grupo PACK

HECHO RELEVANTE

Barcelona, 28 de abril de 1999

Por la presente ponemos en su conocimiento, a los efectos de dar cumplimiento a lo establecido en el artículo 82 de la Ley 24/1988, del Mercado de Valores y disposiciones concordantes, y para su puesta a disposición del público como hecho relevante que, en la noche (hora USA) de ayer, 27 de abril de 1999, GRUPO PICKING PACK, S.A. ha adquirido el 100% del capital social de la compañía de nacionalidad norteamericana WAGON HOLDINGS INC., la cual es, a su vez, propietaria del 100% del capital social de la compañía estadounidense CHARRETTE CORPORATION (en adelante "CHARRETTE"), con sede social en Woburn, Boston, Massachusetts (USA).

Dicha transacción se ha llevado a cabo en cumplimiento de los planes estratégicos de crecimiento e internacionalización del Grupo, a través de adquisiciones, y representa duplicar el volumen actual de ventas de GRUPO PICKING PACK, S.A. actualmente concentrado en Reino Unido y España, lo cual implicará la diversificación de los riesgos país y moneda.

La compañía WAGON HOLINGS tuvo una facturación en 1998 de 130 millones de dólares (20.345 millones de pesetas), a través de sus 24 puntos de venta, con un beneficio de explotación cercano a los 8,3 millones de dólares (1.299 millones de pesetas). Sus ventas totales representan un 99% de la facturación de GRUPO PICKING PACK en el año 98 (20.519 millones de ptas.) y el valor total de su activo es de 83 millones de dólares (aprox. 12.990 millones de ptas.), lo que supone el 49,72% del total activo del GRUPO (26.126 millones de ptas.).

La actividad de CHARRETTE se desarrolla en tres áreas:

- Comercial: distribución y venta de maquinaria de reprografía y material de oficina.
- Reprografía: prestación de servicios de reprografía a profesionales y empresas, y prestación de servicios de outsourcing.
- Retail: diseño gráfico, venta minorista de material de oficina.

Dicha transacción implica una inversión igual a 107 millones de dólares (16.746 millones de pesetas) de los que la cantidad de 60,75 millones corresponden al precio de la compraventa de las acciones y el importe de 46,25 a la cancelación del endeudamiento bancario de la misma.

La financiación de la transacción se realizará mediante recursos propios de GRUPO PICKING PACK, S.A., a cuyos efectos se ha convocado para el día 20 de mayo de 1999 una Junta General Extraordinaria, en la que, entre otros asuntos, se propone a los Sres. accionistas la aprobación de una ampliación de capital social por importe de 17.854.499.700 ptas. (107.307.704,38 euros), en la proporción de 4 acciones nuevas por cada 3 antiguas y por su valor nominal de 25 ptas., es decir, sin prima de emisión. El anuncio de la convocatoria para dicha junta se publicará presumiblemente en el BORME y en los periódicos de mayor circulación el día 30 de abril de 1999.

La adquisición de CHARRETTE representa un gran paso en la internacionalización del grupo, permitiendo la entrada en el mercado americano, que por ser muy fragmentado ofrece enormes oportunidades y un gran potencial de crecimiento mediante adquisiciones de medianas y pequeñas empresas, a precios razonables.

En aras a la transparencia de la información arriba revelada y, al objeto de que el mercado disponga de datos en relación a la compañía adquirida, se adjunta a la presente carta copia de las últimas cuentas anuales de WAGON HOLDINGS INC. Y FILIALES, correspondientes al ejercicio 1998, junto con el informe favorable de KPMG PEAT MARWICK LLP.

WAGON HOLDINGS, INCORPORATED AND SUBSIDIARY

Consolidated Financial Statements

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

Independent Auditors' Report

The Stockholders and Board of Directors
Wagon Holdings, Incorporated:

We have audited the accompanying consolidated balance sheets of Wagon Holdings, Incorporated and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 1998 and the five-month period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wagon Holdings, Incorporated and subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the year ended December 31, 1998 and the five-month period ended December 31, 1997, in conformity with generally accepted accounting principles.

