements	Other changes	Balance at end of year
Buildings and leasehold improvements	$ 15,803,000	$ 2,914,000	$ 368,000	$ (27,000)(A)	$ 18,322,000
Machinery and equipment	82,681,000	12,413,000	6,027,000	27,000 (A)	89,094,000
Transportation equipment	11,398,000	2,385,000	1,503,000	--	12,280,000
	$ 109,882,000	$ 17,712,000	$ 7,898,000	$ --	$ 119,696,000

(A) Reclassification between accounts

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

TYLER CORPORATION

SCHEDULE VI - ALLOWANCE FOR DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1987

Classification	Balance at beginning of year	Additions charged to cost and expense	Retirements, renewals and replacements	Other changes	Balance at end of year
Buildings and leasehold improvements	$ 18,322,000	$ 2,656,000	$ 369,000	$ 118,000 (A)	$ 20,727,000
Machinery and equipment	89,094,000	12,894,000	7,051,000	(30,000)(A)	94,907,000
Transportation equipment	12,280,000	1,692,000	1,104,000	(88,000)(A)	12,780,000
	$ 119,696,000	$ 17,242,000	$ 8,524,000	$ --	$ 128,414,000

(A) Reclassification between accounts

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

TYLER CORPORATION

SCHEDULE VI - ALLOWANCE FOR DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1988

Classification	Balance at beginning of year	Additions charged to cost and expense	Retirements, renewals and replacements	Other changes	Balance at end of year
Buildings and leasehold improvements	$ 20,727,000	$ 3,223,000	$ 438,000	$ (82,000)(A)	$ 23,430,000
Machinery and equipment	94,907,000	13,664,000	2,533,000	98,000 (A)	106,136,000
Transportation equipment	12,780,000	1,679,000	1,587,000	(16,000)(A)	12,856,000
	$ 128,414,000	$ 18,566,000	$ 4,558,000	$ --	$ 142,422,000

(A) Reclassification between accounts

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

TYLER CORPORATION

SCHEDULE VIII - ALLOWANCE FOR LOSSES

Years Ended December 31, 1986, 1987 and 1988

1986		
Balance at beginning of year	$	4,466,000
Additions charged to costs and expenses		2,955,000
Collections of accounts previously charged off		229,000
Deductions for accounts charged off		(4,350,000)
Balance at end of year	$	3,300,000
1987		
Balance at beginning of year	$	3,300,000
Additions charged to costs and expenses		2,660,000
Collections of accounts previously charged off		219,000
Deductions for accounts charged off		(2,549,000)
Balance at end of year	$	3,630,000
1988		
Balance at beginning of year	$	3,630,000
Additions charged to costs and expenses		2,205,000
Collections of accounts previously charged off		80,000
Deductions for accounts charged off		(2,752,000)
Balance at end of year	$	3,163,000

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

TYLER CORPORATION

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years Ended December 31, 1986, 1987 and 1988

Item	1986	1987	1988
Maintenance and repairs	$ 26,415,000	$ 26,056,000	$ 27,245,000

NOTE: Balances have been restated to exclude Hall-Mark Electronics which was sold in August 1988.

EXHIBIT INDEX

Exhibit Number	Exhibit	Sequentially Numbered Page
4.1	Revolving Credit and Term Loan Agreement dated as of December 13, 1988.	
10.5	Agreement with H. Joseph Burchell regarding retirement benefits.	
13	1988 Annual Report to Shareholders. With the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 1988 Annual Report to Shareholders is not to be deemed filed as part of this Form 10-K.	
22	Subsidiaries of Tyler Corporation.	

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1988 Commission file number 1-5409

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TYLER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation)	75-1225029 (I.R.S. Employer Identification No.)
3200 San Jacinto Tower Dallas, Texas (Address of principal executive offices)	75201 (Zip Code)

Registrant's telephone number, including area code: (214) 754-7800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 par value	New York Stock Exchange Philadelphia Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Philadelphia Stock Exchange
10-1/2% Subordinated Debentures due 1998	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

The aggregate market value of the voting stock held by non-affiliates of the registrant on February 21, 1989, was $134,706,296.

