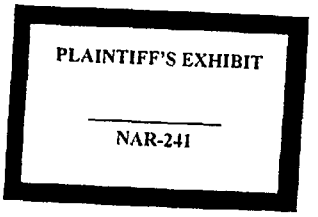
NARCO / HONEYWELL



GLEN MORGAN

Reaud, Morgan & Quinn
801 Laurel Street
Beaumont TX 77701
409-838-1000

Hello, I am Glen Morgan. I am the President of Reaud, Morgan & Quinn, Inc., in Beaumont, Texas. We have over 10,000 asbestos cases on file. About 8,000 of these are for men who worked and were exposed to asbestos at United States Steel, in Birmingham, Alabama.

I am sure that most of you are aware of the recent bankruptcy of two companies owned by RHI Holdings of Austria. Of Course, I refer to North American Refractories Company and Harbison-Walker Refractories Company. As it happens, I am privy to some information that is not widely known and so I have been asked to speak to you about the "story behind the story" of these bankruptcies.

In the Spring of 2001, I was in trial in Orange, Texas, along with Karl Novak of Ness Motley. The defendants at trial were Narco and Allied Signal. In retrospect, it was just luck that I had the two of them at trial together. My main reason for keeping Allied Signal in the case involved the personalities of the two defense lawyers. Narco's lawyer was Ferguson McNeil of V&E –who is very nice and plays well to a jury. I neededan abrasive personality to offset Ferguson, so I kept Allied in the case to get the benefit of Joe Pevsner--- who rubs the judge the wrong way and generally makes everybody mad.

If you have ever tried the Narco case, you are probably familiar with the 1988 deposition of a Narco employee named Richard A. Landy. In that transcript, he makes an offhand comment that "Narco was once owned by Allied Signal". When Karl and I read that portion of the transcript aloud in open court, it set off alarms all over the place.

It set off alarms in my mind, because I thought I was pursuing Allied Signal only for Bendix brake shoes. In addition, I knew that Allied Signal was a much larger company than Narco. I immediately asked my staff to track down the facts to see if Landy knew what he was talking about. I learned later that the transcript had set off alarms on the other side, too. In fact, all the lawyers flew to Pittsburgh over the following weekend to discuss whether or not they thought Karl & I realized the significance of what we had read.

Over the ensuing weeks, I learned that this little conspiracy had been going on for a long time. I was flatly told that that Mike Heintzman had worked with Allied Signal and Narco for 15 years to keep the relationship a secret.

As you all now know, Allied is now called Honeywell. They sold NARCO in 1986. In connection with that sale, they entered into a then- secret agreement by which Honeywell would indemnify Narco for asbestos liabilities for exposures to Narco products prior to 1986, or for post 1986 exposures to certain products they call "discontinued products."

But the agreement was to be kept a secret. Nobody was to know of Honeywell's involvement. For example, in an effort to settle the cases, Orange County, Texas Judge Patrick Clark, ordered Mr. Heintzman and Mr. McNeil to get somebody on the phone with authority to settle the cases. They finally came up with Mr. _____, (for

Narco) who said that he had to defer to the insurance guy. When the Judge made them get the insurance guy on the phone, he said that he deferred to Mr. _____.

They also took other steps to hide the identity of the true defendant.

Many of the deceptions are hard to see, until you realize the distinction between the two NARCO's.

The **NEW Narco,** dates from 1986 and never made an asbestos containing product, (with the possible exception of one or two products that contained tremolite contaminated vermiculite from the Libby mines.)

The **OLD Narco,** was created in 1928, was once owned by Honeywell and actually made and marketed asbestos containing products from 1961 thru the mid 1970's.

Let me give you a couple of examples of what I mean:

*When you file suit against OLD NARCO, it is NEW Narco that files the answer.

*When we asked the defendant if we had properly named the correct defendant, and if not to identify the correct defendant, they said "Not applicable." (Since they were NEW Narco, they SHOULD have said, "We didn't exist until 1986. You need to sue Honeywell.")

