

FOR THE DISTRICT OF DELAWARE

In re:)	Chapter 11
)	
ACandS, Inc.,)	Case No. 02-12687 (JKF)
)	
Debtor.)	

**Objection Deadline: August 17, 2007 at 4:00 p.m. Prevailing Eastern Time
Hearing Date: August 28, 2007 at 3:00 p.m. Prevailing Eastern Time (in Pittsburgh, PA)**

**NOTICE OF DEBTOR’S MOTION FOR APPROVAL OF
SETTLEMENT AND BUYBACK AGREEMENT AMONG
TRAVELERS, ACANDS PARTIES, AND CERTAIN OTHER PARTIES**

TO: (1) the U.S. Trustee; (2) counsel for the Committee; (3) counsel for the Legal Representative; (4) counsel for Travelers; (5) counsel for the ACandS Parties; (6) counsel for the Irex Entities; (7) those parties set forth on ACandS’s Bankruptcy Rule 2002 service list; (8) those law firms that represent asbestos personal injury claimants that have filed 2019 statements in ACandS’s bankruptcy case; (9) additional law firms that represent asbestos personal injury claimants of which the Debtor is aware that have not (a) filed an entry of appearance in ACandS’s bankruptcy case and/or (b) filed a 2019 statement in ACandS’s bankruptcy case; and (10) all known asbestos property damage claimants with Claims against ACandS.

ACandS, Inc. (the “Debtor”), the debtor and debtor-in-possession in the above-captioned case, has filed the attached *Debtor’s Motion for Approval of Settlement and Buyback Agreement Among Travelers, ACandS Parties, and Certain Other Parties* (the “Motion”). Pursuant to the Motion, the Debtor seeks the entry of an order (the “Approval Order”) approving a settlement agreement (the “Settlement Agreement”) among: the Debtor; certain of its affiliates (the “ACandS Parties”); certain of its former affiliates (the “Former Irex Entities”); certain other entities (all as more fully set forth and defined in the Settlement Agreement); and The Travelers Indemnity Company, Travelers Casualty and Surety Company (f/k/a The Aetna Casualty and

Date 7-9-07
Docket # 2864

Surety Company), The Standard Fire Insurance Company, St. Paul and Marine Insurance Company, United States Fidelity and Guaranty Company, and certain of their affiliates (collectively and as further defined in the Settlement Agreement, "Travelers"). As part of the Settlement, the Approval Order will authorize and approve the sale of certain insurance policies issued by Travelers (the "Travelers Insurance Policies," as defined in the Settlement Agreement), free and clear of any and all claims, liens, encumbrances and interest of any kind, to Travelers.

Any response or objection to the Motion must be filed with the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801 on or before August 17, 2007 by 4:00 p.m. Prevailing Eastern Time. At the same time, you must also serve a copy of the objection or response on: (i) counsel for the Debtor, Pachulski Stang Ziehl Young Jones & Weintraub LLP, Attn: Laura Davis Jones, Esquire, 919 North Market Street, 17th Floor, P.O. Box 8705, Wilmington, Delaware 19899-8705; (ii) The Office of the United States Trustee, Attn: Richard Schepacarter, Esquire, J. Caleb Boggs Federal Building, 844 King Street, Wilmington, Delaware 19801; (iii) Counsel to the Official Committee of Asbestos Personal Injury Claimants: (A) Campbell & Levine, LLC, Attn: Marla Eskin, Esquire, 800 North King Street, Suite 300, 3rd Floor, Wilmington, Delaware 19801, (B) Campbell & Levine, LLC, Philip E. Milch, Esquire, 1700 Grant Building, Pittsburgh, Pennsylvania 15219, and (C) Elihu Inselbuch, Esquire, Caplin & Drysdale, Chartered, 399 Park Avenue, 27th Floor, New York, New York 10022; (iv) Insurance Counsel for the Debtor, Gilbert Randolph LLP, Attn: David B. Killalea, Esquire, 1100 New York Ave. NW, Suite 700, Washington, D.C. 20005-3324; and (v) Counsel to the Future Claimants Representative, Edwin J. Harron, Esquire,

Young Conaway Stargatt & Taylor LLP, 1000 West Street, 17th Floor, P.O. Box 391,
Wilmington, Delaware 19899-0391.

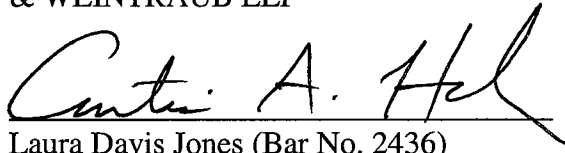
IF YOU FAIL TO TIMELY RESPOND IN ACCORDANCE WITH THIS
NOTICE, THE COURT MAY GRANT THE RELIEF DEMANDED BY THE MOTION
WITHOUT FURTHER NOTICE OR HEARING.

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IF OBJECTIONS OR RESPONSES ARE TIMELY FILED AND SERVED IN ACCORDANCE WITH THIS NOTICE, A HEARING ON THE MOTION WILL BE HELD ON AUGUST 28, 2007 AT 3:00 P.M. PREVAILING EASTERN TIME BEFORE THE HONORABLE JUDITH K. FITZGERALD, AT THE UNITED STATES BANKRUPTCY COURT, LOCATED AT 5490 US STEEL TOWER, 600 GRANT STREET, PITTSBURGH, PA 15219.

Dated: July 9, 2007

PACHULSKI STANG ZIEHL YOUNG JONES
& WEINTRAUB LLP

A handwritten signature in black ink, appearing to read "Curtis A. Hehn", written over a horizontal line.

Laura Davis Jones (Bar No. 2436)

David M. Bertenthal (CA Bar No. 167624)

Curtis A. Hehn (Bar No. 4264)

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Counsel for ACandS, Inc.,

Debtor and Debtor in Possession

U.S. BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re:)
) Chapter 11
)
ACandS, INC.)
) Case No. 02-12687 (JKF)
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Debtor-in-Possession)

Objection Deadline: August 17, 2007, 2007 at 4:00 p.m.
Hearing Date: August 28, 2007, 2007 at 3:00 p.m.

**DEBTOR'S MOTION FOR APPROVAL OF SETTLEMENT AND
BUYBACK AGREEMENT AMONG TRAVELERS,
ACANDS PARTIES, AND CERTAIN OTHER PARTIES**

ACandS, Inc. ("ACandS" or "Debtor") respectfully submits this motion (the "Motion") for approval of (1) the Settlement and Policy Buyback Agreement, Release, and Covenant Not To Sue (the "Agreement" or the "Settlement and Buyback Agreement," attached hereto as Exhibit 1, by and among the Debtor, the ACandS Parties, Irex, the Former Irex Entities, the Official Committee of Unsecured Creditors (the "ACC"), the Legal Representative for Future Claimants (the "FCR"), and Travelers (collectively, the "Parties") and all exhibits thereto (including, without limitation, the Trustee's Consent and Mutual Release (attached as Exhibit F to the Agreement)), (2) the sale of the Travelers Insurance Policies free and clear of all liens, claims, encumbrances and interests, with all rights in the Travelers Insurance Policies attaching to the Settlement and Buyback Amount, and (3) the Escrow Agreement (the "Escrow Agreement" (attached as Exhibit D to the Agreement)).¹

The Settlement and Buyback Agreement constitutes a critical step towards the successful resolution of the Debtor's bankruptcy case. Among other things, the Agreement resolves over

¹ Capitalized terms not defined herein shall have the defined meanings set forth in the Agreement.

twenty-five years of heavily-litigated disputes with Travelers, the Debtor's most significant insurer, over coverage that the Debtor believes to be its most valuable asset. Subject to the satisfaction of certain conditions precedent, the Agreement will bring into the estate \$449,000,000 (plus investment income earned beginning shortly after the Approval Order is entered). The Debtor will soon file a plan of reorganization that is consistent with the Agreement, and Travelers will not object to or oppose that plan. Travelers will also withdraw its proof of claim in ACandS's Chapter 11 case. As a result of these and other important benefits, the Settlement and Buyback Agreement marks significant progress in the Debtor's efforts to confirm a plan of reorganization.

Absent this Agreement, the Debtor faces significant risks in litigation with Travelers and in concluding a successful bankruptcy case. Although ACandS believes that Travelers is obligated under the Travelers Insurance Policies to pay substantial amounts for ACandS's asbestos-related liabilities, Travelers asserts multiple coverage defenses, at least some of which, if successful, would eliminate all coverage under the Travelers Insurance Policies. Further, Travelers has filed a claim in the bankruptcy case asserting, among other things, that ACandS owes Travelers millions of dollars that Travelers believes it overpaid to ACandS prior to the bankruptcy filing. Since 2000, ACandS and Travelers have litigated various disputes in six federal district court cases, as well as in the U.S. Court of Appeals for the Third Circuit, the U.S. Supreme Court, at least one state court, multiple alternative dispute resolution proceedings, and through proceedings in this Court. The litigations involve substantial risks to both parties, including the possibility that, absent the Agreement, Travelers would have no further obligation to ACandS.

