

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 1998

COMMISSION FILE NUMBER 1-2921

PANHANDLE EASTERN PIPE LINE COMPANY  
(Exact name of Registrant as Specified in its Charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation)

44-0382470  
(IRS Employer Identification No.)

5400 WESTHEIMER COURT  
P.O. BOX 1642  
HOUSTON, TX 77251-1642  
(Address of Principal Executive Offices)  
(Zip code)

713-627-5400  
(Registrant's telephone number, including area code)

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

The Registrant meets the conditions set forth in General Instructions (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format. Part I, Item 2 has been reduced and Part II, Item 4 has been omitted in accordance with such Instruction H.

All of the Registrant's common shares are indirectly owned by Duke Energy Corporation (File No. 1-4928), which files reports and proxy materials pursuant to the Securities Exchange Act of 1934.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

Number of shares of Common Stock, no par value, outstanding at  
November 11, 1998.....1,000

PANHANDLE EASTERN PIPE LINE COMPANY  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 1998  
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PANHANDLE EASTERN PIPE LINE COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(IN MILLIONS)

	Three Months Ended September 30		Nine Months Ended September 30	
	1998	1997	1998	1997
OPERATING REVENUES				
Transportation and storage of natural gas	\$ 108.4	\$ 109.5	\$ 345.9	\$ 376.5
Other	2.6	6.1	19.2	24.8
Total operating revenues	111.0	115.6	365.1	401.3
OPERATING EXPENSES				
Operation and maintenance	54.7	70.2	154.0	180.7
Depreciation and amortization	14.0	14.6	41.5	44.0
Property and other taxes	6.3	6.5	19.6	20.5
Total operating expenses	75.0	91.3	215.1	245.2
OPERATING INCOME	36.0	24.3	150.0	156.1
OTHER INCOME AND EXPENSES	1.1	(0.6)	10.1	11.4
EARNINGS BEFORE INTEREST AND TAXES	37.1	23.7	160.1	167.5
INTEREST EXPENSE	19.7	18.1	57.8	55.2
EARNINGS BEFORE INCOME TAXES	17.4	5.6	102.3	112.3
INCOME TAXES	6.4	2.0	38.5	42.7
NET INCOME	\$ 11.0	\$ 3.6	\$ 63.8	\$ 69.6

See Notes to Consolidated Financial Statements.

PANHANDLE EASTERN PIPE LINE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN MILLIONS)

	Nine Months Ended September 30	
	1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 63.8	\$ 69.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45.8	45.6
Deferred income taxes	(6.9)	4.5
Rate settlement	-	(70.5)
Net change in current assets and liabilities	2.3	(48.6)
Other, net	14.4	43.3
	-----	-----
Net cash provided by operating activities	119.4	43.9
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital and investment expenditures	(66.5)	(64.5)
Net decrease (increase) in advances receivable - parent	(52.6)	18.7
Retirements and other	(0.3)	1.8
	-----	-----
Net cash used in investing activities	(119.4)	(44.0)
	-----	-----
Net decrease in cash and cash equivalents	-	(0.1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	0.1
	=====	=====
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ -	\$ -
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest (net of amount capitalized)	\$ 63.9	\$ 68.3
Cash paid for income taxes	\$ 56.2	\$ 64.8

See Notes to Consolidated Financial Statements.

PANHANDLE EASTERN PIPE LINE COMPANY  
CONSOLIDATED BALANCE SHEETS  
(IN MILLIONS)

	September 30, 1998 (Unaudited)	December 31, 1997
	-----	-----
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Receivables	\$ 85.8	\$ 106.0
Inventory and supplies	50.7	38.2
Current portion of regulatory assets	5.9	6.5
Other	23.7	41.6
	-----	-----
Total current assets	166.1	192.3
	-----	-----
<b>INVESTMENTS AND OTHER ASSETS</b>		
Advances and note receivable - parent	714.7	662.1
Investment in affiliates	46.6	47.0
Other	7.2	7.1
	-----	-----
Total investments and other assets	768.5	716.2
	-----	-----
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Cost	2,776.7	2,733.9
Less accumulated depreciation and amortization	1,800.2	1,776.0
	-----	-----
Net property, plant and equipment	976.5	957.9
	-----	-----
<b>REGULATORY ASSETS</b>		
Debt expense	11.3	12.7
Other	18.0	21.5
	-----	-----
Total regulatory assets	29.3	34.2
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 1,940.4</b>	<b>\$ 1,900.6</b>
	=====	=====

See Notes to Consolidated Financial Statements.

