

Aearo Corporation

Aearo Corporation
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Indianapolis, IN 46268
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<http://www.aearo.com>

Employees: 1,510
Revenue: \$ 286,900,000
Net Income: \$ 9,300,000
Assets: \$ 270,200,000
Liabilities: \$ 248,600,000
(As of September 30, 2002)

Description: Through subsidiary Aearo Company, Aearo Corporation makes and sells personal protection equipment in about 85 countries under the brand names AOSafety, E-A-R, and Peltor. Products include earplugs, goggles, face shields, respirators, hard hats, safety clothing, first-aid kits, and communication headsets. The firm also sells safety prescription eyewear and makes energy-absorbing foams that control noise, vibration, and shock for use in its own and other manufacturers' products. Aearo's former parent, specialty chemicals maker Cabot Corporation, owns about 40% of the company; Vestar Capital Partners and Aearo executives own the rest.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended March 31, 2003

<http://www.sec.gov/Archives/edgar/data/949957/000094995703000005/form10q03.txt>

Filed On: May 15, 2003

AEARO CORPORATION
Notes To Condensed Consolidated Financial
Statements
MARCH 31, 2003
(Unaudited)

Contingencies Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims are products liability matters that arise out of the use of safety eyewear and respiratory product lines manufactured by the Company as well as products purchased for resale. In addition, the Company may be contingently liable with respect to numerous lawsuits involving respirators sold by its predecessors, American Optical Corporation and Cabot Corporation, arising out of agreements entered into when the AOSafety(R) Division was sold by

American Optical Corporation to Cabot in April 1990 and when later sold by Cabot to the Company in 1995. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators that were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, Cabot, American Optical Corporation and a prior owner of American Optical Corporation. Liability is allocated among the parties based on the number of years each

Company owned the AOSafety Division and the alleged years of exposure of the individual plaintiff. The Company's share of the contingent liability is further limited by an agreement entered into between the Company and Cabot on July 11, 1995, as amended in 2002. This agreement provides that, so long as the Company pays to Cabot an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify the Company against, asbestos and silica-related legal claims asserted after July 11, 1995 and alleged to have arisen out of the use of respirators while exposed to asbestos or silica prior to January 1, 1997. To date, the Company has elected to pay the annual fee. The Company could potentially be liable for these exposures if the Company elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters. With these arrangements in place, however, the Company's potential liability is limited to exposures alleged to have arisen from the use of respirators while exposed to asbestos or silica on or after January 1, 1997. The Company also may be responsible for certain claims relating to acquired companies other than the AOSafety(R) Division that are not covered by, and are unrelated to, the agreement with Cabot.

At March 31, 2003, the Company has recorded liabilities of approximately \$4.7 million, which represents reasonable estimates of its probable liabilities for product liabilities substantially related to asbestos and silica-related claims as determined by the Company in consultation with an independent consultant. This

reserve is re-evaluated periodically and additional charges or credits to operations may result as additional information becomes available. Consistent with the current environment being experienced by companies involved in asbestos and silica-related litigation, there has been an increase in the number of asserted claims that could potentially involve the Company. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos and silica-related litigation could increase the Company's cost over time. In light of these and other uncertainties inherent in making long-term projections, the Company has determined that the five-year period through fiscal 2007 is the most reasonable time period for projecting asbestos and silica-related claims and defense costs. It is possible that the Company may incur liabilities in an amount in excess of amounts currently reserved. However, taking into account currently available information, historical experience, and the Cabot agreement, but recognizing the inherent uncertainties in the projection of any future events, it is management's opinion that these suits or claims should not result in final judgments or settlements in excess of the Company's reserve that, in the aggregate, would have a material effect on the Company's financial condition, liquidity or results of operations.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended December 31, 2002

http://www.sec.gov/Archives/edgar/data/949957/000094995703000003/form10q_123102.txt

