well as certain tax and other matters. In order to implement the Transfer, a subsidiary of Abex and PCT, the Company and certain other subsidiaries of PCT entered into a transfer agreement (the "Transfer Agreement"). Under the Transfer Agreement, substantially all of Abex's consolidated assets and liabilities, other than those relating to the Aerospace Business, were transferred to a subsidiary of Mafco, with the remainder being retained by the Company. The Transfer Agreement provides for appropriate transfer, indemnification and tax sharing arrangements, in a manner consistent with applicable law and existing contractual arrangements.

The Transfer Agreement requires such subsidiary of Mafco to undertake certain administrative and funding obligations with respect to certain asbestos claims and other liabilities retained by the Company. The Company will be obligated to make reimbursement for the amounts so funded only when amounts are received by the Company under related indemnification and insurance agreements. Such administrative and funding obligations would be terminated as to asbestos products claims in the case of bankruptcy of the Company or PCT or of certain other events affecting the availability of coverage for such claims from third party indemnitors and insurers. The Transfer Agreement further provides for certain funding indemnification and cooperation arrangements between PCT, the Company and such subsidiary in respect of certain liabilities which may arise under the Employee Retirement Security Act of 1974 in respect of the sale of Pneumo Abex's friction products division in 1995.

In the opinion of management, based upon the information available at this time, the outcome of the outstanding matters referred to above will not have a material adverse effect on the Company's financial position or results of operations.

FOREIGN EXCHANGE

Most of the Company's export sales and purchase of licorice raw materials are made in U.S. dollars. The Company's French subsidiary sells in all European currencies as well as the U.S. dollar and purchases raw materials principally in U.S. dollars.

QUARTERLY RESULTS

Approximately 58%, 60% and 61% of the Company's sales in 1996, 1995 and 1994, respectively, were made to the Company's ten largest customers. Individual orders tend to be relatively large and

thus quarterly results may be affected depending upon the particular quarter in which an order is shipped. As a result, quarterly sales and operating income are affected by changes in the customers' ordering policies and production requirements. Additionally, changes in the mix of raw materials used in the manufacturing process may cause fluctuations in operating income. The effect of these changes on the Company's annual results of operations has generally not been material.

INFLATION

Since 1993, inflationary increases for raw materials and other costs have not been significant. In the future if inflationary increases for raw materials and other costs are significant the Company may not be able to pass these cost increases to its customers through price increases.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA