Table of Contents

valuation allowance of $454 at December 31, 2003 reflects a $128 increase, as well as a $49 reduction for benefits recognized in 2003.

We have a carryforward of excess foreign tax credits of $94. Foreign tax credits generated on income from foreign sources are limited to the total U.S. taxes payable on income from all sources. The excess foreign tax credits may be carried forward five years. The foreign tax credit carryforwards expire as follows: 2005, $28; 2006, $54; 2007, $2 and 2008, $10. To reflect the uncertainties associated with achieving the proper mix of domestic and foreign sources of income to utilize these credits, we established a $40 valuation allowance against the deferred tax asset in 2002 and increased it to $60 during 2003.

Valuation allowances are provided for deferred tax assets whenever the realization of the assets is not deemed to meet a "more likely than not" standard. To reflect judgments in applying this standard, we have increased our valuation allowances against deferred tax assets by $71 in 2003, $410 in 2002 and $26 in 2001, including the provisions described above related to the capital loss and foreign tax credit carryforwards.

Cumulative undistributed earnings of non-U.S. subsidiaries for which U.S. income taxes, exclusive of foreign tax credits, have not been provided approximated $390 at December 31, 2003. U.S. income taxes have not been provided on these undistributed earnings since we intend to permanently reinvest them. If the total undistributed earnings of non-U.S. subsidiaries had been remitted in 2003, a significant amount of the additional tax provision would have been offset by foreign tax credits.

We paid income taxes of $63 in 2003 and received net refunds of $86 in 2002 and $38 in 2001.

The effective income tax rate applicable to continuing operations differs from the U.S. federal income tax rate for the following reasons:

	Year Ended December 31		
	2003	2002	2001
U.S. federal income tax rate	**35.0%**	(35.0)%	(35.0)%
Increases (reductions) resulting from:			
State and local income taxes, net of federal income tax benefit	**(8.7)**	(6.0)	(5.7)
Non-U.S. income	**(18.3)**	(32.4)	0.8
Valuation adjustments	**120.7**	364.3	7.3
General business tax credits	**(7.1)**	(6.0)	(2.7)
Capital loss	**(182.7)**	(368.6)	
Amortization of goodwill			1.1
Miscellaneous items	**0.6**	14.9	0.3
Effective income tax rate	**(60.5)%**	(68.8)	% (33.9)%