March 12, 1999

WAGON HOLDINGS, INCORPORATED AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 1998 and 1997

Assets (note 4)

		1998	1997
Current assets:			
Cash and cash equivalents	$	439,986	982,991
Accounts receivable, less reserve for uncollectible accounts of $509,201 and $303,612, respectively		19,297,296	11,582,473
Inventories		15,686,583	10,409,873
Prepaid expenses		595,853	718,682
Deferred income tax assets (note 6)		830,132	477,720
Total current assets		36,849,850	24,171,739
Property, equipment and leasehold improvements, at cost (note 3)		19,643,721	11,576,979
Less accumulated depreciation and amortization		5,885,806	1,665,908
		13,757,915	9,911,071
Goodwill, net of amortization (note 11)		25,199,022	20,581,711
Other assets (note 8)		6,816,731	6,754,308
	$	82,623,518	61,418,829
Liabilities and Stockholders' Equity			
Current liabilities:			
Current maturities of long-term debt (note 4)	$	2,895,744	2,639,024
Accounts payable		17,625,856	10,204,457
Accrued expenses		4,115,461	2,993,230
Total current liabilities		24,637,061	15,836,711
Long-term debt, less current maturities (note 4)		41,405,041	31,302,751
Deferred income tax liabilities (note 6)		2,036,170	2,156,591
		68,078,272	49,296,053
Commitments and contingencies (notes 5 and 12)			
Stockholders' equity (notes 7 and 10):			
Series A Convertible Preferred Stock, $.01 par value (aggregate liquidation preference $11,899,525); authorized 1,402,440 shares; issued and outstanding 1,069,622 shares in 1998 and 1,057,442 shares in 1997		10,696	10,574
Common stock, $.01 par value:			
Class A common stock-voting:			
Authorized 3,475,586 shares; issued and outstanding 978,961 shares in 1998 and 966,827 shares in 1997		9,790	9,668
Class B common stock-nonvoting:			
Authorized 450,000 shares; issued and outstanding 86,667 shares		867	867
Additional paid-in capital		15,210,220	14,317,032
Accumulated deficit		(686,327)	(2,215,365)
Total stockholders' equity		14,545,246	12,122,776
	$	82,623,518	61,418,829

See accompanying notes to consolidated financial statements.

WAGON HOLDINGS, INCORPORATED AND SUBSIDIARY

Consolidated Statements of Operations

Year ended December 31, 1998
and five-month period ended December 31, 1997

	1998	1997
Net sales	$ 129,621,943	40,792,238
Cost of goods sold	83,133,331	27,622,477
Gross profit	46,488,612	13,169,761
Selling, general and administrative expenses (note 9)	38,228,391	13,262,701
Income (loss) from operations	8,260,221	(92,940)
Other income (expense):		
Interest and dividend income	24,673	16,627
Interest expense (note 10)	(4,329,553)	(1,660,385)
Income (loss) before income tax (benefit)	3,955,341	(1,736,698)
Income tax expense (benefit) (note 6)	1,672,871	(633,546)
Net income (loss)	$ 2,282,470	(1,103,152)

See accompanying notes to consolidated financial statements.

WAGON HOLDINGS, INCORPORATED AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Year ended December 31, 1998 and five-month period ended December 31, 1997

		Series A convertible preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Accumulated deficit	Total stockholder equity
Balance at July 31, 1997	$	—	—	—	—	—	—
Issuance of preferred stock		10,574	—	—	10,563,846	—	10,574,420
Issuance of common stock		—	9,668	867	1,569,545	—	1,580,080
Issuance of stock purchase warrants		—	—	—	1,071,428	—	1,071,428
Put warrant obligation		—	—	—	1,112,213	(1,112,213)	—
Net loss		—	—	—	—	(1,103,152)	(1,103,152)
Balance at December 31, 1997		10,574	9,668	867	14,317,032	(2,215,365)	12,122,776
Issuance of preferred stock		122	—	—	121,678	—	121,800
Issuance of common stock		—	122	—	18,078	—	18,200
Put warrant obligation		—	—	—	753,432	(753,432)	—
Net income		—	—	—	—	2,282,470	2,282,470
Balance at December 31, 1998	$	10,696	9,790	867	15,210,220	(686,327)	14,545,246

See accompanying notes to consolidated financial statements.