The number of shares of common stock of the registrant outstanding on February 21, 1989, was 21,474,047.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Parts I and II of this Annual Report is incorporated by reference from the registrant's 1988 Annual Report to Shareholders and information required by Part III of this Annual Report is incorporated by reference from the registrant's definitive proxy statement for its annual meeting of shareholders to be held on April 19, 1989.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

	1988	1987	1986
Net sales	$664,645,000	$624,117,000	$577,092,000
Costs and expenses			
Cost of sales	522,638,000	475,610,000	438,988,000
Selling, administrative and general expenses	106,253,000	101,760,000	96,916,000
Interest expense	11,973,000	6,431,000	2,310,000
	640,864,000	583,801,000	538,214,000
Income from continuing operations before income tax	23,781,000	40,316,000	38,878,000
Income tax (benefit)			
Current	9,816,000	12,674,000	12,805,000
Deferred	(610,000)	4,134,000	4,986,000
	9,206,000	16,808,000	17,791,000
Income from continuing operations	14,575,000	23,508,000	21,087,000
Discontinued operations			
Income (loss) from discontinued operations, after income tax (benefit)	79,000	(6,659,000)	(9,142,000)
Gain on disposal of discontinued operations, after income tax	6,334,000	—	—
Income (loss) from discontinued operations	6,413,000	(6,659,000)	(9,142,000)
Income before extraordinary charge	20,988,000	16,849,000	11,945,000
Extraordinary charge, after income tax benefit	—	(4,831,000)	—
Net income	$ 20,988,000	$ 12,018,000	$ 11,945,000
Earnings per common share			
Continuing operations	$ .77	$ 1.33	$ 1.16
Discontinued operations	.34	(.37)	(.50)
Income before extraordinary charge	1.11	.96	.66
Extraordinary charge	—	(.28)	—
Net earnings	$ 1.11	$ .68	$ .66
Average shares	19,009,000	17,642,000	18,208,000

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

December 31

	1988	1987
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,403,000	$ 3,629,000
Accounts receivable (less allowance for losses of $3,163,000 in 1988 and $3,630,000 in 1987)	94,115,000	75,336,000
Inventories	68,073,000	68,091,000
Prepaid expense	5,443,000	4,356,000
Total current assets	171,034,000	151,412,000
Net assets of discontinued electronic components distribution segment	—	187,920,000
Property, plant and equipment, at cost	262,837,000	249,451,000
Less allowance for depreciation	142,422,000	128,414,000
	120,415,000	121,037,000
Other assets		
Cost in excess of net assets of businesses acquired	41,617,000	41,961,000
Sundry	15,432,000	11,361,000
	57,049,000	53,322,000
	$348,498,000	$513,691,000

	1988	1987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 36,576,000	$ 36,141,000
Accrued liabilities	41,657,000	37,387,000
Accrued interest	6,410,000	6,686,000
Income tax	2,286,000	3,806,000
Current maturities of long-term debt	6,544,000	6,563,000
Total current liabilities	93,473,000	90,583,000
Deferred income tax	21,158,000	23,454,000
Long-term debt, less current maturities	65,091,000	103,305,000
Subordinated debt	117,214,000	117,348,000
Shareholders' equity		
Common stock, $.10 par value, 50,000,000 shares authorized, 25,914,188 shares issued	2,591,000	2,591,000
Capital surplus	9,470,000	15,859,000
Retained earnings	67,170,000	224,408,000
	79,231,000	242,858,000
Less 4,447,917 treasury shares in 1988 and 8,602,937 treasury shares in 1987, at cost	27,669,000	63,857,000
Total shareholders' equity	51,562,000	179,001,000
	$348,498,000	$513,691,000