Filed On: February 14, 2003

Contingencies Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims are products liability matters that arise out of the use of safety eyewear and respiratory product lines manufactured by the Company as well as products purchased for resale. In addition, the Company may be contingently liable with respect to numerous lawsuits involving respirators sold by its predecessors, American Optical Corporation and Cabot Corporation, arising out of agreements entered into when the AOSafety(R) Division was sold by American Optical Corporation to Cabot in April 1990 and when later sold by Cabot to the Company in 1995. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators that were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, Cabot, American Optical Corporation and a prior owner of American Optical Corporation. Liability is allocated among the parties based on the number of years each Company owned the AOSafety Division and the alleged years of exposure of the individual plaintiff. The Company's share of the contingent liability is further limited by an agreement entered into between the Company and Cabot on July 11, 1995, as amended in 2002. This agreement provides that, so long as the Company pays to Cabot an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify the Company against, asbestos and silica-related legal claims asserted after July 11, 1995 and alleged to

have arisen out of the use of respirators while exposed to asbestos or silica prior to January 1, 1997. To date, the Company has elected to pay the annual fee. The Company could potentially be liable for these exposures if the Company elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters. With these arrangements in place, however, the Company's potential liability is limited to exposures alleged to have arisen from the use of respirators while exposed to asbestos or silica on or after January 1, 1997. The Company also may be responsible for certain claims relating to acquired companies other than the AOSafety(R) Division that are not covered by, and are unrelated to, the agreement with Cabot.

At December 31, 2002, the Company has recorded liabilities of approximately \$4.6 million, which represents reasonable estimates of its probable liabilities, for product liabilities substantially related to asbestos and silica-related claims as determined by the Company in consultation with an independent consultant. This reserve is re-evaluated periodically and additional charges or credits to operations may result as additional information becomes available. Consistent with the current environment being experienced by companies involved in asbestos and silica-related litigation, there has been an increase in the number of asserted claims that could potentially involve the Company. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos and

silica-related litigation could increase the Company's cost over time. In light of these and other uncertainties inherent in making long-term projections, the Company has determined that the five-year period through fiscal 2007 is the most reasonable time period for projecting asbestos and silica-related claims and defense costs. It is possible that the Company may incur liabilities in an amount in excess of amounts currently reserved. However, taking into account

currently available information, historical experience, and the Cabot agreement, but recognizing the inherent uncertainties in the projection of any future events, it is management's opinion that these suits or claims should not result in final judgments or settlements in excess of the Company's reserve that, in the aggregate, would have a material effect on the Company's financial condition, liquidity or results of operations.

Asbestos Discussion from SEC filings:

From the Company's Form 10-K for the period ending September 30, 2002 at <http://www.sec.gov/Archives/edgar/data/949957/000094995702000019/form10k2002.txt>
Filed On: December 17, 2002

Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims are product liability matters that arise out of the use of safety eyewear and respiratory product lines manufactured by the Company as well as products purchased for resale. In addition, the Company may be contingently liable with respect to numerous lawsuits involving respirators sold by its predecessors, American Optical Corporation and Cabot Corporation, arising out of agreements entered into when the AOSafety(R) Division was sold by American Optical Corporation to Cabot in April 1990 and when later sold by Cabot to the Company in 1995. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand

blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, Cabot, American Optical Corporation and a prior owner of American Optical Corporation. Liability is allocated among the parties based on the number of years each Company owned the AOSafety Division and the alleged years of exposure of the individual plaintiff. The Company's share of the contingent liability is further limited by an agreement entered into between the Company and Cabot on July 11, 1995, as amended in 2002. This agreement provides that, so long as the Company pays to Cabot an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify the Company against, asbestos and silica-related legal claims asserted after July 11, 1995 and alleged to have arisen out of the use of respirators while exposed to asbestos or silica prior to January 1, 1997. To date, the Company has elected to pay the annual fee. The Company could potentially be liable for

these exposures if the Company elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters. With these arrangements in place, however, the Company's potential liability is limited to exposures alleged to have arisen from the use of respirators while exposed to asbestos or silica on or after January 1, 1997. The Company also may be responsible for certain claims relating to acquired companies other than the AOSafety(R) Division that are not covered by, and are unrelated to, the agreement with Cabot. The Company retains responsibility and liability for all other product liability claims and accordingly maintains insurance protection for claims other than asbestosis and silicosis.

