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MINING AND MINERALS FIRST QUARTER 1977	
NET SALES	EARNINGS BEFORE INCOME TAXES
$44.8 million	$12.0 million

ASBESTOS FIBER	
CURRENT YEAR'S CAPACITY	OPERATING RATE (1976/CURRENT)
$173 million	95%/95%

Our second major business area is Mining and Minerals. Our first quarter sales are up about 11 percent from 1976, and our earnings are up 14 percent from 1976. We consider this to be a very strong performance because we were restricted in terms of our ability to ship asbestos fiber in late January and early February because of the weather. Thus, these results were achieved without quite getting out the full tonnage in January and February.

Our asbestos fiber capacity, again at current prices, is $173 million. We're operating at 95 percent of capacity, which for the mining operation, is practical operating capacity.

ASBESTOS FIBER DEMAND	
PRODUCT LINE	MARKET OUTLOOK
Asbestos Fiber	Strong

ROOFING PRODUCTS FIRST QUARTER 1977	
NET SALES	EARNINGS BEFORE INCOME TAXES
$40.4 million	$(0.2) million

The outlook for asbestos fiber is strong now, and we expect it to continue strong throughout 1977, and into 1978. In the past we have been pricing our asbestos fiber in Canadian dollars. Beginning July 1, we will price in U.S. dollars.

Roofing Products ordinarily has a weak first quarter. This quarter was no exception. It was a little weaker than we had anticipated in that we did have some effects from the weather on industrial and commercial construction. Weather did not significantly affect, however, the residential roofing sales.

ROOFING PRODUCTS	
CURRENT YEAR'S CAPACITY	OPERATING RATE (1976/CURRENT)
$215 million	81%/90%

This year we [illegible] at about 7[illegible] to 8[illegible] percent of capacity in the first quarter in order to hold our inventories down. This had an adverse effect in terms of absorption o fixed costs. Our U.S. capacity in the roofing area is $218 million. We are now operating at a 90 percent rate.

ROOFING PRODUCTS DEMAND

PRODUCT LINE	MARKET OUTLOOK
Residential	Strong
Fiber Glass	Strong
Non Residential	Moderate

The acceptance of our fiber glass shingles is very strong, and we will probably see more than 50 percent of our residential roofing output in the form of fiber glass shingles this year. Our overall outlook for market demand in the residential roofing area is strong. The non residential roofing area, which is commercial and industrial built-up roofing, has a moderate demand, which we think will probably hold at about that level for the rest of the year.

PIPE PRODUCTS AND SYSTEMS FIRST QUARTER 1977

NET SALES	EARNINGS BEFORE INCOME TAXES
$46.7 million	$4.7 million

Pipe Products and Systems is the business area that is most gratifying to us. It has been a problem area for the past several years, and now we have a significant turnaround in our pipe business. Our first quarter sales are up seven percent over 1976, and our operating earnings are up significantly. On an operating basis, in the first quarter of 1976, we had an operating loss of $1.6 million before taxes. So we're looking at a turnaround in the first quarter of 1977 of more than $6 million, before tax, operating earnings. The trends in April and through May indicate that the first quarter is not a fluke, and we expect to have a good year in pipe.

PIPE PRODUCTS AND SYSTEMS

	CURRENT YEAR'S CAPACITY	OPERATING RATE (1976/CURRENT)
A/C U.S.	$167 million	55%/70%
PVC U.S.	$106 million	91%/99%

[illegible] capacity in asbestos-cement pipe are $167 million. We are operating at [illegible] percent of capacity versus 55 percent on average in 1976. Our U.S. PVC capacity is $106 million and we are operating at 99 percent of capacity in PVC pipe.

PIPE PRODUCTS AND SYSTEMS
DEMAND

PRODUCT LINE	MARKET OUTLOOK
[illegible]	Good
[illegible]	[illegible]

GENERAL BUILDING PRODUCTS
FIRST QUARTER 1977

NET SALES	EARNINGS BEFORE INCOME TAXES*
$3[illegible] 7 million	($1.5) million

*Earnings before extraordinary items and income taxes

[illegible] asbestos cement and PVC pipe [illegible]

[illegible] Our sales are [illegible] [illegible] Holophane [illegible] our only acoustical ceiling [illegible] at Alexandria, Indiana. That [illegible] the impact was about $1.4 [illegible] earnings. That [illegible] back in full operation now. We [illegible] have, however, a relatively low level of activity in the Holophane lighting division.

