CLOROX CO /DE/

FORM 10-Q
(Quarterly Report)

Filed 2/12/1999 For Period Ending 12/31/1998

Address	THE CLOROX COMPANY 1221 BROADWAY
	OAKLAND, California 94612-1888
Telephone	510-271-7000
CIK	0000021076
Industry	Personal & Household Prods.
Sector	Consumer/Non-Cyclical
Fiscal Year	06/30

Generated by EDGAR Online Pro
http://pro.edgar-online.com

EDGAR Online

Contact EDGAR Online
Customer Service: 203-852-5666
Corporate Sales: 212-457-8200

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 1998

or

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

For the transition period from to

Commission file number 1-07151

THE CLOROX COMPANY

(Exact name of registrant as specified in its charter)

```
     Delaware                                        31-0595760
--------------------------------------------------------------------
(State or other jurisdiction                       (I.R.S. Employer
of  incorporation or organization)               Identification number)

   1221 Broadway - Oakland, California               94612 - 1888
--------------------------------------------------------------------
(Address of principal executive offices)
```

Registrant's telephone number, (including area code) (510) 271-7000

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all report 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

As of December 31, 1998 there were 103,723,864 shares outstanding of the registrant's common stock (par value - $1.00), the registrant's only outstanding class of stock.

Total pages 24 1

THE CLOROX COMPANY

PART 1. Financial Information Page No.

Item 1. Financial Statements

```
Condensed Statements of Consolidated
Earnings
```

	Three and Six Months Ended December 31, 1998 and 1997	3
	Condensed Consolidated Balance Sheets December 31, 1998 and June 30, 1998	4
	Condensed Statements of Consolidated Cash Flows Six Months Ended December 31, 1998 and 1997	5
	Notes to Condensed Consolidated Financial Statements	6-16
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	17-22
Item 5.	Other information	23-24

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
The Clorox Company and Subsidiaries
Condensed Statements of Consolidated Earnings
(In thousands, except per-share amounts)

	Three Months Ended		Six Months Ended	
	12/31/98	12/31/97	12/31/98	12/31/97
Net Sales	$ 648,172	$ 591,795	$1,334,055	$ 1,241,079
Costs and Expenses				
Cost of products sold	283,927	258,189	572,478	537,883
Selling, delivery and administration	148,262	139,789	290,880	270,188
Advertising	90,585	83,408	182,177	174,952
Research and development	13,952	13,007	26,901	24,613
Interest expense	16,667	16,525	35,463	32,019
Other (income) expense, net	3,529	(242)	379	(1,601)
Total costs and expenses	556,922	510,676	1,108,278	1,038,054
Earnings before Income Taxes	91,250	81,119	225,777	203,025
Income Taxes	33,304	31,636	82,409	79,179
Net Earnings	$ 57,946	$ 49,483	$ 143,368	$ 123,846
Earnings per Common Share				
Basic	$ 0.56	$ 0.48	$ 1.38	$ 1.20
Diluted	0.55	0.47	1.36	1.17
Weighted Average Shares Outstanding				
Basic	103,628	103,393	103,616	103,305
Diluted	105,735	105,429	105,732	105,427
Dividends per Share	$ 0.36	$ 0.32	$ 0.72	$ 0.64

See Notes to Condensed Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (Continued)
Item 1. Financial Statements
The Clorox Company and Subsidiaries
Condensed Consolidated Balance Sheets

(In thousands)

	12/31/98	6/30/98
ASSETS		
Current Assets		
Cash and short-term investments	$ 102,242	$ 89,681
Accounts receivable, less allowance	365,468	411,868
Inventories	228,742	211,913
Prepaid expenses and other	45,035	45,354
Deferred income taxes	18,753	23,242
Total current assets	760,240	782,058
Property, Plant and Equipment - Net	604,025	596,293
Brands, Trademarks, Patents and Other Intangibles	1,254,862	1,240,532
Investments in Affiliates	84,247	84,449
Other Assets	343,051	310,018
Total	$ 3,046,425	$ 3,013,350
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 116,528	$ 154,348
Accrued liabilities	183,908	268,583
Short-term debt	659,256	768,616
Income taxes payable	38,855	15,370
Current maturities of long-term debt	1,392	1,517
Total current liabilities	999,939	1,208,434
Long-term Debt	508,454	316,260
Other Obligations	220,055	203,000
Deferred Income Taxes	178,784	200,421
Stockholders' Equity		
Common stock	110,844	110,844
Additional paid-in capital	95,613	84,124
Retained earnings	1,455,702	1,382,943
Treasury shares, at cost	(410,845)	(391,864)
Accumulated other comprehensive income (loss)	(101,083)	(89,861)
Other	(11,038)	(10,951)
Stockholders' Equity	1,139,193	1,085,235
Total	$ 3,046,425	$ 3,013,350

See Notes to Condensed Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (Continued)

Item 1. Financial Statements

The Clorox Company and Subsidiaries

Condensed Statements of Consolidated Cash Flows

(In thousands)

	Six Months Ended	
	12/31/98	12/31/97
Operations:		
Net earnings	$ 143,368	$ 123,846
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	70,838	65,005
Deferred income taxes	3,528	2,855
Other	(6,884)	(2,669)
Effects of changes in:		
Accounts receivable	49,554	15,750
Inventories	(14,628)	(48,726)
Prepaid expenses	319	4,597
Accounts payable	(39,343)	(26,909)
Accrued liabilities	(79,011)	(84,816)
Income taxes payable	23,368	1,221
Net cash provided by operations	151,109	50,154
Investing Activities:		
Property, plant and equipment	(47,244)	(39,681)
Disposal of property, plant and equipment	4,057	1,686
Businesses purchased	(57,473)	(80,120)
Other	(39,437)	(48,468)
Net cash used for investment	(140,097)	(166,583)
Financing Activities:		
Short-term debt borrowings	-	13,407
Short-term debt repayments	(387,540)	(161,719)
Long-term debt and other obligations borrowings	201,235	193,736
Long-term debt and other obligations repayments	(6,461)	(61,525)
Commercial paper, net	277,480	186,451
Cash dividends	(74,574)	(65,999)
Treasury stock purchased	(32,455)	(33,815)
Issuance of common stock under employee stock plans and other	23,864	(4,255)
Net cash provided by financing	1,549	66,281
Net Increase (Decrease) in Cash and Short-Term Investments	12,561	(50,148)
Cash and Short-Term Investments:		
Beginning of period	89,681	101,046
End of period	$ 102,242	$ 50,898

See Notes to Condensed Financial Statements.

Item 1. Financial Statements
The Clorox Company and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(1) The condensed consolidated financial information for the three and six months ended December 31, 1998 and 1997 has not been audited but, in the opinion of management, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated results of operations, financial position, and cash flows of The Clorox Company and its subsidiaries (the "Company"). The results of the three and six months ended December 31, 1998 and 1997 should not be considered as necessarily indicative of the results for the respective year.

(2) Inventories at December 31, 1998 and at June 30, 1998

consisted of (in thousands):

	12/31/98	6/30/98
Finished goods and work in process	$150,591	$130,185
Raw materials and supplies	78,151	81,728
Total	$228,742	$211,913

(3) Businesses purchased for the six months ended December 31, 1998 and December 31, 1997 totalling $57,473,000 and $ 80,120,000, respectively, were funded using a combination of cash and debt and were accounted for as purchases. These acquisitions in 1998 included a bleach and cleaners business in Venezuela, an insecticide business in Korea, a cleaning brand business in Australia and an increase in ownership in Tecnoclor, S.A. in Colombia.

(4) In July 1998, the Company refinanced $150,000,000 of commercial paper by entering into a Deutsche Mark denominated financing arrangement with private investors. In October 1998, the private investors exercised an option to finance an additional $50,000,000 under the same terms of this financing arrangement. The Company entered into a series of swaps with notional amounts totaling $200,000,000 to eliminate foreign currency exposure risk generated by this Deutsche Mark denominated obligation. The swaps effectively convert the Company's 2.876% fixed Deutsche Mark obligation to a floating U.S. dollar rate of 90 day LIBOR less 278 basis points or an effective rate of approximately 3%.

In December 1998, the Company redeemed preference shares totalling $387,540,000 which was classified as short-term debt. This financing was replaced with commercial paper borrowings at a rate of approximately 5.2%.

Item 1. Financial Statements
The Clorox Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements

(5) SFAS 128 requires dual presentation of basic and diluted earnings per share (EPS) on the face of all earnings statements issued after December 15, 1997 for all entities with complex capital structures. Basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding each period. Diluted EPS is computed by dividing net earnings by the diluted weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, restricted stock, warrants and other convertible securities. The weighted average number of shares outstanding (denominator) used to calculate basic EPS is reconciled to those used in calculating diluted EPS as follows (in thousands):

	Weighted Average Number of Shares Outstanding			
	Three Months Ended		Six Months Ended	
	12/31/98	12/31/97	12/31/98	12/31/97
Basic	103,628	103,393	103,616	103,305
Stock options	2,068	1,987	2,075	2,073
Other	39	49	41	49

Diluted	105,735	105,429	105,732	105,427

(6) Effective July 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, Reporting of Comprehensive Income. Comprehensive income for the Company includes net income and foreign currency translation adjustments that are excluded from net income but included as a component of total stockholders' equity. Comprehensive income for the three and six months ended December 31, 1998 and 1997 is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	12/31/98	12/31/97	12/31/98	12/31/97
Net Earnings	$ 57,946	$ 49,483	$143,368	$123,846
Other comprehensive income (loss):				
Foreign currency translation adjustments	5,793	(22,967)	(11,222)	(27,867)
Comprehensive Income	$ 63,739	$ 26,516	$132,146	$ 95,979

(7) Certain reclassifications of prior periods' amounts have been made to accounts receivable, accrued liabilities, interest expense and other (income) expense to conform with the current period presentation.

(8) Subsequent Event - Completion of First Brands Corporation Merger

On January 29, 1999, the Company completed the First Brands Corporation ("First Brands") merger when the Company's wholly owned subsidiary, Pennant, Inc. ("Pennant"), merged into First Brands. As a result of the merger ("Merger"), First Brands became a wholly owned subsidiary of the Company and continues to operate its business as the Company's subsidiary. First Brands develops, manufactures, markets and sells consumer products under the Glad, Scoop Away, and STP brands, among others. The Merger is structured to be treated as a pooling of interests for accounting purposes.

Pursuant to the Agreement and Plan of Reorganization and Merger dated as of October 18, 1998 among the Company, First Brands, and Pennant ("Merger Agreement"), First Brands' stockholders received in the Merger the right to receive .349 of a share of the Company's common stock in exchange for each share of First Brands' common stock, with cash paid in lieu of fractional shares. Pursuant to the Merger, approximately 40,320,500 shares of First Brands' common stock were converted into approximately 14,071,850 shares of the Company's common stock. In addition, options to acquire 1,755,010 shares of First Brands' common stock were converted to 612,484 options to acquire shares of the Company's common stock. As a result of the Merger, Clorox also assumed approximately $440 million of First Brands' debt. See also the discussion in "Management's Discussion and Analysis" under "Subsequent Event - Completion of First Brands Corporation Acquisition."

(9) Pro forma financial information

The following unaudited pro forma combined condensed consolidated financial statements have been prepared to give effect to the Merger, using the pooling of interests method of accounting.

No adjustments to the unaudited pro forma combined condensed consolidated financial information have been made to conform the accounting policies of the combined company, as the nature and amounts of such adjustments are deemed insignificant. Certain reclassifications have been made to conform First Brands' balance sheet and income and expense to the Company's classifications as of December 31, 1998. The share information used in the unaudited pro forma information assumes the actual exchange ratio of .349.

The unaudited pro forma combined condensed consolidated balance sheet as of December 31, 1998 gives effect to the Merger as if it had occurred on December 31, 1998, and combines the unaudited consolidated balance sheet of the Company and the unaudited consolidated balance sheet of First Brands as of December 31, 1998. The unaudited pro forma combined condensed consolidated statements of earnings for all periods presented give effect to the Merger as if it had occurred at the beginning of the periods presented. For purposes of the unaudited pro forma combined condensed consolidated statements of earnings, First Brands' consolidated statements of earnings for the three and six months

ended December 31, 1997 and 1998 have been combined with the Company's consolidated statements of earnings for the three and six months ended December 31, 1997 and 1998, respectively.

Item 1. Financial Statements
The Clorox Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements

The Company and First Brands estimate they will incur combined aggregate direct transaction costs of approximately $15.5 million associated with the Merger, consisting of transaction fees for investment bankers, attorneys, accountants and other related costs. These nonrecurring transaction costs will be charged to operations upon consummation of the Merger. It is expected that following the Merger, the Company will incur additional nonrecurring costs currently estimated to be approximately $125 million, including non-cash charges currently estimated at $30 million. No estimate for these charges has been reflected in the pro forma combined condensed consolidated balance sheet or pro forma combined condensed statements of earnings. There can be no assurance that the Company will not incur additional charges in excess of $140.5 million to reflect transaction costs and costs associated with the Merger or that management will be successful in its efforts to integrate the operations of the two companies.