PANHANDLE EASTERN PIPE LINE COMPANY  
CONSOLIDATED BALANCE SHEETS  
(IN MILLIONS, EXCEPT SHARE AMOUNTS)

	September 30, 1998 (Unaudited)	December 31, 1997
	-----	-----
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 48.9	\$ 45.5
Notes payable - parent	675.0	675.0
Taxes accrued	68.6	76.7
Interest accrued	2.4	8.0
Other	104.3	114.1
	-----	-----
Total current liabilities	899.2	919.3
	-----	-----
<b>LONG-TERM DEBT</b>	<b>299.3</b>	<b>299.2</b>
	-----	-----
<b>DEFERRED CREDITS AND OTHER LIABILITIES</b>		
Deferred income taxes	72.6	82.1
Other	106.4	99.0
	-----	-----
Total deferred credits and other liabilities	179.0	181.1
	-----	-----
<b>COMMON STOCKHOLDER'S EQUITY</b>		
Common stock, no par, 1,000 shares authorized, issued and outstanding	1.0	1.0
Paid-in capital	465.9	465.9
Retained earnings	96.0	34.1
	-----	-----
Total common stockholder's equity	562.9	501.0
	-----	-----
 <b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	 <b>\$ 1,940.4</b>	 <b>\$ 1,900.6</b>
	=====	=====

See Notes to Consolidated Financial Statements.

PANHANDLE EASTERN PIPE LINE COMPANY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

1. GENERAL

Panhandle Eastern Pipe Line Company (PEPL) is a wholly owned subsidiary of PanEnergy Corp (PanEnergy), which is an indirect wholly owned subsidiary of Duke Energy Corporation. PEPL and its subsidiaries (the Company) are primarily engaged in the interstate transportation and storage of natural gas. The interstate natural gas transmission operations of the Company are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC).

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. These consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods.

Certain amounts for the prior periods have been reclassified in the consolidated financial statements to conform to the current presentation.

2. REGULATORY MATTERS

Effective August 1, 1996, Trunkline Gas Company, a subsidiary of the Company, placed into effect a general rate increase, subject to refund. Hearings were completed in the third quarter of 1997. A decision on the remaining phase of the rate proceeding was received on November 2, 1998 from the administrative law judge. The case is pending a decision by the FERC.

In conjunction with a FERC order issued in September 1997, certain natural gas producers were required to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. These pipelines were also ordered to refund these amounts to their customers. All payments are to be made in compliance with prescribed FERC requirements. At September 30, 1998 and December 31, 1997, Accounts Receivable included \$48.7 million and \$53.6 million, respectively, due from natural gas producers and Other Current Liabilities included \$48.7 million and \$53.6 million, respectively, for related obligations.

3. RELATED PARTY TRANSACTIONS

A summary of certain balances due to or due from related parties included in the Consolidated Balance Sheets is as follows:

IN MILLIONS	September 30, 1998	December 31, 1997
Receivables	\$ 4.2	\$ 8.1
Accounts payable	41.7	36.6
Taxes accrued	40.0	54.8

Advances and Note Receivable - Parent included a \$30.0 million note at September 30, 1998 and December 31, 1997.

Interest expense included \$13.8 million and \$13.7 million for the three months ended September 30, 1998 and 1997, respectively, of interest associated with notes payable to parent. Interest expense for the nine months ended September 30, 1998 and 1997 included \$41.6 million and \$37.9 million, respectively, of interest associated with notes payable to parent.

#### 4. GAS IMBALANCES

The Consolidated Balance Sheets included in-kind balances as a result of differences in gas volumes received and delivered. At September 30, 1998 and December 31, 1997, other current assets included \$18.9 million and \$24.2 million, respectively, and other current liabilities included \$23.4 million and \$22.0 million, respectively, related to gas imbalances.