WAGON HOLDINGS, INCORPORATED AND SUBSIDIARY

Consolidated Statements of Cash Flows

Year ended December 31, 1998
and five-month period ended December 31, 1997

	1998	1997
Cash flows from operating activities:		
Net income (loss)	$ 2,282,470	(1,103,152)
Adjustments to reconcile net income (loss) cash provided by operating activities:		
Depreciation and amortization	5,739,494	2,111,982
Gain on sale of fixed assets	(51,243)	(24,506)
Changes in operating assets and liabilities:		
Accounts receivable	(2,604,474)	(290,952)
Inventories	(876,068)	1,876,445
Prepaid expenses	567,238	(11,062)
Other assets	(362,582)	(86,932)
Accounts payable	3,273,084	3,551,855
Accrued expenses	189,437	(2,491,080)
Deferred income taxes, net	(156,172)	(660,171)
Net cash provided by operating activities	8,001,184	2,872,427
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(7,878,586)	(1,348,617)
Proceeds from disposals of equipment and leasehold improvements	131,272	42,670
Net cash used in investing activities	(7,747,314)	(1,305,947)
Cash flows from financing activities:		
Net borrowings (payments) on revolving credit loan facility	1,813,408	(2,000,000)
Net proceeds from acquisition line of credit	—	475,959
Payment of long-term debt	(2,750,283)	(745,178)
Proceeds from issuance of preferred stock	121,800	134,420
Proceeds from issuance of common stock	18,200	20,080
Net cash used in financing activities	(796,875)	(2,114,719)
Net decrease in cash and cash equivalents	(543,005)	(548,239)
Cash and cash equivalents, beginning of period	982,991	1,531,230
Cash and cash equivalents, end of period	$ 439,986	982,991
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 1,595,648	26,375
Interest paid	$ 4,513,087	1,007,582

Supplemental disclosures of noncash investing and financing activities:

For the year ended December 31, 1998, the Company purchased the outstanding stock of Cad One, Inc. in exchange for $4,600,000 drawn on the acquisition line of credit and the issuance of $1,000,000 in subordinated debt. The Company repaid debt assumed in connection with the acquisition of $5,386,541 in exchange for borrowings on the acquisition line of credit and the revolving credit loan facility.

Effective July 31, 1997, the Company purchased the outstanding stock of Charrette Corporation in exchange for $47,397,837, which was financed through term and other notes with a bank and issuance of stock.

During the five-month period ended December 31, 1997, the Company purchased the net assets, less assumed liabilities, of Philadelphia Graphics, Inc. in exchange for $1,250,000 drawn on the Company's acquisition line of credit. At December 31, 1997, $899,041 of the purchase price had been paid and $300,000 remained payable.

See accompanying notes to consolidated financial statements.

(1) Nature of Business

Wagon Holdings, Incorporated (the "Company") owns 100% of the stock of Charrette Corporation. Charrette Corporation is engaged in the wholesale and retail distribution of products and reprographic services for architectural, engineering, design, and other professionals.

(2) Summary of Significant Accounting Policies and Practices

The significant accounting policies and practices followed by the Company are as follows:

(a) *Formation of Business*

Effective July 31, 1997, the Company acquired the outstanding common stock of Charrette Corporation at a purchase price of $47,397,837, which was financed primarily through term and other notes with a bank and issuance of stock. The acquisition has been accounted for as a purchase and the related results of operations have been included in the consolidated financial statements since the date of acquisition. The cost of the acquisition has been allocated on the basis of the estimated fair value of the net assets acquired. This allocation resulted in goodwill in the amount of $20,447,145 in 1997 being recognized.

