

Company believes that the resolution of these matters will not have a material adverse effect on the Company's financial condition.

Based upon the Company's experience to date (including the existence of the indemnification arrangements referred to above), the cost of compliance with environmental laws is not expected to have a material adverse effect on the Company's earnings, liquidity or competitive position. However, future events, such as changes in existing laws or enforcement policies, may give rise to additional compliance and/or other costs which could have a material adverse effect on the Company's financial condition or results of operations

The Company has not recognized any liability in its financial statements for environmental matters occurring prior to the 1988 Whitman acquisition which are covered by Whitman's indemnification obligations under the Whitman Agreements. Management of the Company considers these obligations to be Whitman's and monitors the financial position of Whitman to determine the level of uncertainty associated with Whitman's ability to satisfy its obligations. Based upon Whitman's active management of indemnifiable matters, its discharging of the related liabilities when required, and its financial position based upon publicly filed financial statements, the Company believes that the likelihood of Whitman failing to satisfy its obligations is remote

Asbestos Matters Relating to the Former Friction Materials Business

A predecessor of Pneumo Abex has been named as a defendant in personal injury lawsuits claiming damages relating to asbestos-containing friction products formerly manufactured by such predecessor. The predecessor, which discontinued the manufacture and sale of asbestos-containing friction products in the United States in 1987, has never been found liable in any such case. As of January 31, 1997, Pneumo Abex or the predecessor had been named as a defendant in approximately 50,000 pending claims, typically with 10 to 30 or more co-defendants.

Pursuant to the Whitman Agreements, Whitman has retained ultimate responsibility for all asbestos-related claims made through August 1998 and for certain asbestos-related claims asserted thereafter. In connection with the sale by Abex in December 1994 of its friction products division (the "Friction Products Sale"), a subsidiary of Cooper Industries, Inc. ("Cooper") assumed responsibility for substantially all of the asbestos-related claims made after August 1998 and therefore such claims are not subject to the Whitman indemnity. Pneumo Abex maintained products liability insurance covering substantially all of the period during which asbestos-containing products were manufactured and both the Company and Whitman have the benefit of such insurance. Pursuant to court rulings and interim agreements reached with certain insurance carriers, Pneumo Abex is being reimbursed for approximately 90% of the aggregate defense and settlement costs associated with such claims, and continues to seek recovery of the remaining amount of unreimbursed costs from its carriers in an ongoing insurance coverage litigation commenced by Pneumo Abex in 1982. As of December 31, 1996, the Company had approximately \$8.8 million in unreimbursed defense and settlement costs pending receipt from the insurance carriers or Whitman

The Company is unable to predict the amount of future defense and settlement costs associated with asbestos litigation, but consistent with Abex's historical treatment, the Company has not recognized any liability in its financial statements for asbestos-related claims as substantially all of these costs are expected to be insured and, to the extent not insured entirely, are covered by Whitman's indemnifications under the Whitman Agreements or by Cooper