During the course of their extensive litigation, ACandS and Travelers have continued to explore settlement possibilities through numerous, protracted and often contentious negotiations, dating back to at least 1999, to resolve finally all their disputes. These negotiations followed a number of other settlement agreements entered into between ACandS and Travelers from 1985 through 1989 that resolved important disputes and other litigation, but left a number of vital issues open for future resolution. Since 2000, while engaged in hard-fought and multi-forum litigation, ACandS and Travelers engaged the services of three prominent mediators to facilitate their settlement efforts of those remaining open issues. Some of the prior efforts came close to producing a final resolution, but none was consummated. Now, after having invested hundreds of additional hours of their principals' and outside counsel's time, and having directly involved both the ACC and the FCR – both of which are parties to the Agreement – in the negotiation process, ACandS's and Travelers' difficult and lengthy negotiations have produced a final resolution of all of their disputes that secures meaningful relief for the creditors of the Debtor's estate.

To ensure that the estate enjoys the considerable benefits to be provided under the Agreement and to avoid the material risks to the estate were the Debtor to litigate the compromised issues to conclusion, the Debtor respectfully requests that this Court approve the Settlement and Buyback Agreement, the sale of the Travelers Insurance Policies back to Travelers, and the Escrow Agreement.

JURISDICTION

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This Motion presents a core proceeding pursuant to 28 U.S.C. §§ 157(b)(2)(A), (M), (N) and (O). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

2. The basis for the relief requested is, among other things, 11 U.S.C. §§ 105(a), 363(b) and (f), 1107, and 1108 and Rules 2002, 6004, 9014, and 9019(a) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

BACKGROUND

The Debtor’s Bankruptcy Petition

3. On September 16, 2002 (the “Petition Date”), the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code.
4. The Debtor continues in possession of its properties and is operating and managing its businesses as a debtor and debtor in possession pursuant to 11 U.S.C. §§ 1107 and 1108.

Asbestos Claims

5. As of September 2002, the Debtor faced approximately 300,000 asbestos claims seeking damages for bodily injuries allegedly caused by exposure to asbestos fibers in insulation products used at one time by the Debtor in its business.
6. When ACandS filed for protection under the Bankruptcy Code, it expected that new asbestos claims would continue to be filed against it and that it would continue to incur costs to administer, evaluate, defend, and settle or pay judgments on account of such asbestos claims.
7. In the approximately six months before its bankruptcy filing, ACandS settled approximately 200,000 asbestos-related personal injury claims that have not been paid.

The Travelers Policies and the Coverage Disputes

8. Prior to the Execution Date, Travelers issued or allegedly issued the Travelers Insurance Policies, which ACandS alleges provide insurance coverage to ACandS and, in some circumstances, to ACandS Parties and/or Former Irex Entities.

9. ACandS and Travelers Casualty and Surety Company are signatories to the Agreement Concerning Asbestos-Related Claims dated June 19, 1985 (the “Wellington Agreement”) and the Letter Agreement dated October 24, 1988 (the “1988 Agreement”). ACandS and The Travelers Indemnity Company are parties to two Settlement Agreements dated March 31, 1989 and April 4, 1989 (the “1989 Agreements”). The Wellington Agreement, the 1988 Agreement, and the 1989 Agreements resolve, among other things, certain disputes concerning insurance coverage for Asbestos-Related Claims.
10. The main policies at issue in the disputes are 1976, 1977, 1978 and 1979 primary insurance policies that Travelers issued to ACandS. ACandS contends that these policies provide two fundamental types of coverage potentially applicable to asbestos claims. One coverage extends to liabilities of ACandS arising out of the policies’ “products” or “completed operations” hazards, as those hazards are defined in the policies (“products/completed operations”). Coverage for products/completed operations claims generally are subject to aggregate limits. The other type of coverage extends to all liabilities that do not arise under the specifically-defined products or completed operations hazards, and is generally known as “general liability,” “operations,” or “non-products” coverage (for ease of reference, “non-products”). ACandS contends that these four primary Travelers Insurance Policies contain no aggregate limits applicable to non-products asbestos claims, and that such coverage should be available to pay much of ACandS’s asbestos-related liabilities. Travelers disagrees, and contends that it owes no further obligation to ACandS, and that ACandS owes it millions of dollars for excess payments that Travelers previously made to or on behalf of ACandS.

11. ACandS and Travelers have litigated many complicated, time-consuming coverage disputes over the course of more than 25 years. Several such disputes currently are pending that could have a tremendous impact on the respective rights and obligations of ACandS and Travelers concerning insurance coverage for asbestos-related claims (collectively, the “Coverage Disputes”). The Coverage Disputes include pending litigation between Travelers and ACandS (and in one instance certain other parties) in multiple civil actions (the “Litigations”).
12. Since 2000, ACandS and Travelers have litigated in six federal district court cases, as well as in the U.S. Court of Appeals for the Third Circuit, the U.S. Supreme Court, at least one state court, multiple alternative dispute resolution proceedings and through proceedings before this Court. Several of the most significant pending Litigations between ACandS and Travelers are described below.

Number of Occurrences Litigation

13. In September 2000, ACandS initiated litigation against Travelers in the U.S. District Court for the Eastern District of Pennsylvania (the “Number of Occurrences Litigation”) seeking a declaration that each of the 1976, 1977, 1978 and 1979 primary Travelers Insurance Policies provides up to \$1 million in coverage for each non-products asbestos-related bodily injury claim, to which no overall aggregate limit applies under the terms of the policies.
14. By order dated September 8, 2004, the District Court dismissed the Number of Occurrences Litigation as moot based on the result in the Non-Products ADR Proceeding (described below). ACandS appealed the District Court’s decision to the U.S. Court of Appeals for the Third Circuit, which issued an opinion on January 19, 2006 vacating the

District Court's order. *See ACandS, Inc. v. Travelers Casualty & Surety Co.*, 435 F.3d 252 (3d Cir. 2006). Travelers filed a petition for a writ of certiorari to the U.S. Supreme Court, which ACandS opposed and which was denied on May 22, 2006. The case was remanded to the District Court on May 26, 2006 to proceed on the merits.

15. ACandS believes that it has very strong arguments based on the policies, the parties' course of conduct under the policies, and the case law to support its position that the policies provide up to \$1 million in coverage for each non-products asbestos-related bodily injury claim. Travelers believes it has very strong defenses to ACandS's claims and that it has no further obligations under its policies.
16. If the Settlement and Buyback Agreement is not approved, Travelers can be expected to continue to litigate this proceeding vigorously. One potential outcome of the Number of Occurrences Litigation is that Travelers, if successful in prosecuting its defenses, would owe no further coverage to ACandS, regardless of the outcome of any other proceeding.

Non-Products Percentage Arbitration

17. At the end of January 2001, ACandS initiated a binding arbitration proceeding (the "Non-Products ADR Proceeding") against Travelers in which ACandS sought a determination pursuant to the 1988 Agreement that over 90 percent of ACandS's losses and defense costs arising from asbestos-related bodily injury claims are properly characterized as non-products claims that are not subject to any overall aggregate limit under the same four primary Travelers Insurance Policies at issue in the Number of Occurrences Litigation. The proceeding was tried in April and May 2003 before a three-judge arbitration panel. On July 31, 2003, a divided panel issued a decision (the "Award"). The parties disagreed over the meaning and impact of the Award. ACandS contended that, to the extent that

the terms of the Award were upheld, there would be no allocation of ACandS's future asbestos-related liabilities to Travelers non-products coverage under the four policies at issue, but that 45 percent of all liability and defense expenditures paid or incurred before the decision was issued would be covered under the non-products coverage afforded without aggregate limits under those policies. Travelers contended that, to the extent that the terms of the Award were upheld, Travelers would have no further obligations to ACandS.

18. On October 30, 2003, ACandS filed a motion to vacate the arbitration Award in the U.S. District Court for the Eastern District of Pennsylvania, arguing that the arbitral majority lacked authority to render a decision that reduced Travelers' coverage obligations to ACandS (or that, according to Travelers, eliminated those obligations completely), and that the majority also acted in violation of the automatic stay imposed by section 362(a) of the Bankruptcy Code by awarding such affirmative relief to Travelers at the expense of ACandS's estate. By order dated September 8, 2004, the District Court denied ACandS's motion to vacate. ACandS appealed that decision to the U.S. Court of Appeals for the Third Circuit, which in the same opinion referenced above reversed the District Court's decision and remanded with instructions to vacate the Award. *See ACandS, Inc. v. Travelers Casualty & Surety Co.*, 435 F.3d 252 (3d Cir. 2006). Travelers subsequently filed a petition for a writ of certiorari with the U.S. Supreme Court, which ACandS opposed and which was denied on May 22, 2006. On May 26, 2006, the case was remanded to the District Court with instructions to vacate the arbitration Award.
19. Travelers continues to argue that, under the terms of the Award and the applicable contracts and law, and the Third Circuit's decision notwithstanding, it has no further

obligations to ACandS. If the Settlement and Buyback Agreement is not approved, Travelers can be expected to continue to vigorously litigate this dispute. One potential outcome of litigation over non-products issues is that Travelers would owe no further coverage obligation to ACandS, regardless of the outcome of any other proceeding.

