

A.L. LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

8. Continued

A reconciliation of the provision for income taxes at the United States statutory income tax rate of 46% to the provision for income taxes at the effective income tax rates of 49.3%, 50.7% and 49.3% reflected in the accompanying consolidated statements of income is set forth below:

	Years Ended December 31,		
	1986	1985	1984
Provision for income taxes at 46%	\$5,019	\$5,079	\$3,905
Higher (lower) taxes on foreign earnings, net*	127	75	(263)
Nontaxable R&D grants (see Note 14)	(600)		
State income tax, net of federal tax benefit	342	199	111
Investment tax credit ("flow through" method)	(214)	(56)	(75)
Nondeductible costs, principally depreciation and amortization	743	457	580
Other, net	(35)	(160)	(74)
Provision for income taxes	<u>\$5,382</u>	<u>\$5,594</u>	<u>\$4,184</u>

* Effective January 1, 1985, the Danish statutory income tax rate increased to 50%; in 1984 the Danish statutory rate was 40%.

Included in accrued and deferred income taxes at December 31, 1986 and 1985 are deferred taxes of \$1,791 and \$1,070, respectively. The significant components of the provision for deferred income taxes were:

	Years Ended December 31,		
	1986	1985	1984
Accelerated depreciation for income tax purposes	\$2,081	\$1,318	\$1,032
Investment tax credit			606
Differences between inventory valuation methods used for book and tax purposes	(209)	688	(379)
Costs expensed for financial reporting purposes when incurred (accrual basis) and deductible for tax purposes when paid (cash basis)	(402)	(214)	421
Other	<u>69</u>	<u>(71)</u>	<u>(40)</u>
	<u>\$1,539</u>	<u>\$1,721</u>	<u>\$1,640</u>