The unaudited pro forma combined condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have actually been reported had the Merger occurred at the beginning of the periods presented (or as of December 31, 1998), nor is it necessarily indicative of the financial position or results of operations of the Company in the future. Such unaudited pro forma combined condensed consolidated financial statements are based upon the respective historical consolidated financial statements and notes thereto of the Company and First Brands and do not incorporate, nor do they assume, any benefits from cost savings or synergies that the Company may realize after the Merger.

PART I - FINANCIAL INFORMATION (Continued)
Item 1. Financial Statements
The Clorox Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Unaudited Pro Forma Combined Condensed Consolidated Balance Sheet (a), (b)
(In thousands)

	December 31, 1998			
	Clorox	First Brands	Pro Forma Adjusments and Reclassifications	Pro Forma Combined
ASSETS				
Current Assets				
Cash and short-term investments	$ 102,242	$ 22,472	$	$ 124,714
Accounts and notes receivable, net	365,468	106,322	(25,799)(ii)	445,991
Inventories	228,742	151,912		380,654
Prepaid expenses and other	45,035	4,417		49,452
Deferred income taxes	18,753	12,591		31,344
Total current assets	760,240	297,714	(25,799)	1,032,155
Property, Plant and Equipment - Net	604,025	420,269		1,024,294
Brands, Trademarks, Patents and Other Intangibles	1,254,862	333,961		1,588,823
Investments in Affiliates	84,247	-	5,853 (ii)	90,100
Other Assets	343,051	48,899	(5,853)(ii)	386,097
Total	$ 3,046,425	$ 1,100,843	$ (25,799)	$ 4,121,469
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	$ 116,528	$ 43,127	$	$ 159,655
Accrued liabilities	183,908	71,919	(25,799)(ii)	230,028
Accrued merger costs	-	-	15,500 (i)	15,500
Short-term debt and notes payable	659,256	4,665		663,921
Income taxes payable	38,855	18,417		57,272
Current maturities of long-term debt	1,392	3,280		4,672
Total current liabilities	999,939	141,408	(10,299)	1,131,048
Long-term Debt	508,454	429,414		937,868
Other Obligations	220,055	28,248		248,303
Deferred Income Taxes	178,784	79,389		258,173
Stockholders' Equity				
Common stock and additional paid in capital	206,457	152,929		359,386
Retained earnings	1,455,702	424,720	(15,500)(i)	1,864,922
Treasury shares, at cost	(410,845)	(125,872)		(536,717)
Accumulated other comprehensive income	(101,083)	(29,393)		(130,476)
Other	(11,038)	-		(11,038)
Stockholders' Equity	1,139,193	422,384	(15,500)	1,546,077
Total	$ 3,046,425	$ 1,100,843	$ (25,799)	$ 4,121,469

See notes to unaudited pro forma combined condensed consolidated financial statements.

PART I - FINANCIAL INFORMATION (Continued)
Item 1. Financial Statements
The Clorox Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Unaudited Pro Forma Combined Condensed Consolidated Statements of Earnings (a), (c), (d)
(In thousands, except per share amounts)

	Three Months Ended December 31		Six Months Ended December 31	
	1998	1997	1998	1997
Net Sales	$ 946,961	$ 887,768	$1,911,631	$1,801,573
Costs and Expenses				
Cost of products sold	458,570	435,147	916,716	880,145
Selling, delivery and administration	201,213	188,560	392,568	363,754
Advertising	122,322	115,660	236,775	228,534
Research and development	15,281	14,499	29,646	27,410
Restructuring	-	2,700	-	2,700
Interest expense	25,184	25,517	52,666	49,272
Other (income) expense, net	6,790	2,712	7,562	4,914
Total costs and expenses	829,360	784,795	1,635,933	1,556,729
Earnings before Income Taxes and cumulative effect of change in accounting principle	117,601	102,973	275,698	244,844
Income Taxes	43,523	40,183	101,878	95,518
Earnings before cumulative effect of change in accounting principle	$ 74,078	$ 62,790	$ 173,820	$ 149,326
Earnings per Common Share before cumulative effect of change in accounting principle				
Basic	$ 0.63	$ 0.54	$ 1.48	$ 1.27
Diluted	0.62	0.52	1.45	1.25
Weighted Average Shares Outstanding				
Basic	117,294	117,247	117,261	117,202
Diluted	119,799	119,614	119,674	119,632

See notes to unaudited pro forma combined condensed consolidated financial statements.

(a) Pro forma basis of presentation

The unaudited condensed statements of earnings for the three and six months ended December 31, 1997 and 1998 reflect the combination of the statements of earnings of the Company and First Brands for those periods. No adjustments have been made in these pro forma combined condensed consolidated financial statements to conform the accounting policies of the combined company, as the nature and amounts of such adjustments are deemed insignificant.

The unaudited pro forma combined condensed consolidated financial statements reflect the issuance of 13,858,522 shares of the Company's Common Stock in exchange for an aggregate of 39,709,232 shares of First Brands' Common Stock outstanding as of December 31, 1998 in connection with the Merger, based on the actual Exchange Ratio of .349 (which uses an average closing price for the Company's Common Stock of $111.86 per share) as set forth in the following table:

Shares of First Brands' Common Stock outstanding

```
 as of December 31, 1998                                   39,709,232
Exchange Ratio                                                   .349
                                                       --------------
Number of shares of the Company's Common
Stock exchanged for
     First Brands Common Stock                             13,858,522

Number of shares of the Company's Common
Stock outstanding at
      December 31, 1998                                   103,723,864
                                                       --------------

Number of shares of the Company's Common
Stock outstanding at December 31, 1998
after giving effect to the Merger                          117,582,386
                                                       ===============
```

(b) Unaudited pro forma combined condensed consolidated balance sheet

(i) The Company and First Brands estimate they will incur combined aggregate direct transaction costs of approximately $15.5 million associated with the Merger, consisting of transaction fees for investment bankers, attorneys, accountants and other related costs. These non-recurring transaction costs will be charged to operations upon consummation of the Merger. These charges have been reflected in the unaudited pro forma combined condensed consolidated balance sheet but have not been included in the unaudited pro forma combined condensed consolidated statement of earnings.

(ii) Represents certain reclassifications to conform First Brands' balance sheet classifications to the Company's balance sheet classifications at December 31, 1998.

(iii) It is expected that, following the Merger, the Company will incur additional nonrecurring costs currently estimated to be approximately $125,000,000, including non-cash charges estimated at $30,000,000, in connection with the Merger. No estimate for these charges has been reflected in the pro forma combined condensed consolidated balance sheet or combined condensed consolidated statements of earnings. There can be no assurance that the Company will not incur additional charges in excess of $125,000,000 to reflect additional nonrecurring costs associated with the Merger, or that management will be successful in its efforts to integrate the operations of the two companies.

(c) Unaudited pro forma combined condensed consolidated statement of earnings

The following are certain classifications of historical results of operations of the Company and First Brands and their pro forma combined amounts included in the unaudited pro forma combined condensed consolidated statements of earnings. Certain reclassifications were made to the historical results of First Brands to conform to the Company's classifications. These pro forma amounts reflect the Merger as if it were effected for all periods presented on the following two pages.

PART I - FINANCIAL INFORMATION (Continued)
Item 1. Financial Statements
The Clorox Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Unaudited Pro Forma Combined Condensed Consolidated Statements of Earnings
(In thousands)

	Three Months Ending December 31, 1998				Six Months Ending December 31, 1998			
	Clorox	First Brands	Pro Forma Reclass-ifications	Pro Forma Combined	Clorox	First Brands	Pro Forma Reclass-ifications	Pro Forma Combined
Net Sales	$ 648,172	$ 314,386	$ (15,597)	$ 946,961	$1,334,055	$ 605,895	$ (28,319)	$1,911,631
Costs and Expenses								
Cost of products sold	283,927	196,158	(21,515)	458,570	572,478	385,017	(40,779)	916,716
Selling, delivery and administration	148,262	79,319	(26,368)	201,213	290,880	145,039	(43,351)	392,568
Depreciation and amortization	-	3,798	(3,798)	-	-	7,802	(7,802)	-
Advertising	90,585	-	31,737	122,322	182,177	-	54,598	236,775
Research and development	13,952	-	1,329	15,281	26,901	-	2,745	29,646
Restructuring	-	-	-	-	-	-	-	-
Interest expense	16,667	7,140	1,377	25,184	35,463	14,339	2,864	52,666
Discount on sale of receivables	-	1,377	(1,377)	-	-	2,864	(2,864)	-
Other (income) expense, net	3,529	243	3,018	6,790	379	913	6,270	7,562
Total costs and expenses	556,922	288,035	(15,597)	829,360	1,108,278	555,974	(28,319)	1,635,933
Earnings before income taxes and cumulative effect of change in accounting principle	91,250	26,351	-	117,601	225,777	49,921	-	275,698
Income Taxes	33,304	10,219	-	43,523	82,409	19,469	-	101,878
Earnings before cumulative effect of change in accounting principle	$ 57,946	$ 16,132	$ -	$ 74,078	$ 143,368	$ 30,452	$ -	$ 173,820

The Clorox Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Unaudited Pro Forma Combined Condensed Consolidated Statements of Earnings
(In thousands)

	Three Months Ending December 31, 1997				Six Months Ending December 31, 1997			
	Clorox	First Brands	Pro Forma Reclass-ifications	Pro Forma Combined	Clorox	First Brands	Pro Forma Reclass-ifications	Pro Forma Combined
Net Sales	$ 591,795	$ 309,282	$ (13,309)	$ 887,768	$1,241,079	$ 578,762	$ (18,268)	$ 1,801,573
Costs and Expenses								
Cost of products sold	258,189	196,994	(20,036)	435,147	537,883	380,189	(37,927)	880,145
Selling, delivery and administration	139,789	75,406	(26,635)	188,560	270,188	129,317	(35,751)	363,754
Depreciation and amortization	-	3,595	(3,595)	-	-	7,455	(7,455)	-
Advertising	83,408	-	32,252	115,660	174,952	-	53,582	228,534
Research and development	13,007	-	1,492	14,499	24,613	-	2,797	27,410
Restructuring	-	2,700	-	2,700	-	2,700	-	2,700
Interest expense	16,525	7,843	1,149	25,517	32,019	14,957	2,296	49,272
Discount on sale of receivables	-	1,149	(1,149)	-	-	2,296	(2,296)	-
Other (income) expense, net	(242)	(259)	3,213	2,712	(1,601)	29	6,486	4,914
Total costs and expenses	510,676	287,428	(13,309)	784,795	1,038,054	536,943	(18,268)	1,556,729
Earnings before income taxes and cumulative effect of change in accounting principle	81,119	21,854	-	102,973	203,025	41,819	-	244,844
Income Taxes	31,636	8,547	-	40,183	79,179	16,339	-	95,518
Earnings before cumulative effect of change in accounting principle	$ 49,483	$ 13,307	$ -	$ 62,790	$ 123,846	$ 25,480	$ -	$ 149,326

PART I - FINANCIAL INFORMATION (Continued)

Item 1. Financial Statements
The Clorox Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements

(d) Unaudited pro forma earnings per share

The following table reconciles the number of shares used in the pro forma earnings per share computations to the number of s hares set forth in the Company's and First Brands' historical statements of earnings (in thousands).

	Three Months Ended December 31		Six Months Ended December 31	
	1998	1997	1998	1997
Shares used in calculations:				
Historical basic shares - Clorox	103,628	103,393	103,616	103,305
Historical basic shares - First Brands	39,157	39,696	39,098	39,819
Conversion ratio	.349	.349	.349	.349
	13,666	13,854	13,645	13,897
Pro forma combined basic shares	117,294	117,247	117,261	117,202
Historical diluted shares - Clorox	105,735	105,429	105,732	105,427
Historical diluted shares - First Brands	40,299	40,644	39,948	40,703
Conversion ratio	.349	.349	.349	.349
	14,064	14,185	13,942	14,205
Pro forma combined diluted shares	119,799	119,614	119,674	119,632

Item 2. Management's Discussion and Analysis of
Results of Operations and Financial Condition

Results of Operations

Comparison of the Three Months Ended December 31, 1998
with the Three Months Ended December 31, 1997

Diluted earnings per share increased 17% to $0.55 from $0.47 a year ago and net earnings grew 17% to $57,946,000 from $49,483,000 a year ago.

