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**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION**

<p>In re:</p> <p>SEPCO CORPORATION,</p> <p style="text-align: center;">Debtor.<sup>1</sup></p>	<p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p>	<p>Chapter 11</p> <p>Case No. 16-50058</p> <p>Judge Alan M. Koschik</p>
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**DISCLOSURE STATEMENT WITH RESPECT TO THE  
PLAN OF REORGANIZATION FOR SEPCO CORPORATION  
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

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<sup>1</sup> The last four digits of Sepco's federal tax identification number are 7402.

*The Plan of Reorganization of Sepco Corporation Under Chapter 11 of the Bankruptcy Code (as the same may be amended or modified, the “Plan”), attached to this Disclosure Statement as Exhibit A, provides for an “Asbestos Personal Injury Channeling Injunction” pursuant to section 524(g) of the Bankruptcy Code. For a description of the causes of action to be enjoined and the identities of the entities that would be subject to the injunction, see Article VIII.D of this Disclosure Statement and Article X of the Plan.*

## INTRODUCTION

Sepco Corporation (“Debtor” or “Sepco”), the debtor and debtor-in-possession in the above-captioned Chapter 11 Case, is soliciting the votes of creditors in favor of the *Plan of Reorganization for Sepco Corporation Under Chapter 11 of the Bankruptcy Code*, dated as of October 22, 2018 (as the same may be amended or modified, the “Plan”). The Plan is jointly proposed by the Debtor, the Committee of Asbestos Claimants, and the Future Claimants’ Representative (collectively, the “Plan Proponents”). Capitalized terms used but not defined herein have the meanings given to them in the Plan.

The Debtor submits this Disclosure Statement in connection with the Plan, to be distributed to all holders of Claims and Interests in accordance with section 1125(b) of the Bankruptcy Code; Rules 2002, 3016, and 3017 of the Federal Rules of Bankruptcy Procedure. This Disclosure Statement and the exhibits hereto include a discussion of: (i) the nature and history of the Debtor’s business and liabilities; (ii) events during this Chapter 11 Case; (iii) the terms of the Plan, including the treatment of holders of Claims and Interests under the Plan; (iv) the Asbestos Personal Injury Trust and the Asbestos Personal Injury Trust Distribution Procedures; (v) financial information and projections; (vi) additional factors to be considered; (vii) effect of confirmation of the Plan; (viii) certain federal income tax consequences of the Plan; and (ix) solicitation of holders of Asbestos Personal Injury Claims and Intercompany Claims. This Disclosure Statement was prepared with the intent to provide “adequate information” (as defined in the Bankruptcy Code) to enable holders of Claims and Interests in the Debtor to make informed judgments about the Plan.

***Please read this Disclosure Statement, the Plan, the exhibits, other supporting materials, and any appropriate ballot carefully and follow the instructions set forth below to vote on the Plan. The Plan Proponents believe that the Plan provides the best method of maximizing recoveries for the holders of Claims against the Debtor. Therefore, the Plan Proponents recommend that all creditors who are entitled to vote should vote in favor of the Plan.***

## SUMMARY OF THE PLAN

The Debtor is a California corporation with its principal place of business presently in Solon, Ohio. Since January 1995, the Debtor has not engaged in any active manufacturing or sales activities. Prior to its bankruptcy filing, the Debtor was named as a defendant in a substantial number of personal injury and wrongful death claims allegedly based on asbestos-containing products that the Debtor had sold. The vast majority of those claims allegedly arose from the Debtor’s sale, manufacture, marketing, and distribution, until approximately 1984, of certain asbestos-containing packing and gasket products and its sale, manufacture, marketing, and distribution, until approximately 1992, of certain asbestos-containing spiral-wound or semi-metallic gaskets.

The purpose of the Plan is to channel the Asbestos Personal Injury Claims to the Asbestos Personal Injury Trust in accordance with section 524(g) of the Bankruptcy Code. The Asbestos Personal Injury Trust will assume liability for the Asbestos Personal Injury Claims and use the assets conveyed to the Asbestos Personal Injury Trust to resolve the Asbestos Personal

Injury Claims and to compensate eligible holders of the Asbestos Personal Injury Claims in a fair and efficient manner.

The following is a summary of the principal terms of the Plan.

**A. Summary of Classification and Treatment of Claims and Interests Under the Plan**

All Claims against or Interests in the Debtor, other than Administrative Expense Claims and Priority Tax Claims, are classified for purposes of voting and making Distributions under the Plan. A summary of the classification of these Claims and Interest, the proposed treatment of each Class of Claims or Interests, and the voting status of each Class of Claims or Interests follows:

Class	Treatment	Status	Entitled to Vote?
<p>Unclassified: Administrative Expense Claims</p> <p>There are no known Administrative Expense Claims asserted against the Debtor other than Professional Fee Claims and those Administrative Expense Claims that are being paid in the ordinary course.</p> <p><b>Estimated Recovery: 100%</b></p>	<p>Except to the extent that an Administrative Expense Claim already had been paid during the Chapter 11 Case or the holder of an Allowed Administrative Expense Claim agrees to a less favorable treatment, each holder of an Allowed Administrative Expense Claim against the Debtor will receive Cash, to be paid from the Net Reserve Funds, equal to the unpaid portion of such Allowed Administrative Expense Claim on the latest of (i) the Effective Date or as soon as practicable thereafter, (ii) the first Business Day after the day that is thirty (30) calendar days after the date such Administrative Expense Claim becomes Allowed; (iii) the date on which such Administrative Expense Claim becomes due and payable according to its terms.</p>	Unimpaired	No
<p>Unclassified: Professional Fees</p> <p>Unpaid Professional fees incurred during the Chapter 11 Case</p> <p><b>Estimated Recovery: 100%</b></p>	<p>Each Professional requesting compensation pursuant to section 327, 328, 330, 331, 503(b) and/or section 1103 of the Bankruptcy Code for services rendered before the Effective Date will be paid by Reorganized Sepco from the Net Reserve Funds to the extent such compensation is approved by the Bankruptcy Court.</p>	Unimpaired	No
<p>Unclassified: Priority Tax Claims</p> <p><b>Estimated Recovery: 100%</b></p>	<p>Except to the extent that the holder of an Allowed Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a different treatment with respect thereto, each holder of an Allowed Priority Tax Claim will receive in full satisfaction, settlement and discharge of and in exchange for such Allowed Priority Tax Claim, Cash from the Net Reserve</p>	Unimpaired	No

Class	Treatment	Status	Entitled to Vote?
	Funds in an amount equal to the unpaid portion of such Allowed Priority Tax Claim, on the latest of: (a) the Effective Date; (b) the date such Priority Tax Claim becomes an Allowed Claim, or as soon thereafter as is practicable; and (c) the date such Allowed Priority Tax Claim becomes due and payable under applicable non-bankruptcy law.		
<p>Class 1: Priority Claims</p> <p>There are [redacted] known Priority Claims asserted against the Debtor.</p> <p><b>Estimated Recovery: 100%</b></p>	<p>Except to the extent a holder of an Allowed Priority Claim has been paid prior to the Effective Date or agrees to a different treatment, each holder of an Allowed Priority Claim shall receive, in full satisfaction, settlement, and discharge of, and in exchange for such Priority Claim, Cash to be paid from the Net Reserve Funds in an amount equal to the unpaid portion of such Allowed Priority Claim on the later of: (a) the Effective Date; and (b) the date the Priority Claim becomes an Allowed Priority Claim, or as soon thereafter as practicable. All Allowed Priority Claims not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.</p>	Unimpaired	No
<p>Class 2: Secured Claims</p> <p>Allowed Secured Claims asserted against the Debtor are estimated to total approximately \$ [redacted]</p> <p><b>Estimated Recovery: 100%</b></p>	<p>Holders of Allowed Secured Claims shall be treated pursuant to one of the following alternatives: (a) on the Effective Date, the collateral up to the amount of such Allowed Secured Claim shall be surrendered by the Debtor or Reorganized Sepco, as applicable, to the holder of such Allowed Secured Claim (if the holder of the Allowed Secured Claim is a law firm retained prepetition by or on behalf of the Debtor and is holding funds from a retainer previously paid by the Debtor in an IOLTA or similar deposit account, such law firm shall be permitted to set-off an amount in that IOLTA or similar deposit account sufficient to pay its Allowed Secured Claim); or (b) such Allowed Secured Claim shall receive such other treatment as Reorganized Sepco and the holder shall agree. The amount (if any) by which a holder's total Allowed Claim exceeds its Allowed Secured Claim shall be accorded the treatment for General Unsecured Claims set forth in Class 3 of the Plan. If no objection to a Secured Claim is</p>	Unimpaired	No

Class	Treatment	Status	Entitled to Vote?
	filed within sixty (60) calendar days after the Prepetition Non-Asbestos Claims Bar Date, then no objection may be filed or otherwise interposed thereafter against that Secured Claim and that Secured Claim shall automatically and irrevocably be treated under the Plan as an Allowed Secured Claim.		
<p>Class 3: General Unsecured Claims</p> <p>Allowed Unsecured Claims asserted against the Debtor are estimated to total approximately \$ [REDACTED]</p> <p><b>Estimated Recovery:</b> ____</p>	<p>Except to the extent a holder of an Allowed General Unsecured Claim agrees to different treatment, each holder of an Allowed General Unsecured Claim shall be paid in full, in Cash from the Net Reserve Funds, on, or as soon as practicable after, the latest of: (a) the Effective Date, (b) the date on which such General Unsecured Claim becomes an Allowed General Unsecured Claim, (c) the date such General Unsecured Claim becomes due and payable according to its terms, or (d) such other date as mutually may be agreed to by and between the holder of such General Unsecured Claim and the Debtor or Reorganized Sepco. If no objection to a General Unsecured Claim is filed within sixty (60) calendar days after the Prepetition Non-Asbestos Claims Bar Date, then no objection may be filed or otherwise interposed thereafter against that General Unsecured Claim and that General Unsecured Claim shall automatically and irrevocably be treated under the Plan as an Allowed General Unsecured Claim.</p>	Unimpaired	No
<p>Class 4: Asbestos Personal Injury Claims</p> <p>As of the Petition Date, the Debtor estimated that there were approximately [REDACTED] Asbestos Personal Injury Claims outstanding against the Debtor, many of which have not been liquidated</p> <p><b>Estimated Recovery:</b> <b>Unknown</b></p>	<p>As of the Effective Date, liability for all Asbestos Personal Injury Claims shall automatically, and without further act, deed or court order, be channeled exclusively to and assumed by the Asbestos Personal Injury Trust in accordance with, and to the extent set forth in, the Plan, the applicable Plan Documents, and the Confirmation Order. Each Asbestos Personal Injury Claim shall be resolved in accordance with the terms, provisions and procedures of the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures. The Asbestos Personal Injury Trust shall be funded in accordance with the Plan. The sole recourse of the holder of an Asbestos Personal Injury Claim on account of such Asbestos Personal Injury Claim shall be to the</p>	Impaired	Yes

Class	Treatment	Status	Entitled to Vote?
	Asbestos Personal Injury Trust, and each such holder shall have no right whatsoever at any time to assert its Asbestos Personal Injury Claim against any Protected Party.		
<p>Class 5: Intercompany Claims</p> <p>Allowed Intercompany Claims asserted against the Debtor are estimated to total approximately \$ [REDACTED]</p> <p><b>Estimated Recovery: 0%</b></p>	Each holder of an Allowed Intercompany Claim shall receive, in full satisfaction, settlement and discharge of and in exchange for such Intercompany Claim, Cash from the Net Reserve Funds in the amount of \$10.	Impaired	Yes
<p>Class 6: Equity Interests</p> <p><b>Estimated Recovery: 0%</b></p>	On the Effective Date, the Equity Interests in the Debtor shall be cancelled, annulled and extinguished.	Impaired	No

## DISCLAIMERS

EACH HOLDER OF A CLAIM AGAINST THE DEBTOR ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN SHOULD READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY BEFORE VOTING. NO SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN MAY BE MADE EXCEPT PURSUANT TO THE TERMS HEREOF AND SECTION 1125 OF THE BANKRUPTCY CODE. IF YOU ARE ENTITLED TO VOTE TO ACCEPT THE PLAN, YOU ARE RECEIVING A BALLOT WITH YOUR NOTICE OF THE PLAN AND THIS DISCLOSURE STATEMENT. THE PLAN PROPONENTS URGE YOU TO VOTE TO ACCEPT THE PLAN.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULES 3016 AND 3017, AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER APPLICABLE NON-BANKRUPTCY LAW. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING, OR TRANSFERRING CLAIMS AGAINST OR INTERESTS IN THE DEBTOR SHOULD EVALUATE THIS DISCLOSURE STATEMENT IN LIGHT OF THE PURPOSE FOR WHICH IT WAS PREPARED. THIS DISCLOSURE STATEMENT SHALL NOT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST OR INTERESTS IN THE DEBTOR. YOU SHOULD CONSULT YOUR PERSONAL COUNSEL OR TAX ADVISOR ON ANY QUESTIONS OR CONCERNS RESPECTING TAX, SECURITIES, OR OTHER LEGAL CONSEQUENCES OF THE PLAN.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, STATUTORY PROVISIONS, DOCUMENTS RELATED TO THE PLAN, ANTICIPATED EVENTS IN THE CHAPTER 11 CASE, AND FINANCIAL INFORMATION. ALTHOUGH THE DEBTOR BELIEVES THAT THE STATEMENTS AND DESCRIPTIONS CONTAINED IN THIS DISCLOSURE STATEMENT ARE TRUE AND ACCURATE, THEY ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF THE PLAN, THE RELATED DOCUMENTS, AND APPLICABLE STATUTORY PROVISIONS. THE TERMS OF THE PLAN, RELATED PLAN DOCUMENTS, AND APPLICABLE STATUTES GOVERN IN THE EVENT OF ANY DISCREPANCY WITH THIS DISCLOSURE STATEMENT. CREDITORS AND OTHER INTERESTED PARTIES SHOULD READ THE PLAN, THE RELATED PLAN DOCUMENTS, AND THE APPLICABLE STATUTES THEMSELVES FOR THE FULL AND COMPLETE STATEMENTS OF SUCH TERMS AND PROVISIONS.

THE FACTUAL STATEMENTS AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE BY THE DEBTOR (AND NOT THE OTHER PLAN PROPONENTS) AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFIED, AND THE DEBTOR DISCLAIMS ANY OBLIGATION TO UPDATE ANY SUCH STATEMENTS AFTER THE SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN. THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL

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**THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT AND HAS NOT NECESSARILY BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.**

**ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN OR OTHERWISE MADE BY THE DEBTOR INVOLVE MATERIAL RISKS AND UNCERTAINTIES AND ARE SUBJECT TO CHANGE BASED ON NUMEROUS FACTORS, INCLUDING FACTORS THAT ARE BEYOND THE DEBTOR'S CONTROL. ACCORDINGLY, THE DEBTOR'S FUTURE PERFORMANCE AND FINANCIAL RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN ANY SUCH FORWARD-LOOKING STATEMENTS. SUCH FACTORS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DESCRIBED IN THIS DISCLOSURE STATEMENT. THE DEBTOR DOES NOT INTEND TO UPDATE OR REVISE ITS FORWARD-LOOKING STATEMENTS EVEN IF EXPERIENCE OR FUTURE CHANGES MAKE IT CLEAR THAT ANY PROJECTED RESULTS EXPRESSED OR IMPLIED THEREIN WILL NOT BE REALIZED.**

**ANY PROJECTED RECOVERIES TO CREDITORS SET FORTH IN THIS DISCLOSURE STATEMENT ARE BASED UPON THE ANALYSES PERFORMED BY THE DEBTOR AND ITS ADVISORS. ALTHOUGH THE DEBTOR AND ITS ADVISORS HAVE MADE EVERY EFFORT TO VERIFY THE ACCURACY OF THE INFORMATION PRESENTED HEREIN, THE DEBTOR AND ITS ADVISORS CANNOT MAKE ANY REPRESENTATIONS OR WARRANTIES REGARDING THE ACCURACY OF THIS INFORMATION.**

**IN CONNECTION WITH THE DEBTOR'S SOLICITATION OF ACCEPTANCES OF THE PLAN PURSUANT TO SECTION 1126(b) OF THE BANKRUPTCY CODE, THE DEBTOR IS FURNISHING A SOLICITATION PACKAGE, CONSISTING OF THIS DISCLOSURE STATEMENT, THE EXHIBITS HERETO, AND A BALLOT OR MASTER BALLOT, AS APPLICABLE, TO EACH RECORD HOLDER OF CLAIMS ELIGIBLE TO VOTE OR ITS COUNSEL. THIS DISCLOSURE STATEMENT IS TO BE USED BY EACH SUCH ELIGIBLE HOLDER SOLELY IN CONNECTION WITH ITS EVALUATION OF THE PLAN; USE OF THIS DISCLOSURE STATEMENT FOR ANY OTHER PURPOSE IS NOT AUTHORIZED. NOTHING STATED IN THIS DISCLOSURE STATEMENT SHALL BE DEEMED OR CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PERSON, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTOR OR ANY OTHER PERSON. THIS DISCLOSURE STATEMENT MAY NOT BE REPRODUCED OR PROVIDED TO ANYONE OTHER THAN ADVISORS TO THE RECIPIENT WITHOUT THE PRIOR WRITTEN CONSENT OF THE DEBTOR.**

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## **I. INTRODUCTION TO THE DISCLOSURE STATEMENT AND THE PLAN**

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. It allows a debtor to remain in operation and work out its financial difficulties. In a chapter 11 bankruptcy case, the debtor continues to manage its affairs as a debtor-in-possession and as a fiduciary to the creditors of its estate.

Formulation and confirmation of a plan of reorganization are the principal goals of a chapter 11 case. A plan is the vehicle for satisfying claims against a debtor. After a plan has been filed, the holders of claims that will be impaired are permitted to vote to accept or reject the plan. In connection with filing a proposed plan, section 1125 of the Bankruptcy Code requires the plan proponent to prepare a disclosure statement containing adequate information of such kind, and in such detail, as to enable a hypothetical reasonable investor to make an informed judgment about the plan.

This Disclosure Statement sets forth certain information regarding the Debtor's prepetition history, significant events occurring during this Chapter 11 Case, and the Debtor's proposed reorganization. This Disclosure Statement also describes the Plan, certain effects of confirmation of the Plan, and the manner in which Distributions will be made under the Plan. Finally, this Disclosure Statement discusses the confirmation process and the procedures that holders of Claims or Interests in Impaired Classes must follow to object to confirmation of the Plan.

Chapter 11 does not require that each holder of a Claim against the Debtor vote in favor of the Plan in order for the Bankruptcy Court to confirm the Plan. At a minimum, however, the Bankruptcy Code requires that the Plan be accepted by at least one Class of Claims Impaired under the Plan. In order for a Class of Claims to accept the Plan, a majority in number and at least two-thirds in amount of those Claims that vote must vote in favor of the Plan. Additionally, to satisfy the requirements of section 524(g) of the Bankruptcy Code, 75% in number and at least two-thirds in amount of the Claims in Class 4 (Asbestos Personal Injury Claims) that vote must vote to accept the Plan.

Even though a holder of a Claim may choose either not to vote or to vote against the Plan, the holder will be bound by the terms and treatment set forth in the Plan if the Plan is confirmed by the Bankruptcy Court. Creditors who fail to vote will not be counted in determining acceptance or rejection of the Plan.

Confirmation of a chapter 11 plan by a bankruptcy court makes the plan binding upon the debtor, any issuer of securities under the plan, any person or entity acquiring property under the plan, and any creditor of or equity security holder in the debtor, whether or not such creditor or equity security holder (i) is impaired under or has accepted the plan, or (ii) receives or retains any property under the plan. Subject to certain limited exceptions and other than as provided in the plan itself or the confirmation order, confirmation orders often limit the rights of creditors against a debtor with respect to any debt that arose prior to the date of confirmation of the plan and substitute therefor the obligations specified under the confirmed plan and terminate all rights and interests of equity security holders.

**For a description of the Plan and various risk and other factors pertaining to the Plan as it relates to holders of Claims against and Interests in the Debtor, please see Articles V-VIII and X of this Disclosure Statement.**

## **II. THE HISTORY OF THE DEBTOR AND ITS BUSINESS**

The Debtor was a family-owned company originally incorporated in 1933. In 1981, the Debtor's stock was acquired by another company for approximately \$8.2 million. In 1995, the Debtor ceased active business operations. As a result of certain asbestos-containing products that it had previously sold, manufactured, marketed, and distributed, however, the Debtor became embroiled in asbestos litigation. Although the Debtor had limited resources of its own, it did have substantial insurance coverage that enabled it to address that litigation for a significant period of time.

Asbestos Personal Injury Claims were first brought against the Debtor beginning in the late 1970s. As of the Petition Date, the Debtor had approximately 4,816 open and pending Asbestos Personal Injury Claims. In addition, approximately 32,238 Asbestos Personal Injury Claims were technically pending against the Debtor, but may be "inactive" either as a matter of state law or because they have been dormant.

Over the years, the Debtor paid a total of approximately \$120 million in settlement and defense costs, of which approximately \$75 million was funded by its insurers and the remaining \$45 million from the Debtor's own financial assets. As a result of these payments, all of the Debtor's primary liability insurance coverage, and much of its excess liability insurance coverage, has been exhausted. As of the Petition Date, the Debtor was receiving payments under only one of its insurance policies (issued by Firemen's Fund Insurance Company), and that policy pays only a small percentage of the Debtor's settlement and defense costs. At the Petition Date, the Debtor had been in a dispute with The Hartford Financial Services Group, Inc. (First State Insurance Company ("First State") and Twin City Fire Insurance Company ("Twin City"; and, together with First State, "Hartford")), which (as of the Petition Date) the Debtor asserted and believed issued certain liability policies to the Debtor, or under which the Debtor believed it was entitled to insurance coverage.

With respect to Hartford, the Debtor believed that as of the Petition Date it had remaining coverage for Asbestos Personal Injury Claims under at least three policies – a 1983-1984 policy issued by Twin City that provided \$10 million in coverage in excess of \$15.5 million in underlying coverage; a 1984-1985 policy issued by Twin City that provided \$25 million in coverage in excess of \$25.5 million in underlying coverage; and a 1985-1986 policy issued by First State that provided \$5 million in coverage as a part of a block of \$8 million in coverage in excess of \$11.5 million in underlying coverage – for a total potential remaining coverage of approximately \$40 million (collectively, the "Hartford Policies").

On January 14, 2005, Sepco, First State, and Twin City entered into a *Confidential Settlement Agreement and Release Between Sepco Corporation and First State Insurance Company and Twin City Fire Insurance Company Regarding the Handling and Payment of*

*Asbestos-Related Bodily Injury Claims* (the “CIP Agreement”), to resolve their then-existing disputes relating to coverage for Asbestos Personal Injury Claims. Disputes arose thereafter in connection with Hartford’s obligations under the CIP Agreement, including as to whether the insurance policies sitting below the Hartford Policies had been exhausted properly. Hartford contended that none of the Hartford Policies had yet been triggered and, therefore, that the Debtor was not entitled to payment under the Hartford Policies at that time for the Debtor’s asbestos-related defense or indemnity payments. Accordingly, the Debtor had not received any payments under the Hartford Policies.

During August 2014, Hartford demanded arbitration of the disputes concerning the Hartford Policies and the CIP Agreement. A protracted mediation took place between the Debtor and Hartford, but their disputes were not resolved. Shortly thereafter, the Debtor commenced its Chapter 11 Case to facilitate an orderly process for a fair and efficient resolution of its dispute with Hartford and the payment of Asbestos Personal Injury Claims.

### **III. PURPOSE OF THIS CHAPTER 11 CASE**

The Debtor filed this Chapter 11 Case to resolve all existing and future Asbestos Personal Injury Claims in accordance with section 524(g) of the Bankruptcy Code. To resolve the Asbestos Personal Injury Claims, the Plan Proponents are seeking confirmation of the Plan, which provides for the establishment of an asbestos claims settlement trust into which certain assets of the Debtor, including settlement proceeds and insurance rights, will be transferred. The Asbestos Personal Injury Trust will assume liability for all Asbestos Personal Injury Claims and use its assets to resolve the Asbestos Personal Injury Claims and compensate eligible holders of the Asbestos Personal Injury Claims. By establishing procedures to govern trust distributions, the Asbestos Personal Injury Trust will be able to value and pay Asbestos Personal Injury Claims in substantially the same manner.

In conjunction with the establishment of the Asbestos Personal Injury Trust, the Plan Proponents are seeking the issuance of a channeling injunction, which will enjoin any entity that holds or asserts, or that may in the future hold or assert, an Asbestos Personal Injury Claim from taking any action for the purpose of directly or indirectly recovering on such Asbestos Personal Injury Claim from the Debtor, Reorganized Sepco, and the Settled Asbestos Insurers (the “Protected Parties”). Accordingly, if the Plan is confirmed, current and future holders of Asbestos Personal Injury Claims will have to look to the Asbestos Personal Injury Trust for compensation in lieu of the Debtor and the other Protected Parties.

### **IV. THE CHAPTER 11 CASE**

On the Petition Date, the Debtor filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Since then, the Debtor has continued in possession of its property as a debtor-in-possession under sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in the Chapter 11 Case.

Upon the commencement of the Chapter 11 Case, an automatic stay was imposed under the Bankruptcy Code. That stay, with limited exceptions, enjoins the commencement of new

litigation by creditors, the enforcement of liens against property of the Debtor or property of the Estate, and the continuation of any litigation against the Debtor that existed before the Chapter 11 Case. Unless modified by the Bankruptcy Court, the automatic stay will remain in effect until the Effective Date of the Plan.

**A. First-Day Motions and Orders**

Shortly after the Petition Date, the Debtor obtained the Bankruptcy Court's approval of certain "first-day" motions and orders. Those orders have allowed the Debtor to continue using its existing bank accounts and business forms, and established the procedure governing how notice of future motions and applications would be given to creditors and holders of Asbestos Personal Injury Claims during the Chapter 11 Case. In addition, on February 12, 2016, the Bankruptcy Court entered an order approving the Debtor's employment of the law firm of Buckley King LPA as its bankruptcy counsel, effective as of (and retroactive to) the Petition Date. *See* Doc. No. 43.

**B. Schedules, Statement of Financial Affairs, and Non-Asbestos Personal Injury Claims Bar Date**

On February 19, 2016, the Debtor filed its Schedules of Assets and Liabilities and its Statement of Financial Affairs (collectively, the "Schedules"). *See* Doc. Nos. 51-54.

In an order dated July 19, 2018 (Doc. No. 416), the Bankruptcy Court established September 28, 2018, as the deadline or "bar date" by which holders of non-Asbestos Personal Injury Claims must file proofs of claims against the Debtor in order to participate in the Chapter 11 Case or receive distributions under the Plan. In addition, governmental units that are creditors must file proofs of claims by September 28, 2018. Under that order, holders of Asbestos Personal Injury Claims were not required to file proofs of claims against the Debtor. Likewise, any creditor whose Claim is set forth in the Schedules and is not identified there as being contingent, unliquidated, or disputed, was permitted (but was not required) to file a proof of claim against the Debtor in order to participate in the Chapter 11 Case or receive a distribution under the Plan.

**C. Formation of the Asbestos Claimants Committee**

On February 1, 2016, the Office of the United States Trustee for Region 9 (the "United States Trustee") appointed the Asbestos Claimants Committee under section 1102(a)(1) of the Bankruptcy Code. *See* Doc. No. 37. The Asbestos Claimants Committee consists of seven (7) individuals who assert Asbestos Personal Injury Claims against the Debtor, who, in turn, are respectively represented by the following seven law firms with significant product liability practices: Gori Julian & Associates P.C.; SMWM Law, LLC (f/k/a SMWK Law, LLC); Provost & Umphrey Law Firm, LLP; Kelley & Ferraro, LLP; Schrader & Associates, L.L.P.; Simmons Hanley Conroy LLC; and Bevan & Associates, LPA, Inc. With the Bankruptcy Court's approval, the Asbestos Claimants Committee engaged the law firms of Caplin & Drysdale, Chartered and Brouse McDowell, LPA, as its co-counsel, effective as of, and retroactive to, February 5 and 29, 2016, respectively. *See* Doc. Nos. 82, 83.

#### **D. Appointment of the Future Claimants' Representative**

On August 17, 2017, the Debtor and Asbestos Claimants Committee jointly moved the Bankruptcy Court for appointment of Lawrence Fitzpatrick to act as legal representative to protect the shared interests of individuals who might assert asbestos-related demands against the Debtor in the future (the "Future Claimants' Representative"). *See* Doc. No. 250. On September 13, 2017, the Bankruptcy Court appointed Mr. Fitzpatrick as the Future Claimants' Representative in an order that was amended on September 18, 2017; his appointment was made effective as of, and retroactive to, July 18, 2017. *See* Doc. Nos. 266, 275. With the Bankruptcy Court's approval, the Future Claimants' Representative engaged the law firms of Young Conaway Stargatt & Taylor, LLP and Black McCusky Souers & Arbaugh, as his co-counsel. *See* Doc. Nos. 287, 288.

#### **E. Retention of Other Estate Professionals**

On February 12, 2016, the Bankruptcy Court entered an order approving the Debtor's retention of Kurtzman Carson Consultants, LLC, as its notice, balloting, and claims agent in the Chapter 11 Case. *See* Doc. No. 44. On the same date, the Bankruptcy Court entered an order authorizing the Debtor to retain and compensate Navigant PACE, as well as certain law firms identified as "ordinary course professionals," subject to certain dollar "caps" on the amounts of compensation these law firms can be paid from the Estate without having to file formal applications for, and to seek Bankruptcy Court approval of, their compensation during the Chapter 11 Case. *See* Doc. No. 45.

On May 23, 2016, the Bankruptcy Court entered an order approving the Debtor's retention of PMCM, LLC, as the Debtor's financial advisor and authorizing the engagement of Richard J. Szekelyi as the Debtor's Chief Restructuring Officer, effective as of (and retroactive to) the Petition Date. *See* Doc. No. 89. The primary purposes of PMCM, LLC's retention was to render financial assistance as the Debtor may require, including to prepare its monthly "operating reports" contemplated under the Bankruptcy Code and regulations of the United States Trustee.

On August 3, 2016, the Bankruptcy Court entered an order approving the retention of Gilbert LLP as the special insurance counsel for the Asbestos Claimants Committee, effective as of (and retroactive to) June 13, 2016. *See* Doc. No. 131. Gilbert LLP's services included, among other things, advising the Asbestos Claimants Committee on steps to be taken to preserve insurance coverage and to maximize any insurance recoveries, spearheading negotiations on behalf of the Estate with certain insurers in an effort to resolve disputes with them and to settle the affected insurance coverage, and assisting the Asbestos Claimants Committee on insurance-related matters arising in connection with formulation of a plan of reorganization.

On March 28, 2017, the Bankruptcy Court entered an order approving the Debtor's retention of Selman Breitman LLP ("Selman") as its special counsel for asbestos-related litigation. *See* Doc. No. 218. Selman had been one of the "ordinary course professionals" whose retention the Bankruptcy Court authorized in its February 12, 2016 order (Doc. No. 45). Before the Debtor's bankruptcy, Selman acted as its national coordinating counsel for asbestos-

related litigation then pending against the Debtor throughout the United States. Under the Bankruptcy Court's order governing the Debtor's retention of "ordinary course professionals" in the Chapter 11 Case, the Debtor had to seek Selman's formal retention under section 330 of the Bankruptcy Code, so that Selman could request Bankruptcy Court approval of its compensation and expenses in excess of the dollar amounts "cap" applicable to it. The primary purposes of Selman's retention (initially, as an "ordinary course professional" and, thereafter, under the March 28, 2017 order) were to assist the Debtor in addressing any asbestos-related litigation issues arising during the Chapter 11 Case, including communications with counsel for holders of Asbestos Personal Injury Claims who sued the Debtor after the Petition Date (despite the pendency of the Chapter 11 Case and the automatic stay under the Bankruptcy Code).