Fraudulent Conveyance Action

20. In April 2002, Travelers filed an action in the U.S. District Court for the Eastern District of Pennsylvania against ACandS, Irex, certain Former Irex Entities, and the Pre-Petition Trustee (the “Fraudulent Conveyance Action”). In the Fraudulent Conveyance Action, Travelers alleges that the spin-off of Former Irex Entities from Irex, certain other pre-petition corporate transactions, and certain agreements entered into pre-petition in connection with the settlement of asbestos claims were fraudulent conveyances made to hinder the recovery of ACandS’s creditors, allegedly including Travelers. ACandS and the other defendants vigorously defended against those allegations. The Fraudulent Conveyance Action has been stayed as a consequence of ACandS’s bankruptcy filing.
21. ACandS believes that the spin-off of Former Irex Entities from Irex and the other transactions at issue were not fraudulent conveyances, and indeed introduced testimony during prior proceedings during this bankruptcy case (including at the confirmation hearing) demonstrating the lack of merit to Travelers’ claims. Nevertheless, if the Settlement and Buyback Agreement is not approved, Travelers can be expected to continue to litigate these issues vigorously in the context of ACandS’s bankruptcy case or in another court.

Other Potential Subjects of Litigation

22. Travelers has questioned the validity of the settlement agreements negotiated between ACandS and certain asbestos claimants pre-petition. Travelers may contend that the settlements are without legal effect for several reasons, including based on its allegations that the settlements were unreasonable and that the negotiation process and ACandS's processing of claims submitted pursuant to the settlements were improper. Accordingly, Travelers may contend that it has no further coverage obligations with respect to such settlements. ACandS believes it has strong defenses to such allegations, but, absent approval of the Agreement, it is likely that there would be substantial, time-consuming and expensive litigation with Travelers over such issues.

Bankruptcy Litigation

23. Travelers objected to many aspects of ACandS's proposed plan of reorganization filed on October 9, 2003 [Docket No. 734] (the "Initial Plan"), and, after a hearing, the bankruptcy court concluded that the Initial Plan should not be confirmed. The Court's recommendation is the subject of objections pursuant to Rule 9033 filed with the District Court by the Debtor, the ACC and the FCR, as well as an appeal to the District Court filed by the same parties. ACandS intends to file a new reorganization plan even if the Settlement and Buyback Agreement is not approved, but in that circumstance Travelers is likely to object to many features of any plan that ACandS files. Travelers also has filed a proof of claim in this Chapter 11 case, and therefore arguably would have standing to raise issues even beyond those affecting Travelers as an insurer. Absent approval of the Agreement, it is likely that Travelers would seek to engage in extensive, time-consuming,

and expensive litigation concerning confirmation and other bankruptcy issues and that Travelers would continue to seek payment on its alleged claim against ACandS.

THE SETTLEMENT AND BUYBACK AGREEMENT²

Negotiations

24. ACandS and Travelers have entered into at least four prior settlement agreements that resolved some of their disagreements: the Wellington Agreement, the Letter Agreement, and the 1989 Agreements. Nevertheless, many disputes subsequently have arisen between ACandS and Travelers, and they have engaged in hard-fought negotiations over many years in an attempt to resolve those remaining disputes. Indeed, ACandS and Travelers have engaged in negotiations, on and off, since at least 1999. To facilitate the negotiations, ACandS and Travelers at different times engaged the services of at least three prominent mediators: University of Michigan Law School Professor James White, Harvard Law School Professor Robert Mnookin, and David Geronemus of JAMS. Although certain of these prior efforts came close to producing a final resolution, none was consummated.
25. The principals and outside counsel for both ACandS and Travelers have spent hundreds of hours in the negotiations that have led directly to the Settlement and Buyback Agreement. In addition, the ACC, the FCR, Irex, the Former Irex Entities and the Pre-Petition Trustee have participated extensively in the discussions. Indeed, the ACC, the

² This summary of material terms of the Settlement and Buyback Agreement has been included for the convenience of the parties receiving this Motion. It in no way alters, changes or amends the actual terms set forth in the Settlement and Buyback Agreement itself. In the event that there are any inconsistencies between this summary and the Settlement and Buyback Agreement, the language set forth in the Settlement and Buyback Agreement controls.

FCR, Irex, and the Former Irex Entities are parties to the Settlement and Buyback Agreement, and the Pre-Petition Trustee expressly has consented to the Agreement.

Overview of the Settlement Agreement

26. To avoid the expense, inconvenience, disruption, burden, uncertainty, and delay of litigation, and strictly as a compromise of disputed claims, the parties decided fully and finally (a) to settle fully and finally and to compromise the Coverage Disputes in accordance with the terms of the Agreement; (b) to resolve Travelers' potential objections to ACandS's plan of reorganization; (c) to resolve Travelers' obligations under the Travelers Insurance Policies; (d) to resolve Travelers' obligations for Asbestos-Related Claims, Asbestos-Related Property Damage Claims, Non-Asbestos Related Claims, and the ACandS/Travelers Insurer Actions; (e) to resolve Claims that could arise between (i) the ACandS Entities or the Former Irex Entities and (ii) Travelers, concerning the Insurance Relationship, including any acts or omissions by, or obligations of, Travelers, the ACandS Entities or Former Irex Entities arising from or relating thereto; (f) to resolve the Coverage Disputes, including the Litigations, and certain other proceedings between the Travelers Companies and ACandS Parties; (g) to effect the sale to Travelers of all rights, titles and interests in the Travelers Insurance Policies; (h) to supersede and replace with the Agreement all prior settlements and agreements (except as expressly provided in the Agreement) of any form, substance or nature between any of the Parties concerning, related to, or arising from the Travelers Insurance Policies; and (i) to resolve certain other and further disputes, each as set forth in the Agreement.
27. As discussed more fully below, the Settlement and Buyback Agreement includes, among other things, provisions regarding settlement payments to be made by Travelers (Section

III of the Agreement), the releases made by the parties (Section VII of the Agreement), and bankruptcy-related and Litigation-related relief to be provided to the parties (Section V of the Agreement). As discussed more fully below, the Agreement is conditioned on the satisfaction of certain conditions precedent (Section II of the Agreement).

Payment of Settlement and Buyback Amount

28. As described in Section III of the Agreement and in the Escrow Agreement, the Settlement and Buyback Agreement provides that, if the Agreement is approved, within five (5) Business Days of this Court's entry of the Approval Order, Travelers will pay \$449,000,000 (the "Settlement and Buyback Amount") to an escrow agent to be held in escrow subject to the Escrow Agreement (Exhibit D to the Agreement). The Escrow Agreement is to be entered into by Travelers and ACandS, with the consent of the ACC, the Legal Representative and the Pre-Petition Trustee. The Settlement and Buyback Amount will be invested pursuant to conservative investment guidelines, which are described in Schedule 1 to the Escrow Agreement. Among other terms, the Escrow Agreement provides that upon the satisfaction of the Agreement's conditions precedent, the Settlement and Buyback Amount, together with any earnings thereon (net of any fees and taxes on such earnings), shall be paid to the ACandS Settlement Trust.³

Conditions Precedent and Trigger Date

29. Under the Agreement, the "Trigger Date" is the "date on which all of the conditions precedent set forth in Section II of [the] Agreement have occurred." (Agreement § I.XX). As described fully in Section II of the Agreement, those conditions include,

³ The Settlement and Buyback Amount, together with any net earnings, will be returned to Travelers if the Agreement terminates pursuant to its terms. (Agreement § IV.B(ii).)

among other things, that a plan of reorganization has become effective that satisfies specified conditions (such as (1) the designation of Travelers as a Settling Asbestos Insurance Company, (2) the provision of certain injunctive protection for Travelers that is at least as comprehensive as described in Exhibit C to the Agreement (the “Travelers-Related Injunctions’) and injunctive protection for Irex and Former Irex-Related Entities, who are releasing certain rights as potential insureds under the Travelers Policies, as described in Exhibit G to the Agreement (the “Irex and Former Irex-Related Entities Injunctions”); and (3) the effectuation of the sale back to Travelers of the Travelers Insurance Policies pursuant to section 363 of the Bankruptcy Code, including the issuance of the 363 Injunction). Section II also requires as a condition precedent that the Plan and Confirmation Order shall (a) have the effect of prohibiting any Entity at any time, without Travelers’ written consent, from changing, terminating, reducing or limiting the scope of (1) the Travelers-Related Injunctions, (2) the 363 Injunction, or (3) the releases provided to Travelers in the Agreement and in the Plan; and (b) provide that all of the obligations and rights of ACandS under the Settlement and Buyback Agreement are binding on and inure to the benefit of the ACandS Asbestos Settlement Trust and the ACandS Asbestos Settlement Trustee, and fully bind the ACandS Asbestos Settlement Trust and the ACandS Asbestos Settlement Trustee to all of the terms and conditions of the Agreement.