Net sales increased 10% to $648,172,000 primarily due to a 13% volume increase. Increased trade spending in Latin America depressed sales growth relative to volume growth. Volume growth was due to both increases in existing brands and the introduction of new products. Domestic products such as Formula 409 cleaners, Clorox toilet bowl cleanser, Clorox 2 color-safe bleach, Hidden Valley bottled dressings, and cat litter products contributed to this quarterly growth. Introduction of new products such as Rain Clean Pine-Sol dilutable cleaner, Lemon Fresh Pine-Sol cleaner and antibacterial spray, and Tilex Fresh Shower daily shower cleaner also fueled this volume growth. Clorox liquid bleach volume was favorably impacted by a second quarter price increase in the prior year which resulted in lower shipments in the prior year second quarter. Volume performance of charcoal products benefited from the late season warm weather extending the barbecue season. International shipments increased primarily due to acquisition activity partially offset by lower volumes experienced by the Company's Asian businesses due to economic instability. Declines in the Company's Asian operations have not materially impacted the Company.

Gross margin as a percent of sales remained relatively flat in comparison with the prior year.

Selling, delivery, and administration expenses increased approximately 6% from a year ago primarily due to continued growth and expenditures related to investment in international infrastructure, partially offset by a reduction in corporate administration costs primarily due to reduced use of outside contractors related to the Company's Year 2000 effort. Increased advertising spending is driven by increased domestic volume activity and the introduction of new products, partially offset by lower international spending.

Other expense includes costs associated with the redemption of redeemable subsidiary preference shares, classifed as short-term debt, in December 1998, and the effect of translation on certain international operations.

Income tax expense as a percent of pretax earnings declined to 36.5% from 39% principally due to international investment activities and international operations.

Item 2. Management's Discussion and Analysis of
Results of Operations and Financial Condition

Results of Operations

Comparison of the Six Months Ended December 31, 1998
with the Six Months Ended December 31, 1997

Diluted earnings per share increased 16% to $1.36 from $1.17 a year ago and net earnings grew 16% to $143,368,000 from $123,846,000 a year ago.

Net sales increased 7% to $1,334,055,000 primarily due to a 9% volume increase. The volume growth is attributable primarily to strong performance from the Company's domestic products, new product launches, and increased international shipments due to acquisitions. These increases are partially offset by weakened volume performance experienced by the Company's Asian businesses and volume decreases in the Company's insecticide business.

Gross margin as a percent of sales improved 43 basis points from the preceding year primarily from on-going cost savings initiatives programs and lower raw material costs.

Selling, delivery, and administration expenses increased approximately 8% from a year ago primarily due to continued growth and expenditures related to investment in international infrastructure. Increased advertising spending is driven by increased domestic volume and introduction of new products partially offset by lower international spending.

Interest expense increased approximately $3,444,000 from the prior year primarily due to the issuance of new debt to fund business growth and international acquisitions.

Other expense includes costs associated with the redemption of redeemable subsidiary preference shares in December 1998, classifed as short-term debt in December 1998, and the effect of translation on certain international operations.

Income tax expense as a percent of pretax earnings declined to 36.5% from 39% principally due to international investment activities and international operations.

Item 2. Management's Discussion and Analysis of
Results of Operations and Financial Condition

Liquidity and Capital Resources

The Company's financial position and liquidity remain strong due to cash provided by operations during the quarter. Normal seasonal variations experienced by the Company's seasonal businesses and higher shipment volumes recorded in the prior year fourth quarter by the Company's domestic household products business were the primary drivers causing reductions in receivables, payables, and accrued liabilities and the increase in inventories.

International acquisitions since June 30, 1998 totalled $57,473,000 and were funded using a combination of cash and debt. These acquisitions included a bleach and cleaners business in Venezuela, an insecticide business in Korea, a cleaning brand business in Australia, and an increase in ownership in Tecnoclor, S.A. in Colombia.

In September 1996, the Board of Directors authorized a share repurchase program to offset the dilutive effect of employee stock option exercises. During the six month period ended December 31, 1998, 400,000 shares were acquired at a cost of $32,455,000. The Company has discontinued this share repurchase program in connection with the First Brands Corporation acquisition described below. As a result, the issuance of shares pursuant to the Company's stock incentive plans may have a dilutive effect.

The Company has approved the use of interest rate derivative instruments such as interest rate swaps in order to manage the impact of interest rate movements on interest expense. These instruments have the effect of converting fixed rate interest to floating, or floating to fixed. The conditions under which derivatives can be used are set forth in a Company Policy Statement that includes a specific prohibition on the use of any leveraged derivatives. In July 1998, the Company refinanced $150,000,000 of commercial paper by entering into a Deutsche Mark denominated financing arrangement with private investors. The private investors exercised an option to finance an additional $50,000,000 under the same terms of this financing arrangement in October 1998. The Company entered into a series of swaps with notional amounts totalling $200,000,000 to eliminate foreign currency exposure risk generated by this Deutsche Mark denominated obligation. The swaps effectively convert the Company's 2.876% fixed Deutsche Mark obligation to a floating U.S. dollar rate of 90 day LIBOR less 278 basis points or an effective rate of approximately 3%.

In December 1998, the Company redeemed preference shares totalling $387,540,000 which was classifed as short-term debt. This financing was replaced with commercial paper borrowings at a rate of approximately 5.2%.

As of December 31, 1998, the Company has increased its available lines of credit from $550 million to $750 million. Management believes the Company has adequate access to additional capital from other public and private sources should the need arise.

Year 2000 Compliance

Many financial information and operations systems used today may be unable to interpret dates after December 31, 1999 because these systems allow only two digits to indicate the year in a date. Consequently, these systems are unable to distinguish January 1, 2000 from January 1, 1900, which could have adverse consequences on the operations of an entity and the integrity of information processing. This potential problem is referred to as the "Year 2000" or "Y2K" issue.

In 1997, the Company established a corporate-wide program to address Y2K issues. This effort is comprehensive and encompasses software, hardware, electronic data interchange, networks, personal computers, manufacturing and other facilities, embedded chips, century certification, supplier and customer readiness, contingency planning, and domestic and international operations.

In the United States and Canada, the Company is currently on schedule and is over 70% complete as of December 31, 1998, excluding plant floor efforts. The Company has replaced or upgraded most of its critical business applications and systems and has completed approximately 20% of its century testing for these systems. The target date to repair or replace the remaining critical business information systems is March 31, 1999. In international operations other than Canada, the Company is currently in the remediation phase for its critical business systems and is approximately 75% complete. The target date to repair or replace the remaining international systems is June 30, 1999.

The Company has completed the assessment of its plant floor systems and equipment, and has finalized its remediation plans for its domestic and Canadian plant facilities. The Company expects to complete its plant floor assessment and remediation plans for its international operations by April 30, 1999. The target date to complete all domestic and international manufacturing plant floor and facilities efforts is September 30, 1999. The Company has prioritized its third-party relationships as critical, severe or sustainable, has completed the assessment phase for third parties (except for assessment of its key customers which is scheduled to be complete in March 1999, and certain international suppliers which is expected to be complete by June 30, 1999), has requested a Y2K contract warranty in many new key contracts and is developing contingency plans for critical third parties, including key customers, suppliers and other service providers.

If necessary modifications and conversions by the Company are not made on a timely basis, or if key third parties are not Y2K compliant, Y2K problems could have a material adverse effect on the Company's operations. The Company's most reasonably likely worst case scenario is a regional utility failure that would interrupt manufacturing operations and distribution centers in the affected region. To mitigate this risk, and to address the possible uncertainty of whether the Company will be able to solve all potential Y2K issues, the Company has begun contingency planning for its critical operations, including key third-party relationships, and will require written contingency plans for these areas. The Company has completed approximately twenty percent (20%) of its contingency planning efforts and expects to complete all of its contingency planning by September 30, 1999.

Y2K costs are expensed as incurred and funded through operating cash flows. Through December 31, 1998, the Company has expensed incremental remediation costs of $18.8 million with remaining incremental remediation costs estimated at $12 million. In addition, through December 31, 1998, the Company has expensed accelerated strategic upgrade costs of $12.3 million with anticipated remaining accelerated

strategic upgrade costs of $4 million. The Company spent approximately 17% of its 1998 fiscal year information technology budget, and expects to spend approximately 16% of its 1999 fiscal year information technology budget, on Y2K remediation issues. As of December 31, 1998, the Company has spent approximately 40% of its 1999 fiscal year Y2K program budget. The Company has not deferred any critical information technology projects because of its Year 2000 program efforts, which are primarily being addressed through a dedicated team within the Company's information technology group. Time and cost estimates are based on currently available information and could be affected by the ability to correct all relevant computer codes and equipment, and the Y2K readiness of the Company's business partners, among other factors.

On January 29, 1999, the Company completed the First Brands Merger when the Company's wholly owned subsidiary, Pennant, merged into First Brands. The Company has not yet completed the assessment of the Merger's impact on its Y2K costs and the Company's summary above does not include the impact of the First Brands Merger. The Company expects that its overall Y2K costs will increase, however, based on a preliminary Y2K assessment of First Brands' business systems, plant floors, and facilities. Y2K efforts of both the Company and First Brands are being combined and the Company will extend its comprehensive Y2K program to First Brands' Y2K efforts. Although First Brands' timetables may affect the target dates and contingency plans of the Company's original Y2K program, the Company still expects to be Y2K compliant for the merged companies before the arrival of January 1, 2000.

Subsequent Event - Completion of First Brands Corporation Merger

On January 29, 1999, the Company completed the First Brands Merger when the Company's wholly owned subsidiary, Pennant, merged into First Brands. As a result of the Merger, First Brands became a wholly owned subsidiary of the Company and continues to operate its business as the Company's subsidiary. First Brands develops, manufactures, markets and sells consumer products under the Glad, Scoop Away, and STP brands, among others. The Merger is structured to be treated as a pooling of interests for accounting purposes.

Pursuant to the Merger Agreement, First Brands' stockholders received in the Merger the right to receive .349 of a share of the Company's common stock in exchange for each of their shares of First Brands' common stock, with cash paid in lieu of fractional shares. Pursuant to the Merger, approximately 40,320,500 shares of First Brands' common stock were converted into approximately 14,071,850 shares of the Company's common stock. In addition, options to acquire 1,755,010 shares of First Brands' common stock were converted to options to acquire 612,484 shares of the Company's common stock. As a result of the Merger, the Company also assumed approximately $440 million of First Brands' debt.

As is generally the case with mergers, there can be no assurance that the Company will be able to successfully integrate or profitably manage the First Brands businesses. In addition, there can be no assurance that, following the Merger, the First Brands businesses will achieve sales levels, profitability, cost savings or synergies that justify the investment made or that the acquisition will be accretive to earnings in any future period.

Subsequent Event - Completion of First Brands Corporation Merger

(Continued)

The Company expects to incur significant costs (currently estimated to be approximately $140.5 million, including non-cash charges currently estimated at $30 million) in connection with the Merger to reflect transaction-related expenses as well as expenses relating to the integration of First Brands. This amount is an estimate only and is therefore subject to change. In addition, there can be no assurance that the Company will not incur additional costs associated with the Merger.

Item 5. Other Information

Acquisition or Disposition of Assets

On January 29, 1999, the Company completed the First Brands Merger as discussed in Item 2. First Brands develops, manufactures, markets and sells consumer products under the Glad, Scoop Away, and STP brands, among others. The Merger is structured to be treated as a pooling of interests for accounting purposes.

Pursuant to the Merger Agreement, First Brands' stockholders received in the Merger the right to receive .349 of a share of the Company's common stock in exchange for each of their shares of First Brands' common stock, with cash paid in lieu of fractional shares. Pursuant to the

Merger, approximately 40,320,500 shares of First Brands' common stock were converted into approximately 14,071,850 shares of the Company's common stock. In addition, options to acquire 1,755,010 shares of First Brands' common stock were converted to options to acquire 612,484 shares of the Company's common stock. As a result of the Merger, the Company also assumed approximately $440 million of First Brands' debt.

Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Business Merged.

First Brands' statements of earnings and cash flow and balance sheets for the fiscal years ended June 30, 1996, June 30, 1997 and June 30, 1998 are hereby incorporated by reference to the First Brands Annual Report on Form 10-K for and as of the year ended June 30, 1998. First Brands' statements of earnings and cash flow and balance sheets for the three months ended September 30, 1997 and September 30, 1998, respectively, are hereby incorporated by reference to the First Brands' Quarterly Report on Form 10-Q for and as of the quarter ended September 30, 1998. The pertinent portions of those reports so incorporated by reference are attached as Exhibits 99.1 and 99.2, respectively.

(b) Pro Forma Financial Information.

Pro forma financial information relating to the First Brands merger is contained in (i) Footnote 9 to the financial statements included in this Form 10-Q and (ii) the Proxy Statement/Prospectus contained in the Company's Form S-4 Registration Statement (333-69455) ("S-4 Registration Statement"), which information is incorporated herein by this reference.

Item 5. Other Information

(c) Exhibits.

