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Attention: Manville Corporation Shareholders,

On Thursday, August 26, Manville Corporation and its principal American and Canadian affiliates filed voluntarily for reorganization under Chapter 11 in New York.

In the following interview, John A. McKinney, Manville's Chief Executive, answers questions about the background of this startling development:

Q. Mr. McKinney, this announcement was a surprise. What's wrong with Manville's operations?

A. *Nothing is wrong with our businesses. Filing Chapter 11 does not mean that the Company is going out of business or that its assets will be liquidated. Thousands of asbestos-health lawsuits are the problem!* We're the American and world leader in a number of markets, mostly related to construction. During the current recession our sales have held up well and we've operated at better than break even (if you exclude litigation expenses). We've slimmed down too, having eliminated more than 1,500 salaried jobs in the last six months. We'll continue to generate substantial cash flow. Our Chapter 11 lawyers tell me Manville has stronger businesses and cash flow than any other big company that's ever filed.

Q. Your businesses are in good shape, but you filed under Chapter 11? Why?

A. We're overwhelmed by 16,500 lawsuits related to the health effects of asbestos, with many more projected. The federal government has refused to admit its responsibility to its shipyard workers. *Congress has failed to act to provide compensation for claimants.* Chapter 11 is the only orderly way for the Company to handle the litigation and treat everybody fairly. You may have read recently that another publicly held asbestos manufacturer has taken the same step.

Q. Could you have avoided Chapter 11?

A. No. To avoid Chapter 11, we would have *had* to strangle the Company slowly, by deferring maintenance and postponing capital expenditures. We would also have *had* to cannibalize our good businesses just to keep going. If recent trends had continued we would have had to mortgage our plants and properties and new credit would be most difficult and expensive to obtain. This is no way to go forward. Chapter 11 avoids these problems and preserves our operations.

Q. Will Manville go out of business?

A. No. Our businesses will keep operating, very smoothly, we believe.

Q. Will any of your 25,000 employees lose their jobs?

A. I don't think Chapter 11 will cause a single employee to lose a job, pay or benefits. In fact, we believe *Chapter 11 is the best way to permit the Company to operate normally, providing jobs and useful products*, despite all the litigation. Most important, I want to keep our employees' morale up. They've done a bang-up job to keep Manville lean and competitive.

Q. Can you pay your suppliers?

A. We don't expect any significant problem in making full, timely payment for new shipments after our filing.

Q. What effect will Chapter 11 have on your customers?

A. None. *We will continue to manufacture and ship high-quality products and provide the same services, as always.*

Q. What will happen to the lawsuits?

A. *The Chapter 11 filing automatically stops all lawsuits pending against us.* New lawsuits are also automatically stopped. We hope to establish an effective system to handle these claims in Chapter 11.

Q. What are all these lawsuits really about?

A. It's a long story. Here's the bottom line. *Not until 1964 was it known that excessive exposure to asbestos fiber released from asbestos-containing insulation products can sometimes cause certain lung diseases.* Since the mid-'70s, lawsuits have been brought against Johns-Manville, our subsidiary, on behalf of nearly 20,000 people alleging injury from excessive asbestos exposure. We have disposed of about 3,500 of these cases by settlement or trial. In a significant number of cases tried, juries have found that we were not at fault and acted responsibly in light of then-existing medical knowledge. Nevertheless, new lawsuits have been coming in at a rate of 500 a month — every month! In the absence of Congressional action, the board of directors concluded there is no conceivable resolution to this burden, other than Chapter 11. Just to put it in perspective, *Newsweek* has stated that asbestos health litigation surpasses in size all the automobile accident suits pending across the nation before no-fault insurance laws were adopted.

Q. 20,000 plaintiffs? 6,000 new ones a year? Where are these suits coming from?

A. Well, many of them come from workers in shipyards and industries which used our asbestos fiber and products. Decades can pass between excessive exposure to asbestos and onset of the disease. For instance, there was asbestos insulation on the steam pipes and boilers in most ships built or refitted during World War II. The largest group suing us now consists of shipyard workers claiming recently manifested injury from asbestos exposure during wartime service, 40 years ago.

Q. What about your insurance? Shouldn't the insurance companies take care of the problem?

A. Over the years, Johns-Manville Corporation's former insurance broker bought insurance coverage for it totalling hundreds o millions of dollars. Right now, however, only one company is pay ing, and it pays only a small part of each claim.

Q. Why is that?

A. The whole subject disgusts me. Now, when we need the coverage, with one exception, the insurance companies are reneging. We sued them all in California in early 1980 to force payment. You won't believe it, but even now, 30 months later, we still aren't sure which judge will preside over the case. As a result the case has gone nowhere. As much as anything else, the bad faith of insurance companies has made it necessary for us to take this action. I have instructed that our damage claims in the California case be increased by five billion dollars to partially compensate creditors and shareholders for their losses.

Q. How much do the asbestos lawsuits cost you?

A. Including our outside legal fees, the cost is currently over $40,000 per case. This is sharply higher than our averages in prior years. Internal legal staff costs are also substantial.

Q. If all 16,500 lawsuits now pending cost $40,000 apiece to settle, that would total $660 million. Without payments from your insurance companies, your problem is obvious.