GENERAL BUILDING PRODUCTS

	CURRENT YEAR'S CAPACITY	OPERATING RATE (1976 CURRENT)
Lighting	$57 million	65% 65%
Acoustical Ceiling	$20 million	93% 100%

[illegible] $57 million and we are operating at only two thirds [illegible] the same as last year. [illegible] acoustical ceiling business, with a [illegible] capacity [illegible]

GENERAL BUILDING PRODUCTS
DEMAND

PRODUCT LINE	MARKET OUTLOOK
Lighting	[illegible]
Acoustical Ceiling	[illegible]

[illegible]

INDUSTRIAL AND OTHER PRODUCTS
FIRST QUARTER 1977

NET SALES	EARNINGS BEFORE INCOME TAXES
$36.3 million	$4.3 million

Our Industrial and Other Products business, which includes specialty glass fiber mats, railroad composition brake shoes, and sealing components, has net sales and earnings down somewhat in the first quarter, as compared to the first quarter of 1976. That is due, however, almost entirely to the fact that the first quarter of 1976 had a nonrecurring contract closing in our German engineering subsidiary, which involved a significant sale of equipment and technology to other companies. On an operating basis, excluding that, our 1977 first quarter is satisfactory in terms of sales and earnings.

INDUSTRIAL AND OTHER PRODUCTS		INDUSTRIAL AND OTHER PRODUCTS DEMAND	
CURRENT YEAR'S CAPACITY	OPERATING RATE (1976/CURRENT)	PRODUCT LINE	MARKET OUTLOOK
Schuller - $36 million	95%/95%	Schuller	Good
Railroad Brake Shoes - $21 million	86%/99%	Railroad Brake Shoes	Strong
Sealing Components - $45 million	66%/75%	Sealing Components	Strong

Our major business in that area is Schuller Company, in Germany, with a capacity of $36 million. That company produces the glass mat that goes into the flooring market, the wallcovering market, and the roofing market in Europe. It is operating at 95 percent of capacity. Our railroad brake shoe business, with a capacity of $21 million, is operating at essentially 100 percent of capacity. Our sealing components business, with a capacity of $45 million, is operating at 75 percent of capacity. For that particular type of business, 75 percent operating capacity is satisfactory, and it represents a good, profitable level of operations.

Our outlook for the Schuller business in Germany is good. We expect it to remain that way for the rest of the year. The railroad brake shoes and sealing components businesses are both strong, and we expect them to continue strong throughout the rest of this year.

I'll turn the meeting back to John McKinney. Thank you.

MC KINNEY: And now we'll answer any questions that anyone has.

Questions & Answers:

CHAIR: I think there is a question in the center here. The question relates to the outlook [illegible] Canada and the [illegible] climate generally.

MC KINNEY: The [illegible] in Canada who I heard last week, as I said before, think [illegible] that it has not begun to recover, and they did not [illegible]. Everyone [illegible] talked to there referred to higher costs and lower [illegible] same degree [illegible] the same kind of thing that has [illegible] would say the people that I talked to were [illegible] very [illegible]

CHAIR: The question [illegible] suggested that the government is hostile.

MC KINNEY: [illegible] the government [illegible] hostile to industry. I don't think that's the problem. I heard [illegible] said [illegible] what we ourselves had observed, that in our plants in Canada we have higher production costs and lower productivity.

QUESTION: Would you explain why, in a relatively good year for this industry like 1976, you operated your pipe business at a deficit?

MC KINNEY: Well, 1976 was not a good year for municipal spending, which affects water [illegible] and sewer systems. This is the reason why our asbestos-cement pipe business in [illegible] was not good, and had not been good for a couple of years. Now that municipal [illegible] has begun again, that is the main reason why the asbestos-cement pipe [illegible] operating at a higher capacity utilization and we are making better earnings.

QUESTION: Would you discuss PVC pipe, please?

MC KINNEY: With PVC pipe, we had operated at virtually 100 percent capacity in 1976 [illegible] at 100 percent capacity. The problem in 1976 with the PVC business was that the [illegible] were [illegible]. During the year, prices were raised, and now the price levels are [illegible] that the earnings have improved markedly over what they were earlier in 1976.