Exhibit No.	Description
2	Agreement and Plan of Reorganization and Merger, dated as of October 18, 1998, by and among the Company, First Brands and Pennant (filed as Appendix A to the S-4 Registration Statement (333-69455), which appendix is incorporated herein by this reference)
99.1	First Brands' consolidated statements of income and cash flow for the fiscal years ended June 30, 1996, June 30, 1997 and June 30, 1998 and consolidated balance sheet as of June 30, 1997 and June 30, 1998 (pages 17 to 32 of the First Brands' Annual Report on Form 10-K for and as of the year ended June 30, 1998)
99.2	First Brands' consolidated statements of income and cash flow for the three months ended September 30, 1997 and September 30, 1998 and consolidated balance sheet as of June 30, 1997 and September 30, 1998 (pages 3 to 9 of the First Brands' Quarterly Report on Form 10-Q for and as of the quarter ended September 30, 1998)
99.3	Consent of Independent Auditor of First Brands to inclusion of Exhibits 99.1 and 99.2

Cautionary Statement

Except for historical information, matters discussed in this Form 10-Q, including statements about future growth or the realization of benefits from the First Brands' transaction, are forward-looking statements based on management's estimates, assumptions and projections. In addition to the factors discussed in this Form 10-Q, important factors that could cause results to differ materially from management's expectations are described in "Forward-Looking Statements and Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operation" in the Company's Annual Report on Form 10-K for the year ending June 30, 1998, as updated from time to time in the Company's SEC filings. Those factors include, but are not limited to, marketplace conditions and events, the Company's cost, risks inherent in international operations, the success of new products, integration of acquisitions, and environmental, regulatory and intellectual property matters, and with respect to the First Brands' transaction, risks related to the successful management of the acquired businesses.

The acquisition of First Brands can be expected to present challenges to management, including the integration of the operations, technologies and personnel of the companies, and special risks, including unanticipated liabilities and contingencies, and diversion of management attention.

SIGNATURE

Pursuant to the requirements 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.

THE CLOROX COMPANY
(Registrant)

DATE February 12, 1999 *BY /s/ HENRY J. SALVO, JR.*

Henry J. Salvo, Jr.
Vice-President - Controller

First Brands Corporation and Subsidiaries

Consolidated Statements of Income

(Dollars in thousands, except per share data)	Years Ended June 30, 1998	June 30, 1997	June 30, 1996
Net sales	$1,203,670	$1,119,898	$1,073,022
Cost of goods sold	775,870	713,203	687,103
Selling, general and administrative expenses	291,156	268,086	241,711
Amortization and other depreciation	14,585	13,411	15,607
Restructuring expense (Note 3)	2,700	19,000	--
Interest expense and amortization of debt discount and expenses	29,604	20,383	17,546
Discount on sale of receivables (Note 5)	4,561	3,992	3,963
Other income (expense), net	(500)	1,575	1,827
Income before provision for income taxes, extraordinary loss and cumulative effect of change in accounting principle	84,694	83,398	108,919
Provision for income taxes (Note 14)	32,364	32,533	43,819
Income before extraordinary loss and cumulative effect of change in accounting principle	52,330	50,865	65,100
Extraordinary loss relating to the repurchase of subordinated debt, net of taxes (Note 11)	--	(633)	--
Cumulative effect of change in accounting principle, net of taxes (Note 2)	(6,922)	--	--
Net income	$ 45,408	$ 50,232	$ 65,100
Per common share (Note 1):			
Basic:			
Income before extraordinary loss and cumulative effect of change in accounting principle	$ 1.32	$ 1.25	$ 1.56
Extraordinary loss	--	(0.02)	--
Cumulative effect of change in accounting principle	(0.17)	--	--
Net Income	$ 1.15	$ 1.23	$ 1.56
Diluted:			
Income before extraordinary loss and cumulative effect of change in accounting principle	$ 1.29	$ 1.22	$ 1.53
Extraordinary loss	--	(0.02)	--
Cumulative effect of change in accounting principle	(0.17)	--	--
Net Income	$ 1.12	$ 1.20	$ 1.53
Weighted average outstanding common shares (Note 1):			
Basic	39,615,855	40,771,610	41,661,624
Diluted	40,501,876	41,756,802	42,600,021

See accompanying notes to the consolidated financial statements

First Brands Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except per share data)	Years Ended June 30, 1998	June 30, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,029	$ 7,465
Accounts and notes receivable (net of allowances for doubtful accounts and discounts of $8,297 and $6,842) (Note 5)	118,326	134,554
Inventories (Note 1)	155,480	151,976
Deferred tax assets (Note 14)	11,827	15,992
Prepaid expenses	10,170	9,434
Total current assets	307,832	319,421
Property, plant and equipment (net of accumulated depreciation of $160,529 and $141,691) (Notes 1 and 6)	419,755	377,128
Patents, trademarks, proprietary technology and other intangibles (net of accumulated amortization of $204,916 and $192,631) (Notes 1 and 7)	284,849	310,095
Deferred charges and other assets (net of accumulated amortization of $52,687 and $52,029)	47,765	40,137
Total assets	$1,060,201	$1,046,781

See accompanying notes to the consolidated financial statements.

First Brands Corporation and Subsidiaries

Consolidated Balance Sheets (continued)

(Dollars in thousands, except per share data)	Years Ended June 30, 1998	Years Ended June 30, 1997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes Payable	$ 4,562	$ 8,432
Current maturities of long-term debt (Note 11)	3,384	2,811
Accrued income and other taxes (Note 14)	8,253	7,373
Accounts payable	71,692	61,877
Accrued liabilities (Note 9)	92,919	106,084
Total current liabilities	180,810	186,577
Long-term debt (Note 11)	388,054	380,467
Deferred tax liability (Note 14)	78,788	65,348
Other long-term obligations (Note 15)	26,401	20,473
Preferred stock, $1 par value, 10,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value, 120,000,000 shares authorized; 43,553,846 shares issued at June 30, 1998 and 43,394,044 shares issued at June 30, 1997	435	434
Capital in excess of par value	134,166	130,994
Cumulative foreign currency translation adjustment	(27,556)	(12,455)
Common stock in treasury, at cost; 4,407,000 shares at June 30, 1998 and 3,355,000 shares at June 30, 1997	(123,039)	(96,837)
Retained earnings	402,142	371,780
Total stockholders' equity	386,148	393,916
Total liabilities and stockholders' equity	$1,060,201	$1,046,781

See accompanying notes to the consolidated financial statements.

First Brands Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity

Years Ended June 30, 1998, 1997 and 1996

(Dollars in thousands)	Common Stock Shares Outstanding	Common Stock Par Value	Capital In Excess of Par Value	Cumulative Foreign Currency Translation Adjustment	Retained Earnings	Treasury Stock	Total
Balance as of June 30, 1995	20,935,314	$221	$120,914	$(7,173)	$278,649	$(40,433)	$352,178
Cash dividends (Note 1)	--	--	--	--	(9,903)	--	(9,903)
Exercise of stock options	199,196	2	4,470	--	--	--	4,472
Tax benefit related to the exercise of employee stock options	--	--	1,256	--	--	--	1,256
Net income	--	--	--	--	65,100	--	65,100
Purchase of treasury stock	(279,300)	--	--	--	--	(12,130)	(12,130)
Foreign currency translation adjustment	--	--	--	(2,148)	--	--	(2,148)
Two-for-one stock split	20,795,376	208	(208)	--	--	--	--
Balance as of June 30, 1996	41,650,586	$431	$126,432	$(9,321)	$333,846	$(52,563)	$398,825
Cash dividends (Note 1)	--	--	--	--	(12,298)	--	(12,298)
Exercise of stock options	253,458	3	3,350	--	--	--	3,353
Tax benefit related to the exercise of employee stock options	--	--	1,212	--	--	--	1,212
Net income	--	--	--	--	50,232	--	50,232
Purchase of treasury stock	(1,865,000)	--	--	--	--	(44,274)	(44,274)
Foreign currency translation adjustment	--		--	(3,134)	--	--	(3,134)
Balance as of June 30, 1997	40,039,044	$434	$130,994	$(12,455)	$371,780	$(96,837)	$393,916
Cash dividends (Note 1)	--	--	--	--	(15,046)	--	(15,046)
Exercise of stock options	159,802	1	2,101	--	--	--	2,102
Tax benefit related to the exercise of employee stock options	--	--	1,071	--	--	--	1,071
Net income	--	--	--	--	45,408	--	45,408
Purchase of treasury stock	(1,052,000)	--	--	--	--	(26,202)	(26,202)
Foreign currency translation adjustment	--	--	--	(15,101)	--	--	(15,101)
Balance as of June 30, 1998	39,146,846	$435	$134,166	$(27,556)	$402,142	$(123,039)	$386,148

See accompanying notes to the consolidated financial statements.

First Brands Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)	Years Ended June 30, 1998	June 30, 1997	June 30, 1996
Cash flows from operating activities:			
Net income	$45,408	$50,232	$65,100
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,427	41,448	38,282
Restructuring expense	2,700	19,000	--
Deferred income taxes	19,722	5,808	25,808
Amortization of gain on sale/leaseback	--	(909)	(1,580)
Cumulative effect of change in accounting principle	6,922	--	--
Loss on repurchase of subordinated notes	--	633	--
Change in non-cash current assets and liabilities, net of effect of businesses acquired:			
(Increase) in accounts receivable	(5,712)	(25,674)	(12,052)
(Increase) decrease in inventories	(8,239)	4,405	11,836
(Increase) in prepaid expenses	(1,072)	(3,942)	(1,048)
Increase (decrease) in accrued income and other taxes	5,712	4,306	(7,263)
Increase (decrease) in accounts payable	12,207	(9,808)	(10,937)
(Decrease) in accrued liabilities	(14,184)	(14,700)	(36,171)
Other changes	(4,053)	(1,440)	(3,687)
Total adjustments	58,430	19,127	3,188
Net cash provided by operating activities	103,838	69,359	68,288
Cash flows from investing activities:			
Capital expenditures	(44,480)	(41,960)	(42,293)
Acquisition of leased assets	(44,208)	(22,320)	(9,797)
Acquisition of businesses, net of cash acquired	--	(160,210)	(32,255)
Retirements of plant and equipment	8,218	1,109	1,072
Purchase and installation of software	(13,514)	(10,564)	(5,518)
Net cash (used) by investing activities	(93,984)	(233,945)	(88,791)
Cash flows from financing activities:			
Increase in revolving credit facilities, net	18,899	135,143	35,000
(Decrease) increase in other borrowings, net	(728)	4,149	(3,835)
Increase in securitization of accounts receivable, net	15,000	15,000	10,000
Issuance of 7 1/4% senior subordinated notes, net of underwriting discount	--	149,025	--
Repurchase of 9 1/8% senior subordinated notes	--	(100,000)	--
Proceeds from settlement of Prestone note receivable	--	13,000	--
Proceeds from exercise of stock options	2,102	3,353	4,472
Purchase of common stock for treasury	(26,202)	(44,274)	(12,130)
Dividends paid	(14,361)	(11,671)	(9,903)
Net cash (used) provided by financing activities	(5,290)	163,725	23,604
Net increase (decrease) in cash and cash equivalents	4,564	(861)	3,101
Cash and cash equivalents at beginning of year	7,465	8,326	5,225
Cash and cash equivalents at end of year	$ 12,029	$ 7,465	$ 8,326

See accompanying notes to the consolidated financial statements.

First Brands Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

First Brands Corporation and subsidiaries ("First Brands" or the "Company") engages in the development, manufacture, marketing and sale of consumer products sold under branded and private labels. Principal branded products include: GLAD and GLAD-LOCK (plastic wrap and bags); GLADWARE (plastic containers); STP (oil and fuel additives and other specialty automotive appearance products); SCOOP AWAY, EVER CLEAN, EVERFRESH and JOHNNY CAT (cat litters); and STARTERLOGG and HEARTHLOGG (wood fire starters and fire logs).

Basis of Presentation

The accompanying financial statements reflect the consolidated accounts of the Company for all periods presented. All material intercompany transactions and balances have been eliminated. To prepare financial statements in conformity with generally accepted accounting principles, management must make a number of assumptions and estimates which affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. All information presented is for a fiscal year, unless otherwise noted.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method for substantially all inventories in the United States. In general, the average cost or FIFO method is used by the international operations.

Inventories were composed of the following as of June 30, 1998 and 1997:

(In thousands)	1998	1997
Raw materials	$ 34,160	$ 34,518
Work in process	5,485	5,795
Finished goods	115,835	111,663
	$155,480	$151,976

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Expenditures for replacements are capitalized and the replaced assets are retired. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets for accounting purposes. The Company capitalizes interest on major fixed asset additions during construction. Interest capitalized totaled $2,297,000, $1,864,000 and $2,017,000 in 1998, 1997 and 1996, respectively.

Patents, Trademarks, Proprietary Technology and Other Intangibles

Patents, trademarks, proprietary technology and other intangibles are carried at cost less accumulated amortization which is calculated on a straight-line basis over the estimated useful lives of the assets, not to exceed 40 years.

Deferred Charges and Other Assets

Deferred charges and other assets include financing costs that are amortized over the terms of the respective financing agreements, as well as long-term notes receivable, purchased software, investments and assets relating to the securitization of accounts receivable.

Research and Development

Research and development expenditures are charged to expense as incurred. Expenditures were $4,778,000, $5,043,000 and $4,789,000 in 1998, 1997 and 1996, respectively.

Income and Dividends per Share

During fiscal 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." SFAS No. 128 replaces primary and fully diluted earnings per share ("EPS") with basic and diluted EPS, and requires dual presentation of basic and diluted EPS on the face of the income statement for all companies with complex capital structures. Basic EPS represents the earnings available for each common share outstanding during the period. Diluted EPS reflects earnings available for each common share after the affect of all

potentially dilutive common shares, such as options, warrants and convertible securities. The number of weighted average shares used to calculate diluted EPS differs slightly from those shares used to calculate basic EPS due to the effect of employee stock options.

Cash dividends declared for fiscal 1998, 1997 and 1996 were $0.38, $0.30 and $0.24 per share, respectively.

Statement of Cash Flows

For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Supplemental disclosure of cash flow information:

(In thousands)	1998	1997	1996
Cash paid during the year for:			
Interest	$32,705	$18,821	$23,674
Income Taxes	$16,378	$27,385	$34,380

Interest payments during fiscal 1996 include $6,325,000 paid in settlement of an IRS audit.

Revenue Recognition

The Company recognizes revenue from product sales upon shipment to the customer.

Risk Management

The Company periodically enters into various hedging transactions to minimize the effect of fluctuations in currency exchange rates, raw material pricing and interest rates. The foreign currency forward contracts limit the Company's exposure to currency fluctuations associated with certain transactions, while raw material contracts stabilize a portion of the costs associated with the Company's resin purchases. Interest rate swaps allow the Company to better balance its interest rate exposure between fixed and floating interest rates. The Company does not hold or issue these financial instruments for trading purposes.

Foreign Currency Translation

The assets and liabilities of the international subsidiaries are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated at the average monthly exchange rate. Resulting adjustments are recorded in a separate component of stockholders' equity as "Cumulative foreign currency translation adjustment."

Reclassification

Certain amounts for fiscal 1997 and 1996 have been reclassified to conform to the fiscal year 1998 classifications.

2. Accounting Change

During the second quarter of fiscal 1998, the Company changed its accounting policy for costs associated with the business process re-engineering activities which relate to the Company's information system upgrade. In accordance with the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force Issue No. 97-13, the Company is now expensing these process re-engineering costs. Prior to fiscal 1998, the Company capitalized these costs, intending to amortize them over a five to seven year period commencing with the implementation of the new information system. The cumulative effect of the accounting change principle resulted in a charge to earnings of $11,434,000 ($6,922,000 after taxes or $0.17 per diluted share). On a pro forma basis, the Company's reported net income for fiscal 1997 and 1996 would have been reduced by $5,069,000 ($0.12 per diluted share) and $1,022,000 ($0.02 per diluted share), respectively.

3. Restructuring

In fiscal 1997, the Company recorded a $19,000,000 restructuring charge ($11,590,000 after taxes or $0.28 per diluted share), for initiatives aimed at streamlining certain operating and administrative functions, reducing costs and improving operating efficiencies. During fiscal 1998, an additional charge of $2,700,000 ($1,668,000 after taxes or $0.04 per diluted share), was recorded to reflect greater than anticipated participation in the early retirement program along with revisions to earlier estimates, principally costs associated with employees. The total charge of $21,700,000 was composed of a $10,000,000 charge for employee related costs, primarily an early retirement window package and related costs to obtain personnel reductions and $11,700,000 related to asset write-downs and disposals, mainly of a distribution facility and adjacent office center in East Hartford, Connecticut. Substantially all restructuring liabilities have been paid or settled during fiscal 1998.

4. Acquisitions and Divestitures

Acquisitions

During fiscal 1998, the Company's New Zealand subsidiary acquired, for approximately $750,000, the XLO sponge brand in the New Zealand market. In fiscal 1997, the Company's South African subsidiary acquired 76% of the outstanding stock of Sealapac (PVT) LTD., a Zimbabwe

manufacturer and marketer for the consumer products and commercial markets.

On March 14, 1997, the Company purchased, for approximately $160,000,000, the NationalPak business in Australia and New Zealand from National Foods Limited. NationalPak manufacturers and markets consumer products such as plastic wrap and bags, aluminum foil and wiping cloths under the GLAD, CHUX, OSO, MONO and ROTA brand names. The acquisition was funded by long-term borrowings in the United States, Canada, Australia and New Zealand (see Note 11). During fiscal 1998, the Company sold to local management a 4.4% interest in the Australian subsidiary.

On March 19, 1996, the Company purchased, for approximately $32,000,000, the net assets of Forest Technology Incorporated, the manufacturer and marketer of the STARTERLOGG and HEARTHLOGG brand of wood fire starters and fire logs.

All of the above business and brand acquisitions have been accounted for by the purchase method, and accord-

ingly, the results of operations of NationalPak, Forest Technology, Sealapac and XLO are included in the Company's Consolidated Statements of Income from the respective dates of acquisition. The excess of costs over net assets acquired for the NationalPak and Forest Technology acquisitions were $63,100,000 and $30,100,000, respectively, and are being amortized over a forty year period on a straight line basis.

Divestitures

During fiscal 1997, the Company sold its SIMONIZ wax and polish business. The gain associated with the sale of the SIMONIZ business is reflected in Other income (expense), net in the fiscal 1997 Consolidated Statement of Income.

Early in fiscal 1995, First Brands sold the Prestone antifreeze/coolant and car care business to Prestone Products Corporation ("Prestone"). During fiscal 1997, Prestone repaid a $13,000,000 loan (which for financial reporting purposes was valued at $9,000,000 at the time of the divestiture), resulting in a gain of approximately $2,700,000 that is reflected in Other income (expense), net, in the Consolidated Statement of Income.

5. Accounts Receivable

During fiscal 1998, the Company exercised its option to terminate a previous agreement to sell up to $100,000,000 in eligible trade accounts receivable. After terminating its previous agreement, the Company entered into a new three year agreement, with an automatic yearly renewal provision thereafter, for the sale of $100,000,000 in fractional ownership interest in a defined pool of eligible receivables. The new program increases the receivable pool which may be considered eligible, reduces the yearly service fees and provides for a lower discount rate. As of June 30, 1998 the entire $100,000,000 had been sold, reflecting a $15,000,000 increase over the prior year-end balance. The amounts sold are presented as reductions in accounts receivable on the accompanying Consolidated Balance Sheets. The costs associated with this program are reported as "Discount on sale of receivables."

6. Property, Plant and Equipment

Property, plant and equipment as of June 30, 1998 and 1997 consisted of:

(In thousands)	1998	1997	Useful Lives
Land and Improvements	$ 14,052	$ 18,713	--
Buildings	70,552	77,847	30-40 years
Machinery and Equipment	479,060	404,019	13-15 years
Other	16,620	18,240	3-5 years
	580,284	518,819	
Less: Accumulated depreciation	(160,529)	(141,691)	
	$ 419,755	$ 377,128	

Depreciation expense was $31,009,000, $29,042,000 and $25,149,000 in fiscal 1998, 1997 and 1996, respectively.

7. Patents, Trademarks, Proprietary Technology and Other Intangibles

The Company periodically reviews the carrying value of intangible assets to determine whether the carrying amount of an asset is recoverable. The primary indicators of recoverability are current or forecasted profitability of the related acquired business, measured as profit before interest and amortization of the related intangible assets compared to their carrying values. For the three-year periods ended June 30, 1998, 1997 and 1996 there were no material adjustments to the carrying values of intangible assets resulting from these evaluations.

Patents, trademarks, proprietary technology and other intangibles as of June 30, 1998 and 1997 consisted of:

(In thousands)	1998	1997	Useful Lives
Trademarks	$ 117,201	$ 116,866	40 years
Patents, proprietary technology and other intangibles	163,371	162,658	10-17 years

Excess of cost over net assets acquired	209,193	223,202	40 years
	489,765	502,726	
Less: Accumulated amortization	(204,916)	(192,631)	
	$ 284,849	$ 310,095	

8. Notes Payable

The Notes payable consisted of international subsidiaries' working capital borrowings with local banks totaling $4,562,000 and $8,432,000 at June 30, 1998 and 1997, respectively. The international credit facilities, which aggregate $17,456,000, are generally secured by the assets of the respective international subsidiary, with approximately $2,024,000 at one international subsidiary guaranteed by First Brands Corporation (U.S.). The Company also borrows against an unsecured domestic line of credit and at June 30, 1998 and 1997, the entire $15,000,000 available under this facility was unused. The average borrowings outstanding and average interest rates charged during fiscal 1998 and 1997 were $14,600,000 at 11.3% and $10,750,000 at 10.2%, respectively.

9. Accrued Liabilities

Accrued liabilities as of June 30, 1998 and 1997 consisted of the following:

(In thousands)	1998	1997
Interest	$ 5,764	$ 6,494
Employee benefits and wages	9,410	9,295
Marketing and sales programs	44,997	54,384
Raw material purchases	16,220	14,314
Other	16,528	21,597
	$92,919	$106,084

10. Financial Instruments

The Company has entered into various interest rate swap agreements to transform a portion of its variable rate debt into fixed rate obligations. According to the provisions of these agreements, the Company will pay between 5.45% and 7.07% fixed interest for up to five years and will receive floating rate counter payments (5.64% at June 30, 1998). A majority of the swap agreements provide for a five year renewal at the counterparties discretion. The difference between interest paid and received is included as an adjustment to interest expense. The notional amount of the contracts is approximately $127,000,000. The fair value of each swap agreement may generate a gain or loss depending on the estimated amounts that the Company would pay to terminate the agreement based on the prevailing and anticipated interest rates at the reporting dates.

To limit the impact of exchange rate fluctuations resulting from anticipated inventory purchases and intercompany transactions, the Company periodically enters into foreign currency contracts. Outstanding contracts totaled approximately $24,775,000 and $40,875,000 as of June 30, 1998 and 1997, respectively. Contracts outstanding as of June 30, 1998 will mature over the next ten years.

The Company has entered into various contracts to partially stabilize the cost, at or below the market average over the last four years, of its polyethylene resin requirements. Fixed price contracts cover about 37% of the Company's domestic resin requirements and have various maturities through 2006. There is also a "collar" contract protecting a range of prices covering an additional 20% of the Company's domestic resin requirements.

The Company considers the risks associated with its interest, currency and resin contracts to be relatively low because of the Company's policy to only enter into agreements with strong credit worthy counterparties. Gains and losses on the currency impact of cross border transactions and the effect of foreign currency contracts are recorded in Other income (expense), net in the Consolidated Statement of Income. During fiscal 1998 a net credit of $1,900,000 was recorded from these transactions and during fiscal 1997 the net loss was immaterial. Gains and losses on resin and interest contracts are recognized into earnings when the related transactions being hedged are completed. There were no significant gains or losses associated with these contracts in fiscal 1998 and 1997.

Other financial instruments include cash and cash equivalents, accounts and notes receivable, notes payable, accounts payable and long-term debt. Because of the short-term nature of cash and cash equivalents, accounts and notes receivable, notes payable and accounts payable, their carrying value approximates fair value. A portion of the Company's long-term debt consists of variable rate instruments, therefore the carrying value approximates fair value. The fair value of the Company's long-term fixed rate debt approximates the carrying value as of June 30, 1998 and 1997.

First Brands Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Long-term Debt

First Brands had the following long-term debt as of June 30, 1998 and 1997:

(In thousands)	1998	1997
Senior Debt(a):		
$300,000,000 Revolving Credit Facility, 5 year term expiring February 2002, interest at prime rate, LIBOR plus .275% or CD rate plus .4%; facility fee of .15%	$190,000	$162,000
$59,354,000 Australian and New Zealand Credit Facility, 7 year term expiring March 2004, interest at local Bill Rate plus .7%	42,745	58,727
$9,575,000 Canadian Credit Facility, 5 year term expiring March 2002, interest at Canadian prime rate, LIBOR plus .425% or Canadian Bankers Acceptance plus .425%	3,424	8,619
Other	5,269	3,932
	241,438	233,278
Less current maturities	(3,384)	(2,811)
Senior Debt	238,054	230,467
Subordinated Debt(b):		
7 1/4% Senior Notes Due 2007	150,000	150,000
	$388,054	$380,467

(a) The Company's revolving credit facility is unsecured and requires no compensating balance, however it does have certain restrictive covenants, the most significant of which relates to the ratio of debt to equity, dividend payments and stock repurchases.