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 1988, 1987 and 1986

	Common Stock $.10 Par Value	Capital Surplus	Retained Earnings	Treasury Stock
Balance at December 31, 1985	$2,591,000	$31,668,000	$214,991,000	$(49,115,000)
Issuance of treasury shares upon exercise of stock options	—	(459,000)	—	827,000
Sale of treasury shares to employee benefit plans	—	14,000	—	2,600,000
Purchase of common stock	—	—	—	(10,784,000)
Federal income tax benefit from exercise of nonqualified stock options	—	8,000	—	—
Redemption of detachable common stock purchase warrants	—	(14,999,000)	—	—
Net income	—	—	11,945,000	—
Dividend ($.40 per share)	—	—	(7,298,000)	—
Balance at December 31, 1986	2,591,000	16,232,000	219,638,000	(56,472,000)
Issuance of treasury shares upon exercise of stock options	—	(60,000)	—	132,000
Sale of treasury shares to employee benefit plans	—	(313,000)	—	3,077,000
Purchase of common stock	—	—	—	(10,594,000)
Net income	—	—	12,018,000	—
Dividend ($.41 per share)	—	—	(7,248,000)	—
Balance at December 31, 1987	2,591,000	15,859,000	224,408,000	(63,857,000)
Issuance of treasury shares upon exercise of stock options	—	(351,000)	—	2,099,000
Sale of treasury shares to employee benefit plans	—	(6,241,000)	—	41,209,000
Purchase of common stock	—	—	—	(7,120,000)
Federal income tax benefit from exercise of nonqualified stock options	—	203,000	—	—
Net income	—	—	20,988,000	—
Dividend ($10.235 per share)	—	—	(178,226,000)	—
Balance at December 31, 1988	$2,591,000	$ 9,470,000	$ 67,170,000	$(27,669,000)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	1988	1987	1986
Cash flows from operating activities			
Income from continuing operations	$ 14,575,000	$ 23,508,000	$21,087,000
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Depreciation and amortization	18,971,000	18,647,000	18,892,000
Provision for losses on accounts receivable	2,205,000	2,660,000	2,955,000
Deferred income tax	(2,296,000)	4,233,000	1,292,000
Increase in accounts receivable	(20,984,000)	(10,914,000)	(4,369,000)
(Increase) decrease in inventories	18,000	(6,335,000)	1,052,000
(Increase) decrease in prepaid expense	(1,087,000)	555,000	(415,000)
Increase (decrease) in accounts payable	435,000	(3,349,000)	16,996,000
Increase in accrued liabilities	3,994,000	3,707,000	1,120,000
Increase (decrease) in income tax	(1,520,000)	2,446,000	3,578,000
Net cash provided by continuing operations	14,311,000	35,158,000	62,188,000
Income (loss) from discontinued operations	6,413,000	(6,659,000)	(9,142,000)
Adjustments to reconcile income (loss) from discontinued operations to net cash used by discontinued operations:			
Gain on sale of electronic components distribution segment before income tax	(9,222,000)	—	—
Increase in net assets of electronic components distribution segment	(17,534,000)	(23,989,000)	(32,081,000)
Depreciation and amortization	3,190,000	5,053,000	4,253,000
Net cash used by discontinued operations	(17,153,000)	(25,595,000)	(36,970,000)
Tax benefit of early extinguishment of 12⅞% subordinated notes	—	3,221,000	—
Net cash provided (used) by operating activities	(2,842,000)	12,784,000	25,218,000
Cash flows from investing activities			
Proceeds from sale of electronic components distribution segment, after expenses	211,486,000	—	—
Additions to property, plant and equipment	(21,625,000)	(20,986,000)	(24,625,000)
Undepreciated value of asset disposals	3,681,000	3,075,000	5,788,000
Reduction of investment in tax benefit transfer lease	—	—	2,579,000
Other	(4,147,000)	(1,887,000)	(677,000)
Net cash provided (used) in investing activities	189,395,000	(19,798,000)	(16,935,000)
Cash flows from financing activities			
Long-term borrowings	—	39,671,000	40,500,000
Reduction of long-term debt	(38,352,000)	(10,258,000)	(13,130,000)
Issuance of 11% senior subordinated debentures	—	96,629,000	—
Early extinguishment of 12⅞% subordinated notes	—	(100,000,000)	—
Retirement of 10½% subordinated debentures	—	(3,750,000)	(3,265,000)
Issuance of common stock	1,951,000	72,000	376,000
Purchase of treasury shares	(7,120,000)	(10,594,000)	(10,784,000)
Sale of treasury shares to employee benefit plans	34,968,000	2,764,000	2,614,000
Redemption of detachable common stock purchase warrants	—	—	(14,999,000)
Cash dividends	(178,226,000)	(7,248,000)	(7,298,000)
Net cash provided (used) by financing activities	(186,779,000)	7,286,000	(5,986,000)
Net increase (decrease) in cash and cash equivalents	(226,000)	272,000	2,297,000
Cash and cash equivalents at beginning of year	3,629,000	3,357,000	1,060,000
Cash and cash equivalents at end of year	$ 3,403,000	$ 3,629,000	$ 3,357,000

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Cost in excess of net assets of businesses acquired after October 1970 is amortized over 40 years. Cost in excess of net assets of businesses acquired before October 31, 1970, of $30,374,000 is not amortized. Accumulated amortization at December 31, 1988 and 1987, was $2,492,000 and $2,148,000, respectively.

Inventories are valued at the lower of cost or market. Costs for inventories are determined principally by the last-in, first-out (LIFO) method.

Depreciation, for financial statement purposes, is provided principally by the straight-line method over the estimated useful lives of the various assets. For income tax purposes, accelerated depreciation is used with recognition of deferred income tax for the resulting timing differences.

Pension plans are in effect which provide income and death benefits for substantially all employees of the Company. The benefits are generally based on final average salary and years of service. The Company's policy is to fund net pension cost accrued. However, the Company will not contribute an amount less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 or more than the maximum tax deductible amount.

The Company's investment in a tax benefit transfer lease is included in sundry assets and is amortized over the period the tax benefit is utilized by the Company. The tax benefit purchased had no material effect on net income in 1988, 1987 and 1986.

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company paid interest of $24,900,000 in 1988, $27,180,000 in 1987 and $23,708,000 in 1986 which includes interest charged to the results of discontinued operations.

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 – Accounting for Income Taxes (FAS No. 96) which is effective January 1, 1990. FAS No. 96 requires a change from the deferred to the liability method of computing income tax. Deferred tax is adjusted for changes in tax rates and laws under the liability method. In addition, deferred tax is recorded for the tax effects of book and tax differences in the net assets of companies acquired in transactions accounted for as a purchase. The Company expects the cumulative effect of applying FAS No. 96 will not be material to results of operations in the period in which FAS No. 96 is first adopted.

Inventories

	1988	1987
Finished goods	$59,790,000	$59,775,000
Work in process	4,608,000	4,397,000
Raw materials and supplies	33,574,000	30,497,000
	97,972,000	94,669,000
Less allowance to state inventories at LIFO cost	29,899,000	26,578,000
	$68,073,000	$68,091,000

Current replacement cost approximates the amounts shown above before the allowance to state inventories at LIFO cost.

Property, Plant and Equipment

	Depreciation Lives (in years)	1988	1987
Land		$ 9,734,000	$ 10,177,000
Buildings and leasehold improvements	10 to 40	59,073,000	56,217,000
Machinery and equipment	5 to 20	175,293,000	164,090,000
Transportation equipment	3 to 10	18,737,000	18,967,000
		$262,837,000	$249,451,000

Long-Term Debt

	1988	1987
8¾% unsecured note due in annual installments of $3,000,000	$ 3,000,000	$ 6,000,000
Revolving bank lines of credit	65,000,000	96,000,000
10% installment notes due in annual installments of $3,452,000	3,452,000	6,785,000
Other notes at varying rates	183,000	1,083,000
	71,635,000	109,868,000
Less current maturities	6,544,000	6,563,000
	$65,091,000	$103,305,000

The Company has agreements with certain banks for revolving lines of credit totalling $125,000,000. The Company has the option to fix interest rates at 1% over the London Interbank Offered Rate (LIBOR) or the certificate of deposit rate, or such other rate agreed to by the Company and any of its banks, or to allow it to fluctuate at the prime rate. Borrowings under the revolving lines of credit are secured by the outstanding common stock of the Company's subsidiaries. Unless extended by the Company with the consent of the banks, the outstanding borrowings are to be reduced at a rate of 5% per quarter commencing on June 30, 1990. During 1988 borrowings under these agreements were at an average rate of approximately 9%.

Scheduled repayments of long-term debt during the five years following December 31, 1988, are as follows: 1989—$6,544,000; 1990—$9,838,000; 1991—$13,003,000; 1992—$13,000,000; 1993—$13,000,000.

The Company's loan agreements limit retained earnings currently available for dividends to $14,639,000.

Subordinated Debt

	1988	1987
11% senior subordinated debentures due July 15, 1997, net of debt discount and issuance costs of $3,353,000 in 1988 and $3,286,000 in 1987	$ 96,647,000	$ 96,714,000
10½% subordinated debentures due June 1, 1998	20,567,000	20,634,000
	$117,214,000	$117,348,000

During a period of temporarily higher leverage beginning in August 1988, the Company has added 1% to the interest rate on its subordinated debt for a period of two and one-half years or five semiannual payments. The additional interest is being charged to expense using the effective interest method over the term of the subordinated debt.