- When we asked them to provide brand names, years of manufacture and batch mixes for all of the asbestos containing products they made, they SHOULD have answered NONE, but instead they gave us batch mixes for products dating back to 1961--- 25 years before New Narco was incorporated.

In other words, within the same set of discovery responses, they sometimes answered as if they were OLD Narco and other times answered in the guise of NEW Narco--- always with the end in view of hiding the relationship with Honeywell.

WHY? Why did they do this? What did they hope to gain?

Actual events give us the answer.

In the trial I was telling you about, we hit Narco for 20 million dollars in Phase one of the trial.
During arguments for the punitive damage phase, Ferguson McNeil stood up and showed the jury the financial sheets of NEW Narco, which is about a 34 million dollar company. He then argued that they ought not award punitives because they had aready given the plaintiffs 2/3rd of the value of the company."

That tells the whole story, right there. As competent lawyers, we all know that settlement values are greatly impacted by the size and wealth of the defendant. I don't know about you, but I know that some of the prior settlements I reached with NARCO

would have been larger had I known I was really dealing with Honeywell—a billion dollar company—instead of a small company worth $34 million.

The good news is that, in order to seek the temporary restraining order to take advantage of New Narco's bankruptcy stay, Honeywell had to come out into the open and admit the true relationship between the companies. By doing this, they have made a "bet the company" move.

If Judge Fitzgerald denies the permanent injunction (which we believe and hope that she will) Honeywell is going to face a flood of new claims.

Harbison Walker/ Halliburton

The situation with Harbison-Walker is very similar to the Narco game. This game also involves two companies with identical names. When you sue Harbison Walker, it is the NEW Harbison Walker that answers. (Of course the new Harbison never made an asbestos-containing product.)

For me, this game worked out a little bit different because we actually sued DRESSER. We knew from the beginning that Harbison Walker was a division of Dresser Corporation (now named Halliburton.)

We filed suit in 1993, against Dresser and Dresser answered. Then secretly handed off the file to the NEW Harbison Walker. Unknown to me, the lawyers I dealt with were actually employed by NEW Harbison, not by Dresser.

They also had a secret deal that provided for New Harbison to handle all claims. When I finally got tired of dealing with local counsel, and asked to speak to National Counsel, I was introduced to Lynne Luker, National Counsel for NEW Harbison Walker. We reached an agreement for a global deal, but our talks stalled because they wanted a payout. I finally asked, "WHERE IS DRESSER—they have plenty of cash money."

That is when things blew up.

The next thing I knew, Halliburton killed the deal I had with New Harbison, stepped in to handle the cases themselves. Halliburton & New Harbison sued each other, and we began to see the secret agreements and contracts they had with each other.

So we took them to trial. In September 2001, we hit the defendants for $130,000,000. in Orange, Texas. Half of that verdict belonged to Halliburton. We also took steps to reduce some of our prior unpaid settlement agreements to final judgments. During the last 6 months of 2001, we had judgments entered for settlements totaling $_____. Finally, we had a hearing scheduled for February 15th, 2002 to reduce one other settlement for $_____ to Final Judgment. As you know, on Feb 14th, 2002 Halliburton paid RHI to take New Harbison into bankruptcy and ask for a restraining order identical to Narco's.

I was told that Halliburton's stock price simply could not withstand another large asbestos judgment being entered against them.

So that is where we are. Both of these companies are now in bankruptcy Court in the Western District of Pa, before Judge Fitzgerald. Their motions seeking restraining orders are identical. If their gambit for permanent restraining orders fails, I expect most of you will amend your pleadings to change NARCO to Honeywell and Harbison-Walker to Halliburton.

After that, who knows what will happen.

The final defendant I want to focus your attention on is National Service Industries, better known to many of you as North Brothers Insulation Company.