MAFCO CONSOLIDATED GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

such claims are not subject to the Whitman indemnity. Pneumo Abex maintained product liability insurance covering substantially all of the period during which asbestos-containing products were manufactured and both the Company and Whitman have the benefit of such insurance. Pursuant to court rulings and interim agreements reached with certain insurance carriers, Pneumo Abex is being reimbursed for approximately 90% of the aggregate defense and settlement costs associated with such claims, and continues to seek recovery of the remaining amount of unreimbursed costs from its carriers in an ongoing insurance coverage litigation commenced by Abex in 1982. As of December 31, 1996, the Company has approximately $8.8 million in unreimbursed costs pending receipt from the insurance carriers or Whitman.

MC Group is unable to forecast with precision the amount of future defense and settlement costs associated with asbestos litigation, but consistent with Abex's historical treatment, MC Group has not recognized any liability in its financial statements for asbestos-related claims as substantially all of these costs are expected to be insured and, to the extent not insured entirely, are covered by Whitman's indemnifications under the Whitman Agreements or by Cooper.

Although PCT retains ultimate responsibility and indemnifies MC Group for such matters under the Transfer Agreement, a subsidiary of MC Group undertakes administrative and funding obligations with respect to such matters, including as to such unreimbursed costs, subject to certain termination events as described below. PCT's obligation to make reimbursement for the amounts so funded will be limited to amounts received by PCT under related indemnification and insurance arrangements The Company's administrative and funding obligations would be terminated in the case of a bankruptcy of Pneumo Abex or PCT or, following an exhaustion of available insurance, either a bankruptcy of Whitman or Cooper or Whitman or Cooper failing to make required indemnification payments other than for reasons primarily caused by actions or inactions taken by MC Group.

Various legal proceedings, claims and investigations are pending against MC Group and its subsidiaries related to commercial transactions, product liability, safety and health matters and other matters relating to MC Group, including those for which MC Group assumed responsibility under the Transfer Agreement. Most of these legal proceedings are related to matters covered by insurance, subject to deductibles and maximum limits, and by third party indemnities. MC Group does not believe, based on currently available information, that the outcome of these other matters, irrespective of insurance coverage and third party indemnities, will have a material adverse effect on its financial position or results of operations

In connection with the 1992 Distribution, Abex and Henley allocated between them certain liabilities related to the businesses of Henley or its predecessors, including certain liabilities relating to self-insurance programs, and each indemnified the other against loss associated with liabilities assumed by the indemnifying party. In addition, Abex guaranteed certain contingent obligations of Koll relating to a predecessor company pension plan and environmental liabilities of Henley and certain of its predecessors, and Koll agreed to indemnify Abex in respect thereof During the first quarter of 1997, the Company, Koll and certain of its subsidiaries entered into certain agreements (the "1997 Koll Agreements") pursuant to which, among other things, the parties re-allocated certain liabilities relating to the self-insurance programs, the Company agreed to assume sponsorship of, and financial responsibility for, the predecessor Company pension plan referred to above, the Company paid to Koll $2 3 million, and the Company received $0 5 million from a third party in connection with the sale of