The 11% senior subordinated debentures may be redeemed at 107.33% on July 15, 1990, and at declining premiums thereafter to 1996, at which time they may be redeemed at par. No redemption may occur prior to 1992 out of the proceeds from a borrowing having an annual interest rate less than 11%.

The proceeds of the 11% senior subordinated debentures were used to redeem $100,000,000 of 12⅞% subordinated notes. The subordinated notes were issued with six million detachable common stock purchase warrants which were called in 1986 at the call price of $2.50 per warrant. The notes were called on November 2, 1987, by the Company at par. Since the notes were issued at a discount with warrants attached, their call resulted in an extraordinary charge to earnings of $4,831,000, after tax benefit of $3,221,000.

Sinking fund payments on the 10½% subordinated debentures beginning in 1992 are calculated to retire 75% of the issue prior to maturity. The debentures may be redeemed at par.

Discontinued Operations

On August 2, 1988, the Company completed the sale of Hall-Mark Electronics to a new corporation controlled by Riordan Freeman & Spogli, a Los Angeles based merchant banking firm. The net assets of the discontinued electronic components distribution segment at December 31, 1987, consisted principally of working capital (including accounts receivable, inventories, accounts payable and accrued liabilities), property, plant and equipment, and intangibles and other assets.

Net cash proceeds from the sale, after deducting related expenses, were approximately $211,486,000. The cash proceeds included $18,750,000 received by the Company from the sale of $30,000,000 principal amount of 11-year 13% junior subordinated notes with warrants received from the purchaser at closing.

Operating results of the discontinued electronic components distribution segment for the seven months ended July 31, 1988, and for 1987 and 1986 were as follows:

	1988	1987	1986
Net sales	$331,091,000	$475,390,000	$384,319,000
Income (loss) before income tax	$ 513,000	$ (10,229,000)	$ (16,341,000)
Income tax (benefit)	434,000	(3,570,000)	(7,199,000)
Income (loss) from operations	$ 79,000	$ (6,659,000)	$ (9,142,000)

Interest has been charged to discontinued operations based on average intercompany balances of the electronic components distribution segment owed to the Company at its average effective borrowing rate during each period.

Income tax has been charged (credited) to discontinued operations based on the income tax (benefit) resulting from inclusion of the discontinued segment in the Company's consolidated federal income tax return.

The income tax (benefit) differs from the amount which would be provided by applying the statutory income tax rate to income (loss) before income tax for 1988, 1987 and 1986 due primarily to permanent differences resulting from excess book over tax amortization and differences in book and tax bases of certain assets.

The income tax of $2,888,000 on the gain on disposal of discontinued operations differs from the amount which would be provided by applying the statutory income tax rate to the pretax gain primarily as a result of differences in book and tax bases of the related assets, and settlements of an employment agreement and amounts due upon termination of a nonqualified retirement plan not deductible for tax purposes.

Income Tax

As a result of the application of Accounting Principles Board Opinion No. 16 in accounting for the acquisition of industrial explosives and specialty industrial coatings businesses, the book basis of inventories exceeded the tax basis by $5,768,000 at December 31, 1988, and $6,007,000 at December 31, 1987. Taxable income for federal income tax purposes was higher than income for financial statement purposes as a result of the difference in bases by $239,000 in 1988, $4,000 in 1987 and $92,000 in 1986.

Income tax expense differs from the amount which would be provided by applying the statutory income tax rate to income from continuing operations before income tax for 1988, 1987 and 1986 primarily as a result of permanent differences including excess book over tax amortization and differences in book and tax bases of certain assets and state income taxes. State income tax expense was $1,729,000 in 1988, $1,531,000 in 1987 and $1,066,000 in 1986.

The tax effects of timing differences that exceeded 5% of the amount resulting from multiplying consolidated income from continuing operations before income tax by the statutory income tax rate were (1) excess tax over book depreciation and amortization of $637,000 in 1988 and $1,038,000 in 1986; (2) utilization of tax benefit from the tax benefit transfer lease of $2,802,000 in 1987 and $3,251,000 in 1986; (3) deductions for book in excess of tax of $500,000 in 1988 and $864,000 in 1987 related to different bases of inventories; and (4) settlements currently deductible but previously accrued for book purposes of $1,944,000 in 1987.