CHAIR: In that regard, John, could you give us an idea what the current selling prices are for PVC, and would you like to indicate what your break even is on a price per ton basis?

MC KINNEY: Well, let me say what I remember of it, and then Fred can be more specific. Part of the problem was that in early 1976 the selling price was in the range of 32 cents a [illegible] average [illegible] product lines. Toward the end of the year I think it was up toward [illegible] Fred [illegible] want to add [illegible] that?

FUNDSACK: [illegible] average [illegible] we have [illegible] we have been [illegible] that [illegible]

[illegible]

CHAIR: The question relates to what your current pricing strategy is in various product lines, and the gentleman indicated that in many of these products you have not been a price leader. Will that situation change? And what specifically are you doing in terms of current pricing structures for the various products that you're dealing with in terms of increases?

MC KINNEY: As explained to one of these groups once before, the prices that you read in the newspapers and what the actual prices are to the customer are two different things, because in many of the building materials businesses, there are a series of discounts which are tacked onto the list price, and what you have to look at is the discounting activity. In many of our businesses, pricing is an extremely complicated matter, because of the number of pricing districts, the historical discounting system, and the complexity of the product lines. What our policy with our people is, we want them paying more attention to how they're running their pricing, their discounting and all of that, so that our actual price realization — and by that, I mean the added dollars which we get from price increases, or elimination of discounts, however you want to look at it — is improved. I have talked to some of our district managers who agree that, at times, we have probably because of the complication of the situation, been out there meeting our own lowered price. What we're trying to do is to get people to be more sensitive to it, to be careful about it, and we have provided them with some comparisons which show them what the importance is of really paying attention to pricing. We are not talking about great increases in our prices. What we're talking about is realizing, in fact, for our products, the same general level of prices that our competitors are getting for comparable products. And we're just not convinced we've been doing that in the past.

CHAIR: Is the performance for the first quarter a reflection to some degree of that?

MC KINNEY: Yes. Up through the first four months, we were virtually on-plan in realizing added dollars from price improvements. And that was before we started doing all of the complaining about pricing. And now we're doing a little bit better than plan. We are improving.

QUESTION: Could you update us on your discussions with the Quebec government concerning the Jeffrey Mine? Has there been anything further between you and them?

MC KINNEY: We have not had any additional discussion since late January with the government of Quebec. We have noted the various statements which they have made in the meantime. We believe that the attitude toward the asbestos industry in Quebec is relaxing. They seem to be more interested now in other industries. They will be announcing, as we understand it, within the next few weeks, what their policy with respect to the asbestos industry will be. We do not anticipate that it will have a significantly adverse effect on our businesses.

CHAIR: The question relates to the government's concern about windfall profits. Is there any way you could indicate or have a feel for what magnitude of price increase would be justified, based on the supply/demand relationships, and at the same time, avoiding what the government considers windfall profits?

MC KINNEY: I don't think we're going to have any price increases which are based merely on the fact that there is an increasing demand. Our pricing, obviously, is going to be designed to give us an adequate return on the $200 million capital program which we have undertaken.

QUESTION: I was wondering whether, in general, we could review the world supply/demand balance in asbestos, and in particular whether we could review your perception of what kind of a policy the Russians will follow in regard to asbestos sales on the free market?

MC KINNEY: First, we do not expect the Russians to sell in the Free World market any more fiber than they have been doing in the past. As a matter of fact, we would anticipate that it might lessen, unless at a given time, they need the hard dollars. As I understand it, and a lot of these figures are very difficult to come by — and you can get different reports from different people — the Russians have, generally speaking, sold about a constant amount of fiber in the Free World. They have some difficulties in doing this. One of them is that the quality of their material is variable. Their reliability from the point of view of a customer being able to rely on their continuing to supply them is questionable, and so many buyers are reluctant, with the present situation on asbestos fiber, to tie up with the Russians. Also, what the Russians have characteristically done, if they need hard dollars, is to continue to sell the fiber, and cut off the Eastern European customers. We have had requests from Eastern Europeans to sell them fiber. Russia also is the most rapidly expanding country from the point of view of production of asbestos-cement products. And it is our belief that their own consumption of asbestos cement products will require all of the fiber which they can supply. They do have several sizable mines which are toward the end of their life spans.