At September 30, 2002, the Company has recorded liabilities of approximately \$4.8 million, which represents reasonable estimates of its probable liabilities, for product liabilities substantially related to asbestos and silica-related claims as determined by the Company in consultation with an independent consultant. The accrual does not include estimates for insurance recoveries. This reserve is re-evaluated periodically and additional charges or credits to operations may result as additional information becomes available. Consistent with the current environment being experienced by

companies involved in asbestos and silica-related litigation, there has been an increase in the number of asserted claims that could potentially involve the Company. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos and silica-related litigation could increase the Company's cost over time. In light of these and other uncertainties inherent in making long-term projections, the Company has determined that the five-year period through fiscal 2007 is the most reasonable time period for projecting asbestos and silica-related claims and defense costs. It is possible that the Company may incur liabilities in an amount in excess of amounts currently reserved. However, taking into account currently available information, historical experience, and the Cabot agreement, but recognizing the inherent uncertainties in the projection of any future events, it is management's opinion that these suits or claims should not result in final judgments or settlements in excess of the Company's reserve that, in the aggregate, would have a material effect on the Company's financial condition, liquidity or results of operations.

Asbestos Discussion from SEC filings:

From the Company's Form 10-K405 for the period ending September 30, 2002 at <http://www.sec.gov/Archives/edgar/data/949957/000094995702000019/form10k2002.txt>
Filed On: December 17, 2002

Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims are products liability matters that arise out of the use of safety eyewear

and respiratory product lines manufactured by the Company as well as products purchased for resale. In addition, the Company may be contingently liable with

respect to numerous lawsuits involving respirators sold by its predecessors, American Optical Corporation and Cabot Corporation, arising out of agreements entered into when the AOSafety(R) Division was sold by American Optical Corporation to Cabot in April 1990 and when later sold by Cabot to the Company in 1995. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators that were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, Cabot, American Optical Corporation and a prior owner of American Optical Corporation. Liability is allocated among the parties based on the number of years each Company owned the AOSafety Division and the alleged years of exposure of the individual plaintiff. The Company's share of the contingent liability is further limited by an agreement entered into between the Company and Cabot on July 11, 1995, as amended in 2002. This agreement provides that, so long as the Company pays to Cabot an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify the Company against, asbestos and silica-related legal claims asserted after July 11, 1995 and alleged to have arisen out of the use of respirators while exposed to asbestos or silica prior to January 1, 1997. To date, the Company has elected to pay the annual fee. The Company could potentially be liable for these exposures if the Company elects to discontinue its participation in this

arrangement, or if Cabot is no longer able to meet its obligations in these matters. With these arrangements in place, however, the Company's potential liability is limited to exposures alleged to have arisen from the use of respirators while exposed to asbestos or silica on or after January 1, 1997. The Company also may be responsible for certain claims relating to acquired companies other than the AOSafety(R) Division that are not covered by, and are unrelated to, the agreement with Cabot.

At September 30, 2002, the Company has recorded liabilities of approximately \$4.8 million, which represents reasonable estimates of its probable liabilities, for product liabilities substantially related to asbestos and silica-related claims as determined by the Company in consultation with an independent consultant. This reserve is re-evaluated periodically and additional charges or credits to operations may result as additional information becomes available. Consistent with the current environment being experienced by companies involved in asbestos and silica-related litigation, there has been an increase in the number of asserted claims that could potentially involve the Company. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos and silica-related litigation could increase the Company's cost over time. In light of these and other uncertainties inherent in making long-term projections, the

Company has determined that the five-year period through fiscal 2007 is the most reasonable time period for projecting asbestos and silica-related claims and defense costs. It is possible that the Company may incur liabilities in an amount in excess of amounts currently reserved. However, taking into account currently available information, historical experience, and the

Cabot agreement, but recognizing the inherent uncertainties in the projection of any future events, it is management's opinion that these suits or claims should not result in final judgments or settlements in excess of the Company's reserve that, in the aggregate, would have a material effect on the Company's financial condition, liquidity or results of operations.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended June 30, 2002

http://www.sec.gov/Archives/edgar/data/949957/000094995702000017/form10q_3rdfy02.txt