Buyback and Termination of Policy Rights, Releases, and Covenants Not to Sue

30. As described fully in Section VII of the Settlement and Buyback Agreement, the Agreement provides that the ACandS Entities and Travelers mutually release and covenant not to sue one another from a wide range of claims arising from, relating to, or

involving, among other things, the Travelers Insurance Policies, asbestos-related claims, the Insurance Relationship, and ACandS/Travelers Insurer Actions, the Litigations, and various other categories of claims pertaining to ACandS Parties and/or the Former Irex Entities. The Former Irex Entities and Travelers also provide one another certain mutual releases.

31. Section VII.G of the Agreement provides that, pursuant to the Approval Order and 11 U.S.C. §§ 363(b) and (f), and subject to being made effective by the Plan and the entry of the Confirmation Order, ACandS shall be deemed to have sold, transferred and conveyed the Travelers Insurance Policies to Travelers free and clear of any Claims, liens, encumbrances, and/or interests of any kind and/or nature whatsoever of any other Entity, including the Former Irex Entities, in Travelers Insurance Policies, without the need for further act or documentation of any kind. This section 363 sale becomes effective upon the Trigger Date.

Other Bankruptcy-Related and Litigation-Related Relief

32. As described fully in Section V of the Agreement, promptly after approval of this Motion, ACandS shall file a proposed plan of reorganization that is consistent with the Agreement (and that Travelers shall have had the opportunity to review). Travelers shall support the efforts of ACandS, Irex Corporation, the ACC and the Legal Representative to satisfy the Plan Conditions, as and to the extent reasonably requested by ACandS. Travelers shall withdraw its proof of claim in the Chapter 11 Case on the Trigger Date or as soon thereafter as is practicable. Section V of the Agreement also requires ACandS and Travelers to stand down in their pending Litigations. To that end, Section V requires that, promptly after the entry of the Approval Order, the parties to each of the Litigations

shall seek to have the courts and other tribunals stay all of the Claims against each other in each of the Litigations. Within five (5) Business Days of the Trigger Date, the parties to each of the Litigations shall dismiss all of their Claims against each other in each of the Litigations, and with respect to any other Coverage Disputes, with prejudice and without costs.

33. Section V.L also requires that, pursuant to the Plan and Confirmation Order, the Settlement and Buyback Agreement shall be binding on the ACandS Asbestos Settlement Trust and the ACandS Asbestos Settlement Trustee with the same force and effect as if they were parties to this Settlement and Buyback Agreement, and that no Entity may at any time terminate, reduce or limit or take any action to terminate, reduce or limit the scope of the releases granted to Travelers in the Settlement and Buyback Agreement, the Plan or the Travelers-Related Injunctions.

Termination Contingencies

34. Pursuant to Section IV.A of the Agreement, the Agreement would “become null and void upon the occurrence of” certain, specified “Termination Contingencies.” The Termination Contingencies include, among other things, (i) the requirement that all conditions precedent must be satisfied within twenty-four (24) months after the Execution Date; (ii) the entry of an order confirming a plan of reorganization for ACandS other than the Plan; (iii) the entry by the Court of a Final Order that provides that Travelers is not entitled to the benefits of the Travelers-Related Injunctions; (iv) the entry by the Court of a Final Order denying approval of the Settlement and Buyback Agreement; (v) the entry of an order by the Court converting the Chapter 11 Case into a Chapter 7 case or dismissing the Chapter 11 Case; (vi) the entry of an order by the Court

appointing a trustee or an examiner possessing the rights, powers and duties reasonably and substantially equivalent to those of a trustee in the Chapter 11 Case as described in Section 1106(a) of the Bankruptcy Code; and (vi) the proposal or filing of a plan of reorganization other than the Plan by any ACandS Entity. Section IV of the Agreement also provides that, under certain specified conditions, Travelers may waive certain Termination Conditions (in some cases, only with the prior consent of certain other parties to the Agreement).

Consents to Agreement by Other Interested Parties

35. The Official Committee of Unsecured Creditors, the Legal Representative, Irex and the Former Irex Parties have consented to the Agreement and are parties thereto.
36. Travelers and the Pre-Petition Trustee have entered into a separate “Trustee’s Consent and Mutual Release,” which is Exhibit F to the Agreement.

Relief Requested

37. By this Motion, the Parties seek the entry of an order (a) approving the terms of the Agreement and all attachments thereto (including the Escrow Agreement and the Trustee’s Consent and Mutual Release); and (b) approving the sale of the Travelers Insurance Policies free and clear of all liens, claims, encumbrances and interests, with all rights, if any, in the Travelers Insurance Policies attaching the Settlement and Buyback Amount.
38. As set forth in the Agreement, many of the essential rights and obligations of the parties under the Agreement are subject to the confirmation of a new plan of reorganization that must contain certain specified provisions. ACandS is not requesting through this motion a court order confirming such a plan.

Applicable Legal Authority

39. Federal Rule of Bankruptcy Procedure 9019 provides in relevant part:

On motion by the trustee and after notice and a hearing, the court may approve a compromise or settlement. Notice shall be given to creditors, the U.S. trustee, the debtor, and indenture trustees as provided in Rule 2002 and to any other entity as the court may direct.

Fed. R. Bankr. P. 9019(a).

40. Settlements in bankruptcy are favored as a means of minimizing litigation, expediting the administration of the bankruptcy estate, and providing for the efficient resolution of bankruptcy cases. *In re Martin*, 91 F.3d 389, 393 (3d Cir. 1996). Rule 9019 implements section 363 of the Bankruptcy Code, pursuant to which a debtor may use or sell property other than in the ordinary course of business after notice and hearing. *Id.* at 394 n.2.
41. A bankruptcy court should approve a settlement if it is fair and equitable, and in the best interests of the estate. *In re Cajun Elec. Power Coop., Inc.* 119 F.3d 349, 355 (5th Cir. 1997).
42. In determining whether to approve a settlement pursuant to section 363 of the Bankruptcy Code and Rule 9019, the Third Circuit has stated that a bankruptcy court is required to “assess and balance the value of the claim that is being compromised against the value to the estate of the acceptance of the compromise proposal.” *Martin*, F.3d at 393 (citing *Protective Comm. for Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424-25 (1968)). In making this determination, a court should consider four criteria: (1) the probability of success in the litigation, (2) the likely difficulties in collection, (3) the complexity of the litigation involved and related expense and inconvenience, and (4) the interests of the creditors. *Id.*; see also *In re Marvel Entm’t*

Group, Inc., 222 B.R. 243 (D. Del. 1998) (citing *Anderson* factors as controlling whether settlement should be approved). The ultimate inquiry is whether the compromise is “fair, reasonable, and in the interest of the estate.” *In re Louise’s, Inc.*, 211 B.R. 798, 801 (D. Del. 1997).

43. When applying the above-noted criteria to the facts of a particular case, a bankruptcy court does not have to conduct a mini-trial to determine the probable outcome of any claims waived in the settlement. *Cajun Elec.*, 119 F.3d at 356. Likewise, a bankruptcy court does not need to conduct an evidentiary hearing as a prerequisite to approving the settlement. *In re Depositer*, 36 F.3d 582, 586 (7th Cir. 1994). Instead, it is the responsibility of the bankruptcy court to “canvass the issues and see whether the settlement falls below the lowest point in the range of reasonableness.” *In re Spielfogel*, 211 B.R. 133, 143-44 (Bankr. S.D.N.Y. 1997); *In re Telesphere Communications, Inc.*, 179 B.R. 544, 553 (Bankr. N.D. Ill. 1994); *In re Carla Leathers, Inc.* 44 B.R. 457, 465 (Bankr. S.D.N.Y. 1984), *aff’d* 50 B.R. 764 (S.D.N.Y. 1985).
44. Approval of a compromise is within the “sound discretion” of the bankruptcy court. *Jeffrey v. Desmond*, 70 F.3d 183, 185 (1st Cir. 1995). The bankruptcy court should not substitute its judgment for that of a trustee or debtor in possession. *Richmond Leasing Co. v. Capital Bank, N.A.*, 762 F.2d 1303, 1311 (5th Cir. 1985); *In re Curlew Valley Assocs.*, 14 B.R. 506, 511-13 (Bankr. D. Utah 1981).
45. To the extent applicable, approval of a settlement that involves property of the estate should also constitute a reasonable exercise of the Debtor’s business judgment under Bankruptcy Code section 363(b), which provides that “[t]he trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of

the estate.” 11 U.S.C. § 363(b)(1). In addition, section 363(f) of the Bankruptcy Code permits a chapter 11 debtor to sell property of the estate “free and clear of any interest in such property of an entity other than the estate,” under specified circumstances, such as when the other entity consents, as is the case here for Irex and the Former Irex Entities. 11 U.S.C. § 363(f). In interpreting section 363, courts have held that a transaction involving property of the estate generally should be approved so long as the trustee can demonstrate “some articulated business justification for using, selling, or leasing property outside of the ordinary course of business.” *In re Continental Airlines, Inc.*, 780 F.2d 1223, 1226 (5th Cir. 1986); *accord In re Lionel Corp.*, 722 F.2d 1063, 1071 (2d Cir. 1983).

