LESLIE CONTROLS, INC.
ASBESTOS PERSONAL INJURY TRUST

Special-Purpose Financial Statements
and
Report of Independent Auditors

Year Ended December 31, 2012 and Period from
Inception (April 28, 2011) to December 31, 2011

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LESLIE CONTROLS, INC.
ASBESTOS PERSONAL INJURY TRUST

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REPORT OF INDEPENDENT AUDITORS

To the Trustee of
Leslie Controls, Inc. Asbestos Personal Injury Trust

We have audited the accompanying special-purpose financial statements of the Leslie Controls, Inc. Asbestos Personal Injury Trust (the Trust), which comprise the special-purpose statement of net claimants' equity as of December 31, 2012, and the related special-purpose statement of changes in net claimants' equity and cash flows for the year then ended, and the related notes to the special-purpose financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the special-purpose accounting methods adopted by the Trust and Trustee, as described in Note 2. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the net claimants' equity of the Trust as of December 31, 2012, and the changes in net claimants' equity and cash flows for the year then ended in conformity with the special-purpose basis of accounting described in Note 2.

Other Matter

The special-purpose financial statements of the Trust as of December 31, 2011, were audited by other auditors whose report dated April 17, 2012, expressed an unmodified opinion on those statements.

Basis of Accounting

We draw attention to Note 2 of the special-purpose financial statements, which describes the basis of accounting. These financial statements are prepared on a special-purpose basis of accounting and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. The special-purpose basis of accounting has been used in order to present the amount of equity presently available to current and future claimants and the changes in equity during the period.

Restriction on Use

This report is intended solely for the information and use of the management of the Trust, the Trustee, the beneficiaries of the Trust and the United States Bankruptcy Court for the District of Delaware and is not intended to be and should not be used by anyone other than these specified parties.

BKM Sowan Horan, LLP

Certified Public Accountants
Addison, Texas
April 18, 2013

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LESLIE CONTROLS, INC.
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Special-Purpose Statements of Net Claimants' Equity

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 336,576	$ 232,092
Investments, at fair market value	69,269,556	76,127,462
Investment income receivable	775,053	693,256
Note receivable - Leslie Controls, Inc.	-	1,000,000
Prepaid expenses	10,105	10,471
Total assets	70,391,290	78,063,281
LIABILITIES AND NET CLAIMANTS' EQUITY		
Accounts payable and accrued expenses	38,947	86,713
Settled claims payable	7,346,500	-
Total liabilities	7,385,447	86,713
Net claimants' equity	$ 63,005,843	$ 77,976,568

See accompanying notes to special-purpose financial statements

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LESLIE CONTROLS, INC.
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Special-Purpose Statements of Changes in Net Claimants' Equity

	Year Ended December 31, 2012	Period From April 28, 2011 (inception) December 31, 2011
ADDITIONS		
Contributions at inception	$ -	74,000,000
Insurance settlements	350,000	3,805,648
Investment income, net:		
Interest and dividends	903,904	344,687
Investment advisory fees	(119,141)	(104,836)
Realized gain on investments, net	7,326	405
Unrealized gains on investments, net	433,366	337,846
Total additions	1,575,455	78,383,750
DEDUCTIONS		
Claims settled	15,643,100	-
Claim processing fees and consulting	286,303	19,964
Operating expenses	616,777	387,218
Total deductions	16,546,180	407,182
Net (decrease) increase in net claimants' equity	(14,970,725)	77,976,568
Net claimants' equity:		
Beginning of year	77,976,568	-
End of year	$ 63,005,843	$ 77,976,568

See accompanying notes to special-purpose financial statements

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LESLIE CONTROLS, INC.
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Special-Purpose Statements of Cash Flows

	Year Ended December 31, 2012	Period From April 28, 2011 (inception) December 31, 2011
Cash flows from operating activities		
Net (decrease) increase in net claimants' equity	$ (14,970,725)	$ 77,976,568
Adjustments to reconcile net (decrease) increase to net cash provided by (used in) operating activities:		
Net unrealized gain on investments	(433,366)	(337,846)
Net realized gains on investments	(7,326)	(405)
Amortization of bond premiums	1,200,580	665,521
Changes in assets and liabilities:		
Prepaid assets	366	(10,471)
Investment income receivable	(81,797)	(693,256)
Settled claims payable	7,346,500	-
Accounts payable and accrued expenses	(47,766)	86,713
Net cash provided by (used in) operating activities	(6,993,534)	77,686,824
Cash flows from investing activities		
Issuance of note receivable from Leslie Controls,	-	(1,000,000)
Collection of note receivable from Leslie	1,000,000	-
Proceeds from sale of investments	35,081,074	93,921,138
Purchase of investments	(28,983,056)	(170,375,870)
Net cash provided by (used in) investing activities	7,098,018	(77,454,732)
Net increase in cash and cash equivalents	104,484	232,092
Cash and cash equivalents, beginning of period	232,092	-
Cash and cash equivalents, end of year	$ 336,576	$ 232,092