#### 5. COMMITMENTS AND CONTINGENCIES

LITIGATION. On April 25, 1997, a group of affiliated plaintiffs that own and/or operate various pipeline and marketing companies and partnerships primarily in Kansas filed suit against PEPL in the United States District Court for the Western District of Missouri. The plaintiffs allege that PEPL has engaged in unlawful and anti-competitive conduct with regard to requests for interconnects with the PEPL system for service to the Kansas City area. Asserting that PEPL has violated the antitrust laws and tortiously interfered with the plaintiffs' contracts with third parties, the plaintiffs seek compensatory and punitive damages. Based on information currently available to the Company, the Company believes the resolution of this matter will not have a material adverse effect on the consolidated results of operations or financial position of the Company.

On May 13, 1997, Anadarko Petroleum Corporation (Anadarko) filed suits against PEPL and other affiliates, as defendants, both in the United States District Court for the Southern District of Texas and State District Court of Harris County, Texas. Anadarko claims that it was effectively indemnified by the defendants against any responsibility for refunds of Kansas ad-valorem taxes which are due purchasers of gas from Anadarko, retroactive to 1983. On October 20, 1998, the FERC issued an order on ad-valorem tax issues, finding that actual sellers of gas were primarily liable for refunds and could not be relieved of that obligation by gas purchasers. The order is subject to further FERC action on rehearing. The FERC also noted that claims for indemnity or reimbursement among the parties would be better addressed by the United States District Court for the Southern District of Texas. Based on information currently available to the Company, the Company believes the resolution of this matter will not have a material adverse effect on the consolidated results of operations or financial position of the Company.

The Company is also involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate for all of these matters, the Company has made accruals in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," in order to provide for such matters. Management is of the opinion that the final disposition of these matters will not have a material adverse effect on the consolidated results of operations or financial position of the Company.

OTHER COMMITMENTS AND CONTINGENCIES. In 1993, the U.S. Department of the Interior announced its intention to seek additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements, and buyouts and buydowns of gas sales contracts with natural gas pipelines. The Company's pipelines, with respect to certain producer contract settlements, may be contractually required to reimburse or, in some instances, to indemnify producers against such royalty claims. The potential liability of the producers to the government and of the pipelines to the producers involves complex issues of law and fact which are likely to take substantial time to resolve. If required to reimburse or indemnify the producers, the Company's pipelines will file with FERC to recover a portion of these costs from pipeline customers. Management is of the opinion that the resolution of this matter will not have a material adverse effect on the consolidated results of operations or financial position of the Company.

PEPL owns an effective 5.3% ownership interest in Northern Border Pipeline Company (Northern Border) through a master limited partnership. Under the terms of a settlement related to a transportation agreement between PEPL and Northern Border, PEPL guarantees payment to Northern Border under a transportation agreement held by an affiliate of Pan-Alberta Gas Limited. The transportation agreement requires estimated total payments of \$63.0 million for the remainder of 1998 through 2001. In the opinion of management, the probability that PEPL will be required to perform under this guarantee is remote.



## 6. SUBSEQUENT EVENT

PanEnergy and Texas Eastern Corporation (TEC), a subsidiary of PanEnergy, entered into a Stock Purchase Agreement between PanEnergy, TEC and CMS Energy Corporation (CMS Energy) dated October 31, 1998. Pursuant to the agreement, PEPL, Trunkline Gas Company and the storage related to those systems, along with the Trunkline LNG Company, which is owned by TEC, will be sold to CMS Energy. The sales price of \$2.2 billion involves a cash payment of \$1.9 billion and existing PEPL debt of approximately \$300 million. Certain assets and liabilities will be retained, such as the Houston office building, certain environmental, legal and tax liabilities, and substantially all intercompany balances. The sale will result in an after tax gain to PanEnergy of approximately \$700 million and is contingent upon completion of due diligence and receipt of clearances under the Hart-Scott-Rodino Act. Closing is anticipated in January 1999.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

### INTRODUCTION

Panhandle Eastern Pipe Line Company (PEPL) is a wholly owned subsidiary of PanEnergy Corp (PanEnergy), which is an indirect wholly owned subsidiary of Duke Energy Corporation. PEPL and its subsidiaries (the Company) are primarily engaged in the interstate transportation and storage of natural gas. The interstate natural gas transmission and storage operations of the Company are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC).