46. ACandS submits that the Agreement should be approved under Rule 9019 and section 363 because the terms readily satisfy the applicable criteria.

Probability of Success

47. ACandS submits that the probability of success in proceedings between the parties has been duly accounted for in the Agreement. Travelers asserts a variety of defenses in the course of the Litigations and Coverage Disputes. The parties have litigated coverage disputes and other issues for more than twenty-five years in multiple proceedings and forums, and the parties already have received decisions in various courts and alternative dispute resolution proceedings that demonstrate that all of the parties have significant risks in the Litigations.
48. As discussed above, there are numerous contested issues that could have a severely coverage-limiting result. It is possible, if ACandS were to prevail on *all* of several key disputed issues to be addressed in the Litigations, that sums substantially larger than the

amount Travelers has agreed to pay pursuant to the Settlement and Buyback Agreement would be obtained from Travelers. If Travelers were to prevail on *just one* of those key issues, however, then Travelers probably would have to pay nothing and Travelers still would have its contention that ACandS would have to reimburse Travelers for millions of dollars Travelers previously paid.

49. Under the Settlement and Buyback Agreement, Travelers has agreed to pay \$449,000,000, which is *more than 100 times* the \$1 million per-occurrence limits of the four primary Travelers Insurance Policies that are at issue in the Litigations. As noted, Travelers contends in the Number of Occurrences Litigation that it was required to pay ACandS only one per-occurrence limit for each of the primary policies and that it has already paid those per-occurrence limits. Accordingly, in light of the Debtor's significant litigation risks, the Debtor submits that the probability of success in any proceedings between the parties has been duly accounted for in the Agreement.

Potential Difficulties Regarding Collection

50. Travelers is a financially healthy company, but there is a very real risk that Travelers would be able to fend off the final determination of whether it owes anything to or on account of the Debtor for many years. Indeed, although ACandS and Travelers have been litigating their current principal coverage disputes for more than six years, following the Third Circuit's decision last year, the parties now fundamentally are back to the starting point in their litigation of those issues. Many issues remain to be resolved before a final determination in the Debtor's favor could be made, including the disputes at issue in the Number of Occurrences Litigation, possible litigation over what percentage of ACandS's losses arise from non-products claims not subject to an aggregate policy limit,

and litigation over the enforceability of ACandS's pre-petition settlements. Although the outcome of such litigation is uncertain, what is certain is that Travelers has demonstrated a willingness to litigate for an extended period and that, absent settlement, collection at best will be deferred for many years. This factor thus favors approval of the Agreement.

Complexity, Expense and Delay of Litigation

51. As noted, the Litigations and any future litigation likely would take years. The Litigations include issues of the utmost complexity, and would require the Debtor to retain numerous expert witnesses and engage in extensive discovery and briefing, potentially including of many issues of first impression. Even if the Debtor continues to have coverage counsel that does not charge for its services on an hourly basis – and the Debtor could not have afforded to engage in the post-petition coverage litigation with Travelers to date if it had to pay counsel an hourly fee – the likely expenses of experts, depositions, and other litigation costs would be a significant drain on the Debtor's estate. The coverage disputes already have spawned significant litigation in several federal and state courts, appellate courts, and alternative dispute resolution forums, and likely would continue to generate new litigation in multiple forums. Absent settlement, Travelers also will endeavor to complicate and delay confirmation of ACandS's plan of reorganization. ACandS believes that a settlement at this time with Travelers on the terms set forth in the Agreement would be in the estate's and creditors' best interests by avoiding the significant delay and expense that would be required to pursue the Litigations. Accordingly, the complexity, expense, inconvenience and delay attending litigation favor approval of the Agreement.

Interest of Creditors

52. The interest of creditors strongly militates in favor of approval of the Agreement. Asbestos claimants have been waiting for approximately five years since the Petition Date to receive distributions on their claims. Some claimants undoubtedly are seriously ill. Absent approval of the Settlement and Buyback Agreement, there is a strong likelihood that such claimants will experience additional delay in the resolution of the issues in the Litigation before they can expect to receive any material payment on account of their claims. Approval of the Settlement and Buyback Agreement provides claimants with their best chance to receive distributions on account of their injuries as soon as possible under the facts and circumstances of the Debtor's bankruptcy case. ACandS believes that the Travelers coverage is the largest asset of ACandS's bankruptcy estate, but Travelers believes that ACandS owes millions of dollars to Travelers as a result of alleged overpayments. The Agreement represents a fair and reasonable settlement, provides significant dollars immediately that will be available to pay creditors' claims and avoids the risks and costs associated with further litigation with Travelers, including litigation over Travelers' claim against ACandS.
53. Both the ACC and FCR support this Agreement and are parties to it. Broad notice of this Motion is being provided. All creditors also will have the opportunity to consider this Agreement again in the context of voting on any plan of reorganization, as the Agreement ultimately is contingent on confirmation of a plan of reorganization that, among other things, provides certain injunctive protections to Travelers.
54. The Agreement is the product of substantial arm's-length negotiations between ACandS and Travelers that have taken place, off and on, over many years, as discussed above.

The negotiations resulting in the current Agreement also directly involved the major affected creditor constituencies, including the ACC and FCR.

55. The Debtor has exercised its reasonable business judgment to enter into the Agreement, including the policy buyback pursuant to section 363 of the Bankruptcy Code. Insurers such as Travelers seek a policy buyback under section 363 as a means to provide insurers with an additional layer of finality and certainty from a court, particularly with (as here) a large settlement. Travelers demanded a policy buyback and the related injunction to supplement the releases provided under the agreement. As Travelers made plain, it would not agree (as it now has agreed) to pay over 100 times the occurrence limits of the Travelers Insurance Policies at issue and to set aside the parties' various litigations and potential future disputes without the maximum protections against further claims arising under or relating to the Travelers Insurance Policies. The Agreement is intended to resolve forever Travelers' obligations relating to the Travelers Insurance Policies and, given the magnitude of Travelers' payment in this case, Travelers' demand for, and the Debtor's agreement to, a policy buyback is quite reasonable. For all the reasons set forth above, the Debtor reasonably concluded that its creditors were well served by the benefits of the Agreement, including securing peace with its principal litigation adversary and ensuring Travelers' payment of significant funds, and the facilitation of the Debtor's reorganization.
56. The Agreement represents a favorable resolution of claims asserted against the Debtor and by the Debtor. ACandS submits that the Agreement is the result of the exercise of its sound business judgment, is fair and reasonable, and is in the best interests of the Debtor, its creditors and parties-in-interest. Accordingly, the Agreement should be approved.

The Escrow Agreement

57. The Escrow Agreement also should be approved, as it is an integral component of the settlement among the Parties. Under the Settlement and Buyback Agreement, Travelers is obligated to pay \$449,000,000 into escrow within five (5) Business Days of the entry of the Approval Order. The Escrow Agreement is necessary to facilitate this payment, upon which income will begin to accrue to the benefit of ACandS's creditors. Absent the Escrow Agreement, Travelers will not pay the settlement amount until after a plan of reorganization becomes effective, and the creditors will be deprived of what likely will amount to at least several millions of dollars in investment income. As such, the Escrow Agreement, as a qualified settlement fund within the meaning of U.S. Department of Treasury Reg. § 1.468B-1, is a critical component of this settlement and should be approved.

Notice

58. A copy of this Motion has been served upon: (1) the U.S. Trustee; (2) counsel for the Committee; (3) counsel for the Legal Representative; (4) counsel for Travelers; (5) counsel for the ACandS Parties; (6) counsel for the Irex Entities; (7) those parties set forth on ACandS's Bankruptcy Rule 2002 service list; (8) those law firms that represent asbestos personal injury claimants that have filed 2019 statements in ACandS's bankruptcy case; (9) additional law firms that represent asbestos personal injury claimants of which the Debtor is aware that have not (a) filed an entry of appearance in ACandS's bankruptcy case and/or (b) filed a 2019 statement in ACandS's bankruptcy case; and (10) all known asbestos property damage claimants with Claims against ACandS. In addition to the above-noted service of the Motion, prior to the hearing on the

Motion, the Debtor will have published notice of the motion (hereafter, the "Publication Notice") (a) once in the following publications on the following dates: (1) USA Today on July 12, 2007; (2) the Wall Street Journal on July 12, 2007; (3) the New York Times on July 16, 2007; (4) Parade Magazine on July 29, 2007; (5) USA Weekend on July 29, 2007; (6) American Profile on July 29, 2007; and (7) Newsweek on July 30, 2007 (on sale July 23, 2007); and (b) twice in Time Magazine on July 30, 2007 (on sale July 20, 2007) and August 6, 2007 (on sale July 27, 2007). In addition, notice of the Agreement shall also be the subject of a press release (PR Newswire US1) on July 16, 2007. The Debtor submits that the service of the Motion, as set forth above, and the broad publication of the Publication Notice, as set forth above, more than satisfies the service requirements contained in Local Rule 2002-1(b), and that no further notice of the Motion is necessary.

