Although PCT retains ultimate responsibility and indemnifies the Company for such matters under the Transfer Agreement, the Company undertakes administrative and funding obligations with

respect to such matters, including as to such unreimbursed defense and settlement costs, subject to certain termination events as described below. PCT's obligation to make reimbursement for the amounts so funded will be limited to amounts received by PCT under related indemnification and insurance agreements The Company's administrative and funding obligations would be terminated in the case of a bankruptcy of Pneumo Abex or PCT or, following an exhaustion of available insurance, either a bankruptcy of Whitman or Cooper or the failure of Whitman or Cooper to make required indemnification payments other than for reasons primarily caused by actions or inactions taken by the Company.

Based upon the Company's experience to date (including the court rulings and interim agreements relating to its insurers described above and the existence of the indemnification arrangements with Whitman and Cooper), the Company believes that aggregate past and future unreimbursed costs associated with asbestos-related claims arising out of the former friction products business, including future defense and settlement costs, will not have a material adverse effect on the Company's financial condition or results of operations As discussed in "--Environmental Matters" above, the Company monitors Whitman's financial position and believes that the likelihood of Whitman failing to satisfy its obligations is remote. A substantial failure of Pneumo Abex's insurance and the indemnification arrangements with Whitman or Cooper, however, could have a material adverse effect on the Company

Tax Matters

In connection with the Abex Transactions, the Company entered into a tax sharing agreement with PCT, pursuant to which the Company has agreed to indemnify PCT with respect to all taxes applicable to periods prior to June 15, 1995 except for foreign taxes related to PCT's aerospace business.

In connection with the July 16, 1992 distribution (the "1992 Distribution") of Abex, the predecessor of the Company, to the stockholders of its prior parent, The Henley Group, Inc ("Henley"), Abex entered into a tax sharing agreement with Henley in which Abex indemnified Henley for tax liabilities resulting from certain adjustments to the tax liabilities of Abex entities and for certain tax liabilities of a prior affiliated company, Wheelabrator Technologies Inc for the period from May 26, 1986 through December 31, 1988 All federal tax liabilities related to this period were settled prior to 1995; however, certain state tax liabilities of approximately $7 million, which is an obligation of the Company, remained open as of December 31, 1996

Abex had been included in the consolidated federal income tax return of Henley for 1990 and 1991 The Internal Revenue Service has asserted deficiencies against Henley for these periods of approximately $23 million, plus interest Koll Real Estate Group, Inc ("Koll"), as the parent of Henley, has indicated that it will vigorously contest the deficiencies through the administrative appeals process as well as in court and that a final conclusion to this matter could take several years In any event, the adjustments creating these deficiencies do not relate to Abex entities and are therefore not liabilities of the Company as successor to Abex under the tax sharing agreement However, if Henley or Koll were unable to pay any deficiency remaining after the review process, then the Internal Revenue Service, in accordance with Treasury Regulation 1 1502-06, could seek payment from any of the other entities that were included in the federal consolidated return of Henley for 1990 and 1991, including the Company as successor to Abex