

Notes to Consolidated Financial Statements (Continued)

The nature of significant deferred items and the tax effect of each is shown below:

(In thousands)	1986	1985	1984
Reserve and accrued liabilities for Dalkon Shield claims	\$(1,587)	\$17,808	\$(125,933)
Discounted portion of installment note receivable			574
Tax depreciation in excess of books ..	3,218	2,065	2,134
Tax benefit from tax leases	4,035	4,562	5,206
Other	599	275	356
	<u>\$6,265</u>	<u>\$24,710</u>	<u>\$(117,663)</u>

The Tax Reform Act of 1986 (the Act) was enacted in October 1986. Among other provisions, the Act reduced the statutory federal income tax rates for corporations (see Management's Discussion and Analysis of Financial Condition and Results of Operations, page 11). The Financial Accounting Standards Board has proposed, but has not yet issued, a pronouncement which may change how the rate reductions will affect previously recorded deferred income tax charges and credits. The Company does not anticipate that a change in accounting for deferred income taxes will adversely affect its financial condition.

Reconciliation of the effective tax rate and the federal statutory rate is as follows:

	Percent of Pretax Earnings (Loss)		
	1986	1985	1984
Statutory federal tax rate	46.0%	46.0%	(46.0)%
Product liability claims in excess of amounts carried back			11.1
Foreign, investment and other tax credits not recognized after loss carryback			15.2
Federal tax on foreign earnings4	3.5	1.4
State taxes on income, net of federal tax benefit	4.1	2.8	(1.3)
Investment and other tax credits	(.5)	(2.1)	
Foreign earnings taxed at higher effective tax rate	1.9	1.2	.1
Puerto Rican earnings exempt from tax ..	(6.1)	(3.9)	(1.1)
Tax exempt interest			(.1)
All other, net	<u>1.6</u>	<u>.1</u>	<u>1.3</u>
	<u>47.1%</u>	<u>47.6%</u>	<u>(19.4)%</u>

A wholly owned subsidiary in Puerto Rico operates under partial income tax exemption grants expiring at various dates between 1989 and 1999. The estimated net tax saving from the Puerto Rican operation was \$6.5 million in 1986 (1985—\$4.6 million, 1984—\$6.2 million). Puerto Rican withholding taxes are provided on those earnings expected to be repatriated prior to expiration of the exemptions.

During 1986, the Internal Revenue Service completed its examination of the Company's tax returns for the years 1983 and 1984 and began an examination of the return for 1985. Returns for the years 1978 through 1984 are currently the subject of unresolved adjustments proposed by the Internal Revenue Service. Included in

the tax adjustments proposed are tax deficiencies of \$13.3 million from the reallocation of income from the subsidiary in Puerto Rico. The Company is contesting the proposed deficiencies. Management believes that any additional income taxes and interest that may result from the proposed deficiencies will not have a material adverse effect on the consolidated financial position of the Company.

12. Retirement Plan

The Company and certain of its subsidiaries have retirement plans covering substantially all of their employees. The total retirement expense for 1986 was \$8,236,000 (1985—\$7,607,000, 1984—\$6,908,000). The actuarial present value of accumulated plan benefits, assuming a weighted average rate of return of 8% in all years, and plan net assets available for benefits of domestic defined benefit plans are as follows:

(In thousands)	1986	1985	1984
January 1			
Actuarial present value of accumulated plan benefits:			
Vested	\$59,756	\$48,418	\$40,895
Nonvested	<u>6,108</u>	<u>4,286</u>	<u>3,472</u>
	<u>\$65,864</u>	<u>\$52,704</u>	<u>\$44,367</u>
Net assets available for benefits ...	\$75,015	\$60,956	\$55,621

Assets available for benefits and the actuarial present value of accumulated benefits have not been determined for several minor foreign pension plans which are not required to report such information to government agencies.

Other liabilities include \$11,357,000 of accrued pensions and severance benefits in foreign subsidiaries (1985—\$8,610,000, 1984—\$6,635,000).

In 1987, the Company will change its method of accounting for retirement cost and adopt the required provisions of Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. The effect of this change is not expected to be material.

13. Commitments and Contingencies

Rentals of space, vehicles, and office and data processing equipment under operating leases amounted to \$9,176,000 in 1986 (1985—\$7,631,000, 1984—\$6,718,000).

Minimum future rental commitments under all noncancelable operating leases at December 31, 1986 with remaining terms of more than one year are as follows:

(In thousands)	
1987	\$ 5,207
1988	3,261
1989	2,616
1990	2,055
1991	1,566
Later years	<u>10,196</u>
Total minimum future rentals	<u>\$24,901</u>