**F. Asbestos Claimants Committee's and Future Claimants' Representatives Discovery and Due Diligence**

Beginning on April 15, 2016, and continuing at various times thereafter, the Asbestos Claimants Committee informally requested production of various documents and related information from the Debtor in connection with the Asbestos Claimants Committee's performance of due diligence (the "Discovery Requests"). The Debtors provided initial responses to the first Discovery Requests in early June 2016. In order to facilitate further discovery, document production, and information-sharing between the Debtor and the Asbestos Claimants Committee, those parties, among other measures, jointly moved the Bankruptcy Court for entry of a protective order on August 30, 2016, governing the production of such documents and to maintain the confidentiality of certain information and otherwise not waive applicable privileges. *See* Doc. No. 145. On September 2, 2016, the Bankruptcy Court entered a Stipulated Protective Order governing those matters, which was amended at the Debtor's and Asbestos Claimants Committee's request on October 6, 2016. *See* Doc. Nos. 147, 162. Once the Bankruptcy Court approved the Future Claimants' Representative appointment, the amended protective order was further amended on November 16, 2017, to facilitate information-sharing with the Future Claimants' Representative and to enable him to complete his due diligence. *See* Doc. No. 293.

The Debtor completed its rolling document production responsive to the Discovery Requests by early March 2017. Over the course of several months, the Debtor produced an extensive number of documents and other information that was relevant to the Asbestos Claimants Committee's and the Future Claimants' Representative's assessment of (among other things) the Debtor's historical operations, its available insurance coverage, its financial condition, the number, categories, and status of pending Asbestos Personal Injury Claims against the Debtor, and the prospects for formulating a consensual Chapter 11 plan. Aside from the Debtor's having produced voluminous documents and information, representatives of the Debtor, the Asbestos Claimants Committee, and the Future Claimants' Representative have conferred repeatedly during the Chapter 11 Case on these and other matters. They also have negotiated extensively regarding the formulation and content of the proposed Plan and ancillary documents.

### **G. Hartford Settlement Agreement and Establishment of the Qualified Settlement Fund**

During the Chapter 11 Case, the Debtor settled the disputes with Hartford that had existed pre-bankruptcy. The Asbestos Claimants Committee's special insurance counsel, Gilbert LLP, spearheaded the negotiations with Hartford that, in consultation with the Debtor, the Asbestos Claimants Committee, and the Future Claimants' Representative, culminated in that settlement. Under the settlement, Hartford agreed to pay \$17,500,000 to resolve any claims relating to insurance coverage and to "purchase-back" all of Sepco's interests in the Hartford Policies that Hartford had issued.

On January 31, 2018, the Debtor filed a motion, with the consent of the Asbestos Claimants Committee and Future Claimants' Representative, seeking approval of the settlement among the Debtor, Hartford, and certain entities affiliated with the Debtor (collectively, the "Affiliates"). *See* Doc. No. 318. Concurrently with that motion, the Debtor filed (also with the consent of the Asbestos Claimants Committee and the Future Claimants' Representative) a motion to establish a "qualified settlement fund" into which proceeds of the Hartford settlement would be deposited, pending confirmation of a Chapter 11 plan. *See* Doc. No. 320. The Debtor gave notice of both motions to creditors and holders of Allowed Personal Injury Claims in the manner the Bankruptcy Court had approved early in the Chapter 11 Case. *See, e.g.*, Doc. Nos. 319, 321, 346.

On February 22, 2018, the United States Trustee filed a response to both motions. *See* Doc. No. 341. Following negotiations with the United States Trustee, on March 16, 2018, the Debtor, Asbestos Claimants Committee, Future Claimants' Representative, and United States Trustee filed a Stipulation to resolve the particular concerns the United States Trustee had raised. *See* Doc. No. 357. After conducting a hearing on both motions, the Bankruptcy Court entered orders approving them – and thus approving the settlement among the Debtor, Hartford, and the Affiliates, and authorizing the Debtor to establish the qualified settlement fund – on March 23, 2018. *See* Doc. Nos. 374, 375.

Pursuant to its settlement agreement with the Debtor and the Affiliates, Hartford has paid \$17,500,000 in cash, which has been deposited into the qualified settlement fund. As provided more fully in the Plan, upon the Effective Date the balance of those funds will be contributed from the qualified settlement fund into the Asbestos Personal Injury Trust and will be part of the Asbestos Personal Trust Assets.

The Debtor's settlement with Hartford resolved a motion to compel arbitration (relating to the amount and extent of available insurance coverage) that First State and Twin City had filed on December 16, 2016, but that the Bankruptcy Court never was called upon to decide. *See* Doc. No. 175. In anticipation of the settlement among Hartford, the Debtor, and the Affiliates (which the Bankruptcy Court thereafter approved, as explained above), those insurers withdrew the motion to compel arbitration on November 21, 2017. *See* Doc. No. 295.

## **H. Treatment of Non-Settled Asbestos Insurers**

Pursuant to the Plan, Sepco or Reorganized Sepco, as applicable, will transfer to the Asbestos Personal Injury Trust on the Effective Date (a) all of Sepco's or Reorganized Sepco's, as applicable, rights related to or arising under any insurance policy (but not the policies themselves), Coverage-in-Place Agreement ("CIP"), or other agreement with any insurer that provided or may have provided coverage to Sepco for Asbestos Personal Injury Claims and (b) all claims and causes of action that Sepco or Reorganized Sepco have, or may have in the future, against any insurer that is not a Settled Asbestos Insurer under or related to any insurance policy, CIP, or other agreement that provides or may provide coverage for Asbestos Personal Injury Claims, including, but not limited to, claims or causes of action for bad-faith refusal to settle.

## **V. TREATMENT OF HOLDERS OF CLAIMS AND INTERESTS UNDER THE PLAN**

### **A. Summary of Classification and Treatment of Claims and Interests**

Section 1123 of the Bankruptcy Code provides that a chapter 11 plan must classify the claims and interests of a debtor's creditors and equity interest holders. In accordance with section 1123 of the Bankruptcy Code, the Plan divides Claims and Interests into Classes and sets forth the treatment for each Class (other than Administrative Expense Claims and Priority Tax Claims, which, pursuant to section 1123(a)(1) of the Bankruptcy Code, need not be and have not been classified). The Debtor is also required, under section 1122 of the Bankruptcy Code, to classify Claims against and Interests in the Debtor into Classes that contain Claims and Interests that are substantially similar to the other claims and Interests in such Class.

The classification of Claims and Interests and the nature of Distributions to members of each Class are summarized in the table at the beginning of this Disclosure Statement and more fully below. The Debtor believes that the consideration provided under the Plan to holders of Claims and Interests reflects an appropriate resolution of the Claims and Interests. The Bankruptcy Court must find, however, that a number of statutory tests are met before the Plan may be confirmed. Many of these tests are designed to protect the interests of holders of Claims or Interests who will be bound by the provisions of the Plan if it is confirmed.

### **B. Unclassified Claims**

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims have not been classified and are excluded from those Classes of Claims described in Article III of the Plan. The treatment assigned to Administrative Expense Claims and Priority Tax Claims is set forth in Sections 2.2 and 2.3 of the Plan and summarized below.

#### **1. Administrative Expense Claims.**

To confirm the Plan, Allowed Administrative Expense Claims must be paid in full on the Effective Date or in a manner otherwise agreeable to the holders of those Administrative Expense Claims. Administrative Expense Claims are the actual and necessary costs and

expenses of the Chapter 11 Case. There are no known Administrative Expense Claims asserted against the Debtor other than Professional fees and the Administrative Expense Claims that are being paid in the ordinary course of business.

Consistent with the requirements of the Bankruptcy Code, the Plan provides that, unless otherwise agreed to by the Debtor and the holder of an Allowed Administrative Expense Claim, each holder of an Allowed Administrative Expense Claim shall receive Cash, to be paid from the Net Reserve Funds, equal to the unpaid portion of such Allowed Administrative Expense Claim on the later of (a) the Effective Date or as soon as practicable thereafter, (b) the first Business Day after the day that is thirty (30) calendar days after the date the Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or (c) the date the Allowed Administrative Expense Claim becomes due and payable according to its terms. As of the Effective Date, with the exception of requests for payment of Professional Fee Claims, Reorganized Sepco, in its sole and absolute discretion, may settle Administrative Expense Claims in the ordinary course of business without further Bankruptcy Court approval. A claimant's receipt of the Allowed Amount of its Administrative Expense Claim shall be in full satisfaction, settlement, release, extinguishment, and discharge of such Claim, on the date such payment is received.

## 2. Bar Date for Administrative Expense Claims.

Except for Asbestos Personal Injury Trust Expenses, Professional Fee Claims, and Administrative Tax Claims, requests for payment of Administrative Expense Claims must be filed with the Bankruptcy Court and served on counsel for Reorganized Sepco no later than the Administrative Expense Claims Bar Date. Holders of Administrative Expense Claims (including, without limitation, Professionals asserting Professional Fee Claims and the holders of any Claims for federal, state or local taxes) that are required to file a request for payment of such Claims and that do not file such requests by the Administrative Expense Claims Bar Date (or, in the case of tax claims, such later date as may be applicable pursuant to Section 2.2(e) of the Plan) shall be forever barred from asserting such Claims against the Debtor, Reorganized Sepco, or any of their respective property.

The notice of the Effective Date to be delivered pursuant to Bankruptcy Rules 2002 and 3020(c) shall set forth the Administrative Expense Claims Bar Date and constitute notice thereof. Reorganized Sepco, the Asbestos Personal Injury Trust, and any other party in interest will have forty-five (45) days after the Administrative Expense Claims Bar Date to review and object to such Claims, provided that such forty-five (45) day period of review may be extended by the Bankruptcy Court upon the request of Reorganized Sepco or the Asbestos Personal Injury Trust. Unless a party in interest timely objects to an Administrative Expense Claim, such Claim (other than a Professional Fee Claim) shall be deemed Allowed in the amount requested. In the event that a party in interest timely objects to an Administrative Expense Claim, the parties may confer to try to reach a settlement and, failing that, the Bankruptcy Court shall determine whether such Administrative Expense Claim should be Allowed and, if so, in what amount.

## 3. Asbestos Personal Injury Trust Expenses.

As of the Effective Date, liability for all Asbestos Personal Injury Trust Expenses, whether incurred before or after the Effective Date, shall automatically, and without further act, deed or court order, be assumed by the Asbestos Personal Injury Trust and resolved in accordance with the terms, provisions and procedures of the Asbestos Personal Injury Trust Agreement.

4. Professionals.

All Professionals or other entities requesting compensation or reimbursement of expenses pursuant to sections 327, 328, 330, 331, 503(b) and/or section 1103 of the Bankruptcy Code for services rendered before the Effective Date (including, without limitation, any compensation requested by any Professional or any other entity for making a substantial contribution in the Chapter 11 Case) shall file and serve on the United States Trustee and counsel to Reorganized Sepco an application for final allowance of compensation and reimbursement of expenses no later than the Administrative Expense Claims Bar Date. Objections to Professional Fee Claims must be filed and served on (a) the United States Trustee, (b) counsel to Reorganized Sepco, and (c) the Professional(s) to whose application the objections are addressed, no later than forty-five (45) days after the Administrative Expense Claims Bar Date. Upon approval by the Bankruptcy Court of compensation and expenses set forth in any application therefor submitted by a Professional, Reorganized Sepco shall pay such compensation and expenses from the Net Reserve Funds.

5. Administrative Tax Claims.

All requests for payment of Administrative Expense Claims by a governmental unit for taxes (and for interest and/or penalties related to such taxes) for any tax year or period, all or any portion of which occurs or falls within the period from and including the Petition Date through and including the Effective Date ("Post-Petition Tax Claims") and for which no bar date has otherwise been previously established, must be filed on or before the later of (i) the Administrative Expense Claims Bar Date; or (ii) ninety (90) days following the filing with the applicable governmental unit of the tax return for such taxes for such tax year or period. Any holder of any Post-Petition Tax Claim that is required to file a request for payment of such taxes and does not file such a Claim by the applicable bar date shall be forever barred from asserting any such Post-Petition Tax Claim against the Debtor, Reorganized Sepco, or their property, regardless of whether any such Post-Petition Tax Claim is deemed to arise prior to, on, or subsequent to the Effective Date.

6. Priority Tax Claims.

Except to the extent that the holder of an Allowed Priority Tax Claim has been paid by the Debtor prior to the Effective Date on account of such Priority Tax Claim or agrees to a different treatment with respect thereto, each holder of an Allowed Priority Tax Claim shall, in accordance with section 1129(a)(9)(C) of the Bankruptcy Code, receive in full satisfaction, settlement and discharge of and in exchange for such Allowed Priority Tax Claim Cash from the Net Reserve Funds in an amount equal to the unpaid portion of such Allowed Priority Tax Claim, on the latest of: (a) the Effective Date; (b) the date such Priority Tax Claim becomes an

Allowed Claim, or as soon thereafter as is practicable; and (c) the date such Allowed Priority Tax Claim becomes due and payable under applicable non-bankruptcy law.

### C. Classified Claims and Interests

The proposed treatment of all other Allowed Claims and Interests is set forth in Article III of the Plan and summarized below:

#### 1. Class 1 – Priority Claims.

a. Classification. Class 1 consists of all Priority Claims that are not Priority Tax Claims. A Priority Claim is a Claim entitled to priority in right of payment under section 507(a) of the Bankruptcy Code that is not an Administrative Expense Claim or a Priority Tax Claim.

b. Treatment. Except to the extent a holder of an Allowed Priority Claim has been paid prior to the Effective Date or agrees to a different treatment, each holder of an Allowed Priority Claim shall receive, in full satisfaction, settlement, and discharge of, and in exchange for such Priority Claim, Cash to be paid from the Net Reserve Funds in an amount equal to the unpaid portion of such Allowed Priority Claim on the later of: (a) the Effective Date; and (b) the date the Priority Claim becomes an Allowed Priority Claim, or as soon thereafter as practicable. All Allowed Priority Claims not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

c. Impairment and Voting. Class 1 is Unimpaired under the Plan. Each holder of a Priority Claim is deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote to accept or reject the Plan.

#### 2. Class 2 –Secured Claims

a. Classification. Class 2 consists of all Secured Claims. A Secured Claim is a Claim against the Debtor that is secured by a valid, perfected, and enforceable Lien on, or security interest in, property of the Debtor, or that has the benefit of rights of setoff under section 553 of the Bankruptcy Code, but only to the extent of the value of the holder's interest in the Debtor's interest in such property, or to the extent of the amount subject to setoff, the value of which will be determined as provided in section 506 of the Bankruptcy Code. Based upon its Schedules and the Proofs of Claim filed in this Chapter 11 Case that have not been withdrawn or disallowed, the Debtor estimates that the Allowed Claims in Class 2 total approximately \$                     .

b. Treatment. At the Debtor's or Reorganized Sepco's option, all Allowed Secured Claims in Class 2 shall be treated pursuant to one of the following alternatives: (a) on the Effective Date, the collateral up to the amount of such Allowed Secured Claim shall be surrendered by the Debtor or Reorganized Sepco, as applicable, to the holder of such Allowed Secured Claim (if the holder of the Allowed Secured Claim is a law firm retained prepetition by or on behalf of the Debtor and is holding funds from a retainer previously paid by the Debtor in

an IOLTA or similar deposit account, such law firm shall be permitted to set-off an amount in that IOLTA or similar deposit account sufficient to pay its Allowed Secured Claim); or (b) such Allowed Secured Claim shall receive such other treatment as Reorganized Sepco and the holder shall agree. The amount (if any) by which a holder's total Allowed Claim exceeds its Allowed Secured Claim shall be accorded the treatment for General Unsecured Claims set forth in Class 3 of this Plan. If no objection to a Secured Claim is filed within sixty (60) calendar days after the Prepetition Non-Asbestos Claims Bar Date, then no objection may be filed or otherwise interposed thereafter against that Secured Claim and that Secured Claim shall automatically and irrevocably be treated under the Plan as an Allowed Secured Claim.

c. Impairment and Voting. Class 2 is Unimpaired under the Plan. Each holder of a Secured Claim is deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote to accept or reject the Plan.