(b) *Principles of Consolidation*

The consolidated financial statements include the financial statements of Wagon Holdings, Inc. and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) *Cash Equivalents*

Cash equivalents are investments which are readily convertible into cash and have original maturities of three months or less.

(d) *Inventories*

Inventories consist primarily of purchased merchandise held for resale and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

(e) *Depreciation and Amortization*

The Company provides for depreciation and amortization on a straight-line basis by charges to income over the estimated useful lives of its property, equipment and leasehold improvements.

(f) *Goodwill*

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally between 20 and 25 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

(g) ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) ***Stock Option Plan***

The Company accounts for its stock option plans in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

(i) ***Employers' Disclosures about Pension and Other Postretirement Benefits***

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 132, *Employers' Disclosures about Pension and Other Postretirement Benefits*. SFAS No. 132 revises employers' disclosures about pensions and other postretirement benefit plans and does not change the method of accounting for such plans.

(j) ***Use of Estimates***

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(k) ***Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of***

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of*. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(3) Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements as of December 31, 1998 and 1997 consist of:

Classification		Amount 1998	Amount 1997	Estimated useful lives
Land	$	274,669	274,669	—
Building		1,307,628	1,307,627	40 years
Machinery, equipment and furniture and fixtures		16,516,509	8,650,875	3 - 8 years
Leasehold improvements		1,523,243	1,331,251	Shorter of lease period or useful life
Motor vehicles		21,672	12,557	3 years
	$	19,643,721	11,576,979	

(4) Debt

(a) *Bank Revolving Credit Loan Facility*

In July 1997, the Company negotiated a Revolving Credit Loan Facility with Fleet National Bank as Agent for itself and other lenders. The facility provides up to $18,000,000 of available financing based on outstanding amounts of receivables and inventory. Borrowings under the facility are secured by all assets of the Company and is due on July 31, 2002. Interest under the facility is payable at either the bank's corporate base rate plus 1% or, for minimum advancements of $500,000 outstanding for at least thirty days, at LIBOR plus 2%. The applicable interest rate under the corporate base rate was 8.75% for the year ended December 31, 1998 and 10% for the five-month period ended December 31, 1997. The applicable interest rate under the facility at December 31, 1998 was 7.88% at the rate of LIBOR plus 2% and for the five-month period ended December 31, 1997 for borrowings at the rate of LIBOR plus 2.5% was 8.5%. At December 31, 1998 and 1997, the Company had $10,000,000 and $10,125,000, respectively, available for borrowing under this facility.

According to the terms and conditions of the Company's loan facility, the Company is required to maintain specified covenants at all times during the commitment.

(b) *Term Debt*

In July 1997, the Company negotiated term loans with Fleet National Bank as Agent for itself and other lenders.

Term Loan A was for an initial $11,000,000 with interest payable at the bank's corporate base rate plus 1% or at LIBOR plus 2%. The applicable interest rate under Term Loan A was LIBOR-based at 7.5% and 8.31% at December 31, 1998 and 1997, respectively. Term Loan A is payable in quarterly principal installments ranging from $200,000 to $750,000 through June 30, 2002.

Term Loan B was for an initial $8,500,000 with interest payable at the bank's corporate base rate plus 1.5% or at LIBOR plus 2.5%. The applicable interest rate under Term Loan B was LIBOR-based at 8.25% and 8.75% at December 31, 1998 and 1997, respectively. Term Loan B is payable in quarterly principal installments ranging from $25,000 to $1,000,000 through June 30, 2004.

(c) ***Acquisition Line of Credit***

In July 1997, the Company negotiated an acquisition line of credit with Fleet National Bank as Agent for itself and other lenders. The line provides up to $10,000,000 in available financing and is to be used solely for acquisitions.