### RESULTS OF OPERATIONS

For the nine months ended September 30, 1998, net income was \$63.8 million, down \$5.8 million from the comparable period in 1997. Total natural gas transportation volumes for the nine months ended September 30, 1998 decreased 9.4% from the same period in 1997, primarily due to warmer weather.

Revenues for the nine months ended September 30, 1998 decreased \$36.2 million from the comparable period in 1997, due primarily to favorable resolution of regulatory matters in 1997 and decreased transportation volumes in 1998.

Operating expenses for the nine months ended September 30, 1998 decreased \$30.1 million from the prior year comparable period, primarily as a result of litigation expenses in 1997 and lower regulatory asset amortization expense in 1998.

### LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, 1998, capital and investment expenditures totaled \$66.5 million compared with \$64.5 million for the same period in 1997. Projected 1998 capital and investment expenditures, including allowance for funds used during construction, are approximately \$89.9 million. These projections are subject to periodic review and revision. Expenditures for 1998 are expected to be funded by cash from operations and/or the collection of intercompany advances and receivables.

### CURRENT ISSUES

### DISPOSITIONS

PanEnergy and Texas Eastern Corporation (TEC), a subsidiary of PanEnergy, entered into a Stock Purchase Agreement between PanEnergy, TEC and CMS Energy Corporation (CMS Energy) dated October 31, 1998. Pursuant to the agreement, PEPL, Trunkline Gas Company, a subsidiary of the Company, and the storage related to those systems, along with the Trunkline LNG Company, which is owned by TEC, will be sold to CMS Energy. The sales price of \$2.2 billion

involves a cash payment of \$1.9 billion and existing PEPL debt of approximately \$300 million. Certain assets and liabilities will be retained, such as the Houston office building, certain environmental, legal and tax liabilities, and substantially all intercompany balances. The sale will result in an after tax gain to PanEnergy of approximately \$700 million and is contingent upon completion of due diligence and receipt of clearances under the Hart-Scott-Rodino Act. Closing is anticipated in January 1999.

#### REGULATORY MATTERS

On July 29, 1998, the FERC issued a Notice of Proposed Rulemaking (NOPR) on short-term natural gas transportation services, which proposed an integrated package of revisions to its regulations governing interstate natural gas pipelines. "Short term" has been defined in the NOPR as all transactions of less than one year. Under the proposed approach, cost-based regulation would be eliminated for short-term transportation and replaced by regulatory policies intended to maximize competition in the short-term transportation market, mitigate the ability of companies to exercise residual monopoly power, and provide opportunities for greater flexibility providing pipeline services. The proposed changes include initiatives to revise pipeline scheduling procedures, receipt and delivery point policies, and penalty policies; require pipelines to auction short-term capacity; improve the FERC's reporting requirements; permit pipelines to negotiate rates and terms of services; and revise certain rate and certificate policies that affect competition.

In conjunction with the NOPR, the FERC also issued a Notice of Inquiry (NOI) on its pricing policies in the existing long-term market and pricing policies for new capacity. The FERC wants to ensure that its policies are not biased toward either short-term or long-term service, provide accurate price signals and the right incentives for pipelines to provide optimal transportation services and construct facilities that meet future demand, but do not result in over building and excess capacity. Comments on the NOPR and NOI are due January 22, 1999.

Because these notices are only at a very early stage and any ultimate resolution is unknown, management cannot estimate the effects of these matters on future consolidated results of operations or financial position.

#### YEAR 2000 READINESS PROGRAM

##### STATE OF READINESS

In 1996, the Company initiated its Year 2000 Readiness Program and began a formal review of computer-based systems and devices that are used in its business operations. These systems and devices include customer information, financial, materials management, and personnel systems, as well as components of natural gas production, gathering, processing and transmission.