QUESTION: I think that was just the first part of the question. I'd also like to look at it in terms of the context of the Free World — whether Management has any figures in terms of total tonnages, their share of market, and where they think Free World demand is likely to go.

MC KINNEY: Do you mean — are you asking if the Free World supply is going to increase?

QUESTION: On both sides of the question — how do you view the demand in the Free World taking into account the economic growth [illegible] and [illegible], whether you see any significant increases in supply. There has been some talk from some [illegible] East Africa [illegible] to get [illegible]

MC KINNEY: [illegible] for [illegible] to bring in a new asbestos mine and get an adequate return on it. I don't know [illegible] Africa but [illegible] which the Quebec [illegible] government had at one time exhibited some interest in it takes more than $6 of capital to bring in one dollar of sales and on today's price structure there is no way that such a project could be viable. At the present time we certainly could not afford to bring in a substantial new mine on today's price structure. And we don't think there are going to be any new mines brought in, in the near future. As to the demand, we think the demand will continue, particularly in the developing countries, for asbestos-cement products in particular. I think the consumption will largely be matched to what is available in the way of fiber.

QUESTIONS REGARDING INTERNATIONAL ASBESTOS LEGISLATION:

MC KINNEY: In the Scandinavian countries, or in Sweden in particular, one form of asbestos cement has been banned as a product. I have not seen the final thing from the Netherlands, but it was certainly less than a ban on the major uses. There are certain minor uses of asbestos fiber where the fiber is not locked into the finished product. It's a sort of a dry mix of loose fiber, where it's improbable to suppose that the user of the fiber will use it safely. By using it safely, I mean not creating more than a certain amount of dust. We have stopped selling to such customers. There are quite a number of uses for which we have said we just simply won't sell the product. We've also taken the position that we won't sell to any customer who won't use it safely. On the other hand, we believe that some of the emotion in the Netherlands — and there is some among the trade unions in France — is unwarranted. We feel that the present U.S. standard of two fibers per cc is safe, and we believe this based upon experience in some of our plants that have been in operation for 20 years. If the dust levels were too high, and they were higher than the present standard, we should have begun to see some evidence of asbestos-related disease. At those two plants, which have now been in operation for 20 years, we have no disease which can be attributed to asbestos.

CHAIR: Is there any emotion in the United States that might move to attempt banning any particular products? Are there any products that you're dealing with now that are potentially vulnerable to emotion or otherwise banning them?

MC KINNEY: Well, yes, to the same extent that it has been for about 12 years, there's a segment of thinking that if you don't know exactly what's safe, if there's any danger at all, don't do it. On the other hand, we do not think that is going to result in any ban in the United States. We do think, based upon the kind of data that we have out of our actual experience with employees, and rather than the experience that people have with overdoses on rats, that reason will prevail.

CHAIR: John, you have a question.

QUESTION: Before the lunch, we were chatting about the ITC complaint, and one of the statements that the industry was hard to enter because of the technology required, the know how, and you indicated that there were other constraints that were probably more formidable than the actual patent protection, or the technology alone. Could you go into those in a little bit more detail?

MC KINNEY: There are no patents which would prevent anyone from manufacturing fiber glass insulation in the United States. And assuming they could learn how to produce the right glass formulations and do all of the right things — there are no patents that would prevent them from competing. That is not the problem. The problem is that it is a very difficult technology; it is, to begin with, a highly capital-intensive process. And there have been numerous big companies that have taken a look at it. To show you, really, what the futility of what they're talking about is, in about 1950, Owens Corning Fiberglas was forced through an anti-trust decree, to license anyone who asked for a license. Pittsburgh Plate Glass was one of the companies that was licensed to make insulations, and to make textiles. They're still in the textile business, but they never made it in the insulation field. And they never made it in the insulation field simply because it is too difficult a thing to learn to do, even though they were being taught how.

CHAIR: What is the dollar of capital investment versus a dollar of sales relationship?