3. Class 3 – General Unsecured Claims.

a. Classification. Class 3 consists of all General Unsecured Claims against the Debtor. A General Unsecured Claim is a Claim against the Debtor that is not secured by a valid and enforceable Lien against property of the Debtor and that is not an Administrative Expense Claim, a Priority Claim, a Priority Tax Claim, an Intercompany Claim, or an Asbestos Personal Injury Claim. Based upon the liabilities listed in the Schedules and the Proofs of Claim filed in this Chapter 11 Case that have not been withdrawn or disallowed, the Debtor estimates that the Allowed Claims in Class 3 total approximately \$ [REDACTED].

b. Treatment. Except to the extent a holder of an Allowed General Unsecured Claim agrees to different treatment of that General Unsecured Claim, each holder of an Allowed General Unsecured Claim shall be paid in full, in Cash from the Net Reserve Funds, on, or as soon as practicable after, the latest of: (a) the Effective Date, (b) the date on which such General Unsecured Claim becomes an Allowed General Unsecured Claim, (c) the date such General Unsecured Claim becomes due and payable according to its terms, or (d) such other date as mutually may be agreed to by and between the holder of such General Unsecured Claim and the Debtor or Reorganized Sepco. If no objection to a General Unsecured Claim is filed within sixty (60) calendar days after the Prepetition Non-Asbestos Claims Bar Date, then no objection may be filed or otherwise interposed thereafter against that General Unsecured Claim and that General Unsecured Claim shall automatically and irrevocably be treated under the Plan as an Allowed General Unsecured Claim.

c. Impairment and Voting. Class 3 is Unimpaired under the Plan. Each holder of a General Unsecured Claim is deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote to accept or reject the Plan.

4. Class 4 – Asbestos Personal Injury Claims.

a. Classification. Class 4 consists of all Asbestos Personal Injury Claims.

b. Treatment. As of the Effective Date, liability for all Asbestos Personal Injury Claims shall automatically, and without further act, deed or court order, be channeled exclusively to and assumed by the Asbestos Personal Injury Trust in accordance with, and to the extent set forth in, Articles VIII and X of the Plan, the applicable Plan Documents and the Confirmation Order. Each Asbestos Personal Injury Claim shall be resolved in accordance with the terms, provisions and procedures of the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures. The Asbestos Personal Injury Trust shall be funded in accordance with the provisions of Section 8.3 of the Plan. The sole recourse of the holder of an Asbestos Personal Injury Claim on account of such Asbestos Personal Injury Claim shall be to the Asbestos Personal Injury Trust, and each such holder shall have no right whatsoever at any time to assert its Asbestos Personal Injury Claim against any Protected Party.

c. Impairment and Voting. Class 4 is Impaired under the Plan. Each holder of an Asbestos Personal Injury Claim is entitled to vote to accept or reject the Plan.

5. Class 5 – Intercompany Claims.

a. Classification. Class 5 consists of all Intercompany Claims.

b. Treatment. Each holder of an Allowed Intercompany Claim shall receive, in full satisfaction, settlement and discharge of and in exchange for such Intercompany Claim, Cash from the Net Reserve Funds in the amount of \$10. For the avoidance of doubt, any Claim that is an Intercompany Claim shall be classified in this Class 5, regardless of whether such Claim could be classified under any other class of Claims herein.

c. Impairment and Voting. Class 5 is Impaired under the Plan. Each holder of an Intercompany Claim is entitled to vote to accept or reject the Plan.

6. Class 6 – Equity Interests.

a. Classification. Class 6 consists of all Equity Interests.

b. Treatment. On the Effective Date, the Equity Interests in the Debtor shall be cancelled, annulled and extinguished.

c. Impairment and Voting. Class 6 is Impaired under the Plan. Each holder of an Equity Interest is deemed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code and, therefore, is not entitled to vote to accept or reject the Plan.

## **VI. MEANS FOR IMPLEMENTATION OF THE PLAN**

### **A. Generally**

On and after the Confirmation Date, the Debtor shall be empowered and authorized to take or cause to be taken, prior to the Effective Date, all actions necessary to enable it to implement the provisions of the Plan, including, without limitation, the creation of the Asbestos Personal Injury Trust and the preparations for the transfer of the Asbestos Personal Injury Trust Assets to the Asbestos Personal Injury Trust. From and after the Effective Date, Reorganized

Sepco shall be governed pursuant to the Amended Certificate of Incorporation and Amended By-Laws, which are described below and in the Plan.

## **B. Net Reserve Funds**

No later than the Effective Date, the Debtor or Reorganized Sepco, as applicable, shall either establish a bank account or utilize an existing bank account of the Debtor for the purpose of holding only the Net Reserve Funds. The Debtor, Reorganized Sepco or their respective designees, as applicable, shall make any and all disbursements from the Net Reserve Funds that are provided in the Plan. The Net Reserve Funds shall be used for the sole purpose of satisfying in full (a) all Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Priority Claims, Allowed Secured Claims and Allowed General Unsecured Claims (including the payment of any interest on any such Claims that may be allowed under the Plan or required to be paid by the Bankruptcy Code), (b) any fees and expenses of the Debtor, Reorganized Sepco, the Asbestos Claimants Committee, the Future Claimants' Representative and the Post-Effective Date Future Claimants' Representative that are payable by the Debtor or Reorganized Sepco, as applicable, pursuant to Section 9.1 of the Plan, (c) any fees payable pursuant to section 1930 of title 28 of the United States Code (whether those fees pursuant to section 1930 of title 28 are payable before or after the Effective Date), and (d) any other amounts that the Plan provides are to be paid from the Net Reserve Funds. Any Excess Net Reserve Funds shall be contributed by Reorganized Sepco to the Asbestos Personal Injury Trust, and that contribution shall be considered to be part of the Asbestos Personal Injury Trust Contribution. Regardless of the date upon which the Excess Net Reserve Funds are contributed to the Asbestos Personal Injury Trust, that contribution shall be deemed to have been made on the Effective Date.

## **C. Corporate Reorganization**

### **1. Amended Certificate of Incorporation and By-Laws.**

The Amended Certificate of Incorporation and Amended By-Laws shall contain such provisions as are necessary to satisfy the provisions of the Plan and, to the extent necessary, to prohibit the issuance of nonvoting equity securities as required by section 1123(a)(6) of the Bankruptcy Code. Notwithstanding the foregoing, the Amended Certificate of Incorporation and Amended By-Laws may be amended after the Effective Date as permitted by applicable law. Except as otherwise provided in the Plan, such Amended Certificate of Incorporation and Amended By-Laws shall contain indemnification provisions applicable to the officer and employees of Reorganized Sepco and such other Entities as may be deemed appropriate in the discretion of Reorganized Sepco and will provide for the authorization and issuance of the Reorganized Sepco Common Stock.

### **2. Reorganized Sepco Common Stock.**

On the Effective Date, all of the existing Equity Interests in the Debtor shall be cancelled, annulled, and extinguished, and 100% of the Reorganized Sepco Common Stock shall be authorized and issued to the Asbestos Personal Injury Trust.

3. Corporate Governance of Reorganized Sepco.

On the Effective Date, (a) the current officers and directors of the Debtor shall be deemed to resign from their respective positions by operation of the Plan and (b) the individual identified in a notice to be filed jointly by the Asbestos Claimants Committee and the Future Claimants' Representative no later than two (2) days prior to the deadline established to accept or reject the Plan shall be appointed to serve as both the officer and the director of Reorganized Sepco.

**VII. THE ASBESTOS PERSONAL INJURY TRUST**

The essential principle of the Plan is that all Asbestos Personal Injury Claims will be channeled to the Asbestos Personal Injury Trust and that holders of existing and future Asbestos Personal Injury Claims will have to look to the Asbestos Personal Injury Trust for compensation in lieu of the Debtor and any other Protected Party. The Debtor, Reorganized Sepco, and certain other persons will become Protected Parties entitled to the benefit of the Asbestos Personal Injury Channeling Injunction.

**A. Creation of the Asbestos Personal Injury Trust**

On the Effective Date, the Asbestos Personal Injury Trust shall be created in accordance with the Plan Documents, the Asbestos Personal Injury Trust Documents, and section 524(g) of the Bankruptcy Code. The purpose of the Asbestos Personal Injury Trust shall be to assume all liabilities and responsibility for all Asbestos Personal Injury Claims, and, among other things, to: (a) direct the processing, liquidation, and payment of all compensable Asbestos Personal Injury Claims in accordance with this Plan, the Asbestos Personal Injury Trust Agreement, the Asbestos Personal Injury Trust Distribution Procedures and the Confirmation Order; (b) preserve, hold, manage, and maximize the assets of the Asbestos Personal Injury Trust for use in paying and satisfying Asbestos Personal Injury Claims; and (c) qualify at all times as a qualified settlement fund. The Asbestos Personal Injury Trust shall use the Asbestos Personal Injury Trust's assets and income to resolve Asbestos Personal Injury Claims in accordance with the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures in such a way that holders of Asbestos Personal Injury Claims are treated fairly, equitably, and reasonably in light of the finite assets available to satisfy such claims, and shall otherwise comply in all respects with the requirements of a trust set forth in section 524(g)(2)(B) of the Bankruptcy Code. On the Effective Date, all right, title, and interest in and to the Asbestos Personal Injury Trust Assets, and any proceeds thereof, will be transferred to, and vested in, the Asbestos Personal Injury Trust, free and clear of all Claims, Demands, Equity Interests, Encumbrances, and other interests of any Entity, without any further action of the Bankruptcy Court or any Entity, but subject to Sections 8.3 and 8.5 of the Plan.

**B. The Asbestos Personal Injury Trust Distribution Procedures**

The goal of the Asbestos Personal Injury Trust is to treat all present and future holders of Asbestos Personal Injury Claims in substantially the same manner and in accordance with the requirements of section 524(g) of the Bankruptcy Code. To further that goal, the Asbestos Personal Injury Trust will resolve Asbestos Personal Injury Claims channeled to it in accordance with the Asbestos Personal Injury Trust Distribution Procedures ("TDP"), the form of which is

attached to the Plan as **Exhibit B** and is incorporated herein by reference. The Asbestos Personal Injury Trust Agreement provides that the Asbestos Personal Injury Trust will make payments to holders of eligible Asbestos Personal Injury Claims pursuant to the TDP while maintaining sufficient resources to pay eligible future Asbestos Personal Injury Claims in substantially the same manner.

Because of the limited resources of the Asbestos Personal Injury Trust, the TDP provides for the payment by the Asbestos Personal Injury Trust of eligible Asbestos Personal Injury Claims based only on certain diseases. The TDP establishes a schedule of five (5) asbestos-related diseases (“Disease Levels”): Mesothelioma, Lung Cancer 1, Lung Cancer 2, Other Cancer, and Severe Asbestosis. To qualify for payment, claimants must submit specific medical and exposure evidence as provided in the TDP. Claimants who do not meet those criteria will not receive a settlement offer from the Asbestos Personal Injury Trust. Non-malignant asbestos-related diseases that do not qualify as Severe Asbestosis under the criteria set forth in the TDP will *not* be compensable by the Asbestos Personal Injury Trust. However, claimants with non-malignant asbestos-related diseases who are subsequently diagnosed with Severe Asbestosis or a malignant disease will be able to seek compensation from the Asbestos Personal Injury Trust.

The Asbestos Personal Injury Claim values for each Disease Level are set forth below.<sup>2</sup>

<b>Level Disease</b>	<b>Category</b>	<b>Scheduled Value</b>
V	Mesothelioma	\$50,000
IV	Lung Cancer 1	\$17,000
III	Lung Cancer 2	\$5,000
II	Other Cancer	\$7,000
I	Severe Asbestosis	\$12,000

The TDP provides that claims generally will be processed in “First In, First Out” (“FIFO”) order so that the oldest claims will be processed first.

Asbestos Personal Injury Claims will be processed through the TDP’s Expedited Review Process, which is designed to provide an expeditious, efficient, and inexpensive method for resolving and liquidating Asbestos Personal Injury Claims based on the assigned, disease-specific “Scheduled Value” applicable to the Asbestos Personal Injury Claim, as set forth in the schedules contained in the TDP and in the table above.

Claimants will be required to submit a filing fee of \$50 to have an Asbestos Personal Injury Claim processed by the Asbestos Personal Injury Trust. This fee will be refunded in full to claimants who receive and accept payment of a settlement offer from the Asbestos Personal Injury Trust.

After they have completed the Expedited Review Process, claimants will have the option of engaging in binding or nonbinding arbitration to resolve disputes concerning whether the

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<sup>2</sup> The figures presented here represent claim values for settlement purposes only. The parties reserve all rights with respect to actual claim values in the event the Plan is not confirmed.

Asbestos Personal Injury Trust's outright rejection or denial of a claim was proper, or whether the claimant's medical condition or exposure history meets the requirements of the TDP for purposes of categorizing a claim involving Disease Levels I-V.

All arbitration will be conducted in accordance with Alternative Dispute Resolution Procedures that the Asbestos Personal Injury Trust is expected to adopt after the Effective Date. The arbitrator may return awards only in accordance with the values set forth in the TDP. Only if a claimant elects nonbinding arbitration and rejects the arbitration award may the claimant then litigate in court against the Asbestos Personal Injury Trust to establish its claim. Awards in litigation will be paid as specifically provided in the TDP.

As a condition to making payment to a claimant with respect to an Asbestos Personal Injury Claim, the Asbestos Personal Injury Trust will obtain, for the benefit of the Asbestos Personal Injury Trust and the Protected Parties, a release of liability with respect to the claimant's Asbestos Personal Injury Claim. Potential claimants should be aware that any funds they recover against the Asbestos Personal Injury Trust, or against any "primary plan" as defined in the Medicare Secondary Payer Statute, 42 U.S.C. § 1395y(b) (the "MSPS"), could be subject to repayment obligations owing or potentially owing under the MSPS or related rules, regulations, or guidelines. Potential claimants should also be aware that, as a condition of receiving payment from the Asbestos Personal Injury Trust or any "primary plan" as defined by the MSPS, the claimants may be asked to certify that they will comply with any obligations owing or potentially owing under the MSPS or related rules, regulations, or guidelines.

All Asbestos Personal Injury Claims paid by the Asbestos Personal Injury Trust will be subject to a payment percentage. The payment percentage is the percentage of the full liquidated value of a claim that claimants will receive from the Asbestos Personal Injury Trust. Eligible claimants will each receive a payment equal to the liquidated value of their claim multiplied by the payment percentage.

### **C. Appointment of Asbestos Personal Injury Trustee**

Alan B. Rich, Esquire, has been proposed as the initial Asbestos Personal Injury Trustee pursuant to the terms of the Asbestos Personal Injury Trust Agreement.

Mr. Rich practices civil appellate law, complex civil litigation, and toxic-tort-related bankruptcy law. He is the Managing Trustee of the G-I Holdings, Inc. Asbestos Personal Injury Settlement Trust, and the Trustee of the APG Asbestos Trust, the Christy Refractories Company, LLC Asbestos Personal Injury Trust, the Geo. V. Hamilton, Inc. Asbestos Trust, and the United Gilsonite Laboratories Asbestos Personal Injury Trust. Mr. Rich has received nine Pro Bono Legal Service Awards from the Dallas Bar Association and Legal Services of North Texas, including the Meritorious and the Distinguished Pro Bono Service Awards. He has been practicing law for more than thirty years.

Mr. Rich's appointment shall be effective as of the Effective Date. Upon termination of the Asbestos Personal Injury Trust, or as otherwise provided in the Asbestos Personal Injury Trust Agreement, the Asbestos Personal Injury Trustee's employment shall be deemed terminated, and the Asbestos Personal Injury Trustee shall be released and discharged of and

from all further authority, duties, responsibilities, and obligations with respect to or in connection with the Asbestos Personal Injury Trust and this Chapter 11 Case.

