

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 5, 1996, MC Group entered into a reimbursement agreement with Chemical Bank and PCT, through its wholly owned subsidiary Pneumo Abex Corporation ("Pneumo Abex"). The agreement provides for letters of credit totaling \$20.8 million covering certain environmental issues, not related to the aerospace business of PCT. In connection with such agreement, MC Group pledged the PCT Preferred Stock and its ownership of 5,939,400 shares of PCT Common Stock.

At March 21, 1997, 19,777,752 shares, or approximately 85% of the Company's stock were pledged and shares of intermediary holding companies may from time to time be pledged, to secure indebtedness of Mafco Holdings or its affiliates.

In connection with the Abex Transactions, the Company entered into a transfer agreement (the "Transfer Agreement"), which allocated assets and liabilities, along with responsibility for various matters, between the Company and PCT. Pursuant to the Transfer Agreement, the Company assumed and agreed to indemnify PCT against, or to manage on PCT's behalf, all liabilities not relating to Abex's then existing aerospace business, including various contingent and other liabilities as set forth below. PCT assumed, and indemnified the Company against, all liabilities of the aerospace business and certain other liabilities. A discussion of the material liabilities for which PCT has agreed to indemnify the Company is set forth below. The Company has also assumed responsibility for various other matters relating to businesses formerly conducted by Abex or its predecessors.

Certain of Abex's former subsidiaries have been named parties in several government enforcement and private actions seeking cleanup costs and/or damages for personal injury or property damage under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA") and related federal and state laws. In addition, certain of these subsidiaries have been identified by governmental authorities as being potentially responsible for cleanup costs and/or natural resource damages or have received inquiries from governmental authorities regarding their possible involvement with hazardous waste sites. One such site in Portsmouth, Virginia, which was formerly operated by Abex and a portion of which is owned by MC Group, has been placed on the National Priorities List under CERCLA. The potential costs related to such matters and the possible impact thereof on future operations are uncertain due to, among other factors, the following: uncertainty regarding the extent of prior pollution, the complexity of laws and regulations and their interpretations, the varying costs and effectiveness of alternative cleanup technologies and methods; and the questionable and varying degrees of responsibility and/or involvement by Abex subsidiaries.

Under applicable state and federal law, including CERCLA, each potentially responsible party ("PRP") can be held jointly and severally liable for all cleanup and related costs at each site. For the reasons noted above, it is impossible to predict the extent to which remediation will be required at a particular site and the ultimate cost thereof. However, the aggregate cost of cleanup and related expenses with respect to sites at which Abex and its subsidiaries, together with numerous other third parties, have been named PRPs could exceed \$200 million, including approximately \$20 million in remedial action costs, as estimated by the EPA, in respect of the Portsmouth, Virginia site.

As a result of the Transfer, MC Group will indemnify PCT with respect to all environmental matters associated with Abex's former operations to the extent not paid by third party indemnitors or insurers, other than the operations relating to PCT's aerospace business which were recently sold to