The seven-year $59,354,000 Australian and New Zealand credit facility is composed of two parts; one of which was used to acquire the NationalPak business (see Note 4) and a second part that can be used for working capital needs. There are fixed periodic payments associated with the acquisition borrowing and the working capital borrowing can be drawn on and repaid at NationalPak's discretion. The facility is secured by the accounts receivable, inventory and fixed assets of NationalPak.

The five-year $9,575,000 Canadian credit facility requires fixed periodic payments. The facility is secured by the accounts receivable, inventory and fixed assets of the Canadian business.

(b) The $150,000,000, 7 1/4% Senior Notes (the "7 1/4% Notes") which were issued during fiscal 1997 will become due on March 1, 2007. Proceeds from the sale of the 7 1/4% Notes were used to redeem all of the Company's previously issued 9 1/8% Senior Subordinated Notes (the "9 1/8% Notes") and to reduce bank debt. The write-off of unamortized issuance costs and other expenses associated with the repurchase of the 9 1/8% Notes was recorded as an extraordinary charge on the Company's Consolidated Statement of Income.

The 7 1/4% Note Indenture contains certain restrictive covenants and limitations the most significant of which relates to the Company's right to incur debt and to engage in certain sale and leaseback transactions.

First Brands was in compliance with all the covenants of the senior and subordinated debt agreements at June 30, 1998.

Principal payments due on long-term debt (including current maturities) will require the following future payments: $3,384,000 in fiscal 1999, $4,223,000 in fiscal 2000, $4,834,000 in fiscal 2001, $199,002,000 in fiscal 2002, $6,309,000 in fiscal 2003 and $173,686,000 thereafter.

12. Leases

During fiscal 1998, the Company acquired all remaining domestic production equipment which had been previously leased. These assets were associated with sale and leaseback agreements and were classified as operating leases in accordance with SFAS No. 13 "Accounting for Leases."

The Company leases various warehousing, production and office facilities under operating lease agreements. Lease terms generally range from

one to fifteen years with options to renew.

Lease commitments under non-cancelable operating leases extending for one year or more require the following future payments: $5,955,000 in 1999, $5,200,000 in 2000, $4,680,000 in 2001, $4,185,000 in 2002, $3,950,000 in 2003 and $13,785,000 thereafter. The total rental expense under operating leases was $10,338,000, $16,035,000 and $20,856,000 for the years ended June 30, 1998, 1997 and 1996, respectively.

13. Capital Stock

First Brands has four stock option plans ("the plans") three of which are for certain key employees and one for non-employee directors. The plans' objectives are to establish a direct link between the financial interest of eligible employees and the performance of the Company and to attract and retain the most qualified personnel. Stock options are primarily performance-based and have terms that are not more than ten years from the date of grant. The exercise price for

stock options may not be less than the fair market value of the Common Stock on the date of grant and such options will vest over a period determined by the Compensation Committee of the Board of Directors. As of June 30, 1998, the total number of options available for grant are 2,017,652.

Options granted to certain personnel contain restricted and limited stock appreciation rights ("LSAR's"). LSAR's may be granted in tandem with a stock option grant or at any time following the stock option grant and are only exercisable upon a change of control of the Company. LSAR's will exercise automatically following certain changes in control of the Company, and upon such exercise the grantee, in cancellation of the underlying stock options, will receive cash equal to the excess of the fair market value of each share of Common Stock subject to the limited stock appreciation right over the exercise price of the underlying stock option. LSAR's have been granted with respect to 1,288,000 shares.

A summary of the options transactions for the years ended June 30, 1998, 1997 and 1996 follows:

	1998	1997	1996
Options outstanding, beginning of fiscal year	3,257,472	2,943,822	2,613,380
Options granted-- per share $22.53-$28.25	20,000	573,000	669,000
Options exercised-- per share $9.50-$22.52	(159,802)	(253,350)	(328,558)
Options canceled-- per share $16.38-$28.25	(26,500)	(6,000)	(10,000)
Options outstanding, end of fiscal year	3,091,170	3,257,472	2,943,822
Exercisable at June 30	1,934,670	2,028,472	2,287,822

The following tables set forth information regarding stock options outstanding and those options which are exercisable as of June 30, 1998:

OPTIONS OUTSTANDING Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
$9.50-$12.66	699,170	$11.81	2.7
$14.66-$22.60	1,786,000	$18.03	6.2
$26.00-$28.25	606,000	$25.87	8.8
	3,091,170	$18.16	5.9

OPTIONS EXERCISABLE Range of Exercise Prices	Stock Options Exercisable	Weighted Average Exercise Price
$9.50-$12.66	699,170	$11.81
$14.66-$22.60	1,192,500	$15.79
$26.00-$28.25	43,000	$23.84
	1,934,670	$14.53

The Company adopted the disclosure-only provision of SFAS No. 123 "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for its time vested option plans. If the Company had elected to adopt the recognition provision of SFAS No. 123, income and per share amounts would be the following:

	1998	1997	1996
Income before extraordinary loss and			

accounting change:			
As reported	$52,330	$50,865	$65,100
Pro forma	51,744	50,265	64,461
Basic earnings per share:			
As reported	$ 1.32	$ 1.25	$ 1.56
Pro forma	1.31	1.23	1.55
Diluted earnings per share:			
As reported	$ 1.29	$ 1.22	$ 1.53
Pro forma	1.28	1.20	1.51

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	1998	1997	1996
Dividend yield	1.5%	1.3%	1.3%
Risk free interest rate	5.5%	5.3%	5.3%
Expected volatility rate	42.6%	25.8%	21.9%
Expected life	7.7 years	7.6 years	7.3 years

14. Income Taxes

The geographic components of earnings before income taxes, extraordinary loss and cumulative change in accounting principle are as follows:

(In thousands)	1998	1997	1996
United States	$74,951	$75,790	$100,236
International	9,743	7,608	8,683
	$84,694	$83,398	$108,919

First Brands Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

Total income taxes for the years ended June 30, 1998, 1997 and 1996 were allocated as follows:

(In thousands)	1998	1997	1996
Income before extraordinary loss and cumulative change in accounting principle	$32,364	$32,533	$43,819
Extraordinary loss	--	(415)	--
Cumulative change in accounting principle	(4,512)	--	--
Stockholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(1,071)	(1,212)	(1,256)
	$26,781	$30,906	$42,563

Income tax expense attributable to income before extraordinary loss and cumulative change in accounting principle for the years ended June 30, 1998, 1997 and 1996 consists of the following:

(In thousands)	1998	1997	1996
Current:			
Federal	$ 6,765	$20,418	$11,640
State	1,071	3,539	2,566
Foreign	4,806	2,768	3,805
Total current	12,642	26,725	18,011
Deferred:			
Federal	17,037	4,638	20,916
State	3,355	1,028	5,275
Foreign	(670)	142	(383)
Total deferred	19,722	5,808	25,808
	$32,364	$32,533	$43,819

The fiscal 1998 increase in deferred income tax expense and decrease in current income tax expense relate primarily to information system expenditures, restructuring charges and changes in various accruals.

Income tax expense attributable to income before extraordinary loss differs from the amounts computed by applying the U.S. federal tax rate of 35 percent to pre-tax income before extraordinary loss as a result of the following:

(In thousands)	1998	1997	1996
Computed "expected" tax expense	$29,643	$29,189	$38,122
Adjustments resulting from:			
Amortization of goodwill	788	703	440
State income taxes, net of federal income tax benefit	2,877	2,919	4,713
Foreign income tax in excess of statutory rate	726	238	478
Other, net	(1,670)	(516)	66
Actual tax expense	$32,364	$32,533	$43,819

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 1998 and 1997 are presented below:

(In thousands)	1998	1997
Current deferred tax assets:		
Accounts receivable reserves	$ 2,557	$ 2,969
Difference between book and tax basis of inventories	3,539	3,882
Accrued liabilities, not deductible until paid	5,731	9,141
Total current deferred tax assets	11,827	15,992
Long-term deferred tax assets:		
Pensions, other post employment benefits and deferred compensation	9,127	6,423
Intangible asset, not amortized for tax	7,344	7,374
Total long-term deferred tax assets	16,471	13,797
Long-term deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	(82,472)	(73,373)
Deferred charges, principally purchase accounting and information systems	(11,715)	(4,110)
Foreign subsidiaries	(1,072)	(1,662)
Total long-term deferred tax liabilities	(95,259)	(79,145)
Long-term deferred tax liability, net	(78,788)	(65,348)
Net deferred tax liability	$(66,961)	$(49,356)

Management of the Company has determined, based on the Company's history of operating earnings and its expected income, that operating income will more likely than not be sufficient to fully utilize these deferred tax assets as they mature.

The Company has not provided for Federal income taxes on the undistributed income of its international subsidiaries because it is the Company's intention to reinvest such undistributed income. Cumulative undistributed earnings for which no U.S. tax has been provided were $51,403,000, $48,787,000 and $44,921,000 for the years ended June 30, 1998, 1997 and 1996 respectively.

15. Employee Benefits

Retirement Plans

In the U.S., First Brands maintains a non-contributory defined benefit retirement plan ("pension plan") for some employees and a defined contribution pre and post-tax savings plans ("savings plan") for all employees.

The Company contributes to the savings plan account of each eligible employee. Any regular employee of First Brands or its domestic subsidiaries is eligible to participate in the amended savings plan. The Company matches 50% of employee contributions up to the lower of statutory limits or 3% of base pay. Savings plan expense for the years ended June 30, 1998, 1997 and 1996 totaled $2,442,000, $2,194,000 and $2,028,000, respectively. The Company also maintains a noncontributory profit sharing plan, to which it provides a profit sharing contribution to each eligible employee's account in the savings plan. The contribution is discretionary and is based on the Company's operating performance. The Company's profit sharing contributions are in the form of existing issued and outstanding shares of First Brands Common Stock. The costs associated with the profit sharing plan were approximately $423,000, $445,000 and $730,000 for the fiscal years ended June 30, 1998, 1997 and 1996, respectively.

The pension plan for First Brands in the U.S., and certain of its international subsidiaries provides defined benefits that are based on years of credited service, highest average compensation (as defined) and the primary social security benefit. Beginning January 2000, in the U.S. the pension plan formula changes to a defined benefit plan based on years of credited service and career average compensation. Pension plan assets primarily consist of corporate equities, as well as corporate and government fixed income obligations. Contributions to the plan are based upon the projected unit credit actuarial cost funding method and are limited to amounts that are currently deductible for tax purposes. Prior service costs are amortized on a straight-line basis over the average remaining service period for active plan participants.

The Company's U.S. early retirement program (see Note 3) resulted in a special actuarial termination charge of $1,400,000 for fiscal 1997. This charge was increased by an additional $28,000 during fiscal 1998 to reflect actual participation in the early retirement program. The Company's Canadian subsidiary terminated its defined pension plan and transferred all eligible employees to a new group registered retirement savings plan ("RRSP") which provides essentially the same benefits as the former plan. As a result of the plan termination, the Company recognized a $530,000 curtailment gain during fiscal 1997. Costs associated with the Canadian RRSP were approximately $250,000 for fiscal 1998.

The following table sets forth the combined domestic and international plans' net pension cost, funded status and amounts recognized in the Company's Consolidated Financial Statements at June 30, 1998, 1997 and 1996:

(In thousands)	1998	1997	1996
Net pension cost included the following components:			
Service cost--benefits earned during the period	$ 3,229	$ 3,275	$ 3,455
Interest cost on projected benefit obligations	6,307	6,177	4,984
Actual return on plan assets	(6,724)	(6,898)	(6,838)
Net amortization and deferral	(797)	(816)	(81)
Cost of Special termination benefit	28	1,400	--
Curtailment (gain)	--	(530)	--
	$ 2,043	$ 2,608	$ 1,520

(In thousands)	1998	1997
Reconciliation of funded status:		
Vested accumulated benefit obligation	$ 74,250	$ 57,755
Non-vested accumulated benefit obligation	8,104	6,753
Accumulated benefit obligation	82,354	64,508
Additional liability based on projected compensation	14,793	18,251
Projected benefit obligation	97,147	82,759
Fair value of plan assets	89,489	80,375
Plan assets less than projected benefit obligation	7,658	2,384
Unrecognized prior service benefit	6,940	7,577
Unrecognized net (loss)	(3,499)	(407)
Net pension liability recognized in the consolidated balance sheet	11,099	9,554

To calculate the expense and liability associated with its pension plans, the Company utilizes the following assumptions:

	1998	1997	1996
DOMESTIC			
Discount rate	7.0%	8.0%	8.0%
Compensation increase rate	4.0%	4.5%	4.5%
Expected long-term return on plan assets	9.5%	9.5%	9.5%
INTERNATIONAL			
Discount rate	5.5%	6.0%-8.5%	8.5%
Compensation increase rate	4.0%	4.0%-5.0%	5.0%
Expected long-term return on plan assets	7.0%	7.5%-8.5%	8.5%

In the U.S. federal law restricts the amount of benefits that can be paid from a qualified plan. First Brands maintains an unfunded non-qualified plan, the effect of which is to award retirement benefits to all employees on a uniform basis. Expenses associated with this plan were $485,000, $564,000, $297,000 during 1998, 1997 and 1996, respectively.