The Company paid income tax of $17,144,000 in 1988, $5,503,000 in 1987 and $6,618,000 in 1986. In addition, the Company received refunds of prior years' income tax of $814,000 in 1987 and $6,600,000 in 1986.

Leases

The Company leases certain facilities and transportation, computer and other equipment used in its operations under noncancellable operating lease agreements having an initial term of more than one year and expiring at various dates through 2005. Most leases contain renewal options and some contain purchase options. The leases generally provide that the Company pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately $15,303,000 in 1988, $14,003,000 in 1987 and $12,568,000 in 1986.

Minimum rental payments under the leases described above are as follows:

1989	$11,490,000
1990	9,567,000
1991	5,650,000
1992	3,471,000
1993	1,723,000
Later years	1,366,000
	$33,267,000

Employee Benefit Plans

Substantially all employees are participants in non-contributory pension plans.

The components of net pension cost for 1988 and 1987 as determined under FAS No. 87 were:

	1988	1987
Service cost	$ 3,976,000	$3,946,000
Interest cost	7,368,000	7,025,000
Actual return on plan assets	(15,687,000)	(6,725,000)
Net amortization and deferral	7,558,000	(898,000)
Net pension cost	$ 3,215,000	$3,348,000

Pension expense of $3,632,000 in 1986 was determined in accordance with Accounting Principles Board Opinion No. 8.

The following table sets forth the funded status of the plans and amounts recognized in the Company's balance sheet.

	December 31, 1988	January 1, 1988
Actuarial present value of benefit obligation		
Vested benefits	$ 74,825,000	$ 67,428,000
Nonvested benefits	6,158,000	5,971,000
Accumulated benefit obligation	80,983,000	73,399,000
Effect of projected future compensation increases	17,587,000	21,546,000
Projected benefit obligation	98,570,000	94,945,000
Plan assets at fair value, primarily listed stocks and bonds and group annuity contracts	114,232,000	102,656,000
Plan assets in excess of projected benefit obligation	15,662,000	7,711,000
Unrecognized net (gain) loss from past experience different from that assumed and effect of changes in assumptions	(8,230,000)	82,000
Prior service cost not yet recognized in net pension cost	1,157,000	—
Unrecognized net asset at date of initial application of FAS No. 87	(10,216,000)	(10,383,000)
Accrued pension cost	$ (1,627,000)	$ (2,590,000)

The pension plans held 251,200 shares of the Company's stock at December 31, 1988.

The weighted average discount rate and rate of increase in compensation used in determining the actuarial present value of the projected benefit obligation were approximately 8% and 6%, respectively. The expected long-term rate of return on assets was approximately 7%.

Cost related to the Company's savings and investment plan was $2,387,000 in 1988, $2,058,000 in 1987 and $2,086,000 in 1986. The plan provides that the Company will contribute not less than 50% of the eligible amount of employee contributions. Additional discretionary contributions may be made provided the Company or its subsidiaries has profits from which to pay its contributions.

Shareholders' Equity

On August 3, 1988, the Company declared a special $10 per share dividend which was paid to shareholders of record on August 15, 1988.

The Company has authorized 990,022 shares of $10 par value voting preferred stock. The board of directors designated 260,000 shares as Series B Junior Participating Preferred Stock (Series B Preferred Stock) which are reserved for issuance upon exercise of the Company's stock purchase rights. One stock purchase right accompanies each outstanding share of common stock. Each right may be exercised to purchase 1/100 of a share of Series B Preferred Stock for $50. Each share of Series B Preferred Stock will have a minimum preferential quarterly dividend of 100 times the dividend declared on common stock and a minimum liquidation preference of $100 per share. Upon liquidation or any merger or other business combination in which common stock is exchanged, the holders of the Series B Preferred Stock will be entitled to receive 100 times the amount received per share of common stock.

The stock purchase rights may be exercised only after public announcement that a person or group acquired 20% or more of the Company's common stock or public announcement of an offer for 30% or more of the Company's common stock. The rights, which do not have voting rights, will expire on December 4, 1990, unless activated prior to that date, in which case the rights will expire on December 4, 1997. The rights may be redeemed by the Company at a price of $.01 per right at any time prior to 15 days (or such longer period as the board of directors may determine) after the acquisition of 20% of the Company's common stock. If the Company is acquired in a merger or other business combination after the rights become activated, each right will entitle its holder to purchase, at the exercise price of $50, shares of common stock in the acquiring company having a market value of $100. If the Company is the surviving corporation, each right will entitle the holder to purchase, at the exercise price of $50, shares of common stock of the Company having a market value of $100.