Filed On: August 12, 2002

Contingencies. Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims are product liability matters that arise out of the use of safety eyewear and respiratory product lines manufactured by the Company as well as products purchased for resale. In addition, the Company may be contingently liable with respect to numerous lawsuits involving respirators sold by its predecessors, American Optical Corporation and Cabot Corporation, arising out of agreements entered into when the AOSafety(R) Division was sold by American Optical Corporation to Cabot in April 1990 and when later sold by Cabot to the Company in 1995. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, Cabot, American Optical

Corporation and a prior owner of American Optical Corporation. Liability is allocated among the parties based on the number of years each company owned the AOSafety Division and the alleged years of exposure of the individual plaintiff. The Company's share of the contingent liability is further limited by an agreement entered into between the Company and Cabot whereby, so long as the Company pays to Cabot an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify the Company against, asbestos and silicosis related legal claims asserted after July 11, 1995 (the date of the Company's formation) alleged to arise out of the use of respirators manufactured prior to July 11, 1995. This annual fee was negotiated as part of the 1995 agreement between the Company and Cabot. To date, the Company has elected to pay the annual fee. The Company could potentially be liable for these exposures if the Company elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters. With these arrangements in place, however, the Company's potential liability is limited to exposures alleged to arise from the use of respirators

manufactured after July 11, 1995. The Company may also be responsible for certain claims of acquired companies other than the AOSafety(R) Division that are not covered by, and are unrelated to, the agreement with Cabot.

At June 30, 2002, the Company has reserved approximately \$5.0 million for product liabilities including those arising from asbestosis or silicosis litigation. The reserve is reevaluated periodically and may result in additional charges to operations if additional information becomes available. As is standard in the insurance industry, the Company's product liability insurance excludes asbestos and silicosis related respiratory claims. Therefore, the Company's accrual has not been reduced for estimated insurance recoveries. Consistent with the general environment experienced by other companies involved in asbestos-related litigation, there has been an increase in the number of asserted legal claims that could potentially involve the

Company. Since the Company, until recently, has not been directly named in the lawsuits, it has very little available information regarding specific numbers of claims that affect the Company directly. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos-related litigation could affect the Company's cost over time. However, it is management's opinion, taking into account currently available information, historical experience, uncertainties, the Cabot agreement and the Company's reserve, that these suits and claims should not result in final judgments or settlements that, in the aggregate, would have a material effect on the Company's financial condition or results of operation.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended March 31, 2002

http://www.sec.gov/Archives/edgar/data/949957/000094995702000014/form10q_0202.txt

Filed On: May 15, 2002

Contingencies. Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims are product liability matters that arise out of the use of safety eyewear and respiratory product lines manufactured by the Company as well as products purchased for resale. In addition, the Company may be contingently liable with respect to numerous lawsuits involving respirators sold by its predecessors, American Optical Corporation and Cabot Corporation, arising out of agreements entered into when the AOSafety(R) Division was sold by American Optical Corporation to Cabot in

April 1990 and when later sold by Cabot to the Company in 1995. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually

by the Company, Cabot, American Optical Corporation and a prior owner of American Optical

Corporation. Liability is allocated among the parties based on the number of years each company owned the AOSafety Division and the alleged years of exposure of the individual plaintiff. The Company's share of the contingent liability is further limited by an agreement entered into between the Company and Cabot whereby, so long as the Company pays to Cabot an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify the Company against, asbestos and silicosis related legal claims asserted after July 11, 1995 (the date of the Company's formation) alleged to arise out of the use of respirators manufactured prior to July 11, 1995. This annual fee was negotiated as part of the 1995 agreement between the Company and Cabot. To date, the Company has elected to pay the annual fee. The Company could potentially be liable for these exposures if the Company elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters. With these arrangements in place, however, the Company's potential liability is limited to exposures alleged to arise from the use of respirators manufactured after July 11, 1995. The Company may also be responsible for certain claims of acquired companies other than the AOSafety(R) Division that are not covered by, and are unrelated to, the agreement with Cabot.