The Company is using a three-phase approach to address Year 2000 issues: 1) inventory and preliminary assessment of computer systems, equipment and devices; 2) detailed assessment and remediation planning; and 3) conversion, testing and contingency planning. The Company is employing a combination of systems repair and planned systems replacement activities to achieve Year 2000 readiness for its business and process control systems, equipment and devices. The Company has substantially completed the first two phases throughout its business operations, and is in various stages of the third and final phase. The Company's goal is to have its critical systems, equipment and devices Year 2000 ready by mid-1999. Business acquisitions routinely involve an analysis of Year 2000 readiness and are incorporated into the Company's overall program as necessary.

The Company is actively evaluating and tracking Year 2000 readiness of external third parties with which it has a material relationship. Such third parties include vendors, customers, governmental agencies and other business associates. While the Company cannot control the Year 2000 readiness of third parties, the Company is attempting to assess the readiness of third parties and any potential implications to the Company. Alternate suppliers of critical products, goods and services are being identified, where necessary.

## COSTS

Management believes it is devoting the resources necessary to achieve Year 2000 readiness in a timely manner. Current estimates for total costs of the program, including internal labor as well as incremental costs such as consulting and contract costs, are approximately \$1.0 million. These costs exclude replacement systems that, in addition to being Year 2000 ready, provide significantly enhanced capabilities which will benefit operations in future periods.

## RISKS

Management believes it has an effective program in place to manage the risks associated with the Year 2000 issue in a timely manner. Nevertheless, since it is not possible to anticipate all future outcomes, especially when third parties are involved, there could be circumstances in which the Company would temporarily be unable to deliver services to its customers. The Company believes that the most reasonably likely worst case scenario would be small, localized interruptions of service, which likely would be rapidly restored. In addition, there could be a temporary reduction in the service needs of customers due to their own Year 2000 problems. In the event that such a scenario occurs, it is not expected to have a material adverse impact on the Company's consolidated results of operations or financial position.

## CONTINGENCY PLANS

Year 2000 contingency planning is currently underway to assure continuity of business operations for all periods during which Year 2000 impacts may occur. The Company intends to complete its Year 2000 contingency plans by mid-1999. These plans address various Year 2000 risk scenarios that cross departmental, business unit and industry lines as well as specific risks from various internal and external sources, including supplier readiness. Based on assessments completed to date and compliance plans in process, management is of the opinion that Year 2000 issues, including the cost of making critical systems, equipment and devices ready, will not have a material adverse effect on the Company's business operation or consolidated results of operations or financial position. Nevertheless, achieving Year 2000 readiness is subject to risks and uncertainties, including those described above. While management believes the possibility is remote, if the Company's internal systems, or the internal systems of external parties, fail to achieve year 2000 readiness in a timely manner, the Company's business, consolidated results of operations or financial condition could be adversely affected.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

In September 1998, the Company and the Missouri Department of Natural Resources reached a settlement agreement related to air quality permit violations at a natural gas compressor station, which resulted in a settlement payment of \$250,000. An additional environmental administrative proceeding is underway before the Illinois Environmental Protection Agency relating to a natural gas compressor station that could result in a fine in excess of \$100,000.

Management is of the opinion that the resolution of these matters will not have a material adverse effect on the consolidated results of operations or financial position of the Company.

For information concerning material litigation and other contingencies, see Note 5 to the Consolidated Financial Statements.

### ITEM 5. OTHER INFORMATION.

#### FORWARD-LOOKING STATEMENTS

From time to time, the Company may make statements regarding its assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. The Company cautions that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements. The following are some of the factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements: state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed and degree to which competition enters the natural gas industry; the weather and other natural phenomena; the timing and extent of changes in commodity prices and interest rates; changes in environmental and other laws and regulations to which the Company and its subsidiaries are subject or other external factors over which the Company has no control; the results of financing efforts; growth in opportunities for the Company's subsidiaries; achievement of Year 2000 readiness; and the effect of the Company's accounting policies, in each case during the periods covered by the forward-looking statements.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

#### (a) Exhibits

(27) Financial Data Schedule (included in electronic filing only)

#### (b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the third quarter of 1998.

SIGNATURES

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.

PANHANDLE EASTERN PIPE LINE COMPANY

November 11, 1998

/s/ Richard J. Osborne

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Richard J. Osborne  
Senior Vice President and  
Chief Financial Officer