No Prior Request

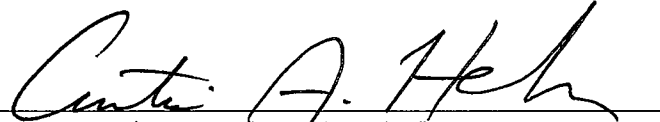
59. No prior motion for relief requested herein has been made to this or any other Court.

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WHEREFORE, the Debtor respectfully requests that the Court grant the Motion and any other and further relief that the Court deems just and proper.

Dated: July 9, 2007

PACHULSKI STANG ZIEHL YOUNG JONES
& WEINTRAUB LLP



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Debtor and Debtor-in-Possession

EXHIBIT SUMMARY SHEET

**EXHIBIT 1 - SETTLEMENT AND POLICY BUYBACK AGREEMENT,
RELEASES AND COVENANT NOT TO SUE**

EXHIBIT 1

**SETTLEMENT AND POLICY BUYBACK AGREEMENT,
RELEASES AND COVENANTS NOT TO SUE**

This Settlement and Policy Buyback Agreement, Releases and Covenants Not to Sue ("Settlement and Buyback Agreement" or "Agreement") is made as of the Execution Date by and among the signatories hereto.

RECITALS

WHEREAS, Travelers is alleged to have issued the Travelers Insurance Policies, which are alleged to provide insurance coverage to ACandS; and

WHEREAS, (i) ACandS and Travelers Casualty and Surety Company are signatories to the Agreement Concerning Asbestos-Related Claims dated June 19, 1985 (the "Wellington Agreement") and the Letter Agreement, dated October 24, 1988 (the "1988 Agreement"); and (ii) ACandS and The Travelers Indemnity Company are parties to two Settlement Agreements dated March 31, 1989 and April 4, 1989 (the "1989 Agreements"), all of which resolved, among other things, certain disputes concerning insurance coverage for Asbestos-Related Claims; and

WHEREAS, there are ongoing disputes between ACandS and Travelers regarding, among other things, their respective rights and obligations concerning insurance coverage for Asbestos-Related Claims (the "Coverage Disputes"); and

WHEREAS, the Coverage Disputes include all Claims actually asserted, and all Claims that could have been asserted that arise from the same transactions or occurrences as the Claims actually asserted in pending litigation between certain Travelers Companies and ACandS (and in one instance certain other parties) in civil actions styled ACandS, Inc. v. Travelers Casualty & Surety Co., No. 00-CV-4633 (E.D. Pa.); Travelers Casualty & Surety Co. v. Irex Corp., No. 02-CV-2142 (E.D. Pa.); ACandS, Inc. v. Travelers Casualty & Surety Co., No. 01-CV-337 (E.D. Tex.); and ACandS, Inc. v. Travelers Casualty & Surety Co., No. 03-MC-222 (E.D. Pa.); and alternative dispute resolution matters being held open by the CPR International Institute for Conflict Prevention and Resolution (the "Litigations"); and

WHEREAS, on September 16, 2002, ACandS filed a petition pursuant to Chapter 11 of the Bankruptcy Code in the Bankruptcy Court; and

WHEREAS, ACandS continues to operate its business as debtor and debtor-in-possession; and

WHEREAS, the Parties now wish to enter into an agreement (a) to settle fully and finally and to compromise in accordance with the terms of this Agreement the disputes referred to above; (b) to resolve Travelers' potential objections to ACandS's plan of reorganization; (c) to resolve Travelers' obligations under the Travelers Insurance Policies; (d) to resolve Travelers' obligations for Asbestos-Related Claims, Asbestos-Related Property Damage Claims and Non-Asbestos Related Claims; (e) to resolve Claims that could arise between (i) the ACandS Entities or the Former Irex Entities and (ii) Travelers, concerning the Insurance Relationship, including

any acts or omissions by, or obligations of, Travelers, the ACandS Entities or Former Irex Entities arising from or relating thereto; (f) to resolve the Coverage Disputes, including the Litigations, and certain other proceedings between the Travelers Companies and ACandS Parties; (g) to effect the sale to Travelers of all rights, titles and interests in the Travelers Insurance Policies; (h) to supersede and replace with this Agreement all prior settlements and agreements (except as expressly provided herein) of any form, substance or nature between any of the Parties concerning, related to, or arising from the Travelers Insurance Policies; and (i) to resolve certain other and further disputes, all as set forth below.

NOW, THEREFORE, in consideration of the promises and of the mutual covenants contained herein, and intending to be legally bound hereby, subject to the satisfaction of all the conditions precedent as set forth in this Settlement and Buyback Agreement (where and when applicable), the Parties do hereby agree as follows:

I. DEFINITIONS

The following definitions apply to the capitalized terms herein wherever those terms appear in this Settlement and Buyback Agreement, including the prefatory paragraph, recitals, the Sections below and any exhibits attached hereto. Moreover, each defined term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns whether stated in the masculine, feminine or neuter gender shall include the masculine, feminine and the neuter gender. The word “including” means “including but not limited to.”

A. “ACandS” means ACandS, Inc.

B. “ACandS Asbestos Settlement Trust” or “Trust” means the trust to be established pursuant to the Plan in compliance with the requirements of a trust under Section 524(g)(2)(B) of the Bankruptcy Code for the purpose of, among other things, assuming the liabilities of ACandS with respect to Asbestos-Related Claims.

C. “ACandS Asbestos Settlement Trustee” or “Trustee” means the trustee or trustees of the ACandS Asbestos Settlement Trust, solely in his or their capacity as such.

D. “ACandS Entities” means ACandS Parties, the ACC, the Legal Representative, the ACandS Asbestos Settlement Trust, and the ACandS Asbestos Settlement Trustee.

E. “ACandS Parties” means (i) ACandS and each of its present and future direct and indirect parents, subsidiaries and affiliates, including each Entity within the definition of Irex, (ii) to the full extent of ACandS’s or Irex’s power and ability, if any, to bind them to this Settlement and Buyback Agreement, each of Irex’s or ACandS’s past direct and indirect parents, subsidiaries and affiliates, and (iii) the respective shareholders, partners, officers, directors, employees, principals, attorneys, members, representatives, and agents of each of the Entities set forth in Section I.E(i and ii), but solely in their capacity as such; and (iv) the respective predecessors, successors, and assigns of any of the foregoing, solely in their capacity as such.

Notwithstanding the foregoing, ACandS Parties shall not include (w) Former Irex Entities; (x) any Entity that, after the Execution Date, first acquires, is acquired by, becomes affiliated with, or merges into ACandS, except to the extent that such Entity (i) has or seeks any

entitlement to insurance coverage under any Travelers Insurance Policy, (ii) asserts an ACandS/Travelers Insurer Action, or (iii) seeks coverage under any policy of insurance (other than the Excluded Contracts) for Claims arising from or relating to conduct, acts, omissions or other liabilities of the ACandS Parties or Former Irex Entities as constituted on or before the Execution Date; (y) Armstrong World Industries, Inc. or the Armstrong World Industries, Inc. Personal Injury Settlement Trust; or (z) the ACandS Asbestos Settlement Trust.

F. "ACandS/Travelers Insurer Actions" means any Claim or any portion of any Claim against an ACandS Party, Former Irex Entity or Travelers to the extent that such Claim arises from or relates in whole or in part to both asbestos and the Insurance Relationship, whether arising from statute, common law, or otherwise, including any Claim that any Entity asserted or may assert at any time, including in the future: (i) based on the defense, handling, settlement, trial or appeal of a Claim against any ACandS Party or Former Irex Entity; (ii) based directly or indirectly on allegedly suppressed or inappropriate settlement values or the alleged failure to assert Claims due to the conduct of Travelers or an ACandS Party or Former Irex Entity, or their respective counsel, in connection with Claims against an ACandS Party or Former Irex Entity; (iii) alleging conspiracy or concert of action between an ACandS Party or Former Irex Entity and Travelers to suppress the knowledge of the hazards of asbestos; (iv) alleging failure to disclose facts or information concerning asbestos learned or acquired as a result of the Insurance Relationship; (v) alleging bad faith, violation of any statute, regulation or rule, including Unfair Claims Practices Acts or other similar statute in any jurisdiction (when applicable) or any rule of civil procedure or other court rule, in connection with any matters referenced in subparts (i) through (iv) of this Section I.F; (vi) arising out of or related in any way to any surveys or loss prevention and control activities undertaken or not undertaken, or allegedly undertaken or allegedly not undertaken, by Travelers with respect to the issuance of or in connection with any Travelers Insurance Policy; or (vii) alleging insurer misconduct or wrongdoing of any kind whatsoever in connection with, arising from, or related to, in any way, Asbestos-Related Claims, Asbestos-Related Property Damage Claims, or the Travelers Insurance Policies. Notwithstanding the foregoing, "ACandS/Travelers Insurer Actions" does not include any Claim that arises under or with respect to, or is based on, any Excluded Contract (except that "ACandS/Travelers Insurer Actions" does include such Claims to the extent they arise under or with respect to, or are based on, Asbestos-Related Claims or Asbestos-Related Property Damage Claims and an Excluded Contract that provides or provided insurance coverage to an ACandS Party).