A. Right. And that doesn't take into account the cases yet to be filed. Talking about legal costs, one of the truly outrageous aspects of this situation is the amount of money being poured down the drain in litigation expenses and contingent fees paid to plaintiff's lawyers. *Our best guess is that the injured worker receives less than a third of the total cost of these suits.* The court system, with separate individual trials, is too inefficient and haphazard for a massive problem like this. We need an effective, practical national

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nployees, Customers, Suppliers and Creditors

rstem which delivers maximum payments to injured workers, inimizes the costs of delivering those payments and withholds ayments to those with no disability.

. What do you mean by haphazard?

. There is no better word to describe our experience to date in e litigation. We had one suit from a plaintiff with doubtful sbestosis who had retired on a full disability pension with a oken ankle. He received an additional award for asbestos sease of one and a quarter million dollars. We have seen others tally disabled or in fact dead who received no award from the y. In one recent trial in Texas, five separate juries hearing five fferent cases were empaneled and heard the same evidence efore the same judge in the same courtroom at the same time. eir findings ranged from no liability to punitive awards. Maybe aphazard is too weak a description. *This type of* toxic tort litigaon is an intolerable gambling exercise for both plaintiff and efendant.

. Why did you file now?

We're a public company. We are required to comply with cerin accounting requirements. Under these rules, we're supposed estimate the costs of current and probable litigation whenever ssible and create a reserve for the liability in an amount equal to e estimate. When the asbestos cases began to proliferate, we uldn't estimate their probable number or cost, and our auditors ualified their opinion about our financial statements. *When we und that the number of new cases was not declining and our data base" of pending cases was large enough to assist in mak- g projections, we hired epidemiologists and other professionals to velop an estimate of probable future disease cases. Early this onth, they finished their work. On the basis of their work so far, e forecast that we could get at least 32,000 more lawsuits on top the 20,000 already asserted.* Some people outside Manville ave estimated many more claims than that.

Q. A total of 52,000 lawsuits at a cost of $40,000 apiece could mean a total cost of two billion dollars and that doesn't include n inflation factor. Could Manville afford it?

A. Not on our own. Our businesses are strong and viable but they might not be able to pay a bill that big. Even if we could pay, ithout the protection of Chapter 11, it would cripple us. The cost handling paperwork for this number of cases is staggering. We ave to incur that cost in all events and sometimes we are essured by the courts to pay settlements without court deterination that disability exists. We also might have to sell good usinesses to raise cash. In Chapter 11, we can keep those usinesses going and use their earnings to pay our liabilities. And ming is of course a problem. We have limited control over the timg of lawsuits and little ability to match timing of litigation ayments against available cash. Disregarding the litigation, we e a low-debt company with a book net worth of $1.1 billion. hen a reserve is booked, net worth must *also* be reduced. The ooking of a large reserve now for current and future asbestosealth liabilities would wipe out most of our net worth. Without nowing a good-sized net worth on our balance sheet, *affordable redit would* have dried up, and we simply could not have perated. So, when our board of directors learned this month of e probable need for a large reserve, it considered the options nd concluded we had to file for relief under Chapter 11.

Q. How do you feel about this?

A. *Awful. I've never had to do anything I hated more.* Our loyal supiers, lenders and shareholders all may suffer losses for their edit and investment exposure before our Chapter 11 filing. sses could be very, very large for our present shareholders. Then, too, the many people who do have disabling injuries from excessive exposure to asbestos will be hurt. Their claims will be delayed and reduced. Still, it seems to us that the only orderly way to treat everyone fairly is through a court-supervised Chapter 11 proceeding.

Q. Disabled workers are fully protected by workers' compensation. How is it most people think they can sue you?

A. You're partly right. Workers' compensation covers an employer's liability to its employees for injury in the workplace. The law has been interpreted to make "employer" and "employee" very restrictive terms. This means that a 1940's employee of a shipyard can get workers' compensation from the shipyard, but he can also sue us for having supplied the allegedly defective product. I don't agree with that, but the fact is we are being sued in virtually every state because of it.

Q. Isn't there some other national program for people injured while on the job?

A. There are programs in other industries, but not for asbestos workers. *There should be a statutory compensation program for asbestos injuries. We've tried to get a program passed, but Congress has been preoccupied.* This is another reason we've been forced into Chapter 11. No other country uses the court litigation system to provide compensation for occupational disease.

Q. How long will you be in Chapter 11?

A. That depends. I've ordered our laywers to go full blast. One of the biggest problems will be court approval of the estimated amount due in the future to product-liability claimants. Once we get that approval, I think that getting out of Chapter 11 ought to be just a matter of finishing up the legal proceedings. In the meantime, I understand that a company in Chapter 11 is allowed to conduct its affairs in the ordinary course of business without court approval.

One other thing needs attention. Our lawyers tell me that Congress needs to act by October 4 to straighten out an important technical point of bankruptcy court jurisdiction. Important aspects of our Chapter 11 case could be stalled until we get new legislation. *I hope Congress will* resolve this important technical problem quickly and also *move toward a resolution of occupational disease litigation so that the thousands of citizens and voters caught up in this problem will be spared the expensive, inefficient and haphazard litigation system we have been saddled with. I also hope the government will step up to its responsibilities for having played a role in creating the disease problem.*

Q. Is there anything else to know?

A. Yes. You should know that I and the people who work for the Company have turned every stone at least once seeking an out-of-court solution to this problem. Chapter 11 hurts, yes. However, our board believes Chapter 11 is the best way to protect our businesses. We expect to emerge from Chapter 11 stronger than ever. We are determined to make the best of this for everyone involved.

August 27, 1982

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Manville

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