the consolidated federal income tax return and, in some cases, the state income tax returns of Mafco who in turn was included in the consolidated income tax return of Holdings and its subsidiaries. Since the Merger the Company is included in the consolidated federal income tax return of PCT. For all periods presented federal and state income taxes are provided as if Mafco Worldwide filed its own income tax returns.

The Company computes income taxes under the liability method. Under the liability method, deferred income taxes are generally determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates. Net deferred tax assets are recorded when it is more likely than not that such tax benefits will be realized.

PENSION PLANS:

The Company has pension plans which cover certain current and former employees who meet eligibility requirements. Benefits are based on years of service and, in some cases, the employee's compensation. The Company's policy is to contribute annually the minimum amount required pursuant to the Employee Retirement Income Security Act. Plan assets are principally invested in equity and fixed income securities. The Company also maintains a 401(k) plan for its non-union employees. Subsidiaries outside the United States have retirement plans under which funds are deposited with trustees.

RESEARCH AND DEVELOPMENT:

Research and development expenditures are expensed as incurred. The amounts charged against income for the years ended December 31, 1996, 1995 and 1994 were $0.2, $0.3 and $0.3, respectively.

FOREIGN CURRENCY TRANSLATION:

Assets and liabilities of foreign operations are translated into U.S. dollars at the rates of exchange in effect at the balance sheet date. Income and expense items are generally translated at the average exchange rates prevailing during the period presented. Gains and losses resulting from foreign currency transactions are included in the results of operations and those resulting from translation of financial statements are recorded as a component of stockholder's equity (deficit).

IMPAIRMENT OF LONG-LIVED ASSETS

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121). SFAS 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS 121 also addresses the accounting for long-lived assets that are expected to be disposed of. SFAS 121 is effective for financial statements for fiscal years beginning after December 15, 1995, and therefore the Company adopted SFAS 121 in the first quarter of 1996. The effect of the adoption had no impact on the Company's results of operations.

INTANGIBLE ASSETS: