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Income Taxes — Accounting for income taxes involves matters that require estimates and the application of judgment. These include an evaluation of the realizability of recorded deferred tax benefits and assessment of potential tax liability relating to areas of potential dispute with various tax regulatory agencies. We have operations in numerous jurisdictions around the world each with its own unique tax laws and regulations. This adds further complexity to the process of accounting for income taxes. Our income tax estimates are adjusted in light of changing circumstances, such as the progress of our tax audits and our evaluations of the realizability of our tax assets.

At December 31, 2003, we had net operating loss (NOL) carryforwards in a number of tax jurisdictions, including the U.S. We also have net deferred tax assets, primarily related to our U.S. OPEB liability, which will be deductible on our tax returns when they are paid in the future. We have evaluated the potential realization of these deferred tax benefits on a jurisdiction by jurisdiction basis. Our standard of realization is one of whether it is more likely than not that we will recognize the benefit of the NOL over the carryforward period and also realize the tax benefits from the OPEB deductions in the future. Our analysis of the realization considers the probability of generating taxable income over the permitted carryforward period in each jurisdiction. Where we have determined under the more likely than not standard that we do not have a better-than-50% probability of realization, we establish a valuation allowance against that portion of the deferred tax asset where our analysis and judgment indicates a less-than-50% probability of realization. See additional discussion of NOL carryforwards and an analysis of our deferred tax assets and liabilities in our consolidated financial statements under "Note 15 Income Taxes" and herein under "Results of Operations."

In addition, we had a capital loss carryforward of $1,302 at December 31, 2003 that arose from the sale of a subsidiary in 2002 whose tax basis significantly exceeded its book basis. This capital loss carryforward resulted in a deferred tax asset of $456 at December 31, 2003. This capital loss carryforward will expire in 2007. As discussed in the notes to our consolidated financial statements, the realization of this carryforward is dependent on the generation of capital gain income. Our manufacturing and leasing operations generally produce income that is characterized as ordinary income. Because of the short carryover period allowed for unused capital losses in combination with the specific nature of income that may be used against the capital loss carryforward, we have established a valuation allowance against most of the deferred tax asset at December 31, 2003. Our methodology for evaluating the level of allowance necessary includes an assessment of the likelihood of completion of specific transactions that will give rise to capital gain income during the carryforward period. The impact of those transactions that have a more likely than not probability of closing are considered in determining whether a reduction in the allowance is appropriate. These assessments are made at least quarterly. See additional discussion of capital loss carryforwards in our consolidated financial statements under "Note 15 Income Taxes" and herein under "Results of Operations."

At December 31, 2003, we had excess foreign tax credits (FTCs) of $94 included in our deferred tax assets that will expire in various amounts beginning in 2005 and ending in 2008. The realization of these foreign tax credits is dependent on achieving the proper mix of U.S. and non-U.S. sources of income. We employ various modeling techniques in order to determine the likelihood of realizing the benefits of the FTC carryforwards. Because of the short carryforward period currently permitted for the utilization of FTCs and the mix of income required we have established an allowance for all but $34 of the FTC carryforwards at December 31, 2003. See additional discussion of FTC carryforwards in our consolidated financial statements under "Note 15 Income Taxes" and herein under "Results of Operations."

Contingency Reserves — We have numerous other loss exposures, such as environmental claims,