**D. Appointment of Delaware Trustee**

The Entity that will serve as the initial Delaware Trustee shall be selected by agreement of the Asbestos Claimants Committee and the Future Claimants' Representative, and will be identified in the Asbestos Personal Injury Trust Agreement and appointed pursuant to the Confirmation Order. All subsequent Delaware Trustees shall be appointed in accordance with the terms of the Asbestos Personal Injury Trust Agreement.

**E. Appointment of Post-Effective Date Future Claimants' Representative**

On the Effective Date, Lawrence Fitzpatrick shall be appointed, pursuant to the Plan, the Confirmation Order, and the Asbestos Personal Injury Trust Agreement, as the Post-Effective Date Future Claimants' Representative. The Post-Effective Date Future Claimants' Representative shall have the functions, duties, and rights provided in, and shall serve in accordance with, the Asbestos Personal Injury Trust Agreement. In addition to the foregoing, the Post-Effective Date Future Claimants' Representative also may, at his option, participate in any: (a) appeal of the Confirmation Order; (b) hearing on a Professional Fee Claim; and (c) adversary proceeding pending on the Effective Date to which the Future Claimants' Representative was a party. Successor Post-Effective Date Future Claimants' Representatives will be appointed as provided in the Asbestos Personal Injury Trust Agreement.

**F. Appointment of Asbestos Personal Injury Trust Advisory Committee Members**

Not later than ten (10) days prior to the Confirmation Hearing, the Asbestos Claimants Committee shall nominate six (6) individuals to serve as the initial members of the Asbestos Personal Injury Trust Advisory Committee. The Confirmation Order shall constitute an order of the Bankruptcy Court appointing the initial members of the Asbestos Personal Injury Trust Advisory Committee. The Asbestos Personal Injury Trust Advisory Committee shall have the functions, duties, and rights provided in, and shall serve in accordance with, the Asbestos Personal Injury Trust Agreement. Successor members of the Asbestos Personal Injury Trust Advisory Committee will be appointed as provided in the Asbestos Personal Injury Trust Agreement.

**G. Transfer of Claims and Demands to the Asbestos Personal Injury Trust**

In consideration for the property transferred to the Asbestos Personal Injury Trust, on the Effective Date, all liabilities, obligations, and responsibilities relating to all present and future Asbestos Personal Injury Claims, including, without limitation, Demands, shall be transferred and channeled to the Asbestos Personal Injury Trust and shall be satisfied solely by the assets held by the Asbestos Personal Injury Trust. The Asbestos Personal Injury Trust shall have no liability for any Claims and Demands other than Asbestos Personal Injury Claims and Asbestos Personal Injury Trust Expenses, and no Claims other than Asbestos Personal Injury Claims and Asbestos Personal Injury Trust Expenses shall be transferred and channeled to the Asbestos Personal Injury Trust.

**H. Transfer of Rights and Defenses Related to Asbestos Personal Injury Claims**

On the Effective Date all claims, defenses, rights and Causes of Action of the Debtor and Reorganized Sepco relating to Asbestos Personal Injury Claims shall be transferred and assigned to the Asbestos Personal Injury Trust. In accordance with section 1123(b) of the Bankruptcy Code, the Asbestos Personal Injury Trust shall retain and may enforce such claims, defenses, rights, and Causes of Action and shall retain and may enforce all defenses and counterclaims to all Claims or Demands asserted against the Asbestos Personal Injury Trust, including, but not limited to, setoff, recoupment, and any rights under section 502(d) of the Bankruptcy Code; provided, however, that no such claims, defenses, Causes of Action, or counterclaims may be asserted against any Protected Party. The Asbestos Personal Injury Trust shall be deemed to be the appointed representative of the Debtor and Reorganized Sepco, and may, pursue, litigate, compromise, and settle any rights, claims, or Causes of Action transferred to it, as appropriate.

**I. Release**

As a condition to making any payment to a holder of an Asbestos Personal Injury Claim, the Asbestos Personal Injury Trust shall obtain from that holder a release, in the form of the Asbestos Personal Injury Claimant Release.

**J. Consideration for Asbestos Personal Injury Channeling Injunction**

The assignment, transfer, and conveyance of the Asbestos Personal Injury Trust Assets to the Asbestos Personal Injury Trust on the Effective Date support the imposition of the Asbestos Personal Injury Channeling Injunction in favor of all of the Protected Parties as of the Effective Date.

**K. Expiration of Obligations to Fund the Asbestos Personal Injury Trust Contribution**

Notwithstanding any other provision of the Plan, the obligation of the Debtor to make the Asbestos Personal Injury Trust Contribution, shall expire if (a) the Confirmation Date does not occur by [REDACTED] or (b) the Effective Date does not occur by [REDACTED], unless the Plan Proponents otherwise agree in writing.

**L. Books and Records**

On the Effective Date, the Asbestos Records Cooperation Agreement shall become effective and the Asbestos Records shall be treated in accordance therewith.

**M. Institution and Maintenance of Legal and Other Proceedings**

From and after the Effective Date, the Asbestos Personal Injury Trust shall be empowered and entitled, in its sole and absolute discretion and at its own expense, to pursue, compromise or settle all legal actions and other proceedings related to any asset, liability, or responsibility of the Asbestos Personal Injury Trust that is not released pursuant to the Plan.

**N. Asbestos Personal Injury Trust Expenses**

The Asbestos Personal Injury Trust shall pay all Asbestos Personal Injury Trust Expenses from the Asbestos Personal Injury Trust Assets. The Plan Proponents, the Debtor's Estate, Reorganized Sepco, Protected Parties, and any of them, shall not have any obligation to pay any Asbestos Personal Injury Trust Expenses or any other liabilities of the Asbestos Personal Injury Trust. The Asbestos Personal Injury Trust shall promptly pay all Asbestos Personal Injury Trust Expenses incurred by Reorganized Sepco for any and all liabilities, costs, or expenses as a result of taking any action on behalf of, and at the direction of, the Asbestos Personal Injury Trust.

**O. Investment Policy**

Pursuant to the Asbestos Personal Injury Trust Agreement, all monies held in the Asbestos Personal Injury Trust shall be invested, subject to the investment limitations and provisions enumerated in the Asbestos Personal Injury Trust Agreement, and shall not be limited to the types of investments described in section 345 of the Bankruptcy Code.

**P. Excess Asbestos Personal Injury Trust Assets**

To the extent there are any Asbestos Personal Injury Trust Assets remaining at such time as the Asbestos Personal Injury Trust is dissolved, such excess Asbestos Personal Injury Trust Assets shall be transferred to a charity or charities for such charitable purposes as the Asbestos Personal Injury Trustee, in his or her reasonable discretion, shall determine, provided that, if practicable, the charity or charities to which such excess Asbestos Personal Injury Trust Assets are transferred shall be related to the treatment of, research on, or the relief of suffering of individuals suffering from asbestos-related disorders.

**Q. Dissolution of Asbestos Personal Injury Trust**

Upon dissolution of the Asbestos Personal Injury Trust: (a) the Asbestos Personal Injury Trustee, members of the Asbestos Personal Injury Trust Advisory Committee and the Post-Effective Date Future Claimants' Representative shall be released and discharged from all further authority, duties, responsibilities, and obligations relating to and arising from and in connection with the Chapter 11 Case; and (b) the Asbestos Personal Injury Trust Advisory Committee shall be dissolved.

**VIII. OTHER ASPECTS OF THE PLAN**

**A. Distributions to Holders of Non-Asbestos Personal Injury Claims**

1. Distributions Generally.

Other than with respect to payments to be made on account of Asbestos Personal Injury Claims and Asbestos Personal Injury Trust Expenses from the Asbestos Personal Injury Trust, Reorganized Sepco shall make all Distributions required to be made under the Plan. All distributions to be made by the Asbestos Personal Injury Trust shall be made in accordance with

the terms of the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures.

2. Timing and Conditions of Distributions.

a. Record Date for Holders of Claims. Except as otherwise provided in a Final Order, the transferees of Claims that are transferred pursuant to Rule 3001 of the Bankruptcy Rules on or prior to the Distribution Record Date shall be treated as the holders of such Claims for all purposes, notwithstanding that any period provided by Rule 3001 for objecting to such transfer has not expired by the Distribution Record Date.

b. Date of Distributions. Except as otherwise provided in the Plan, any Distributions and deliveries to be made on account of Allowed Claims (other than Asbestos Personal Injury Claims) shall be made (i) on the Effective Date or as soon thereafter as is practicable for Claims that are Allowed as of the Effective Date or (ii) within thirty (30) days of the date on which a Claim becomes Allowed if such Claim becomes Allowed after the Effective Date.

c. Postpetition Interest on Claims. Except as otherwise provided for in this Plan (including Section 3.2.2 of the Plan), the Plan Documents or the Confirmation Order, or any contract, instrument, release, settlement or other agreement entered into in connection with the Plan, or unless required by applicable bankruptcy law, interest accruing on or after the Petition Date on account of any Claim shall not be paid.

3. Delivery of Distributions.

All Distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth on (i) the Schedules filed with the Bankruptcy Court, (ii) a proof of claim filed by or on behalf of such holder in the Chapter 11 Case, or (iii) the books and records of the Debtor, unless Sepco or Reorganized Sepco has been notified in writing of a change of address. If any holder's Distribution is returned as undeliverable, then no further Distributions to such holder shall be made unless and until Reorganized Sepco is notified of such holder's then-current address, at which time any missed Distribution shall be made to such holder without interest. A Cash Distribution that is not claimed by the expiration of six (6) months from the date that such Distribution was made – along with any further Distributions withheld– shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code and shall be returned to the Net Reserve Funds, and the Claim of any holder to such Distributions or any further Distributions shall be discharged and forever barred. Nothing in the Plan shall require the Debtor or Reorganized Sepco to attempt to locate any holder of an Allowed Claim.

4. Time Bar to Cash Payments.

Checks issued by Reorganized Sepco in respect of Distributions on Allowed Claims shall be null and void if not presented for payment within ninety (90) days after the date of issuance thereof. Requests for reissuance of any check shall be made in writing to Reorganized Sepco by the holder of the Allowed Claim to whom such check originally was issued on or before thirty (30) days after the expiration of the ninety (90) day period following the date of issuance of such

check. All funds held on account of a such void check shall be returned to the Net Reserve Funds, and the Claim of any holder to such Distributions shall be discharged and forever barred.

5. Procedures for Resolving Disputed Non-Asbestos Personal Injury Claims.

a. Disputed Claims. All Disputed Claims against the Debtor other than Asbestos Personal Injury Claims and Professional Fee Claims shall be subject to provisions of Article VII of the Plan. All Asbestos Personal Injury Claims shall be resolved by the Asbestos Personal Injury Trust in accordance with Section 8.3 of the Plan, the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures. Only the Asbestos Personal Injury Trust will have the right to object to and/or resolve Asbestos Personal Injury Claims. All Asbestos Personal Injury Claims must be submitted solely to the Asbestos Personal Injury Trust for payment, which shall be in accordance with the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures. Professional Fee Claims shall be determined and, if Allowed, paid by Reorganized Sepco in accordance with Section 2.2(d) of the Plan.

b. Objection to and Estimation of Claims. Except as otherwise provided in the Plan (including, but not limited to, Sections 3.2.2 and 3.2.3 of the Plan), the Debtor or Reorganized Sepco, as the case may be, shall be entitled to file objections to Claims that have been brought in the Bankruptcy Court or should properly have been brought in the Bankruptcy Court but were brought in other forums (other than Asbestos Personal Injury Claims), on or before the date that is sixty (60) days after the Effective Date (unless such day is not a Business Day, in which case such deadline shall be the next Business Day thereafter), as the same may be extended from time to time by the Bankruptcy Court. In addition, the Debtor or Reorganized Sepco, as the case may be, may before the expiration of such period request that the Bankruptcy Court estimate any contingent, unliquidated or Disputed Claim (not including any Asbestos Personal Injury Claim) for any reason pursuant to section 502(c) of the Bankruptcy Code, regardless of whether the Debtor previously objected to such Claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate such Claim at any time, including, without limitation, during the pendency of litigation concerning any objection to any Claim or of any appeal relating thereto. The Debtor and Reorganized Sepco shall be authorized to settle, compromise, withdraw or litigate to judgment such objections without further approval of the Bankruptcy Court.

c. Payments and Distributions with Respect to Disputed Claims. No payments or Distributions shall be made with respect to all or any portion of a Disputed Claim unless and until all objections to such Disputed Claim have been settled or withdrawn or have been determined by Final Order and the Disputed Claim, or some portion thereof, has become an Allowed Claim.

**B. Treatment of Executory Contracts (Including Unexpired Leases)**

1. General Treatment.

Subject to approval of the Bankruptcy Court, section 365 of the Bankruptcy Code allows a debtor to assume or reject its Executory Contracts.

As of the Effective Date, the Debtor shall reject any and all Executory Contracts to which the Debtor is a party, except for: (a) any Executory Contracts specifically listed on Exhibit F attached to the Plan, which shall be assumed, and (b) any Executory Contracts specifically assumed or assumed and assigned pursuant to a Final Order entered on or before the Effective Date. Sepco may, at any time on or before the Effective Date, amend Exhibit F attached to the Plan to delete therefrom, or to add thereto, any Executory Contract. Sepco shall provide notice of any such amendment to the parties to the Executory Contract(s) affected thereby and to the parties on any master service list established by the Bankruptcy Court in the Chapter 11 Case. The fact that any contract or lease is listed on Exhibit F shall not constitute or be construed to constitute an admission that such contract or lease is an executory contract or unexpired lease within the meaning of section 365 of the Bankruptcy Code or that Sepco or any successor in interest to Sepco (including Reorganized Sepco) has any liability thereunder.

The Confirmation Order shall constitute an order of the Bankruptcy Court approving such rejections or assumptions, as the case may be, pursuant to sections 365 and 1123 of the Bankruptcy Code as of the Effective Date.

## 2. Cure of Defaults.

Generally, if there has been a default under an executory contract or unexpired lease (other than a default specified in section 365(b)(2) of the Bankruptcy Code), the debtor can assume the contract or lease only if the debtor cures the default.

Any monetary defaults under each Executory Contract to be assumed pursuant to the Plan shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment of the Cure Claim in Cash on the later of (a) the Effective Date or (b) the date on which such Cure Claim is Allowed, or on such other terms as the parties to any such Executory Contract may otherwise agree. In the event of a dispute regarding: (a) the existence or amount of the Cure Claim; (b) the ability of the Debtor or any assignee to provide “adequate assurance of future performance” (within the meaning of section 365 of the Bankruptcy Code) under the Executory Contract to be assumed, or (c) any other matter pertaining to assumption, the payments required by section 365(b)(1) of the Bankruptcy Code in respect of Cure Claims shall be made following the entry of a Final Order or orders resolving the dispute and approving the assumption.

## 3. Bar to Rejection Damages.

In the event that the rejection of an Executory Contract by the Debtor or Reorganized Sepco pursuant to the Plan results in damages to the non-Debtor party or parties to such Executory Contract, a claim for such damages shall be forever barred and shall not be enforceable against the Debtor, Reorganized Sepco or any of their respective properties or interests in property, and the non-Debtor party or parties to such Executory Contract shall be barred from receiving any Distribution under the Plan on account of such Claim, unless a Proof of Claim with respect to such damages is filed with the Bankruptcy Court and served upon counsel for the Debtor or Reorganized Sepco, as applicable, on or before (a) if such Executory Contract is rejected pursuant to Section 6.1 of the Plan thirty (30) days after entry of the Confirmation Order; or (b) if such Executory Contract is rejected pursuant to a Final Order of the

Bankruptcy Court granting a motion filed by the Debtor to reject such Executory Contract, thirty (30) days after entry of such order.