MC KINNEY: Well, once you get into it, it's less than one-to-one -- and I perhaps should not have used "capital" in that sense. One of the most difficult things to do is that you have to do a great deal of training. You have to bring a large number of people to a very sophisticated level of training and technical knowledge in order to operate a glass fiber manufacturing process. And it is not something that you can afford to miss on, because if you build a glass tank, it's got to operate 24 hours a day, seven days a week, for years. If you once shut it down, you have to rebuild it. So just to melt the glass is technically a tremendous undertaking if you have not been in it before.

CHAIR: Is there any way to determine, or to guess, what the time span is from groundbreaking to start up? Is there a long lead-time to start up new capacity?

MC KINNEY: If someone started from scratch today, without having any employees whatever who were previously trained in melting and fiberizing glass, and they started out to build or to acquire the knowledge, design the plant, and do all of that, you're talking about years and years. And the probability of failure is very, very high.

CHAIR: Is there any possibility of a windfall profits tax, or some kind of provention device stimulated by the government?

MC KINNEY: I suppose you're never safe in predicting what the government will do, but at the present time, from our point of view, the talk of windfall profits with respect to fiber glass insulation is ridiculous.

CHAIR: This gentleman points out the proposed legislation move last year, I believe, in Congress, that was going to investigate the problem of asbestos. What's the status of that proposed legislation?

MC KINNEY: There was consideration of special compensation for persons suffering [illegible] asbestos related disease. That bill was [illegible] in the last Congress and [illegible]. There are a number of prob[illegible] [illegible] because of the fact that it would be a no-fault type of compensation plan. Our idea in proposing that to the union people in the first place was that the present method of compensation is largely through regular Workmen's Compensation, which has been considered inadequate, and by third party lawsuits in the courts, where one plaintiff gets nothing, and another is rewarded greatly, and they've both got the same disease. The difficulty comes in that there have been several groups over the last 40 years, who are responsible for the situation that we have. The government undertook to set standards in 1939 and the standards were neither adequate nor were they enforced. So the government has some responsibility for the population of people that you have today who have actually been harmed. Industry, obviously, is responsible because we provided the work environment. The medical profession is responsible because they didn't find out until 40 years too late that people were being overexposed. The unions themselves are responsible. But one of the things, and we're perhaps most vocal about this one, the tobacco industry is more responsible than anybody for what is the most devastating form of the disease. There has never been an asbestos worker yet who has had lung cancer, who did not smoke cigarettes. You can say, for practical purposes, that for smoking cigarettes, no asbestos worker, regardless of exposure, gets lung cancer. One of the fights, with respect to this compensation bill, is that we fought for a tobacco industry share in paying for the compensation. And obviously, you know what that entails in Congress. The tobacco lobby is a fairly strong one.

QUESTION: I'd like to get back to the pipe area. In the first quarter, your year to year improvement in earnings in the pipe area was $6.2 million. To what extent was this from the asbestos-cement pipe area, and to what extent was it from PVC pipe? Also, if you could break down that improvement in terms of improvement in the price/cost relationship versus improvement in operating rates.

PUNDSACK: Well, we had improvement in profitability in both PVC pipe and in asbestos-cement pipe in terms of the total earnings turnaround, approximately 30 percent came from the asbestos-cement pipe area, approximately 70 percent from the PVC pipe area.

CHAIR: There was another part of that I think, Fred.

PUNDSACK: I can't give you the breakdown off the top of my head between the improvement from the operating rates and from improved price levels. There was, certainly, in the case of the AC pipe, a significant improvement because of the improvement in operating rates.

QUESTION: I just wanted to get a better feeling for how much potential improvement is left in the PVC pipe area. Are you pretty much at acceptable levels in price?

PUNDSACK: I think there is some improvement still ahead in the PVC pipe area.

CHAIR: I'm sorry, we have to cut it off now. It's 2 o'clock. We thank you very much for [illegible] and we thank the Management of [illegible] for a fine presentation. Thank you [illegible]

The following is a list of documents that were submitted to Davis, Polk in response to the Abrams litigation; copies of these documents were not retained by the Legal Department:

1. Form 10-K's for the years 1975 through 1979.

2. 1979 Johns-Manville Investor Reference Book.

3. Johns-Manville Annual Reports for the years 1975 through 1979.

4. Quarterly Reports of Johns-Manville for the years 1975 through 1979 - excluding the second quarter of 1977 and the first quarter of 1978 - these cannot be located within Johns-Manville.