G. "ACC" means the Official Committee of Unsecured Creditors appointed in the Chapter 11 Case on September 30, 2002.

H. "Approval Order" means an order of the Court, which authorizes, among other things, the issuance of an injunction pursuant to Sections 105(a) and 363 of the Bankruptcy Code (the "363 Injunction"), in the form of Exhibit E hereto (including the reservation from the 363 Injunction set forth in Paragraph 8 of Exhibit E hereto), with such changes, if any, to which ACandS, Travelers, the ACC and FCR will have consented in writing or on the record in the Court.

I. "Asbestos Insurance Settlement Agreement" means any settlement agreement with a Settling Asbestos Insurance Company.

J. "Asbestos Personal Injury Claim" means any Claim, demand, debt or liability (including, without limitation, any Claim, demand, debt or liability alleging successorship, conspiracy, veil piercing, conducting a fraudulent defense or alter ego-type Claims) that has been or in the future is brought or asserted against any ACandS Party or any Former Irex Entity alleging or arising from an allegation that such ACandS Party or Former Irex Entity has liability due to a person's bodily, personal or emotional injury or death allegedly caused, in whole or in part, directly or indirectly, by exposure to any asbestos or asbestos-containing materials, excluding, however, any such Claim under the statutorily required portion of a workers' compensation insurance policy.

K. "Asbestos Personal Injury Claimant" means the holder of an Asbestos Personal Injury Claim.

L. "Asbestos Property Damage Claim" means any Claim, demand, debt or liability (including, without limitation, any Claim, demand, debt or liability alleging successorship, conspiracy, veil piercing, conducting a fraudulent defense or alter ego-type Claims) that has been or in the future is brought or asserted against any ACandS Party or any Former Irex Entity alleging liability due to any person's property damage (x) caused or allegedly caused, in whole or in part, directly or indirectly (a) by asbestos or asbestos-containing materials installed, sold, handled, used, made, distributed, supplied, removed, or otherwise disturbed by any ACandS Party or Former Irex Entity, or (b) by services, actions, or operations provided, completed, performed, or taken by any ACandS Party or Former Irex Entity, in connection with asbestos or asbestos-containing materials, or (y) caused or allegedly caused by asbestos or asbestos-containing materials for which any ACandS Party or Former Irex Entity is or may be liable under any applicable law.

M. "Asbestos Property Damage Claimant" means the holder of an Asbestos Property Damage Claim.

N. "Asbestos-Related Claims" means (i) all Asbestos Personal Injury Claims, Indirect Asbestos Personal Injury Claims, and Personal Injury Direct Actions; and/or (ii) the portion of any Claim asserted or brought against (a) the ACandS Parties, (b) the Former Irex Entities (but only with respect to Claims arising from or related to acts, omissions or other conduct, injury, exposure or damage that commenced, in whole or in part, on or before December 31, 1998), or (c) Travelers (in its capacity as an actual or alleged insurer of (i) ACandS Parties and/or (ii) Former Irex Entities on or before December 31, 1998) that arise from, relate to or involve, in whole or in part, asbestos (other than Asbestos-Related Property Damage Claims and any Claims under the statutorily required portion of a workers' compensation insurance policy), including (x) any such Claims sounding in tort, contract, breach of warranty, fraud, conspiracy, failure to warn, violation of statute, rule or regulation or based on any other legal theory, and (y) any such Claims for damages, costs, expenses, equitable relief, mandatory relief, punitive damages, economic damages or any other form or type of relief.

O. "Asbestos-Related Property Damage Claims" means (i) all Asbestos Property Damage Claims, Indirect Asbestos Property Damage Claims, and Property Damage Direct Action Claims; and/or (ii) the portion of any Claim asserted or brought against the (a) ACandS Parties, (b) the Former Irex Entities (but only with respect to Claims arising from or related to

acts, omissions or other conduct, injury, exposure or damage that commenced, in whole or in part, on or before December 31, 1998), or (c) Travelers (in its capacity as an actual or alleged insurer of (i) ACandS Parties and/or (ii) Former Irex Entities on or before December 31, 1998) that arise from, relate to or involve, in whole or in part, property damage and asbestos, including (x) any such Claims sounding in tort, contract, breach of warranty, fraud, conspiracy, failure to warn, violation of statute, rule or regulation or based on any other legal theory, and (z) any such Claims for damages, costs, expenses, equitable relief, mandatory relief, punitive damages, economic damages or any other form or type of relief.

P. "Bankruptcy Code" means Title 11 of the United States Code, 11 U.S.C. § 101 *et seq.*, as amended from time to time.

Q. "Bankruptcy Court" means the United States Bankruptcy Court for the District of Delaware.

R. "Business Day" means any day other than a Saturday, Sunday or other "legal holiday" as defined in Federal Bankruptcy Rule 9006(a).

S. "Chapter 11 Case" means *In re ACandS, Inc.*, Case No. 02-12687 (Bankr. D. Del.) (JKF).

T. "Claim" means:

(i) "Claim" as that term is defined in the Section 101(5) of the Bankruptcy Code;

(ii) "Demand" as that term is defined in the Section 524(g)(5) of the Bankruptcy Code; and/or

(iii) any past, present or future, known or unknown, asserted or unasserted, foreseen or unforeseen, matured or unmatured, concealed or disclosed, fixed or contingent, direct or indirect claim, complaint, cross-complaint, counterclaim, affirmative defense, writ, demand, inquiry, request, suit, lawsuit, liability, action, cause of action, administrative proceeding, governmental action, order, judgment, settlement, lien, loss, cost or expense, and whether in law, equity, admiralty, or otherwise, and whether for economic loss, general damages, medical monitoring, punitive damages, attorneys' fees or otherwise.

U. "Confirmation Hearing" means the hearing(s) before the Court pursuant to which ACandS will seek confirmation of the Plan.

V. "Confirmation Order" means an order or orders entered by the Court in the Chapter 11 Case that confirms the Plan and satisfies the Plan Conditions.

W. "Court" means the Bankruptcy Court or the United States District Court for the District of Delaware or other court of competent jurisdiction.

X. "Entity" means any Person, corporation, partnership, association, trust, joint venture, union, any other entity or organization, and any federal, state or local government or any

governmental or quasi-governmental body or political subdivision or any agency, department, board or instrumentality thereof.

Y. "Execution Date" means the earliest date on which this Settlement and Buyback Agreement has been signed by all of the signatories hereto as reflected by the last dated signature entered on the signature pages.

Z. "Final Order" means an order as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending or as to which any right to appeal, to petition for certiorari, to reargue, to rehear or to reconsider shall have been waived in writing by the Person possessing such right, or, in the event that an appeal, writ of certiorari, or reargument, rehearing or reconsideration thereof has been sought, such order shall have been affirmed by the highest court to which such order was appealed, or certiorari has been denied or from which reargument, rehearing or reconsideration was sought, and the time to take any further appeal, petition for certiorari, or move for reargument, rehearing or reconsideration shall have expired, and no such further appeal, petition for certiorari, or motion for reargument, rehearing or reconsideration shall have been filed.

AA. "Former Irex Entities" means (i) Specialty Products & Insulation Co., Paragon Industries, Inc., Specialty Products Investments, Inc., Richlar Industries, Inc. and Acoustical Supply Corporation, and each of their present and future direct and indirect parents, subsidiaries and affiliates, and (ii) the respective shareholders, partners, officers, directors, employees, principals, attorneys, representatives, and agents of each of the Entities set forth in Section I.AA(i), but solely in their capacity as such; and (iii) the respective successors and assigns of any of the foregoing, but solely in their capacity as such.

Notwithstanding the foregoing, "Former Irex Entities" shall not include any Entity (other than an ACandS Party) that, after the Execution Date, first acquires, is acquired by, becomes affiliated with, or merges into any of the Former Irex Entities, except to the extent that such Entity (i) has or seeks any entitlement to insurance coverage under any Travelers Insurance Policy, (ii) asserts an ACandS/Travelers Insurer Action, or (iii) seeks coverage under any policy of insurance (other than the Excluded Contracts) for Claims arising from or relating to conduct, acts, omissions or other liabilities of (a) an ACandS Party as constituted on or before the Execution Date, or (b) a Former Irex Entity, as constituted on or before December 31, 1998.