At March 31, 2002, the Company has reserved approximately \$5.0 million for

product liabilities including those arising from asbestosis or silicosis litigation. The reserve is reevaluated periodically and may result in additional charges to operations if additional information becomes available. As is standard in the insurance industry, the Company's product liability insurance excludes asbestos and silicosis related respiratory claims. Therefore, the Company's accrual has not been reduced for estimated insurance recoveries. Consistent with the general environment experienced by other companies involved in asbestos-related litigation, there has been an increase in the number of asserted legal claims that could potentially involve the Company. Since the Company, until recently, has not been directly named in the lawsuits, it has very little available information regarding specific numbers of claims that affect the Company directly. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos-related litigation could affect the Company's cost over time. However, it is management's opinion, taking into account currently available information, historical experience, uncertainties, the Cabot agreement and the Company's reserve, that these suits and claims should not result in final judgments or settlements that, in the aggregate, would have a material effect on the Company's financial condition or results of operation.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended December 31, 2001

http://www.sec.gov/Archives/edgar/data/949957/000094995702000003/form_10q-0102.txt

Filed On: January 30, 2002

Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims relate to the Company's safety eyewear and respiratory product lines and primarily involve accidents and/or exposures occurring after the Company's Predecessor acquired the AOSafety(R) Division from American Optical Corporation in April 1990. The Company is contingently liable with respect to numerous lawsuits involving respirators sold by American Optical Corporation prior to the acquisition of the AOSafety(R) Division in April 1990. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators, which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, American Optical Corporation and a prior owner of American Optical Corporation. The Company and Cabot have entered into an arrangement whereby, so long as the Company pays to Cabot an annual fee of \$400,000, which the Company has elected to pay, Cabot will retain responsibility and liability for, and indemnify the Company against, certain legal claims asserted after July 11, 1995 (the date of the Company's formation) alleged to arise out of the use of respirators manufactured prior to July 1995. In addition, the Company may be responsible for claims alleged to arise

out of the use of respirators manufactured by the Company as well as products purchased for resale. The Company may also be responsible for certain claims of acquired companies other than the AOSafety(R) Division that are not covered by the management agreement with Cabot.

At December 31, 2001, the Company has reserved approximately \$5.0 million for product liabilities including those arising from asbestosis or silicosis litigation. The reserve is reevaluated periodically and may result in additional charges to operations if additional information becomes available. Consistent with the general environment experienced by other companies involved in asbestos-related litigation, there has been an increase in the number of asserted legal claims that could potentially involve the Company. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos-related litigation could affect the Company's cost over time. However, it is management's opinion, taking into account currently available information, historical experience, uncertainties, the Cabot agreement and the Company's reserve, that these suits and claims should not result in final judgments or settlements that, in the aggregate, would have a material effect on the Company's financial condition or results of operation.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended June 30, 2001

http://www.sec.gov/Archives/edgar/data/949957/000094995701500009/form10q_063001.txt

Filed On: August 14, 2001

Contingencies. Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims relate to the Company's safety eyewear and respiratory product lines and primarily involve accidents and/or exposures occurring after the Company's predecessor acquired the AOSafety(R) Division from American Optical Corporation in April 1990. The Company is contingently liable with respect to numerous lawsuits involving respirators sold by American Optical Corporation prior to the acquisition of the AOSafety(R) Division in April 1990. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, American Optical Corporation and a prior owner of American Optical Corporation. The Company and Cabot have entered into an arrangement whereby, so long as the Company pays to Cabot an annual fee of \$400,000, which the Company has elected to pay, Cabot will retain responsibility and liability for, and indemnify the Company against, certain legal claims asserted after July 11, 1995 (the date of the Company's formation) alleged to arise out of the use of respirators manufactured prior to July

1995. The Company has the right to discontinue the payment of such annual fee at any time, in which case the Company will assume responsibility for and indemnify Cabot with respect to such claims, however management intends to continue the annual payment of \$400,000 to Cabot. The Company may be responsible for claims alleged to arise out of the use of respirators manufactured by the Company as well as products purchased for resale. In addition, the Company may also be responsible for certain claims of acquired companies other than the AOSafety(R) Division that are not covered by the agreement with Cabot.

At June 30, 2001 the Company has reserved approximately \$4.7 million for product liabilities including those arising from asbestosis or silicosis litigation. The reserve is re-evaluated periodically and additional charges to operations may result as additional information becomes available. Consistent with the general environment being experienced by other companies involved in asbestos-related litigation, there has been an increase in the number of asserted legal claims that could potentially involve the Company. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos related litigation could affect the Company's cost over time. However, it is

management's opinion, taking into account currently available information, historical experience, uncertainties, the Cabot agreement, and the Company's reserve, that these suits and claims

should not result in final judgments or settlements that, in the aggregate, would have a material effect on the Company's financial condition or results of operation.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended March 31, 2001

http://www.sec.gov/Archives/edgar/data/949957/000094995701500004/form10q_033101.txt

Filed On: May 15, 2001

Contingencies. Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims relate to the Company's safety eyewear and respiratory product lines and primarily involve accidents and/or exposures occurring after the Company's predecessor acquired the AOSafety(R) Division from American Optical Corporation in April 1990. The Company is contingently liable with respect to numerous lawsuits involving respirators sold by American Optical Corporation prior to the acquisition of the AOSafety(R) Division in April 1990. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, American Optical Corporation and a prior owner of American Optical Corporation. The Company and Cabot have entered into an arrangement whereby, so long as the Company pays to Cabot an annual fee of \$400,000, which the Company has elected to pay, Cabot will retain responsibility and liability for, and indemnify the Company against, certain

legal claims asserted after July 11, 1995 (the date of the Company's formation) alleged to arise out of the use of respirators manufactured prior to July 1995. The Company has the right to discontinue the payment of such annual fee at any time, in which case the Company will assume responsibility for and indemnify Cabot with respect to such claims however, management intends to continue the annual payment of \$400,000 to Cabot. The Company may be responsible for claims alleged to arise out of the use of respirators manufactured by the Company as well as products purchased for resale. The Company may also be responsible for certain claims of acquired companies other than the AOSafety(R) division that are not covered by the agreement with Cabot.

At March 31, 2001 the Company has reserved approximately \$4.6 million for product liabilities including those arising from asbestosis or silicosis litigation. The reserve is re-evaluated periodically and additional charges to operations may result as additional information becomes available. Consistent with the general environment being experienced by other companies involved in asbestos-related litigation, there has been an increase in the number of asserted legal claims that could potentially involve the Company. Various factors increase the difficulty in determining the Company's potential liability, if any, in such claims, including

the fact that the defendants in these lawsuits are often numerous and the claims generally do not specify the amount of damages sought. Additionally, the bankruptcy filings of other companies with asbestos related litigation could affect the Company's cost over time. However, it is management's opinion, taking into

account currently available information, historical experience, uncertainties, the Cabot agreement, and the Company's reserve, that these suits and claims should not result in final judgments or settlements that, in the aggregate, would have a material effect on the Company's financial condition or results of operation.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended December 31, 2000

<http://www.sec.gov/Archives/edgar/data/949957/000095013501000574/b38322ace10-q.txt>

Filed On: February 14, 2001

Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims relate to the Company's safety eyewear and respiratory product lines and primarily involve accidents and/or exposures occurring after the Company's predecessor acquired the AOSafety(R) Division from American Optical Corporation in April 1990. The Company is contingently liable with respect to numerous lawsuits involving respirators sold by American Optical Corporation prior to the acquisition of the AOSafety(R) Division in April 1990. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators that were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, American Optical Corporation and a prior owner of American Optical Corporation. The Company and Cabot have entered into an arrangement relating to certain respirator claims asserted after July 11, 1995 (the date of the Company's

formation) whereby, so long as the Company pays to Cabot an annual fee of \$400,000, which the Company has elected to pay, Cabot will retain responsibility and liability for, and indemnify the Company against, certain legal claims alleged to arise out of the use of respirators manufactured prior to July 1995. The Company has the right to discontinue the payment of such annual fee at any time, in which case the Company will assume responsibility for and indemnify Cabot with respect to such claims.