**C. Effect of Confirmation**

1. Dissolution of Asbestos Claimants Committee; Discharge of the Future Claimants' Representative.

On the Effective Date, the Asbestos Claimants Committee shall be dissolved automatically, whereupon its members, Professionals, and agents shall be released and discharged from any further duties and responsibilities in the Chapter 11 Case and under the Bankruptcy Code, except that the Asbestos Claimants Committee may, at its option, continue to serve and function for the purposes of participating in any: (a) appeal of the Confirmation Order; (b) hearing on a Professional Fee Claim; and (c) adversary proceeding pending on the Effective Date to which the Asbestos Claimants Committee was a party.

Effective as of the dissolution of the Asbestos Claimants Committee, the Asbestos Personal Injury Trust Advisory Committee shall succeed to, and exclusively hold, the attorney-client privilege and any other privilege held by the Asbestos Claimants Committee and shall enjoy the work product protections that were applicable or available to the Asbestos Claimants Committee before its dissolution.

Further, on the Effective Date, the Future Claimants' Representative shall be discharged from his duties in such capacity, whereupon the Future Claimants' Representative and his Professionals and agents shall be released and discharged from any further authority, duties, obligations and responsibilities in the Chapter 11 Case and under the Bankruptcy Code.

The Debtor or Reorganized Sepco, as applicable, shall pay, from the Net Reserve Funds, (i) the reasonable fees and expenses incurred by the Future Claimants' Representative and the Asbestos Claimants Committee through the Effective Date and (ii) the reasonable fees and expenses (if any) incurred by the Debtor, Reorganized Sepco, the Asbestos Claimants Committee, and the Post-Effective Date Future Claimants' Representative after the Effective Date in connection with participating in any: (a) appeal of the Confirmation Order, but only until such time as the Confirmation Order becomes a Final Order; (b) hearing on a Professional Fee Claim; and (c) adversary proceeding pending on the Effective Date to which the Debtor, Reorganized Sepco, the Asbestos Claimants Committee, or Future Claimants' Representative, as applicable, was a party, in accordance with any applicable fee and expense procedures promulgated during the Chapter 11 Case and with Section 2.2(d) of the Plan. All reasonable and necessary post-Effective Date fees and expenses of the professionals retained by the Asbestos Personal Injury Trust Advisory Committee and the Post-Effective Date Future Claimants' Representative (except as provided in the preceding sentence) shall be paid exclusively by the Asbestos Personal Injury Trust in accordance with the terms of the Asbestos Personal Injury Trust Agreement, and Reorganized Sepco shall not be liable for any such fees and expenses. The parties shall attempt to resolve any dispute regarding the payment of such fees and expenses in good faith, and if they shall fail to resolve such dispute, they shall submit the dispute to the Bankruptcy Court for resolution.

2. Vesting of Assets.

Pursuant to section 1141(b) of the Bankruptcy Code, except as otherwise provided in the Plan, the Plan Documents or the Confirmation Order, the property of the Debtor's Estate (except for the Asbestos Personal Injury Trust Contribution and any other property of the Debtor distributed pursuant to the Plan) shall vest in Reorganized Sepco on the Effective Date free and clear of any and all Liens, Claims, Encumbrances and other interests of any Entity. From and after the Effective Date, Reorganized Sepco may operate its business and may use, acquire, and dispose of property free of any restrictions imposed under or by the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy Court. Without limiting the generality of the foregoing, Reorganized Sepco may, without application to, or approval by, the Bankruptcy Court, pay professional fees and expenses that Reorganized Sepco may incur after the Effective Date from the Net Reserve Funds.

3. Preservation of Certain Causes of Action, Rights to Settle Claims and Compromise Controversies, and Defenses.

With the exception of those claims transferred to the Asbestos Personal Injury Trust pursuant to Section 8.3 of the Plan, in accordance with section 1123(b) of the Bankruptcy Code, Reorganized Sepco, as successor in interest to the Debtor and its Estate, shall retain and may enforce, sue on, settle, or compromise (or decline to do any of the foregoing), all claims, rights, causes of action, suits and proceedings, whether in law or in equity, whether known or unknown, accruing to, or that are property of, the Debtor and its Estate pursuant to the Bankruptcy Code or any statute or legal theory, including (a) any rights to, and claims or Causes of Action for, recovery under any policies of insurance issued to or on behalf of the Debtor, other than the Asbestos Personal Injury Insurance Assets; and (b) any rights, claims, and Causes of Action against third parties based upon, attributable to, or arising out of Allowed Claims, in its sole and absolute discretion, without the necessity for Bankruptcy Court approval under Bankruptcy Rule 9019, and Reorganized Sepco shall retain and may enforce all defenses and counterclaims to all Claims asserted against the Debtor or its Estate, including, but not limited to, setoff, recoupment and any rights under section 502(d) of the Bankruptcy Code. From and after the Effective Date, the Asbestos Personal Injury Trust and/or Reorganized Sepco, as appropriate based on the assets and liabilities retained or owed by each respectively, shall be authorized to compromise any controversies on such terms as each may determine, in its sole discretion, to be appropriate, without notice to any other party or approval of or notice to the Bankruptcy Court.

4. Terms of Injunction and Automatic Stay.

All of the injunctions and/or stays in existence immediately prior to the Confirmation Date provided for in or in connection with the Chapter 11 Case, whether pursuant to section 105, 362, or any other provision of the Bankruptcy Code, the Bankruptcy Rules or other applicable law, shall remain in full force and effect until the injunctions set forth in the Plan become effective pursuant to a Final Order, and shall continue to remain in full force and effect thereafter as and to the extent provided by the Plan, the Confirmation Order, or by their own terms. For the avoidance of doubt, upon effectiveness of the injunctions set forth in the Plan, the automatic stay imposed by section 362 of the Bankruptcy Code shall be terminated. In addition, on and after the Confirmation Date, Reorganized Sepco may seek such further orders as it may deem

necessary or appropriate to preserve the status quo during the time between the Confirmation Date and the Effective Date.

Each of the injunctions contained in the Plan or the Confirmation Order shall become effective on the Effective Date and shall continue in effect at all times thereafter unless otherwise provided in the Plan or the Confirmation Order.

5. No Liability for Certain Tax Claims.

Unless a taxing authority has properly asserted a Claim against Sepco on or before the Prepetition Non-Asbestos Claims Bar Date, no Claim of that taxing authority shall be Allowed against Sepco or Reorganized Sepco for taxes, penalties, interest, additions to tax, or other charges arising out of the failure, if any, of Sepco or any other Entity to have paid tax or to have filed any tax return (including, but not limited to, any income tax return or franchise tax return) in or for any prior year or arising out of an audit of any return for a period before the Petition Date.

6. No Successor Liability.

Except as otherwise expressly provided in the Plan, Sepco, Reorganized Sepco, the other Protected Parties, and the Asbestos Personal Injury Trust do not, nor shall they be deemed to, assume, agree to perform, pay, or indemnify creditors for any liabilities or obligations of Sepco relating to or arising out of the operations of, or assets of, Sepco whether arising prior to or resulting from actions, events, or circumstances occurring or existing at any time prior to the Confirmation Date. None of Reorganized Sepco, the other Protected Parties, or the Asbestos Personal Injury Trust is, or shall be, a successor to Sepco by reason of any theory of law or equity, and none shall have any successor or transferee liability of any kind or character, except that Reorganized Sepco and the Asbestos Personal Injury Trust shall assume the obligations specified expressly in the Plan and the Confirmation Order.

**D. Releases, Injunctions, and Discharges**

As of the Effective Date, the rights provided in the Plan will be in exchange for and in complete satisfaction, settlement, and discharge of, all Claims or Demands against the Debtor, Reorganized Sepco, or any of their respective properties. As protection for the Debtor, Reorganized Sepco, and the other Protected Parties, the following discharges, injunctions, releases, and exculpations will become effective as of the Effective Date.

1. Discharge of the Debtor and Reorganized Sepco.

Except as specifically provided in the Plan or in the Confirmation Order, pursuant to sections 524 and 1141(d)(1)(A) of the Bankruptcy Code, confirmation of the Plan shall discharge Sepco and Reorganized Sepco on the Effective Date from any and all Claims and Demands of any nature whatsoever, including, without limitation, all Claims and liabilities that arose before the Confirmation Date and all debts of the kind specified in sections 502(g), 502(h) and 502(i) of the Bankruptcy Code whether or not: (a) a Proof of Claim based on such Claim was filed under section 501 of the Bankruptcy Code, or such Claim was listed on any of Sepco's Schedules; (b) such Claim is or was allowed under section 502 of the Bankruptcy Code; or (c) the holder of

such Claim has voted on or accepted the Plan. Except as otherwise specifically provided for in the Plan, as of the Effective Date, the rights provided in the Plan to holders of Claims, Demands and Equity Interests shall be in exchange for and in complete satisfaction, settlement and discharge of all Claims (including, without limitation, Asbestos Personal Injury Claims) and Demands against, Liens on, and Equity Interests in Sepco, Reorganized Sepco and all of their respective assets and properties.

2. Discharge Injunction.

To give effect to the discharge discussed above, the following discharge injunction will be issued as of the Effective Date:

**Except as specifically provided in the Plan or the Confirmation Order, all Entities who have held, hold or may hold Claims or Demands against Sepco are permanently enjoined, on and after the Effective Date, from: (a) commencing or continuing in any manner any action or other proceeding of any kind against Sepco, Reorganized Sepco, or their respective property with respect to such Claim or Demand; (b) enforcing, attaching, collecting, or recovering by any manner or means of any judgment, award, decree, or order against Sepco, Reorganized Sepco, or their respective property with respect to such Claim or Demand; (c) creating, perfecting, or enforcing any Encumbrance of any kind against Sepco, Reorganized Sepco, or their respective property with respect to such Claim or Demand; (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due to Sepco or against the property or interests in property of Sepco, with respect to such Claim or Demand; and/or (e) commencing or continuing any action, in any manner, against Sepco, Reorganized Sepco, or their respective property that does not comply with or is inconsistent with the provisions of the Plan or the Confirmation Order. The foregoing injunction shall extend to the successors of Sepco (including, without limitation, Reorganized Sepco) and their respective properties and interests in property. The discharge provided in this provision shall void any judgment obtained against Sepco at any time, to the extent that such judgment relates to a discharged Claim or Demand.**

3. Asbestos Personal Injury Channeling Injunction.

The following Asbestos Personal Injury Channeling Injunction will be issued as of the Effective Date as a supplement to the discharge injunction.

**a. Terms. Pursuant to section 524(g) of the Bankruptcy Code, from and after the Effective Date the sole recourse of any holder of an Asbestos Personal Injury Claim on account of such Asbestos Personal Injury Claim shall be to the Asbestos Personal Injury Trust pursuant to this Section 10.3 of the Plan and the Asbestos Personal Injury Trust Distribution Procedures, and such holder shall have no right whatsoever at any time to assert its Asbestos Personal Injury Claim against any Protected Party or any property or interest in property of any Protected Party. On and after the Effective Date, all present and future holders of Asbestos Personal Injury Claims shall be permanently and forever stayed, restrained, barred and enjoined from taking any of the following actions for the purpose of, directly or indirectly or derivatively collecting, recovering, or receiving payment of, on, or with respect to any Asbestos Personal Injury Claim (other than from the**

**Asbestos Personal Injury Trust pursuant to the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures):**

(i) commencing, conducting, or continuing in any manner, directly, indirectly or derivatively, any suit, action, or other proceeding of any kind (including a judicial, arbitration, administrative, or other proceeding) in any forum against or affecting any Protected Party or any property or interest in property of any Protected Party;

(ii) enforcing, levying, attaching (including any prejudgment attachment), collecting, or otherwise recovering by any means or in any manner, whether directly or indirectly, any judgment, award, decree, or other order against any Protected Party or any property or interest in property of any Protected Party;

(iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Encumbrance against any Protected Party or any property or interest in property of any Protected Party;

(iv) setting off, seeking reimbursement of, contribution from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability owed to any Protected Party or any property or interest in property of any Protected Party; and

(v) proceeding in any manner, and in any place with regard to any matter that is within the scope of the matters designated by the Plan to be subject to resolution by the Asbestos Personal Injury Trust, except in conformity and compliance with the Asbestos Personal Injury Trust Agreement and the Asbestos Personal Injury Trust Distribution Procedures.

**b. Reservations. The Asbestos Personal Injury Channeling Injunction shall not stay, restrain, bar, or enjoin:**

(i) the rights of holders of Asbestos Personal Injury Claims to assert Asbestos Personal Injury Claims against the Asbestos Personal Injury Trust in accordance with the Asbestos Personal Injury Trust Distribution Procedures;

(ii) the rights of Entities to assert any Claim, debt, obligation, or liability for payment of Asbestos Personal Injury Trust Expenses against the Asbestos Personal Injury Trust; and

(iii) the rights of holders of Asbestos Personal Injury Claims to assert any and all claims or causes of action against any Entities that are not Protected Parties, including, without limitation, any Affiliates of the Debtor.

c. The foregoing Asbestos Personal Injury Channeling Injunction shall apply to Settled Asbestos Insurers to the fullest extent, but only to the extent, provided by section 524(g) in respect of any claim that arises by reason of one of the activities enumerated in section 524(g)(4)(A)(ii).

4. Exculpation.

None of the Exculpated Parties shall have or incur any liability to any Entity for any act or omission in connection with, related to, or arising out of: (a) the Chapter 11 Case; (b) negotiation, formulation and preparation of the Plan and the other Plan Documents, and any of the terms and/or settlements and compromises reflected in the Plan and the other Plan Documents; (c) pursuit of confirmation of the Plan; (d) consummation of the Plan, or administration of the Plan or the property to be distributed under the Plan or the Asbestos Personal Injury Trust Distribution Procedures; (e) the releases and injunctions contained in the Plan; or (f) the management or operation of Sepco. Without limiting the generality of the foregoing, the Exculpated Parties shall be entitled to and granted the protections and benefits of section 1125(e) of the Bankruptcy Code.

5. Releases by Sepco and Estate.

Except as otherwise expressly provided in the Plan or Confirmation Order, on the Effective Date, for good and valuable consideration, the adequacy of which is confirmed, Sepco, Reorganized Sepco, and any Entity seeking to exercise the rights of the Estate, in each case individually and collectively, including, without limitation, any successor to Sepco or any Estate representative appointed or selected pursuant to the applicable provisions of the Bankruptcy Code, shall, and shall be deemed to, completely and forever release, waive and discharge unconditionally each of the Released Parties, solely in their capacities as such, from any and all claims, obligations, suits, judgments, remedies, damages, Demands, debts, rights, Causes of Action and liabilities that are (or that, at any time on or prior to the Effective Date, were) property of, whether known or unknown, liquidated or unliquidated, fixed or contingent, foreseen or unforeseen, matured or unmatured, now existing or hereafter arising, in law, equity or otherwise, whether direct, indirect, or derivative, based upon, attributable to, or arising out of, in whole or in part, any act or omission, transaction, or occurrence taking place on or prior to the Effective Date (including prior to the Petition Date); provided, however, that nothing contained in this section 10.5 is intended to operate as a release of liability based upon gross negligence or willful misconduct as determined by a Final Order.