Postretirement Benefits

The Company provides certain medical and life insurance benefits for retirees and their dependents in the United States. Employees who have reached the age of 55, and have met the Company's minimum service requirements, become eligible for these benefits. The medical and life insurance benefits available are partially contributory in nature, and it is the Company's practice to fund these benefits as incurred. Retirees outside the United States are generally covered by locally sponsored government programs.

Following is an analysis of postretirement benefit costs for fiscal 1998, 1997 and 1996:

(In thousands)	1998	1997	1996
Service cost	$ 274	$ 370	$ 297
Interest cost	1,371	1,129	1,112
Unrecognized net (gain)	--	(36)	--
Amortization of prior service cost	92	92	--
Amortization of transition obligation	583	583	583
Net postretirement benefit cost	2,320	2,138	1,992
Cost of special termination benefit	183	1,600	--

	$ 2,503	$ 3,738	$ 1,992

During fiscal 1997, the Company announced an early retirement program (see Note 3) for which it recorded a special actuarial termination charge of $1,600,000. This charge was increased by an additional $183,000 during fiscal 1998 to reflect actual participation in the early retirement program.

The Company's accumulated postretirement benefit obligation (the transition obligation) at June 30, 1998 and 1997 is composed of the following components:

(In thousands)	1998	1997
Accumulated postretirement benefit obligation:		
Retirees	$ 13,551	$ 7,926
Fully eligible active plan participants	1,033	3,011
Active plan participants not fully eligible	5,157	5,770
Total	19,741	16,707
Unrecognized transition obligation	(8,798)	(9,381)
Unrecognized prior service cost	(1,140)	(1,232)
Unrecognized gain (loss)	(115)	2,202
Accrued unfunded postretirement benefit cost	$ 9,688	$ 8,296

The discount rate used in determining the accumulated postretirement benefit obligation was 7% and 8% for fiscal 1998 and 1997, respectively. The assumed health care cost trend rate used to measure the accumulated postretirement benefit obligation was 9.5% in 1998 and is expected to gradually decline .5% per year to an ultimate rate of 5% in fiscal year 2007. A 1% increase in the assumed health care cost trend rate for each year would increase the accumulated

postretirement benefit obligation as of June 30, 1998 by $670,000 and increase the service and interest cost for 1998 by $62,000.

16. Commitments, Contingencies and Related Parties

Litigation

The Company is subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, arising from these claims and contingencies is not likely to have a material adverse effect on the Company's annual results of operations or financial condition.

Related Parties

Beginning in January, 1997, Alfred E. Dudley, a Director and former Chairman of the Company, was retained as a consultant. For these services, he was paid a yearly consulting fee of $100,000 in fiscal 1998 and 1997.

The Company has utilized the services of Lee Hill Incorporated, a marketing services company, of which James R. McManus, a Director of First Brands, was the owner. For fiscal 1998 the total fees paid to Lee Hill Incorporated were $118,000. During September 1997, Mr. McManus sold his interest in Lee Hill.

The Company believes that each of the related party transactions described above were on terms as fair to the Company as could have been obtained from unaffiliated third parties.

Other

The Company is a party to a contract with Union Carbide that provides for the purchase of a substantial portion of the Company's primary raw material requirements for plastic wrap and bags through December 31, 1999. The pricing provisions in the Company's present supply contracts are designed to be responsive to market conditions of the relevant raw materials.

17. Geographic Segment Data

The following is a summary of net sales, operating profit, and identifiable assets in the United States and internationally in 1998, 1997 and 1996:

(In thousands)	1998	1997	1996
Revenues:			
United States	$ 972,638	$ 954,411	$ 932,183
International	231,032	165,487	140,839
	$ 1,203,670	$ 1,119,898	$ 1,073,022
Operating profit:			
United States	$ 118,663	$ 130,032	$ 135,500
International	23,493	15,355	12,513
Less Corporate Expense	(20,097)	(20,189)	(19,412)
Restructuring Expense	(2,700)	(19,000)	--
	$ 119,359	$ 106,198	$ 128,601
Identifiable assets:			
United States	$ 876,092	$ 835,821	$ 775,447
International	184,109	210,960	85,433
	$ 1,060,201	$ 1,046,781	$ 860,880

Operating profit reflects net sales less cost of goods sold, selling, general and administrative expenses, amortization and other depreciation and restructuring expenses.

Included in U.S. revenues are export sales totaling $36,780,000, $42,076,000 and $37,055,000 during the years ended June 30, 1998, 1997 and 1996, respectively. The Company does not believe that it is dependent on any single customer, however, net sales to its largest customer

accounted for approximately 12% of total sales for the years ended June 30, 1998, 1997 and 1996.

18. Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in a full set of financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of prior year financial statements is required.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which expands annual financial statement disclosures about operating segments and establishes disclosure requirements concerning a company's products, customers and geographic areas. Selected information about operating segments is also required for interim financial reports issued to shareholders. Financial statement disclosures for prior periods are required to be restated.

In February 1998, the FASB issued SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits," which amends the disclosure requirements previously established by SFAS No. 87, 88 and 106. The new disclosure requirements are intended to

standardize the reporting of pensions and other postretirement benefits. While SFAS No. 132 does not change the measurement or recognition requirements of those plans, it does require some new information from plan sponsors and allows for the elimination of other information which is no longer considered useful. Restatement of disclosure for earlier periods is required, unless such information is not readily available.

The Company plans to adopt each of the above pronouncements in its fiscal year beginning July 1, 1998. While the adoption of SFAS No. 130, 131 and 132 will have no impact on First Brands results of operations, cash flows or financial position, the Company is currently evaluating the appropriate format of disclosure for each pronouncement.

19. Subsequent Event

On July 2, 1998, the Company entered into an agreement to acquire, for approximately $53,000,000, the HANDI WIPES and WASH 'N DRI brands from the Colgate-Palmolive Company. The acquisition, which will be accounted for as a purchase, is expected to be completed during the first quarter of fiscal 1999 and will be financed through borrowings from the Company's revolving credit facility.

20. Quarterly Financial Data (Unaudited)

Year Ended June 30, 1998

	Quarters Ended			
(In thousands, except per share amounts)	Sept. 30, 1997	Dec. 31, 1997	Mar. 31, 1998	June 30, 1998
Net sales	$269,480	$309,282	$296,414	$328,494
Gross profit	86,285	112,288	105,436	123,791
Income before cumulative change(a)	12,173	13,307	16,038	10,812
Net income	12,173	6,385	16,038	10,812
Per common share:				
Basic				
Income before cumulative change(a)	$0.30	$0.33	$0.41	$0.28
Net income	$0.30	$0.16	$0.41	$0.28
Diluted				
Income before cumulative change(a)	$0.30	$0.33	$0.40	$0.27
Net income	$0.30	$0.16	$0.40	$0.27

Year Ended June 30, 1997

	Quarters Ended			
(In thousands, except per share amounts)	Sept. 30, 1996	Dec. 31, 1996	Mar. 31, 1997	June 30, 1997
Net sales	$255,597	$279,952	$264,886	$319,463
Gross profit	88,189	101,719	96,122	120,182
Income before extraordinary loss(a)	18,007	15,351	16,054	1,453
Net income	18,007	15,351	15,421	1,453
Per common share:				
Basic				
Income before extraordinary loss(a)	$0.44	$0.38	$0.40	$0.04
Net income	$0.44	$0.38	$0.38	$0.04
Diluted				
Income before				

extraordinary loss(a)	$0.43	$0.37	$0.39	$0.04
Net income	$0.43	$0.37	$0.37	$0.04

(a) The fourth quarter of fiscal 1997 and the second quarter of fiscal 1998, include a $19,000 and $2,700 charge for restructuring expenses, respectively.

FIRST BRANDS CORPORATION CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands - except per share amounts)	THREE MONTHS ENDED SEPTEMBER 30, 1998	THREE MONTHS ENDED SEPTEMBER 30, 1997
Net sales	$ 291,509	$ 269,480
Cost of goods sold	188,859	183,195
Selling, general and administrative expenses	65,720	53,911
Amortization and other depreciation	4,004	3,860
Interest expense and amortization of debt discount and expense	7,199	7,114
Discount on sale of receivables	1,487	1,147
Other income (expense), net	(670)	(288)
Income before provision for income taxes	23,570	19,965
Provision for income taxes	9,250	7,792
Net income	$ 14,320	$ 12,173
Basic earnings per common share (Note 6):		
Net income	$ 0.37	$ 0.30
Based on the following number of shares	39,039	39,942
Diluted earnings per common share (Note 6):		
Net income	$ 0.36	$ 0.30
Based on the following number of shares	39,677	40,775

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

FIRST BRANDS CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(dollars in thousands - except share amounts)	SEPTEMBER 30, 1998 (UNAUDITED)	JUNE 30, 1998
ASSETS:		
Cash and cash equivalents..........................	$ 19,115	$ 12,029
Accounts and notes receivable - net................	95,103	130,874
Inventories..	154,106	155,480
Deferred tax assets................................	12,209	11,827
Prepaid expenses...................................	4,564	10,170
Total current assets............................	285,097	320,380
Property, plant and equipment (net of accumulated depreciation of $169,126 and $160,529)............	418,199	419,755
Patents, trademarks, proprietary technology and other intangibles (net of accumulated amortization of $207,857 and $204,916)............	332,505	284,849
Deferred charges and other assets (net of accumulated amortization of $53,166 and $52,687)..	35,404	35,217
Total assets............................	$ 1,071,205	$ 1,060,201
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities		
Notes payable......................................	$ 4,280	$ 4,562
Current maturities of long-term debt...............	3,184	3,384
Accrued income and other taxes.....................	15,871	8,253
Accounts payable...................................	40,294	71,692
Accrued liabilities................................	67,837	92,919
Total current liabilities.....................	131,466	180,810
Long-term debt.....................................	443,785	388,054
Deferred taxes payable.............................	79,023	78,788
Other long-term obligations........................	26,955	26,401
Stockholders' Equity		
Preferred stock, $1 par value, 10,000,000 shares authorized; none issued....................	-	-
Common stock, $0.01 par value, 120,000,000 shares authorized and 43,553,846 shares issued at September 30, 1998 and June 30, 1998..........................	435	435
Capital in excess of par value.....................	134,166	134,166
Cumulative foreign currency translation adjustment..	(31,310)	(27,556)
Common stock in treasury, at cost; 4,534,000 shares at September 30, 1998 and 4,407,000 shares at June 30, 1998	(125,872)	(123,039)
Retained earnings..................................	412,557	402,142
Total stockholders' equity....................	389,976	386,148
Total liabilities and stockholders' equity	$ 1,060,201	$ 1,071,205

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

FIRST BRANDS CORPORATION
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 1998
(UNAUDITED)

(in thousands)	Common Stock Par Value	Capital in Excess of Par Value	Cumulative Foreign Currency Translation Adjustment	Treasury Stock	Retained Earnings	Total	
Balance as of June 30, 1998	$ 435	$ 134,166	$ (27,556)	$ (123,039)	$ 402,142	$ 386,148	
Cash Dividends	--	--		--	--	(3,905)	(3,905)
Purchase of Treasury Stock	--	--		--	(2,833)	--	(2,833)
Net Income	--	--		--	--	14,320	14,320
Foreign Currency Translation Adjustment	--	--		(3,754)	--	--	(3,754)
Balance as of September 30, 1998	$ 435	$ 134,166	$ (31,310)	$ (125,872)	$ 412,557	$ 389,976	

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

FIRST BRANDS CORPORATION CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	THREE MONTHS ENDED SEPTEMBER 30, 1998	THREE MONTHS ENDED SEPTEMBER 30, 1997
Cash flows from operating activities:		
Net income	$ 14,320	$ 12,173
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,214	11,625
Deferred income taxes	214	2,997
Change in certain non-cash current assets and liabilities:		
Decrease in accounts receivable	34,841	32,897
(Increase) in inventories	(39)	(12,642)
Decrease in prepaid expenses	5,558	252
Increase in accrued income and other taxes	7,697	3,557
(Decrease) in accounts payable	(31,076)	(15,212)
(Decrease) in accrued liabilities	(24,686)	(32,552)
Other changes	546	1,984
Total adjustments	6,269	(7,094)
Net cash provided by operating activities	20,589	5,079
Cash flows from investing activities:		
Capital expenditures	(9,667)	(8,234)
Acquisition of leased assets	--	(10,208)
Acquisition of business	(53,000)	--
Purchase and installation of information system	(1,237)	(2,727)
Net cash (used for) investing activities	(63,904)	(21,169)
Cash flows from financing activities:		
Increase in credit facility borrowings, net	57,331	26,345
(Decrease) increase in other borrowings, net	(181)	14,522
(Decrease) in securitization of accounts receivable	--	(15,000)
Proceeds from exercise of stock options	--	787
Purchase of common stock for treasury	(2,833)	(5,627)
Dividends paid	(3,916)	(3,207)
Net cash provided by financing activities	50,401	17,820
Net increase in cash and cash equivalents	7,086	1,730
Cash and cash equivalents at beginning of period	12,029	7,465
Cash and cash equivalents at end of period	$ 19,115	$ 9,195

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS.