Interest is payable at the Bank's corporate base rate plus 1% or at LIBOR plus 2%. The applicable interest rate under the Acquisition Line was LIBOR based at 7.5% and 8.41% at December 31, 1998 and 1997, respectively. The Company had $1,625,000 and $8,625,000 available for borrowing under this facility at December 31, 1998 and 1997, respectively. Payments from borrowings under the acquisition line of credit are payable in quarterly installments commencing on October 31, 1999 through July 31, 2003, in amounts ranging from 5% to 23% of the aggregate outstanding principal balance.

(d) ***Subordinated Debt***

In May 1998, the Company negotiated a subordinated term debt with Azon Corporation totaling $1,000,000. Interest is payable at 10% and the subordinated debt is payable in one lump sum on May 30, 2005.

In July 1997, the Company negotiated subordinated term debt with BancBoston Investment, Inc. totaling $10,000,000. Interest is payable at 12%. The subordinated debt is payable in one installment due on September 30, 2004. The Company issued detachable stock warrants in connection with the issuance of this subordinated debt. See note 10 for a discussion of the stock warrants.

(e) ***Miscellaneous Note Payable***

At December 1, 1997, the acquisition of Philadelphia Graphics was completed. A total of $300,000 in purchase price was withheld pending satisfaction of certain liens. The liens were cleared and the note was paid in 1998.

(f) ***Long-Term Debt***

Long-term debt at December 31, 1998 and 1997 consists of:

	1998	1997
Revolving Credit Loan Facility		
Term Loan A	$ 8,000,000	3,000,000
Term Loan B	8,425,800	10,400,000
Acquisition line of credit	8,284,200	8,450,000
Subordinated debt (net of deferred expense of $920,310 as of December 31, 1998 and $1,029,603 as of December 31, 1997 associated with stock purchase warrants)	8,375,000	1,375,000
Notes payable to creditors at interest rates ranging from 7.8% to 8.77%, secured by certain computer, copy and office equipment, due in various monthly installments through January 2002	10,079,690	8,970,397
Philadelphia Graphics note payable	1,136,095	1,446,378
	–	300,000
Less current maturities	44,300,785	33,941,775
	2,895,744	2,639,024
Long-term debt, less current maturities	$ 41,405,041	31,302,751

Scheduled gross principal repayments of long-term debt for the next five years and thereafter are as follows:

1999	$	2,895,744
2000		4,455,051
2001		5,102,808
2002		13,040,228
2003		6,793,064
Thereafter		12,934,200
	$	45,221,095

(5) Lease Obligations

The Company conducts operations in 29 facilities maintained under operating leases. Under lease agreements expiring at various dates through September 2009, the Company is obligated to pay annual rentals, as noted below, plus real estate taxes, insurance and certain operating expenses. Total rent expense for all operating leases was $3,423,202 for the year ended December 31, 1998 and $1,229,506 for the five-month period ended December 31, 1997.

Future minimum lease payments under all operating leases as of December 31, 1998 are as follows:

Fiscal year		
1999	$	2,644,352
2000		2,473,700
2001		1,983,971
2002		1,823,537
2003		1,383,862
Thereafter		6,419,419
Total minimum lease payments	$	16,728,841

The Company is party to lease agreements whereby a portion of the New Haven location is rented for commercial use by unrelated parties. Minimum future rental income to be received under these operating leases is as follows:

1999	$	55,099
2000		27,371
2001		28,460
	$	110,930

Total rental income was $66,273 for the year ended December 31, 1998 and $24,790 for the five-month period ended December 31, 1997.