6. Certain Waivers.

To the extent that California law is applicable to the Plan, if at all, Sepco hereby understands and waives the effect of section 1542 of the California Civil Code to the extent that such section is applicable to Sepco, Reorganized Sepco, or the Estate. Section 1542 of the California Civil Code provides:

**§ 1542. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR**

**SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.**

**EACH OF SEPCO AND REORGANIZATION SEPCO AGREES TO ASSUME, AND SHALL BE DEEMED TO ASSUME, THE RISK OF ANY AND ALL UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS WHICH ARE RELEASED BY THE PLAN AND EACH OF SEPCO AND REORGANIZED SEPCO HEREBY WAIVES AND RELEASES ALL RIGHTS AND BENEFITS WHICH EITHER OF THEM OR THE ESTATE MIGHT OTHERWISE HAVE UNDER THE AFOREMENTIONED SECTION 1542 OF THE CALIFORNIA CIVIL CODE WITH REGARD TO THE RELEASE OF SUCH UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS. TO THE EXTENT (IF ANY) ANY OTHER LAWS SIMILAR TO SECTION 1542 OF THE CALIFORNIA CIVIL CODE MAY BE APPLICABLE, EACH OF SEPCO AND REORGANIZED SEPCO WAIVES AND RELEASES ANY BENEFIT, RIGHT OR DEFENSE WHICH EITHER OF THEM OR THE ESTATE MIGHT OTHERWISE HAVE UNDER ANY SUCH LAW WITH REGARD TO THE RELEASE OF UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS.**

7. Disallowed Claims.

On and after the Effective Date, Sepco and the Estate shall be fully and finally discharged from any liability or obligation on a Disallowed Claim, and any order creating a Disallowed Claim that is not a Final Order as of the Effective Date solely because of an Entity's right to move for reconsideration of such order pursuant to section 502 of the Bankruptcy Code or Bankruptcy Rule 3008 shall nevertheless become and be deemed to be a Final Order on the Effective Date. The Confirmation Order, except as otherwise provided therein or herein, shall constitute an order: (a) disallowing all Claims (other than Asbestos Personal Injury Claims) to the extent such Claims are not allowable under any provision of section 502 of the Bankruptcy Code, including, but not limited to, time-barred Claims, and Claims for unmatured interest, and (b) disallowing or subordinating, as the case may be, any Claims, or portions of Claims, for penalties or non-compensatory damages.

**E. Miscellaneous Provisions**

The Plan contains provisions relating to corporate actions, delivery of Distributions, manner of paying Distributions, conditions precedent to confirmation and consummation of the Plan, retention of jurisdiction by the Bankruptcy Court, modifications of the Plan, payment of statutory fees, binding effect of the Plan, compliance with tax requirements, governing law, and

timing, among other things. For more information regarding these items, see the Plan attached hereto as **Exhibit A**.

## **IX. ALTERNATIVES TO THE PLAN**

If the Plan is not confirmed and consummated, the alternatives to the Plan include either (a) a dismissal of the Chapter 11 Case, (b) liquidation of the Debtor under chapter 7 of the Bankruptcy Code, or (c) an alternative plan of reorganization or liquidation in accordance with the requirements of chapter 11 of the Bankruptcy Code.

### **A. Dismissal of the Chapter 11 Case**

If no plan can be confirmed, the Debtor could elect to dismiss this Chapter 11 Case. The Debtor anticipates that such a dismissal would trigger a “race to the courthouse” among holders of Asbestos Personal Injury Claims, eliminating any likelihood of an equality of distribution among similarly situated holders of Asbestos Personal Injury Claims.

### **B. Liquidation under Chapter 7 of the Bankruptcy Code**

Alternatively, if no plan can be confirmed, the Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code, whereby a chapter 7 trustee would be appointed to liquidate the Debtor’s assets and to make distributions in accordance with the hierarchy of distributions that the Bankruptcy Code establishes. In chapter 7 liquidation, there likely would be no framework resembling the Plan for creating a trust that (as is proposed in the Plan) would take responsibility for administering Asbestos Personal Injury Claims through the Asbestos Personal Injury Trust Distribution Procedures and for making distributions to eligible claimholders from assets of the Asbestos Personal Injury Trust. Bankruptcy courts are generally not permitted to adjudicate Asbestos Personal Injury Claims, so, instead, the validity and amount of all such claims would have to be determined in another forum. The Debtor believes that liquidation under chapter 7 would also result in smaller distributions being made to creditors than those provided for them in the Plan because, among other things, in a chapter 7 case, the Estate would bear the costs of the chapter 7 trustee’s compensation, pursuant to section 326 of the Bankruptcy Code, and the fees of Chapter 7 professionals who would be unfamiliar with events in the Chapter 11 Case.

The Bankruptcy Code requires as a condition to confirmation of a plan of reorganization that the Bankruptcy Court find that, with respect to an Impaired Class (such as Class 3 (General Unsecured Claims) and Class 4 (Asbestos Personal Injury Claims)), each holder of a claim or interest in such class has accepted the plan or will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code. Attached to this Disclosure Statement as **Exhibit B** is a liquidation analysis for the Debtor (the “Liquidation Analysis”), which compares the proposal in the Plan with a hypothetical liquidation assuming that (i) a bankruptcy case under chapter 7 of the Bankruptcy Code was commenced on or about [REDACTED], 2018, and (ii) the Debtor’s assets are liquidated by a court-appointed chapter 7 trustee in an orderly liquidation. The Liquidation Analysis demonstrates that holders of Claims in Class 3 (General Unsecured Claims) and Class 4

(Asbestos Personal Injury Claims) will receive as much value under the Plan, if not more, than they would receive in a chapter 7 liquidation.

The Liquidation Analysis is based on a number of estimates and assumptions that, while considered reasonable, are inherently beyond the control of the Debtor or any chapter 7 trustee. Accordingly, there can be no assurances that the values reflected in the Liquidation Analysis would be realized if the Debtor were to undergo a chapter 7 liquidation. Instead, actual results could vary materially from those shown in the Liquidation Analysis. In addition, any liquidation necessarily would take place in the future, under circumstances that presently cannot be predicted. Accordingly, if the remaining unliquidated assets of the Estate were liquidated at a later date by a chapter 7 trustee, the actual liquidation proceeds could be materially lower or higher than the amounts set forth in Exhibit B, and no representation or warranty can be made with respect to the actual proceeds that may or could be received in a chapter 7 liquidation.

### **C. Alternate Chapter 11 Plan**

If the Plan is not confirmed, the Debtor or another party in interest could attempt to formulate a different chapter 11 plan. However, the Plan has been proposed by the Plan Proponents taking into consideration the competing and conflicting interests held by the holders of the Asbestos Personal Injury Claims, the Debtor's other creditors, the Future Claimants' Representative and the priorities established in the Bankruptcy Code. The Plan is the result of substantial and lengthy negotiations among the Plan Proponents.

The Plan Proponents believe that confirmation and implementation of the Plan is preferable to any of the alternatives and should provide greater recoveries than those available in a dismissal of this Chapter 11 Case, a liquidation under chapter 7 of the Bankruptcy Code, or an alternative plan.

## **X. RISK FACTORS**

Prior to voting to accept or reject the Plan, holders of Claims against and Interests in the Debtor should read and consider carefully the risk factors set forth below, as well as the other information set forth in this Disclosure Statement (and the documents delivered together with and/or referred to in this Disclosure Statement). These risk factors, however, should not be regarded as constituting the only risks involved in connection with the Plan and its implementation.

### **A. Overall Risks to Recovery by Holders of Claims**

The ultimate recoveries under the Plan to holders of Claims (other than holders whose entire Distribution is paid in Cash or holders of Asbestos Personal Injury Claims that will be resolved by the Asbestos Personal Injury Trust) depend upon a number of factors. The factors below (other than the factor entitled "Certain Bankruptcy Considerations", which is discussed below) assume that the Plan is confirmed and that the Effective Date occurs on or about                     , 2018. Prior to voting on the Plan, each holder of a Claim should consider

carefully the risk factors specified or referred to below, including the exhibits annexed to the Disclosure Statement, as well as all of the information contained in the Plan.

## **B. Certain Bankruptcy Considerations**

Although the Debtor believes that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no guarantee that the Bankruptcy Court will reach the same conclusion, or that the Confirmation Order, if challenged on appeal, will be affirmed. There also can be no assurance that the Plan as proposed will be accepted by the requisite number of holders or amount of Claims, that the Plan will not be modified up to and including the Confirmation Date, or that the Bankruptcy Court will enter an order confirming the Plan containing the findings of fact and conclusions of law that are conditions precedent to confirmation of the Plan. There also can be no assurance that the District Court will accept and affirm, or issue, the order confirming the Plan, that such acceptance and affirmance or issuance will become a Final Order, and that the Asbestos Personal Injury Channeling Injunction will therefore become valid and enforceable.

If the Plan is not confirmed and consummated, there can be no assurance that the Chapter 11 Case will continue rather than be converted to a liquidation, or that any alternative plan of reorganization would be on terms as favorable to the holders of Claims and Interests as the terms of the Plan. If a liquidation or protracted reorganization were to occur, there is a substantial risk that the value of the Debtor's assets would erode substantially – to the detriment of all stakeholders.

## **C. Projected Financial Information**

The Debtor's financial projections are dependent upon numerous assumptions, including confirmation and consummation of the Plan in accordance with its terms, the anticipated future performance of the Reorganized Debtor, general business and economic conditions, and other matters, many of which are beyond the Debtor's control. Accordingly, there can be no assurance that such assumptions will prove to be valid. In addition, unanticipated and unforeseeable events or circumstances occurring subsequent to the preparation of the Debtor's financial projections may affect the actual financial results of the Reorganized Debtor. Although the Debtor believes that the projections are reasonable and attainable, some or all of the estimates will vary, and variations between the actual financial results and those that are projected may be material.

## **D. Distributions Under the Asbestos Personal Injury Trust Distribution Procedures**

There can be no certainty as to the precise amounts that will be distributed by the Asbestos Personal Injury Trust in any particular time period or when Asbestos Personal Injury Claims will be paid by the Asbestos Personal Injury Trust. Payments that will be made on Asbestos Personal Injury Claims will be determined under the Asbestos Personal Injury Trust Distribution Procedures and will be based, on the one hand, upon estimates of the number, types, and amount of current Asbestos Personal Injury Claims and expected future Demands and, on the other hand, the value of the assets of the Asbestos Personal Injury Trust, the liquidity of the

Asbestos Personal Injury Trust, the Asbestos Personal Injury Trust's expected future income and expenses, and other matters that are likely to affect the sufficiency of funds to pay all holders of Asbestos Personal Injury Claims.

The initial payment percentage will be determined after the Effective Date by comparing the assets of the Asbestos Personal Injury Trust against its projected liability for Asbestos Personal Injury Claims and Asbestos Personal Injury Trust Expenses. The Asbestos Personal Injury Trust's projected liability for Asbestos Personal Injury Claims is based upon a number of assumptions. Should any assumption from which the initial payment percentage was developed prove to be materially inaccurate based upon the Asbestos Personal Injury Trust's actual experience, the Asbestos Personal Injury Trust may have to adjust the payment percentage upwards or downwards from time to time, pursuant to the Asbestos Personal Injury Trust Documents, to reflect current estimates of the Asbestos Personal Injury Trust's assets and liabilities.

#### **E. The Asbestos Personal Injury Channeling Injunction**

The Asbestos Personal Injury Channeling Injunction, which, among other things, bars the assertion of any Asbestos Personal Injury Claims against the Debtor, Reorganized Sepco, and the other Protected Parties, is the cornerstone of the Plan. In 1994, the United States Congress added subsection (g) to section 524 of the Bankruptcy Code in order to confirm the authority of the Bankruptcy Court, subject to the conditions specified therein, to issue injunctions, such as the Asbestos Personal Injury Channeling Injunction, with respect to present and future claims for asbestos-induced injury or wrongful death. Although the Plan, the Asbestos Personal Injury Trust Agreement, and the Asbestos Personal Injury Trust Distribution Procedures all have been drafted with the intention of complying with section 524(g) of the Bankruptcy Code, and although satisfaction of the conditions imposed by section 524(g) is a condition precedent to confirmation of the Plan, there is no guarantee that the validity and enforceability of the Asbestos Personal Injury Channeling Injunction or section 524(g) or the application of the Asbestos Personal Injury Channeling Injunction to Asbestos Personal Injury Claims will not be challenged, either before or after confirmation of the Plan. Although the Debtor believes adequate bases exist for the courts to uphold section 524(g) and the Asbestos Personal Injury Channeling Injunction, there can be no assurance that, in the future, courts might not invalidate all or a portion of section 524(g) or the Asbestos Personal Injury Channeling Injunction.

### **XI. TAX CONSEQUENCES**

HOLDERS OF CLAIMS AND INTERESTS SHOULD SEEK ADVICE BASED UPON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

THE FOLLOWING DISCUSSION SUMMARIZES CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE IMPLEMENTATION OF THE PLAN TO THE DEBTOR, REORGANIZED SEPCO, HOLDERS OF ASBESTOS PERSONAL INJURY CLAIMS, AND THE ASBESTOS PERSONAL INJURY TRUST. THE FOLLOWING SUMMARY DOES NOT DISCUSS THE FEDERAL INCOME TAX CONSEQUENCES TO HOLDERS WHOSE CLAIMS ARE ENTITLED TO PAYMENT IN FULL IN CASH OR ARE OTHERWISE

UNIMPAIRED UNDER THE PLAN OR TO HOLDERS OF INTERESTS OR INTERCOMPANY CLAIMS.

THE FOLLOWING SUMMARY IS BASED UPON THE INTERNAL REVENUE CODE OF 1986 (AS AMENDED, THE “INTERNAL REVENUE CODE”), TREASURY REGULATIONS PROMULGATED THEREUNDER, JUDICIAL DECISIONS, AND PUBLISHED ADMINISTRATIVE RULES AND PRONOUNCEMENTS OF THE IRS AS IN EFFECT ON THE DATE HEREOF. CHANGES IN SUCH RULES OR NEW INTERPRETATIONS THEREOF MAY HAVE RETROACTIVE EFFECT AND COULD SIGNIFICANTLY AFFECT THE FEDERAL INCOME TAX CONSEQUENCES DESCRIBED BELOW.

THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES. THE DEBTOR DOES NOT CURRENTLY INTEND TO SEEK A RULING FROM THE IRS CONCERNING ANY OF THE TAX ASPECTS OF THE PLAN. IN ADDITION, THIS SUMMARY DOES NOT ADDRESS FOREIGN, STATE, OR LOCAL TAX CONSEQUENCES OF THE PLAN. NOR DOES IT PURPORT TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN TO SPECIAL CLASSES OF TAXPAYERS (SUCH AS FOREIGN TAXPAYERS, BROKER-DEALERS, BANKS, MUTUAL FUNDS, INSURANCE COMPANIES, FINANCIAL INSTITUTIONS, THRIFTS, SMALL BUSINESS INVESTMENT COMPANIES, REGULATED INVESTMENT COMPANIES, REAL ESTATE INVESTMENT COMPANIES, TAX-EXEMPT ORGANIZATIONS, TRADERS IN SECURITIES THAT ELECT TO USE A MARK-TO-MARKET METHOD OF ACCOUNTING FOR THEIR SECURITY HOLDING AND PASS-THROUGH ENTITIES AND INVESTORS IN SUCH ENTITIES).

ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR INTEREST. ALL HOLDERS OF CLAIMS AND INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE TO THEM UNDER THE PLAN.

**A. Tax Consequences to the Debtor**

The Debtor currently is treated as a “C” corporation for federal income tax purposes. The Debtor generally should take into account any taxable income, gain, losses, and deductions, including any cancellation of indebtedness income (“COD”), recognized by the Debtor pursuant to the implementation of the Plan. COD, which is the amount by which discharged indebtedness exceeds the consideration received in exchange therefor, is generally includible in a debtor’s gross income, subject to certain exceptions. For example, a debtor generally does not realize COD if the payment of the discharged indebtedness would have given rise to a deduction. In addition, any COD realized by a debtor in a bankruptcy case generally is excluded from the debtor’s gross income, but the bankrupt debtor must reduce certain tax attributes by the amount of the excluded COD.

## **B. Treatment of Transfer of Asbestos Personal Injury Trust Assets and Taxation of the Asbestos Personal Injury Trust**

It is currently intended that the Asbestos Personal Injury Trust will constitute a “qualified settlement fund” within the meaning of section 468B of the Internal Revenue Code and the Treasury regulations promulgated thereunder. The applicable Treasury regulations provide that to be treated as a qualified settlement fund, a fund, account, or trust must be (i) established pursuant to an order of, or be approved by, a government authority, including a court, and must be subject to the continuing jurisdiction of that government authority; (ii) established to resolve or satisfy one or more contested or uncontested claims that have resulted or may result from an event or a related series of events that has occurred and that has given rise to at least one claim asserting, among other things, liability under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. § 9601 et seq., or liability arising out of, a tort, breach of contract or violation of law; and (iii) a trust under applicable state law or have its assets physically segregated from the other assets of the transferor and persons related to the transferor.