As part of a trademark dispute with Moldex-Metric, Inc. involving the Company's "Yellow Neon Blasts"(TM) polyurethane earplugs, a federal district court in Southern California issued a preliminary injunction in October, 2000 that required the Company to immediately withdraw the current version of "Yellow Neon Blasts"(TM) polyurethane earplugs from the U.S. market, and to also advise its distributors to withdraw this product from the market, until the trademark issue could be resolved. In accordance with this ruling, the Company ceased manufacturing and distributing "Yellow Neon Blasts"(TM). The Company appealed the preliminary injunction and

the court granted a stay of the injunction pending appeal to the Ninth Circuit. "Yellow Neon Blasts"(TM) was introduced approximately one year ago as part of the Company's new line of polyurethane earplugs called E-A-Rsoft(TM). Over the twelve months prior to October 2000, "Yellow Neon Blasts"(TM) had accounted for approximately \$1 million of the Company's U.S. sales (the trademark dispute and the preliminary injunction do

not include the E-A-Rsoft(TM) "Yellow Neons"(TM) solidly colored earplugs or any other Company products). In December, 2000 the Company reached a non-cash settlement with Moldex-Metric, Inc. whereby the "Yellow Neon Blasts"(TM) would be taken off the market in the U.S. and Canada. In the opinion of management, this will not have a material impact on operations.

Asbestos Discussion from SEC filings:

From the Company's Form 10-K for the period ending September 30, 2000 at

<http://www.sec.gov/Archives/edgar/data/949957/000095013500005513/b37709ace10-k405.txt>

Filed On: December 22, 2000

Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims relate to the Company's safety eyewear and respiratory product lines and primarily involve accidents and/or exposures occurring after the Company's predecessor acquired the AO Safety(R) Division from American Optical Corporation in April 1990. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, American Optical Corporation and a prior owner of

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Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended June 30, 2000

<http://www.sec.gov/Archives/edgar/data/949957/000095013500003737/e10-q.txt>

Filed On: August 3, 2000

Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims relate to the Company's safety eyewear and respiratory product lines and primarily involve accidents and/or exposures occurring after the Company's predecessor acquired the AOSafety Division from American Optical Corporation in April 1990. The Company is contingently liable with respect to numerous lawsuits involving respirators manufactured by American Optical Corporation prior to the acquisition of the AOSafety Division in April 1990. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and

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Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended March 31, 2000

<http://www.sec.gov/Archives/edgar/data/949957/0000950135-00-002752-index.html>

Filed On: May 12, 2000

Various lawsuits and claims arise against the Company in the ordinary course of its business. Most of these lawsuits and claims relate to the Company's safety eyewear and respiratory product lines and primarily involve accidents and/or exposures occurring after the Company's predecessor acquired the AOSafety Division from American Optical Corporation in April 1990. The Company is contingently liable with respect to numerous lawsuits involving respirators manufactured by American Optical Corporation prior to the acquisition of the AOSafety Division in April 1990. These lawsuits typically involve plaintiffs alleging that they suffer from asbestosis or silicosis, and that such condition results in

part from respirators which were negligently designed or manufactured. The defendants in these lawsuits are often numerous, and include, in addition to respirator manufacturers, employers of the plaintiffs and manufacturers of sand (used in sand blasting) and asbestos. Responsibility for legal costs, as well as for settlements and judgments, is shared contractually by the Company, American Optical Corporation and a prior owner of American Optical Corporation. The Company and Cabot have entered into an arrangement relating to certain respirator claims asserted after July 11, 1995 (the date of the

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prior to July 1995. The Company has the right to discontinue the payment of such annual fee at any time, in which case the Company will assume responsibility for and indemnify Cabot with respect to such claims.

Asbestos-Related News:

[Aearo Pegs Asbestos, Other Liabilities at \\$4.8 Million \(Published December 27, 2002\)](#)