BB. "Indirect Asbestos Personal Injury Claim" means any Claim based on a right of contribution, subrogation, indemnity, or virile share (as those terms are defined by the non-bankruptcy law of any relevant jurisdiction) and any other indirect Claim of any kind whatsoever, arising out of or related to an Asbestos Personal Injury Claim, excluding, however, any such Claim under the statutorily required portion of a workers' compensation insurance policy.

CC. "Indirect Asbestos Property Damage Claim" means any Claim based on a right of contribution, subrogation, indemnity, or virile share (as those terms are defined by the non-bankruptcy law of any relevant jurisdiction) and any other indirect Claim of any kind whatsoever, arising out of or related to an Asbestos Property Damage Claim.

DD. "Insurance Relationship" means (i) as to the ACandS Parties, the insurance relationship on or before the Execution Date between (a) Travelers and (b) the ACandS Parties, each as constituted on or before the Execution Date, and (ii) as to the Former Irex Entities, the insurance relationship on or before December 31, 1998 between (a) Travelers and (b) the Former Irex Entities as constituted on or before the Execution Date. Notwithstanding the foregoing, "Insurance Relationship" shall not include any such relationship to the extent that it arises from or relates to, or is based on, an Excluded Contract; provided, however, that with respect to an Excluded Contract issued to an ACandS Party, "Insurance Relationship" does include any such relationship that arises from or relates to, or is based on Asbestos-Related Claims and/or Asbestos-Related Property Damage Claims.

EE. "Irex" means Irex Corporation, Spacecon, LLC, Irex Financial Corporation, Shippen North America Insurance Ltd., Centin, LLC, Argus Contracting LLC, Argus Contracting, Inc., Altair Contracting Ltd. (f/k/a ACandS Contracting Ltd.), Cornerstone Services Group LLC, Summit Contracting LLC, Spacecon West, LLC, California Spacecon, Inc., Advanced Specialty Contractors LLC, Pyro-Stop, LLC, Atlantic Contracting & Specialties, LLC, Atlantic Fabrication, Inc., New States Contracting LLC, Lancaster Acquisition LLC, North Lime Holdings Corporation, Spacecon Specialty Contractors LLC, Spacecon Specialty Contractors Northwest LLC, Apex Support Services, Inc., and Island Insulation Services, Inc.

FF. "Legal Representative" means the futures representative appointed pursuant to the Bankruptcy Court's December 25, 2002 Order in the Chapter 11 Case, solely in his capacity as such, together with his successors and assigns, solely in their respective capacities.

GG. "Non-Asbestos Related Claims" means all Claims that arise out of or relate in whole or in part to the Travelers Insurance Policies or the Insurance Relationship that are not Asbestos-Related Claims or Asbestos-Related Property Damage Claims.

HH. "Party" means an Entity on whose behalf this Agreement has been executed.

II. "Person" means any individual, class or group of individuals, their heirs, executors, representatives, administrators, estates, agents, successors and assigns.

JJ. "Personal Injury Direct Action" means any cause of action or right to bring a cause of action possessed at any time by an Asbestos Personal Injury Claimant against Travelers on account of such Claimant's Asbestos Personal Injury Claim, whether arising under the laws of any jurisdiction, or otherwise, excluding, however, any such Claim under the statutorily required portion of a workers' compensation insurance policy.

KK. "Plan" means any plan of reorganization proposed by ACandS that, if it is confirmed and becomes effective, would satisfy the Plan Conditions.

LL. "Plan Conditions" has the meaning ascribed in Section II.C hereto.

MM. "Plan Effective Date" means the first Business Day after the date on which all of the conditions precedent to the effectiveness of the Plan specified in the Plan have been satisfied or waived, or, if a stay of the Confirmation Order is in effect on such date, the first Business Day after the expiration, dissolution, or lifting of such stay.

NN. "Pre-Petition Trust" or "ACandS Collateral Trust" means the trust established pursuant to the Collateral Trust Agreement between ACandS and Dan B. Lain, of Lain, Faulkner & Company, as trustee, dated April 12, 2002, as amended as of July 15, 2002.

OO. "Pre-Petition Trustee" means trustee of the Pre-Petition Trust, solely in his capacity as such.

PP. "Property Damage Direct Action" means any cause of action or right to bring a cause of action possessed at any time by an Asbestos Property Damage Claimant against Travelers on account of such Claimant's Asbestos Property Damage Claim, whether arising under the laws of any jurisdiction, or otherwise.

QQ. "Reorganized ACandS" means ACandS and/or any successor thereto by merger, consolidation or otherwise (excluding the ACandS Asbestos Settlement Trust), on or after the Plan Effective Date.

RR. "Settlement and Buyback Amount" means the sum of Four Hundred Forty-Nine Million U.S. Dollars (\$449,000,000).

SS. "Settling Asbestos Insurance Company" means an insurance company designated by the Plan to receive the protections of an asbestos channeling injunction under Section 524(g) of the Bankruptcy Code.

TT. "Travelers" means (i) the Travelers Companies and each of their past, present and future direct and indirect parents, subsidiaries and affiliates, (ii) the respective shareholders, partners, officers, directors, employees, members, principals, attorneys, representatives, and agents of each of the entities set forth in Subsections (i) and (ii) of this Section I.TT, but solely in their capacity as such; and (iii) the respective predecessors, successors, and assigns of any of the foregoing, but solely in their capacity as such. Notwithstanding the foregoing, "Travelers" shall not include any Entity that, after the Execution Date, first acquires, is acquired by, becomes affiliated with, or merges into any of the Travelers Companies, provided, however, that such an Entity shall be included in the definition of Travelers with respect to its obligations under the Travelers Insurance Policies.

UU. "Travelers Companies" means The Travelers Indemnity Company, Travelers Casualty and Surety Company, formerly known as The Aetna Casualty and Surety Company, The Standard Fire Insurance Company, United States Fidelity and Guaranty Corporation and St. Paul Fire and Marine Insurance Company.

VV. "Travelers Insurance Policies" means:

(i) all actual or alleged insurance policies listed on Exhibit A hereto, and any settlement or other agreements related thereto;

(ii) subject to Section I.VV(iii) hereto, all other insurance policies issued prior to the Execution Date, whether currently known or unknown, whether primary, umbrella, excess or otherwise, whether liability, first-party, property, employers liability, environmental hazard, environmental impairment, workers' compensation or otherwise,

(a) issued or allegedly issued by Travelers to any ACandS Party or any Former Irex Entity; or (b) any policy not covered in Section I.VV(ii)(a) hereto but under which any ACandS Party or any Former Irex Entity is or claims to be entitled to insurance rights or benefits, but, as to such policies, only to the extent of the ACandS Parties' and/or the Former Irex Entities' rights, titles and interests in them;

(iii) notwithstanding Section I.VV(ii) hereto, "Travelers Insurance Policies" does not include (a) any insurance policy or contract that was issued to any Entity that an ACandS Party or an Former Irex Entity first acquires, is acquired by, becomes affiliated with, or merges into after the Execution Date (except that such insurance policy is a "Travelers Insurance Policy" to the extent that (1) an ACandS Party or Former Irex Entity, each as constituted on or before the Execution Date, claims to be entitled to insurance, rights or benefits under such policy and (2) such policy does not fall within the scope of any of Sections I.VV(iii)(b through g)); (b) any insurance policy or contract that was issued by an Entity that first acquires, is acquired by, becomes affiliated with, or merges into a Travelers Company after the Execution Date; (c) that portion of any actual or alleged insurance policy that was issued by any Travelers Company and that provides health insurance and/or long-term disability coverage for employees of any of the ACandS Parties or Former Irex Entities; (d) that portion of any actual or alleged insurance policy that provides statutorily required workers' compensation insurance coverage (ACandS and Travelers hereby agree that the retrospective premiums on such policies from January 1, 1976 to June 1, 1987 are open and retrospective premiums can be billed with respect to statutory workers compensation claims pursuant to the terms of the retrospective premium agreements, and the Parties reserve all rights as to whether any other retrospective premium agreements exist and are still in effect); (e) any insurance policy issued after December 31, 1998 to any Entity other than an ACandS Party that provides coverage to or on behalf of the Former Irex Entities (except as to rights an ACandS Party has under such policy); (f) any insurance policy or contract that is included on Exhibit B hereto and any renewals or extensions thereof; (g) any insurance policy or contract that any ACandS Party or Former Irex Entity acquires after the Execution Date (all insurance policies, coverages and contracts described in this Section I.VV(iii)(a) through (g) are referred to herein as the "Excluded Contracts").

WW. "Travelers-Related Injunctions" has the meaning ascribed in Section II.C(ii)(b) hereto.

XX. "Trigger Date" means the date on which all of the conditions precedent set forth in Section II of this Agreement have occurred.

YY. "Trustee's Consent and Mutual Release" means the agreement attached hereto as Exhibit F and entered into between the Pre-Petition Trustee and Travelers.

ZZ. "Direct Action Reservation" means the reservation from the Travelers-Related Injunctions that provides:

(A) The Travelers-Related Injunctions do not impair or affect the validity and enforceability of the Statutory Direct Action Settlement Agreement, dated March