A transferor generally is entitled to a current federal income tax deduction for all transfers of cash and other property (other than its own notes) to a qualified settlement fund to the same extent the transferor would have been entitled to a deduction if such amounts had been paid directly to the holder of a claim that will be discharged upon the establishment of the qualified settlement fund. Assuming the Asbestos Personal Injury Trust is treated as a qualified settlement fund, and (to the extent permissible by law) the Debtor intends to claim a current federal income tax deduction for transfers of Cash to the Asbestos Personal Injury Trust to the same extent that the Debtor would have been entitled to a deduction if such amounts had been paid directly to the holder of an Asbestos Personal Injury Claim. In connection therewith, the Debtor generally will not be entitled to a deduction to the extent that it funds the Asbestos Personal Injury Trust with Cash attributable to amounts not included in its income.

Assuming the Asbestos Personal Injury Trust is treated as a qualified settlement fund, the Asbestos Personal Injury Trust will generally be subject to a separate entity level tax at the maximum rate applicable to trusts and estates, and, in determining the taxable income of the Asbestos Personal Injury Trust, (i) any amounts transferred to the Asbestos Personal Injury Trust to resolve or satisfy a liability for which the Asbestos Personal Injury Trust is established generally will be excluded from the Asbestos Personal Injury Trust’s income, and (ii) administrative costs (including state and local taxes) incurred by the Asbestos Personal Injury Trust generally will be deductible.

Assuming the Asbestos Personal Injury Trust is treated as a qualified settlement fund, trade or business expenses generally will not be deductible for federal income tax purposes. In general, the adjusted tax basis of property received (or treated as received for federal income tax purposes) by a qualified settlement fund from a transferor pursuant to the Plan will be the fair market value of such property at the time of receipt.

### **C. Consequences to Holders of Asbestos Personal Injury Claims**

Each Asbestos Personal Injury Claim will be resolved and, if eligible, satisfied in cash from the Asbestos Personal Injury Trust in accordance with the Asbestos Personal Injury Trust Distribution Procedures. The federal income tax treatment of the receipt of payments from the Asbestos Personal Injury Trust by a holder of such an Asbestos Personal Injury Claim generally will depend upon the nature of the Asbestos Personal Injury Claim. Because the amounts received by a holder of an Asbestos Personal Injury Claim (other than an Asbestos Personal Injury Trust Expense) generally will be attributable to, and compensation for, such holder's personal physical injuries or sickness, within the meaning of section 104 of the Internal Revenue Code, any such amounts received by the holder generally should be nontaxable. However, to the extent payments from the Asbestos Personal Injury Trust to a holder of an Asbestos Personal Injury Claim are attributable to medical expense deductions allowed under section 213 of the Internal Revenue Code for a prior taxable year, such payments will be taxable as ordinary income to the recipient. To the extent that the payments from the Asbestos Personal Injury Trust to holders of Asbestos Personal Injury Claims constitute amounts received on account of claims other than personal physical injury or sickness, such payments generally will be includable in the gross income of such holders.

### **D. Information Reporting and Withholding**

In connection with the Plan, Reorganized Sepco and the Asbestos Personal Injury Trust will comply with all applicable withholding and reporting requirements imposed by federal, state, local, and foreign taxing authorities, and all Distributions under the Plan will be subject to those withholding and reporting requirements. Creditors may be required to provide certain tax information as a condition to receiving Distributions pursuant to the Plan. Notwithstanding any other provision of the Plan, each Person receiving a Distribution pursuant to the Plan will have sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding, and other tax obligations, on account of that Distribution.

The federal income tax consequences to any particular holder of a Claim also may be affected by matters not discussed in this Disclosure Statement. For example, if a holder of a Claim previously deducted a loss with respect to its Claim, the receipt of money under the Plan may require such holder to recognize income. Furthermore, certain holders of Claims, including foreign persons, life insurance companies, and tax-exempt organizations may be subject to special rules not addressed in this Disclosure Statement. There also may be state, local, or foreign tax considerations applicable to each holder.

## **XII. PLAN VOTING INSTRUCTIONS, PROCEDURES AND DEADLINE**

Along with this Disclosure Statement, the Debtor has included a copy of the Plan and either an individual or master ballot for holders of General Unsecured Claims and Asbestos Personal Injury Claims, all of whom are impaired and entitled to vote for the acceptance or rejection of the Plan. A Claim is impaired if the Plan proposes to modify, alter or exchange its legal, contractual or equitable rights.

## **A. Claim Holders Entitled to Vote**

Administrative Expense Claims and Priority Tax Claims have not been classified for purposes of voting or receiving Distributions. Rather, all such Claims are treated separately as unclassified Claims, and the holders thereof are not entitled to vote on the Plan.

Claims in Class 1 (Priority Claims), Class 2 (Secured Claims), and Class 3 (General Unsecured Claims) are Unimpaired. Holders of Claims in Class 1 (Priority Claims), Class 2 (Secured Claims), and Class 3 (General Unsecured Claims) are conclusively presumed to have accepted the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

Claims in Class 4 (Asbestos Personal Injury Claims) and Class 5 (Intercompany Claims) are Impaired. Each holder of a Claim in Class 4 (Asbestos Personal Injury Claims) or Class 5 (Intercompany Claims) is entitled to vote to accept or reject the Plan.

Claims in Class 6 (Equity Interests) also are Impaired. Each holder of an Interest in Class 6 (Equity Interests) will not receive or retain any property on account of their Equity Interests. As a result, such holders are conclusively presumed to have rejected the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

## **B. Summary of Voting Procedures**

Most Claims in Class 4 (Asbestos Personal Injury Claims) are unliquidated and, under the Plan, will be liquidated by application of the Asbestos Personal Injury Trust Distribution Procedures. The Debtor, by separate motion, has sought the approval of certain procedures governing the voting by holders of Asbestos Personal Injury Claims (“Voting Procedures”). Specifically, in the Voting Procedures the Debtor has proposed that each Asbestos Personal Injury Claim be valued, solely for voting purposes, using a value assigned for each disease category set forth in the Asbestos Personal Injury Trust Distribution Procedures and for any indirect claims. The Debtor does not have individual addresses for the majority of the holders of Asbestos Personal Injury Claims, most of whom have asserted Claims against the Debtor through their law firms. To avoid unnecessary administrative burden, the Debtor will send a master ballot in the form attached to this Disclosure Statement as **Exhibit E**, to all counsel of known holders of Asbestos Personal Injury Claims. The Debtor will send an individual ballot (in the form attached to this Disclosure Statement as Exhibit D) to individual holders of Asbestos Personal Injury Claims only where the circumstances set forth in the Voting Procedures for such delivery are met.

If at least two-thirds in amount and more than one-half in number of the Allowed Claims in Class 4 (Asbestos Personal Injury Claims) and Class 5 (Intercompany Claims) that voted on the Plan vote to accept the Plan, and such votes are actually received (and not revoked) by the “Voting Deadline” (as defined below), the Plan Proponents intend to seek confirmation of the Plan promptly. If the requisite acceptances are not received by the Voting Deadline (as defined below), the Plan Proponents will evaluate other available options for confirmation of the Plan.

In order to be counted for voting purposes, ballots for the acceptance or rejection of the Plan must be actually received by Kurtzman Carson Consultants LLC (the “Balloting Agent”), no later than 4:00 p.m. (prevailing Eastern Time) on [REDACTED], 2018 (the “Voting Deadline”), at the following address:

Kurtzman Carson Consultants LLC  
2335 Alaska Avenue  
El Segundo, CA 90245

If the instructions on your ballot require you to return the ballot to your attorneys, you must deliver your ballot to them in sufficient time for them to process it and return it to the Balloting Agent before the Voting Deadline. If a ballot is damaged or lost, you may contact the Balloting Agent at the address set forth above. Any ballot that is executed and returned but that does not indicate an acceptance or rejection of the Plan (or that indicates both an acceptance and a rejection of the Plan) will not be counted.

If you are a holder of a Claim entitled to vote on the Plan and did not receive a ballot, received a damaged ballot, or lost your ballot, you should contact the Balloting Agent using the contact information set forth above. If you have any questions about this Disclosure Statement, the Plan, or the Voting Procedures, you should contact: (i) your attorney; or (ii) counsel to the Debtor, Jeffrey C. Toole, at [toole@buckleyking.com](mailto:toole@buckleyking.com).

If you are the holder of a Claim in Class 4 (Asbestos Personal Injury Claims), please see the detailed voting instructions accompanying your individual ballot or master ballot attached to this Disclosure Statement as **Exhibit D** or **E**, respectively.

If you are the holder of a Claim in Class 5 (Intercompany Claims), your ballot is attached to this Disclosure Statement as **Exhibit F**.

### **C. Section 1129(b) Cramdown with Respect to Class 6 (Equity Interests)**

Because holders of Claims in Class 6 (Interests) are Impaired and are conclusively presumed to have rejected the Plan and do not vote, the Debtor is requesting that the Bankruptcy Court confirm the Plan notwithstanding the requirements of section 1129(a)(8) of the Bankruptcy Code, which generally requires that each Class of Claims or Interests either accept the Plan or be Unimpaired. Because the Plan does not discriminate unfairly, and it is fair and equitable with respect to the treatment of Class 6 (Equity Interests) in accordance with the requirements of section 1129(b) of the Bankruptcy Code, the Debtor believes that the Plan satisfies the requirements for confirmation. The Debtor asserts that the Plan provides for fair and equitable treatment of all Classes of Claims.

### **XIII. CONFIRMATION OF THE PLAN**

#### **A. Confirmation Hearing**

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after appropriate notice, to hold a hearing on confirmation of a plan of reorganization (the “Confirmation Hearing”).

#### **B. General Requirements of Section 1129 of the Bankruptcy Code**

At the Confirmation Hearing, the Bankruptcy Court will determine whether the following confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied:

1. The Plan complies with the applicable provisions of the Bankruptcy Code.
2. The Debtor has complied with the applicable provisions of the Bankruptcy Code.
3. The Plan has been proposed in good faith and not by any means proscribed by law.
4. Any payment made or promised by the Debtor or by a person issuing securities or acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Case, or in connection with the Plan and incident to the Chapter 11 Case, has been or will be approved by the Bankruptcy Court.
5. The Debtor has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director or officer of the Debtor or a successor to the Debtor under the Plan. The appointment of (or continuance by) such individual to (or in) such position or office is consistent with the interests of creditors and equity security holders and with public policy. The Debtor has disclosed the identity of any insider that will be employed or retained by the Debtor, and the nature of any compensation for such insider.
6. With respect to each Class or Claims or Interests, each holder of an impaired Claim or impaired Interest either has accepted the Plan or will receive or retain under the Plan, on account of such holder’s Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if the Debtor were liquidated on the Effective Date under chapter 7 of the Bankruptcy Code. See discussion of “Best Interests Test” below.
7. Each Class of Claims and Interests has either accepted the Plan or is not Impaired under the Plan.

8. Except to the extent that a holder of a particular Claim has agreed to different treatment of such Claim, the Plan provides that Administrative Expense Claims and Priority Claims (other than Priority Tax Claims) will be paid in full on the Effective Date. Priority Tax Claims, if any, will be paid, over a period not exceeding five years after the date of the order for relief, in regular installments of Cash payments, equal to the Allowed amount of such Claims (as of the Effective Date) and in a manner no less favorable than the most favored non-priority unsecured Claim provided for by the Plan, and, with respect to a secured Claim that would otherwise meet the description of an unsecured Claim of a governmental unit under section 507(a)(8) of the Bankruptcy Code, but for the secured status of that Claim, the holder of that Claim will receive on account of that Claim, Cash payments, in the same manner as described in this paragraph.
9. At least one Claim of Impaired Claims has accepted the Plan, with the determination of such Class acceptance not including any acceptance of the Plan by any insider holding a Claim in such Class.
10. Confirmation of the Plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor or any successor to the Debtor under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of “Feasibility” below.

### **C. Best Interests Test**

As described above, the Bankruptcy Code requires that each holder of an Impaired Claim or Interest either (i) accept the Plan; or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code. The Liquidation Analysis is attached to this Disclosure Statement as **Exhibit B**. When the results of the liquidation analysis are compared to the distributions expected under the Plan, as set forth in Article V above, it is clear that every creditor and interest holder will receive at least as much under the Plan as such creditor or interest holder would receive in a chapter 7 liquidation.

### **D. Feasibility**

The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization of the debtor. In connection with the development of the Plan, and for purposes of determining whether the Plan satisfies that “feasibility” requirement of section 1129(a)(11) of the Bankruptcy Code, the Debtor’s management has analyzed the ability of Reorganized Sepco to meet its obligations under the Plan and to conduct its business after the Effective Date.

The pro forma balance sheets and projected financial performance for Reorganized Sepco and the projected Asbestos Personal Injury Trust Contribution (collectively, the “Projections”),

which are attached as **Exhibit C** to this Disclosure Statement, should be read in conjunction with Article X.C. above. The Projections were not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants, the practices recognized to be in accordance with Generally Accepted Accounting Principles, or the rules and regulations of the Securities and Exchange Commission regarding projections. Furthermore, the Projections have not been audited by an independent accountant. The Debtor does not intend, and disclaims any obligation, to furnish updated projections to holders of Claims prior to the Effective Date.

The Projections were prepared exclusively by the Debtor's management and financial advisors and are based upon, and assume the successful implementation of, the Plan. The Projections, while presented with numerical specificity, are necessarily based on a variety of estimates and assumptions that, though considered reasonable at the time made, may prove not to be accurate, and are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond the Debtor's control. The Debtor cannot make any representations as to Reorganized Sepco's ability to achieve the results set forth in the Projections. Some assumptions on which the Projections are based may not materialize, and events and circumstances occurring after the date on which the Projections were prepared may be different from those assumed or anticipated, and may materially and adversely impact Reorganized Sepco's future financial performance. The Projections, therefore, cannot be relied upon as a guarantee or other assurance of Reorganized Sepco's actual future financial performance or of a particular outcome or result.

Based upon the Projections, the Debtor believes that Reorganized Sepco will be able to make all payments required pursuant to the Plan and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

#### **XIV. RECOMMENDATION**

The Plan Proponents believe that the Plan provides for the highest and most timely recovery available to holders of Claims in Class 4 (Asbestos Personal Injury Claims) and Class 5 (Intercompany Claims). Therefore, the Plan Proponents recommend that all holders of Claims in Class 4 (Asbestos Personal Injury Claims) and Class 5 (Intercompany Claims) vote to accept the Plan and urge each of them to evidence such acceptance by returning their respective ballots so that they are *actually received* by the Balloting Agent on or before [REDACTED]:00 p.m. (Eastern Time) on [REDACTED], 2018.

*[signature page follows]*

Dated: October 22, 2018

Respectfully submitted,

SEPCO CORPORATION

/s/ Richard Szekely

Richard Szekely  
Chief Restructuring Officer

THE ASBESTOS CLAIMANTS COMMITTEE

/s/ Constantine Venizelos

Constantine Venizelos  
Chair

FUTURE CLAIMANTS' REPRESENTATIVE

/s/ Lawrence Fitzpatrick

Lawrence Fitzpatrick

Exhibit A: Plan of Reorganization  
Exhibit B: Liquidation Analysis  
Exhibit C: Projections  
Exhibit D: Class 4 Individualized Ballot Form  
Exhibit E: Class 4 Master Ballot Form  
Exhibit F: Class 5 Ballot Form

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**EXHIBIT A**

**Plan of Reorganization**

**EXHIBIT B**

**Liquidation Analysis**

[To Come]

**EXHIBIT C**

**Projections**

[To Come]

**EXHIBIT D**

**Class 4 Individualized Ballot Form**

[To Come]

**EXHIBIT E**

**Class 4 Master Ballot Form**

[To Come]

**EXHIBIT F**

**Class 5 Ballot Form**

[To Come]