FIRST BRANDS CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated condensed financial statements include all adjustments (all of which were of a normal recurring nature) necessary to fairly present the results of operations for the interim periods. All material intercompany transactions and balances have been eliminated. The results of operations for the three month period ended September 30, 1998 are not necessarily indicative of the results for a full year.

First Brands Corporation ("First Brands" or the "Company") is engaged in the development, manufacture, marketing and sale of consumer products under branded and private labels. Principal branded products include: GLAD and GLAD-LOCK (plastic wrap and bags); GLADWARE (plastic containers); HANDI WIPES and WASH `N DRI (cleaning cloths); STP (oil and fuel additives and other specialty automotive products); SCOOP AWAY, EVER CLEAN, EVERFRESH and JONNY CAT (cat litters) and STARTERLOGG (fire starters) and HEARTHLOGG (fire logs).

INVENTORIES

Inventories were comprised of:

	September 30, 1998	June 30, 1998
	(in thousands)	
Raw materials	$ 33,261	$ 34,160
Work-in-process	5,416	5,485
Finished goods	115,429	115,835
Total	$ 154,106	$ 155,480

2. Long-term Debt

First Brands had long-term debt outstanding as of September 30, 1998 and June 30, 1998 as follows:

	September 30, 1998	June 30, 1998
	(in thousands)	
$300,000,000 Revolving Credit Facility, 5 year term expiring February 2002, interest at prime rate, LIBOR plus .275% or CD rate plus .4%; facility fee of .15%	$ 247,000	$ 190,000
$150,000,000 7 1/4% Senior Notes Due 2007	150,000	150,000
$54,717,000 Australian and New Zealand Credit Facility, 7 year term expiring September 2004, interest at local Bill Rate plus .7%	38,996	42,745
$9,139,000 Canadian Credit Facility, 5 year term expiring September 2002, interest at Canadian prime rate, LIBOR plus .425% or Canadian Bankers Acceptance plus .425%	5,493	3,424
Other	5,480	5,269
	446,969	391,438
Less: current maturities	(3,184)	(3,384)
Total long-term debt	$ 443,785	$ 388,054

The Company's revolving credit facility is unsecured, however, it does contain certain restrictive covenants pertaining to the ratio of debt to equity, dividend payments and stock repurchases.

The Australian and New Zealand credit facility is composed of two parts; one of which was used to acquire the NationalPak business and a second part which can be used for working capital needs. There are fixed periodic payments associated with the acquisition borrowing. The working capital borrowing can be drawn on and repaid at NationalPak's discretion. The facility is secured by the accounts receivable, inventory and fixed assets of NationalPak.

The Canadian credit facility requires fixed periodic payments. The facility is secured by the accounts receivable, inventory and fixed assets of the Canadian business.

The 7 1/4% Note Indenture contains certain restrictive covenants and limitations principally relating to the Company's right to incur debt and to engage in certain sale and leaseback transactions.

First Brands was in compliance with the covenants of all debt agreements at September 30, 1998.

3. ACCOUNTS RECEIVABLE

The Company is engaged in a program to sell up to $100,000,000 in fractional ownership interest in a defined pool of eligible trade accounts receivable. As of September 30, 1998 the entire $100,000,000 had been sold. The amounts sold are reflected as a reduction in accounts receivable on the accompanying Consolidated Condensed Balance Sheets and costs associated with this program are recorded on the Consolidated Condensed Statements of Income as discount on sale of receivables.

4. NOTES PAYABLE

Notes payable at September 30, 1998 of $4,280,000 consisted of the Company's international subsidiaries' working capital borrowings with local lenders. The Company's international working capital credit facilities aggregate $16,978,000 and are generally secured by the assets of the respective subsidiaries, with approximately $2,000,000 of the availability at one subsidiary being guaranteed by First Brands Corporation (U.S.). The Company also borrows against an unsecured domestic line of credit and at September 30, 1998, the entire $15,000,000 available under this facility was unused.

5. TAXES

The provision for income tax expense for the three months ended September 30, 1998 and 1997 consists of the following:

	Three Months Ended September 30,	
	1998	1997
	(in thousands)	
Current:		
Federal	$ 6,683	$ 3,200
State	1,454	754
Foreign	899	841
Total current	9,036	4,795
Deferred:		
Federal	87	2,397
State	19	531
Foreign	108	69
Total deferred	214	2,997
Total provision	$ 9,250	$ 7,792

6. EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share ("EPS") represents the earnings available to each common share outstanding during the reporting period. Diluted EPS reflects the earnings available to each common share after the effect of dilutive stock options. For the Company, the numerator is constant for both the basic and diluted calculation. The denominator used in the diluted EPS calculation was increased by 638,000 and 833,000 common share equivalents pertaining to stock options for the three months ended September 30, 1998 and 1997, respectively.

The Company has paid its shareholders quarterly cash dividends of $0.10 and $0.08 per share for the first quarter of fiscal 1999 and 1998, respectively.

7. ACQUISITION

On August 31, 1998, the Company acquired, for approximately $53,000,000, the HANDI WIPES and WASH `N DRI business from the Colgate-Palmolive Company. This business is the leader in sales of reusable cleaning cloths and individually wrapped pre-moistened towelettes in the U.S. and Puerto Rico. The acquisition was accounted for as a purchase and was financed through borrowings from the Company's revolving credit facility.

8. COMPREHENSIVE INCOME

As of July 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and displaying comprehensive income and its components. The only component of comprehensive income which affects the Company is foreign currency translation adjustments. Since the Company does not provide for U.S. taxes on undistributed foreign earnings, the impact of foreign currency translation adjustments is not tax effected. Comprehensive income for the three months ended September 30, 1998 and 1997 consists of the following:

	Three Months Ended September 30,	
	1998	1997
	(thousands)	
Net income................................	$ 14,320	$ 12,173
Foreign currency translation adjustments...	(3,754)	(2,699)
Comprehensive income......................	$ 10,566	$ 9,474

Accumulated other comprehensive income as of September 30, 1998 and June 30, 1998 consisted solely of foreign currency translation adjustments with debit balances of $31,310,000 and $27,556,000, respectively.

9. SUBSEQUENT EVENTS

On October 18, 1998, the Company's Board of Directors approved an Agreement and Plan of Merger, providing for the acquisition of First Brands by The Clorox Company. In the merger, each outstanding share of First Brands stock will be converted into a fraction of a Clorox share with a value equal to $39, provided the average closing price of Clorox stock stays between $80 and $115 in the 10 day period ending 5 days before the date of the merger. If the average closing price of Clorox stock is higher than $115 during such period, each outstanding share of First Brands stock will be converted into 0.3391 of a Clorox share. If the average closing price of Clorox stock is less than $80 during such period, each share of First Brands stock will be converted into 0.4875 of a Clorox share. The transaction, which is expected to be completed in the first quarter of calendar 1999, will be treated as a pooling of interests for accounting purposes and is structured to be non-taxable to stockholders (except for cash received in lieu of fractional shares).

Exhibit 99.3

Independent Auditors' Consent

The Board of Directors
The Clorox Company:

We consent to the inclusion of our audit reports dated August 6, 1998, relating to the consolidated balance sheets of First Brands Corporation and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three year period ended June 30, 1998, and the related schedule, which audit reports appear in the June 30, 1998 annual report on Form 10-K of First Brands Corporation, in the Quarterly Report on Form 10-Q of The Clorox Company for the fiscal quarter ended December 31, 1998.

Also with respect to such Quarterly Report, we acknowledge our awareness of the use therein of our report dated October 23, 1998 related to our review of the First Brands Corporation interim financial information as of and for the three months ended September 30, 1998.

Pursuant to Rule 436(c) under the Securities Act of 1933, such report is not considered part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of sections 7 and 11 of the Act.

/S/ KPMG LLP

New York, New York
February 12, 1999

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM THE FINANCIAL STATEMENTS OF THE CLOROX COMPANY FOR THE FISCAL QUARTER ENDED DECEMBER 31, 1998, AS PRESENTED IN THE CLOROX COMPANY'S FORM 10-Q FILED FOR SUCH PERIOD, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.

MULTIPLIER: 1000

PERIOD TYPE	6 MOS
FISCAL YEAR END	JUN 30 1999
PERIOD END	DEC 31 1998
CASH	49395
SECURITIES	52847
RECEIVABLES	366989
ALLOWANCES	1521
INVENTORY	228742
CURRENT ASSETS	760240
PP&E	1165944
DEPRECIATION	561919
TOTAL ASSETS	3046425
CURRENT LIABILITIES	999939
BONDS	508454
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	110844
OTHER SE	1028349
TOTAL LIABILITY AND EQUITY	3046425
SALES	1334055
TOTAL REVENUES	1334055
CGS	572478
TOTAL COSTS	1072436
OTHER EXPENSES	379
LOSS PROVISION	0
INTEREST EXPENSE	35463
INCOME PRETAX	225777
INCOME TAX	82409
INCOME CONTINUING	143368
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	143368
EPS PRIMARY	1.38
EPS DILUTED	1.36

ARTICLE 5

THIS SCHEDULE CONTAINS RESTATED SUMMARY FINANCIAL INFORMATION FROM THE FINANCIAL STATEMENTS OF THE CLOROX COMPANY FOR THE FISCAL QUARTER ENDED DECEMBER 31, 1997, AS PRESENTED IN THE CLOROX COMPANY'S FORM 10-Q FILED FOR SUCH PERIOD, AND AS RESTATED HEREIN, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.

RESTATED:

MULTIPLIER: 1000

PERIOD TYPE	6 MOS
FISCAL YEAR END	JUN 30 1998
PERIOD END	DEC 31 1997
CASH	36003
SECURITIES	14895
RECEIVABLES	346980
ALLOWANCES	1521
INVENTORY	219711
CURRENT ASSETS	680111
PP&E	1071040
DEPRECIATION	500229
TOTAL ASSETS	2831744
CURRENT LIABILITIES	800936
BONDS	702185
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	110845
OTHER SE	885553
TOTAL LIABILITY AND EQUITY	2831744
SALES	1241079
TOTAL REVENUES	1241079
CGS	537883
TOTAL COSTS	1007636
OTHER EXPENSES	(1601)
LOSS PROVISION	0
INTEREST EXPENSE	32019
INCOME PRETAX	203025
INCOME TAX	79179
INCOME CONTINUING	123846
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	123846
EPS PRIMARY	1.2
EPS DILUTED	1.17

ARTICLE 5

THIS SCHEDULE CONTAINS RESTATED SUMMARY FINANCIAL INFORMATION FROM THE FINANCIAL STATEMENTS OF THE CLOROX COMPANY FOR THE FISCAL QUARTER ENDED DECEMBER 31, 1996, AS PRESENTED IN THE CLOROX COMPANY'S FORM 10-Q FILED FOR THAT PERIOD, AND AS RESTATED HEREIN, AND IS INCORPORATATED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

RESTATED:

CIK: 0000021076

NAME: THE CLOROX COMPANY

MULTIPLIER: 1000

PERIOD TYPE	6 MOS
FISCAL YEAR END	JUN 30 1997
PERIOD END	DEC 31 1996
CASH	80911
SECURITIES	0
RECEIVABLES	303523
ALLOWANCES	1521
INVENTORY	189853
CURRENT ASSETS	622238
PP&E	1017559
DEPRECIATION	448373
TOTAL ASSETS	2711088
CURRENT LIABILITIES	648861
BONDS	793350
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	110844
OTHER SE	888005
TOTAL LIABILITY AND EQUITY	2711088
SALES	1120988
TOTAL REVENUES	1120988
CGS	492987
TOTAL COSTS	921934
OTHER EXPENSES	(4959)
LOSS PROVISION	0
INTEREST EXPENSE	22242
INCOME PRETAX	181771
INCOME TAX	72346
INCOME CONTINUING	109425
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	109425
EPS PRIMARY	1.06
EPS DILUTED	1.04

End of Filing

Powered By EDGAR Online

© 2005 | EDGAR Online, Inc.