See accompanying notes to special-purpose financial statements

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Note 1 – Description of the Trust

General

The Leslie Controls, Inc. Asbestos Personal Injury Trust (the Trust) was established on April 28, 2011 (Effective Date), and is a Qualified Settlement Fund (QSF) pursuant to Section 1.468B-1 et seq. of the Treasury Regulations promulgated under section 468B of the Internal Revenue Code. The purpose of the Trust is to (a) assume all liabilities and responsibility for Asbestos PI Claims (whether existing as of the Effective Date or arising at any time thereafter), (b) direct the processing, liquidation and payment of all Asbestos PI Claims in accordance with the Asbestos PI Trust Distribution Procedures, (c) preserve, hold, manage and maximize the Asbestos PI Trust Assets for use in paying and otherwise satisfying Asbestos PI Claims and paying Asbestos PI Trust Expenses, and (d) otherwise comply in all respects with the requirements of a trust set forth in section 524(g)(2)(B) of the Bankruptcy Code, all in accordance with the Plan.

The Trust is governed by a Trust Agreement and Trust Distribution Procedures (TDP) that establish the framework and criteria for allowance and payment of asbestos-related claims by the Trust. There are seven disease levels specified in the TDP. Each claimant who meets the medical and exposure requirements of the TDP for a particular disease level may apply for expedited review and a specified payment amount. Claimants also have an alternative, under the TDP, to submit additional documentation and request a more expansive review of their claim (TDP – 5.2b Individual Review Process) in which case claims may be paid within a range of amounts.

The Trust's assets consist primarily of cash and cash equivalents and investments, which, with the earnings (or losses) on such investments, are intended to be totally consumed by the allowance and payment of claims and operation of the Trust. The percentage of the amount of each allowed claim that will actually be paid will be determined by projections of total allowed Asbestos Claims and operational expenses of the Trust, on the one hand, and total assets and net earnings (or losses), on the other. Pursuant to the TDP, the initial payment percentage was established at 40 percent. There have been no changes to the payment percentage since inception.

Funding

On the Effective Date, The Trust was funded with a total of $76,625,000. These funds consisted of $74,000,000 from CIRCOR International, Inc. (CIRCOR), the parent corporation of Leslie

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Note 1 – Description of the Trust - (Continued)

Funding - continued

Controls, Inc. (Leslie), and $2,625,000 of proceeds on the settlement between Leslie and Continental Casualty Company. On June 17, 2011, The Trust also received approximately $181,000 from CIRCOR from the proceeds of insurance settlements. Finally, Leslie contributed a secured promissory note in the principal amount of $1,000,000 with simple interest payable at the rate of 5% per annum in equal quarterly payments. The note was secured by 100% of the common stock of Leslie as collateral and Leslie was entitled to prepay at any time after payment of the first installment. On April 26, 2012, Leslie paid the Trust $60,000 (the first $10,000 principal payment plus interest of $50,000). On April, 27, 2012, Leslie paid the Trust $990,000 in full satisfaction of the remaining amount due under the note.

Termination

Section 8.2 of the Trust Agreement provides that the Trust shall automatically terminate on the date (the Dissolution Date) ninety (90) days after the first to occur of the following events:

- The Trustee decides to dissolve the Trust because (A) the Trustee deems it unlikely that any new Asbestos Claims will be filed against the Trust, (B) all Asbestos PI Claims filed with the Trust have been liquidated and, to the extent possible based upon the funds available to the Trust through the Plan, paid to the extent provided in the Trust Agreement and the Asbestos PI Trust Distribution Procedures or disallowed by a final, non-appealable order, and (C) twelve (12) consecutive months have elapsed during which no new Asbestos PI Claim has been filed with the Trust; or

- If the Trustee has procured and has in place irrevocable insurance policies and has established claims handling agreements and other necessary arrangements with suitable third parties adequate to discharge all expecting remaining obligations and expenses of the Trust in a manner consistent with the Trust Agreement and the Asbestos PI Trust Distribution Procedures, the date on which the Bankruptcy Court enters an order approving such insurance and other arrangements and such order becomes a final order; or

- To the extent that any rule against perpetuities shall be deemed applicable to the Trust, that date which is twenty-one (21) years less ninety-one (91) days after the death of the last survivor of all of the descendants of the late Joseph P. Kennedy, Sr., father of the late President John F. Kennedy, living on the date hereof.

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Note 1 – Description of the Trust - (Continued)

Termination - continued

On the dissolution date or as soon as reasonably practicable, after the wind-up of the Trust's affairs by the Trustee and payment of all the Trusts liabilities, any remaining assets of the Trust shall be applied to such charitable purposes as the Trustee in their reasonable discretion shall determine, which charitable purposes, if practicable shall be related to the treatment of, research on or the relief of suffering of individuals suffering from asbestos-related lung diseases or disorders.

Note 2 - Summary of Significant Accounting Policies

Basis of accounting

The Trust's financial statements are prepared using special-purpose accounting methods adopted by the Trustee which differ from accounting principles generally accepted in the United States of America (GAAP). The special-purpose accounting methods were adopted in order to communicate to the beneficiaries of the Trust the net assets available for the payment of claims and related operating expenses of the Trust. Since the accompanying financial statements and transactions are not based upon GAAP, accounting treatment by other parties for these same transactions may differ as to timing and amount. These special-purpose accounting methods and the differences from GAAP are summarized as follows:

- Net claimants' equity represents funds available to pay asbestos and bankruptcy related claims that have been submitted but not processed or not yet submitted. Trusts expenses are also paid from net claimants' equity. Under GAAP, net claimants' equity would be reduced for estimates of amounts to be paid for claims that have been submitted, but not processed, or not yet submitted.

- Claims are expenses in the period in which the confirmed claims are approved. Under GAAP, a liability would be recorded for an estimate of the amount to be paid for the claims that have been incurred but not yet reported, and for those claims that have been submitted but not yet approved for payment by the Trust.

- Payments for services to be received over an extended period in the future are expensed as paid since these amounts are no longer available for the payment of claims. Under GAAP, an asset would be recorded and amortized over the period in which the related benefits are received.

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Note 2 - Summary of Significant Accounting Policies - (Continued)

Subsequent events

The Trust has evaluated events and transactions subsequent to the date of the special-purpose financial statements for matters requiring recognition or disclosure in the special-purpose final statements. The accompanying special-purpose financial statements consider events through April 18, 2013, the date which the special-purpose financial statements were available to be issued.

Use of estimates

The preparation of the special-purpose financial statements requires the Trustee and management of the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the special-purpose financial statements, and the reported amounts of additions and deductions to the net claimants' equity during the reporting periods. Significant items subject to such estimates and assumptions include the fair market value of investments. Actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to the prior period to conform with current year reporting.

Financial instruments

The Trust's primary financial instruments are cash and cash equivalents, investments, and investment income receivable. The carrying amount of cash and cash equivalents and investment income receivable approximate their fair values based on their short-term nature. The carrying amount of marketable securities is based on fair value.

Cash and cash equivalents

The Trust considers all short-term investments with a maturity of three (3) months, or less to be cash equivalents.

Concentrations of credit risk

Financial instruments, which potentially subject the Trust to concentrations of credit risk, consist primarily of cash, cash equivalents, and investments. The Trust maintains its cash and cash equivalents, which at times may exceed federally insured limits, with financial institutions.

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Note 2 - Summary of Significant Accounting Policies - (Continued)

Concentrations of credit risk - continued

The Trust has not experienced any losses in such accounts, and management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

The Trust's investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the value of the Trust's portfolio.

Investments and related income (loss)

Investments are reported at fair value in the statements of net claimants' equity and changes in the fair value of investments, as well as realized gains and losses and foreign currency translation, are included in net gain (loss) on investments reported in the statements of changes in net claimants' equity. All marketable securities are deemed by management to be available for sale and are reported at fair value based on their quoted market prices with net holding unrealized gains or losses reported within net claimants' equity.

Realized gains and losses on disposals of investments are determined by the specific identification method. Interest and dividend income are recognized on the accrual basis.

Investments considered to be permanently impaired in value are written down to their estimated net realizable value and the write down is recorded as a realized loss on investments. Unrealized losses that are other-than-temporary based upon management's estimates using quantitative and qualitative criteria are recognized as realized investment losses. Actual results could differ from those estimates.

Settled claims payable

Settled claims payable consist of certain injury claims that are settled but unpaid at year end.

Claims processing and consulting

Claims processing and consulting expenses are recorded as incurred.

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Note 2 - Summary of Significant Accounting Policies - (Continued)

Net claimants' equity

The Trust, under the adopted special-purpose accounting convention, does not record the liability for future claims expected to be filed over the life of the Trust. The net claimants' equity is available for (i) the payments of allowed asbestos-related claims and (ii) operational expenses of the Trust.

Income Taxes

The Trust is treated as a Qualified Settlement Fund under the Internal Revenue Code and Regulations. As a result, the Trust is subject to federal income taxes based on modified gross income. In the opinion of management, the Trust is not subject to state income taxes, and therefore, the financial statements do not include any provision or liability for state income taxes. The Trust is taxed at the highest rate applicable to trusts under Section 1(e) of the Code, which is currently 35% at December 31, 2012 and increasing to 39.6% on January 1, 2013.

Deferred tax assets and liabilities are recorded based on temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes using the tax rates currently in effect. A valuation allowance is established when it is not more likely than not that the deferred tax assets may be realized. Funds received by the Trust from CIRCOR and Leslie and distributions paid to settle asbestos claims are not taxable or deductible by the Trust.

The Trustee's estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Trust uses a more likely than not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. To the extent that the Trustee's assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. The Trust reports tax-related interest and penalties as a component of income tax expense and operating expenses, respectively. The Trust has not identified any uncertain tax positions as of December 31, 2012 or 2011.

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Note 3 – Investments

The Trust measures its investments, at fair value, according to a hierarchy of valuation techniques. The following are the levels of the hierarchy and a brief description of the type of valuation information ("inputs") that qualifies an investment for each level:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level 1 includes short-term investments and securities that are traded in an active exchange.

Level 2 – Pricing inputs are other than quoted market prices included in Level 1, however, are observable indirectly for the investment. The Trust includes its corporate and municipal bonds, asset backed securities and other fixed income in Level 2, because these pricing inputs are indirectly evident through interest rates for commonly quoted credit risks.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Trust does not carry any Level 3 investments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

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Notes To Special-Purpose Financial Statements

Note 3 – Investments – (Continued)

The valuations of the Trust's investments by the above fair value hierarchy levels and the corresponding cost of the investments as of December 31, 2012 are as follows:

		December 31, 2012		
	Level	Fair Value	Cost	Unrealized Gains
Corporate and Foreign Bonds	2	$ 49,163,666	$ 48,484,784	$ 678,882
Municipal bonds	2	20,105,890	20,004,234	101,656
Total		$ 69,269,556	$ 68,489,018	$ 780,538

The valuations of the Trust's investments by the above fair value hierarchy levels and the corresponding cost of the investments as of December 31, 2011 are as follows:

		December 31, 2011		
	Level	Fair Value	Cost	Unrealized Gains
Municipal bonds	2	$ 76,137,787	$ 75,789,615	$ 347,172

Maturities of the Trust's debt securities at December 31, 2012 are as follows:

	Fair Value	Cost	Unrealized Gains
Due in one year or less	$ 29,359,880	$ 29,206,555	$ 153,325
Due after one year through five years	32,525,304	31,924,963	600,341
Due after five years through ten years	-	-	-
Due after ten years through twenty years	3,159,023	3,150,000	9,023
Due after twenty years	4,225,349	4,207,500	17,849
Total	$ 69,269,556	$ 68,489,018	$ 780,538

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Note 4 – Taxation

There was no federal income tax expense for the year ended December 31, 2012 or for the period from inception to December 31, 2011. Temporary differences between financial reporting income and taxable income generate deferred tax assets and liabilities related to net operating loss carryforwards and unrealized holding gains on investments. The Trust has established a valuation allowance of approximately $160,000 and $21,000 at December 31, 2012 and 2011, to reduce its net deferred tax assets to zero, since the Trust's realization of the related income tax benefits is uncertain.

At December 31, 2012, the Trust had approximately $1,239,000 of net operating loss carryforwards that start to expire in 2031 for governmental purposes. The amount of income taxes the Trust pays is subject to ongoing audits by federal authorities. The Trust's federal income tax returns for years beginning 2011 remain subject to examination by the Internal Revenue Service.

Note 5 – Trust Advisory Committee and Future Claimants' Representative

The Trust Agreement sets forth the role and responsibility of the Trust Advisory Committee (TAC) and Future Claimants' Representative (FCR). The members of the TAC serve in a fiduciary capacity representing all holders of present Asbestos Claims (Current Claimants). The Trustees are required to consult with or obtain the consent of the TAC on certain matters identified in the Trust Agreement and the TDP. The TAC is comprised of five attorneys who are engaged by Current Claimants.

The FCR serves in a fiduciary capacity, representing the interests of the individuals who may file as Asbestos Claim in the future, but who at this time are unknown to the Trust (Future Asbestos Claimants). This role, in part, is to protect rights of the Future Asbestos Claimants. The Trustee is required to consult with or obtain the consent of FCR on certain matters identified in the Trust Agreement and the TDP.

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