

## Ashland Inc

Ashland Inc. (NYSE: ASH)  
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 Website: <http://www.ashland.com>

Employees: 25,100  
 Revenue: \$ 5,648,000,000  
 Net Income: \$ 70,000,000  
 Assets: \$ 6,683,000,000  
 Liabilities: \$ 4,421,000,000  
 Estimated Asbestos Claims: 154,000  
 (For the nine months ended June 30, 2002)

Description: Ashland (NYSE:ASH) is approximately 24,000 customer-focused people working to bring superior product and service solutions to industries and consumers around the world. With annual sales and operating revenues of \$8 billion, we are market leaders in highway construction, chemical and thermoplastic distribution, specialty chemicals, motor oil and car-care products. We also have an equity interest in petroleum refining and marketing. A Fortune 500 company based in Covington, Ky., we have sales in more than 140 countries. We've come a long way since we started in 1924 as a regional petroleum refiner. Despite our growth, and thanks to our vision, we have a strong sense of who we are, and an unyielding commitment to how we want to practice business.

### Asbestos Discussion from SEC filings:

From the Company's Form 10-K for the period ending December 30, 2002 at  
<http://www.sec.gov/Archives/edgar/data/7694/000000769402000187/finalk.txt>  
 Filed On: December 3, 2002

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Those claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation ("Riley"), a former subsidiary. Although Riley was neither a producer nor a manufacturer of asbestos, its industrial boilers contained some asbestos-containing components produced by other companies.

A summary of asbestos claims activity follows. Because claims are frequently filed and settled in large groups, the amount and timing of settlements, and the number of open claims, can fluctuate

significantly from period to period. Over the last 17 years, Riley has been dismissed as a defendant in 55% of the resolved claims.

(In Thousands)	2002	2001	2000
Open claims beginning of year	167	118	93
New claims filed	45	52	37
Claims settled	(15)	(2)	(9)
Claims dismissed	(37)	(1)	(3)
Open claims – end of year	160	167	118

Amounts spent on litigation defense and claim settlements totaled \$38 million in 2002, \$15 million in 2001 and \$11 million in 2000. Insurance provides reimbursements for most of these

costs, and coverage-in-place agreements exist with the insurance carriers that provide substantially all of the coverage that is currently being accessed. The amounts not recoverable are generally due from insurers that are insolvent, rather than as a result of uninsured claims or the exhaustion of the insurance coverage.

In previous years, Ashland recognized a net reserve for the estimated litigation defense and claim settlement costs to settle open claims that would not be recovered from insolvent insurance carriers. However, the reserve and related receivable are now presented on a gross basis in Ashland's consolidated balance sheet at September 30, 2001, to conform to the 2002 presentation. This change did not result from an increase in expected asbestos exposure, and had no effect on net income or stockholders' equity. Under this presentation, the reserve for asbestos claims amounted to \$202 million at September 30, 2002, and \$199 million at September 30, 2001. Such reserve reflects the estimated costs on an undiscounted basis that will be incurred over an extended period to resolve open claims. In addition, the receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to \$196 million at September 30, 2002, and \$178 million at September 30, 2001.

The reserve for asbestos claims is based on assumptions and estimates derived from currently known facts. However, projecting future events, such as the average cost of resolving the open claims, is subject to numerous variables that are extremely difficult to predict. These variables include the type and severity of the disease alleged by each claimant, dismissal rates, future costs of medical treatment, the impact of

bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards.

Ashland believes that insurance will cover the majority of the costs that will be incurred on open and future asbestos claims. Equitas Limited ("Equitas") and other London companies currently provide about 59% of the insurance coverage, and this percentage could decline over time to around 44% if higher layers of coverage provided by other carriers have to be accessed. The remaining 41% of the coverage is currently provided by five companies, all of which are rated A or higher by A. M. Best Company. Depending upon the level of costs that are ultimately incurred, the non-London coverage could ultimately expand to about 25 insurance companies or groups. Companies or groups that provide about 90% of this coverage are also rated A or higher.

Ashland has not recognized a reserve for future asbestos claims that may be asserted. Although additional claim filings are expected, Ashland does not have sufficient information to make a reasonable estimate of the number of new claims that might be filed. Furthermore, any predictions about the other variables discussed previously are subject to even greater uncertainty as the projection period lengthens. Ashland has retained the services of professional advisors to assist management in the estimation of projected liabilities and probable insurance recoveries for future asbestos claims. Results of that effort are expected to be available during the quarter ending March 31, 2003.

Although coverage limits are resolved in the coverage-in-place agreement with Equitas and the other London companies, there is a disagreement with these companies over the timing of recoveries. Depending upon the assumptions made with respect to the projected payments to settle future claims, an unfavorable

resolution of this disagreement could materially affect the present value of additional insurance recoveries from those companies. Until such time as this disagreement is resolved, Ashland will use the less favorable interpretation of this agreement in estimating such insurance recoveries.

**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/7694/000000769403000043/marydoc.txt>

Filed On: May 13, 2003

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Virtually all of those liabilities result from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary. Although Riley was neither a producer nor a manufacturer of asbestos, its industrial boilers contained some asbestos-containing components provided by other companies.

A summary of asbestos claims activity follows. Because claims are frequently filed and settled in large groups, the amount and timing of settlements, as well as the number of open claims, can fluctuate significantly from period to period.

Since October 1, 1999, Riley has been dismissed as a defendant in 64% of the resolved claims. Amounts spent on litigation defense and claim settlements totaled \$26 million for the six months ended March 31, 2003, compared to annual costs of \$38 million in 2002, \$15 million in 2001 and \$11 million in 2000.

During the December 2002 quarter, Ashland increased its reserve for asbestos

claims by \$390 million to cover the litigation defense and claim settlement costs expected to be paid during the next ten years. The reserve was further increased by \$14 million during the quarter ended March 31, 2003, to maintain the reserve at a level adequate to cover future payments over a rolling 10-year period. Prior to December 31, 2002, the asbestos reserve was based on the estimated costs that would be incurred to settle open claims. The estimates of future asbestos claims and related costs were developed with the assistance of Hamilton, Rabinovitz & Alschuler, Inc. (HR&A), nationally recognized experts in that field. Reflecting the additional provisions, Ashland's reserve for asbestos claims on an undiscounted basis amounted to \$580 million at March 31, 2003, compared to \$201 million at March 31, 2002.

The methodology used by HR&A to project future asbestos costs was based largely on Ashland's recent experience, including claim-filing and settlement rates, disease mix, open claims, and litigation defense and claim settlement costs. Ashland's claim experience was compared to the results of previously conducted epidemiological studies estimating the

number of people likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population expected to have been exposed to asbestos. Using that information, HR&A estimated the number of future claims that would be filed, as well as the related costs that would be incurred in resolving those claims.

However, projecting future asbestos costs is subject to numerous variables that are extremely difficult to predict. In addition to the significant uncertainties surrounding the number of claims that might be received, other variables include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards.

**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/7694/000000769403000022/totaldoc.txt>

Filed On: February 13, 2003

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Virtually all of those liabilities result from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary. Although Riley was neither a producer nor a manufacturer of asbestos, its industrial boilers contained some asbestos-containing components provided by other companies.

Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, Ashland believes that ten years is the most reasonable period for recognizing a reserve for future costs, and that costs that might be incurred after that period are not reasonably estimable.

Because insurance provides reimbursements for most of these costs and coverage-in-place agreements exist with the insurance companies that provide substantially all of the coverage currently being accessed, the current year increases in the asbestos reserve are expected to be offset in part by probable insurance recoveries valued at \$242 million. At March 31, 2003, Ashland's receivable for recoveries of such costs from its insurers amounted to \$419 million, of which \$28 million relates to costs previously paid. Receivables from insurance companies amounted to \$190 million at March 31, 2002.

A summary of asbestos claims activity follows. Because claims are frequently filed and settled in large groups, the amount and timing of settlements, as well as the number of open claims, can fluctuate significantly from period to period. Claims filed in Mississippi amounted to 65% of the total in the quarter ended December 31, 2002, compared to 35%

during the last three years. Ashland believes the increase in the Mississippi percentage and the higher claim-filing rate resulted from tort reform legislation in that state that became effective on January 1, 2003.

During the December 2002 quarter, Ashland increased its reserve for asbestos claims by \$390 million to cover the litigation defense and claim settlement costs expected to be paid during the next ten years. Prior to December 31, 2002, the asbestos reserve was based on the estimated costs that would be incurred to settle open claims. The estimates of future asbestos claims and related costs were developed with the assistance of Hamilton, Rabinovitz & Alschuler, Inc. (HR&A), nationally recognized experts in that field. Reflecting the additional provision, Ashland's reserve for asbestos claims on an undiscounted basis

amounted to \$575 million at December 31, 2002, compared to \$203 million at December 31, 2001.

The methodology used by HR&A to project future asbestos costs was based largely on Ashland's recent experience, including claim-filing and settlement rates, disease mix, open claims, and litigation defense and claim settlement costs. Ashland's claim experience was compared to the results of previously conducted epidemiological studies estimating the number of people likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population expected to have been exposed to asbestos. Using that information, HR&A estimated the number of future claims that would be filed, as well as the related costs that would be incurred in resolving those claims.

**Asbestos-Related News:**

[Ashland Inc. Reports Loss on Asbestos Litigation \(Published January 31, 2003\)](#)

[Reports US\\$28 Million in Asbestos Liabilities, Expenses \(Published September 06, 2002\)](#)