The Tyler Corporation Stock Option Plan provides for the granting of nonqualified and incentive stock options, as defined by the Internal Revenue Code, to key employees of the Company and its subsidiaries at prices which represent fair market value at dates of grant. In August 1988 the stock option prices and, in some instances, the number of shares subject to stock options were adjusted by the special dividend of $10 per share to reflect the decline in market value of the Company's stock. Following is a summary of option transactions during 1988 and 1987 after adjustment of the stock option price and the number of shares subject to stock options as described above:

	1988		1987	
	Shares	Option Price	Shares	Option Price
Outstanding at beginning of year	539,592	$.10 to $6.75	531,602	$.10 to $6.75
Granted	313,500	.87 to 6.37	58,000	2.50 to 3.87
Cancelled	(62,388)	.10 to 6.75	(40,010)	.10 to 6.75
Exercised	(216,404)	.10 to 6.75	(10,000)	.10
Outstanding at end of year and reserved for issuance	574,300	$.10 to $6.75	539,592	$.10 to $6.75
Exercisable at end of year	283,800		455,217	
Reserved for future options	93,162		344,274	

Industry Segments

The Company sells products and services to industrial customers through its three principal operating units. Selected financial information is presented below for 1988, 1987 and 1986 (000 omitted).

	Segment Net Sales			Segment Operating Profits		
	1988	1987	1986	1988	1987	1986
Industrial explosives	$196,273	$180,824	$161,997	$15,745	$15,613	$13,089
Specialty industrial coatings	289,138	255,127	225,952	21,259	20,926	13,993
Pipe and fittings	179,234	188,166	189,143	6,551	17,919	20,625
Segment totals	$664,645	$624,117	$577,092	43,555	54,458	47,707
Interest expense				(11,973)	(6,431)	(2,310)
Unallocated corporate expense				(7,801)	(7,711)	(6,519)
Income from continuing operations before income tax				$23,781	$40,316	$38,878

	Capital Expenditures (Net)			Depreciation and Amortization		
	1988	1987	1986	1988	1987	1986
Industrial explosives	$ 6,344	$ 5,402	$ 8,640	$ 4,904	$ 4,767	$ 4,265
Specialty industrial coatings	2,457	4,419	4,473	5,375	4,477	4,847
Pipe and fittings	9,011	7,782	8,687	8,189	7,961	8,501
Other	132	308	(2,963)	503	1,442	1,279
Total continuing operations	17,944	17,911	18,837	18,971	18,647	18,892
Discontinued operations	1,531	4,066	3,423	3,190	5,053	4,253
Consolidated	$ 19,475	$ 21,977	$ 22,260	$22,161	$23,700	$23,145

	Tangible Assets			Intangible Assets		
	1988	1987	1986	1988	1987	1986
Industrial explosives	$ 91,520	$ 84,046	$ 76,379	$ —	$ —	$ —
Specialty industrial coatings	110,228	107,433	98,369	11,243	11,587	11,931
Pipe and fittings	86,264	85,097	84,653	30,374	30,374	30,374
Other	18,869	7,234	7,795	—	—	—
Total continuing operations	306,881	283,810	267,196	41,617	41,961	42,305
Discontinued operations, net	—	161,715	141,679	—	26,205	27,305
Consolidated	$306,881	$445,525	$408,875	$41,617	$68,166	$69,610

	Identifiable Assets		
	1988	1987	1986
Industrial explosives	$ 91,520	$ 84,046	$ 76,379
Specialty industrial coatings	121,471	119,020	110,300
Pipe and fittings	116,638	115,471	115,027
Other	18,869	7,234	7,795
Total continuing operations	348,498	325,771	309,501
Discontinued operations, net	—	187,920	168,984
Consolidated	$348,498	$513,691	$478,485

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
of Tyler Corporation

We have audited the accompanying consolidated balance sheets of Tyler Corporation at December 31, 1988 and 1987, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tyler Corporation at December 31, 1988 and 1987, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

Arthur Young & Company

Dallas, Texas
January 27, 1989