amounts of depreciation, generally be limited to its average annual income from its Puerto Rico operations, adjusted for inflation, computed during the Company's five most recent taxable years ending before October 14, 1995 and excluding the highest and lowest years (the "Income Limitation"). For taxable years after December 31, 2005, the possessions tax credit would be eliminated The repeal of the possessions tax credit could have a material adverse effect on the Company for taxable years beginning after December 31, 2001 and before January 2006 to the extent that the Company's annual income from its Puerto Rico operations exceeds its average annual income from its Puerto Rico operations (as computed in the manner described in the preceding sentence), and for taxable years after December 31, 2005. Although it does not currently have any definitive plans with respect thereto, the Company expects to evaluate alternatives that may be available to it in order to mitigate the effects of the SBJPA. On February 6, 1997, President Clinton proposed certain tax law changes which, if enacted, would eliminate the Income Limitation, extend the possession tax credit indefinitely and make the credit available to newly established business operations.

In connection with the Merger, MC Group entered into a tax sharing agreement with its former subsidiary, PCT, pursuant to which MC Group will indemnify PCT with respect to all taxes applicable to periods prior to June 15, 1995 except for foreign taxes related to PCT's aerospace business.

In connection with the July 16, 1992 distribution of Abex, the predecessor of MC Group, from its prior parent, The Henley Group, Inc ("Henley"), Abex entered into a tax sharing agreement with Henley in which Abex indemnified Henley for tax liabilities resulting from certain adjustments to the tax liabilities of Abex entities and for certain tax liabilities of a prior affiliated company, Wheelabrator Technologies, Inc. for the period May 26, 1986 through December 31, 1988. All federal tax liabilities related to this period were settled prior to 1995, however, certain state tax liabilities of approximately $7 0 million, which is an obligation of the Company, remain open as of December 31, 1996.

Abex had been included in the consolidated federal income tax return of Henley for 1990 and 1991 The Internal Revenue Service has asserted deficiencies against Henley for these periods of approximately $23 million, plus interest Koll Real Estate Group, Inc. ("Koll"), as the parent of Henley, has indicated that it will vigorously contest the deficiencies through the administrative appeals process as well as in court and that a final conclusion to this matter could take several years In any event, the adjustments creating these deficiencies do not relate to Abex entities and are therefore not liabilities of the Company as successor to Abex under the tax sharing agreement. However, if Henley or Koll were unable to pay any deficiency remaining after the review process, then the Internal Revenue Service, m accordance with Treasury Regulation 1.1502-06, could seek payment from any of the other entities that were included in the federal consolidated return of Henley for 1990 and 1991, including the Company as successor to Abex.

While the Company expects that Koll will discharge its ultimate tax obligations, the Company is aware that Koll has a history of operating losses and retained deficits. Thus, there can be no assurance that Koll will have the financial ability to discharge such obligations In addition, Koll has announced that it is soliciting consents from its debtholders for a financial restructuring, but the Company is presently unable to determine the effect, if any, of a financial restructuring on the ability of Koll to pay any remaining deficiency