(Continued)

WAGON HOLDINGS, INCORPORATED AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

(6) Income Taxes

Income tax expense (benefit) attributable to income (loss) from operations consists of:

		Current	Deferred	Total
Year ended December 31, 1998:				
U.S. Federal	$	989,283	424,307	1,413,590
State and local		356,292	(97,011)	259,281
	$	1,345,575	327,296	1,672,871
Five-month period ended December 31, 1997:				
U.S. Federal	$	—	(543,507)	(543,507)
State and local		26,625	(116,664)	(90,039)
	$	26,625	(660,171)	(633,546)

Income tax expense (benefit) attributable to income from operations was $1,672,871 for the year ended December 31, 1998 and a benefit of $633,546 for the five-month period ended December 31, 1997 and differed from the amount computed by applying the U.S. federal income tax rate of 34% to pretax income (loss) from operations as a result of the following:

		1998	1997
Computed "expected" tax (benefit)	$	1,344,816	(590,477
Increase (reduction) in income tax (benefit) resulting from:			
State and local income taxes, net of federal income-tax benefit		171,125	(59,426
Goodwill		59,414	—
Other, net		97,516	16,357
	$	1,672,871	(633,546

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are presented below.

		1998	1997
Deferred tax assets:			
Accounts receivable principally due to allowance for doubtful accounts	$	222,620	45,613
Inventories, principally due to additional costs inventoried for tax purposes		582,523	219,663
Accrued liability relating to compensation-related expense		35,127	—
Other accrual liabilities		50,599	—
Property and equipment, principally due to differences in depreciable lives		438,649	372,283
Net operating loss and credit carryforwards		325,489	146,765
Other		7,141	1,345
Total deferred tax assets		1,662,148	785,669
Deferred tax liabilities:			
Prepaid pension costs		2,594,143	2,365,686
Other		274,043	98,854
Total deferred liabilities		2,868,186	2,464,540
Net deferred tax liabilities	$	1,206,038	1,678,871

(Continued)

The net deferred expense differs from the change in the net deferred tax liability as a result of the purchase accounting treatment of CAD One, Inc.

At December 31, 1998, the Company has net operating loss carryforwards for federal income tax purposes of $250,000, which are available to offset future federal taxable income, if any, and which will expire during the years 2006 through 2013.

The Company also has investment tax credit carryforwards for state income tax purposes of approximately $240,000 which are available to reduce future state income taxes, if any, some of which expire in the year ended December 31, 2000.

(7) Stock Option Plans

During 1997, the shareholders of the Company adopted the 1997 Incentive Stock Option Plan ("ISO Plan") and the 1997 Time Accelerated Restricted Stock Option Plan ("TARSOP"). The plans provide for stock options to be granted to certain key employees under specified circumstances. Under the ISO Plan, options vest at the rate of 25% per year, commencing with the first anniversary of the agreement. Under this plan, 111,577 shares of common stock have been authorized to be issued and 163,451 shares have been reserved. Under the TARSOP, stock options will vest on the seventh anniversary of the agreement, or earlier, in the event that certain performance goals specified in the Plan are attained. Under this plan, 222,286 shares of common stock have been authorized to be issued and 326,901 shares have been reserved. Options under both plans will expire at the end of ten years and the option price is equal to the fair market price on the grant date.

The Company applies the provisions of APB Opinion No. 25 in accounting for its stock options and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income (loss) would have been increased (decreased) to the pro forma amounts indicated below:

	1998	1997
Net income (loss) as reported	$ 2,282,470	(1,103,152)
Pro forma net income (loss)	$ 2,248,469	(1,117,319)

The fair value of each option grant is estimated on the date of grant using the minimum value method and the risk-free interest rate for investment instruments with maturities similar to the lives of the options granted. For options granted during the year ended December 31,1998, a ten-year life and an interest rate of 5.65% were used to value the options. For options granted during the five-month period ended December 31, 1997, a ten-year life and an interest rate of 5.75% were used to value the options. The per share weighted-average fair value of stock options granted during the year ended December 31, 1998 and the five-month period ended December 31, 1997 was $0.64.

A summary of stock option activity for the year ended December 31,1998 and the five-month period ended December 31, 1997 is as follows:

	Shares	Weighted average exercise pric per share
Options outstanding, July 31, 1997	—	$ —
Options granted	326,916	1.50
Options outstanding, December 31, 1997	326,916	1.50
Options granted	6,947	1.50
Options outstanding, December 31, 1998	333,863	$ 1.50

At December 31, 1998 and 1997, there were 27,243 and 0 options exercisable, respectively, and 156,489 and 163,436 shares available for future grants, respectively.

The following is a summary of information relating to options outstanding at December 31, 1998 and 1997:

1998					
Options outstanding				Options exercisable	
Exercise prices	Number outstanding at December 31, 1998	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at December 31, 1998	Weighted-average exercise price
$ 1.50	333,863	8.6 years	$ 1.50	27,243	$ 1.50

1997					
Options outstanding				Options exercisable	
Exercise prices	Number outstanding at December 31, 1997	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at December 31, 1997	Weighted-average exercise price
$ 1.50	326,916	9.6 years	$ 1.50	—	$ 1.50

(Continued)

(8) Employee Benefit Plans

(a) *Retirement Income Plan*

The Company has a noncontributory, defined-benefit retirement income plan covering substantially all full-time employees. Benefits are computed using years of service and an average of the employee's compensation during the last five years of employment. The Company's policy is to fund the plan at the maximum amount that is deductible for tax purposes. Contributions to the plan provide for current benefits as well as expected future benefits. No contributions were required for the year ended December 31, 1998 and the five-month period ended December 31, 1997 as determined by the Company's actuary.

The following tables set forth the plan's reconciliation of projected benefit obligations, plan assets, funded status and amounts recognized in the Company's consolidated financial statements at December 31:

		1998	1997
Projected benefit obligations at beginning of year	$	5,899,167	4,946,235
Service cost		583,496	502,496
Interest cost		394,611	350,320
Actuarial loss		469,227	387,281
Benefits paid		(343,553)	(287,165)
Projected benefit obligations at end of year	$	7,002,948	5,899,167

		1998	1997
Fair value of plan assets at beginning of year	$	11,355,552	9,865,705
Actual return on plan assets		1,883,532	1,777,012
Benefits paid		(343,553)	(287,165)
Fair value of plan assets at end of year	$	12,895,531	11,355,552

		1998	1997
Plan assets in excess of projected benefit obligation	$	5,892,583	5,456,385
Unrecognized net actuarial loss		201,268	460,266
Prepaid pension cost included in other assets	$	6,093,851	5,916,651

Net pension credits for the year ended December 31, 1998 and the five-month period ended December 31, 1997 consist of the following components:

		1998	1997
Service cost	$	583,496	212,169
Interest cost		394,611	154,028
Actual return on plan assets		(1,155,307)	(435,243)
Net pension credits	$	(177,200)	(69,046)

The assumed weighted-average discount rate, weighted-average rate of increase in future compensation levels and expected long-term rate of return on plan assets used in the above valuations for 1998 and 1997 were 6.5%, 4.5% and 10% and 6.75%, 4.5% and 10%, respectively.

Retirement plan assets are invested primarily in listed stocks and bonds.

(13) Subsequent Events

(a) Acquisition

On January 29, 1999, Charrette acquired certain assets of Sentinel Business Systems, a developer and distributor of wide-format digital imaging products and inkjet media. Sentinel is located in Greenland, NH. The total purchase price was $3,386,000 plus acquisition expenses. The transaction was financed through the Company's acquisition line of credit and revolving credit facility combined with a seller's note of $1,086,000.

(b) Sale of Retail Locations

Consistent with its strategic initiatives to focus on its core businesses, Charrette sold six retail stores to Utrecht Art Supply of Cranbury, NJ on February 1, 1999. This sale was in addition to the sale of two retail stores during 1998. Total 1998 revenues for all stores sold was $7,894,000. Net proceeds from the sales were used to pay down long term debt. Charrette continues to operate its main store at its headquarters in Woburn, MA as well as ProGraphic outlets of which several will share space with Utrecht Art Supply.