Wallace & Gale Asbestos Settlement Trust

Financial Report
December 31, 2011

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McGladrey & Pullen, LLP

McGladrey

Independent Auditor's Report

To the Trust Parties of the
Wallace & Gale Asbestos Settlement Trust
Cleveland, Ohio

We have audited the accompanying statements of net assets available for benefits (modified cash basis) of the Wallace & Gale Asbestos Settlement Trust (the Trust) as of December 31, 2011 and 2010, and the related statements of changes in net assets available for benefits (modified cash basis) for the years then ended. These financial statements are the responsibility of the Trust's management.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Wallace & Gale Asbestos Settlement Trust as of December 31, 2011 and 2010, and the changes in its financial status for the years then ended, on the basis of accounting described in Note 2.

McGladrey & Pullen, LLP

Cleveland, Ohio
March 30, 2012

Member of the RSM International network of independent accounting, tax and consulting firms.

Wallace & Gale Asbestos Settlement Trust

Statements of Net Assets Available for Benefits
Modified Cash Basis
December 31, 2011 and 2010

	2011	2010
Assets		
Investments at fair value	**$ 92,140**	$ 78,260
Cash	**49,902**	90,790
Net assets available for benefits	**$ 142,042**	$ 169,050

See Notes to Financial Statements.

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Wallace & Gale Asbestos Settlement Trust

Statements of Changes in Net Assets Available for Benefits
Modified Cash Basis
Years Ended December 31, 2011 and 2010

	2011	2010
Additions		
Reimbursements from insurers pursuant to the Plan Implementation Agreement		
Maximum per calendar year provided by Section 5.A.	**$ 400,000**	$ 400,000
Investment Income (Loss)		
Interest	**45**	344
Dividends received on life insurance policies	**1,043**	961
Decrease in surrender value of life insurance policies	**(11,007)**	(21,406)
Total investment (loss)	**(9,919)**	(20,101)
Total additions	**390,081**	379,899
Deductions		
Administrative expenses		
Legal fees	**286,248**	408,241
Trustee expenses	**75,486**	76,167
Trustee insurance	**-**	65,717
Actuarial fees	**24,270**	57,690
Audit and accounting fees	**31,085**	33,629
Total deductions	**417,089**	641,444
Net (decrease)	**(27,008)**	(261,545)
Net assets available for benefits		
Beginning	**169,050**	430,595
Ending	**$ 142,042**	$ 169,050

See Notes to Financial Statements.

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Wallace & Gale Asbestos Settlement Trust

Notes to Financial Statements
Modified Cash Basis

Note 1. Description of the Trust

The following description of the Wallace & Gale Asbestos Settlement Trust (the Trust) provides only general information. Trust Parties should refer to the Fourth Amended Plan of Reorganization, as Further Modified, the First Amended and Restated Asbestos Settlement Trust Agreement (the Trust Agreement), the First Amended and Restated Asbestos BI Claims Resolution Procedures (the Claims Procedures) and the Plan Implementation Agreement for a more complete description of the Trust's provisions.

The Wallace & Gale Company (Wallace & Gale) filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code on or about November 16, 1984. Wallace & Gale was a defendant in personal injury, wrongful death and property damage actions seeking damages allegedly caused in whole or in part by the sale, distribution and/or installation of asbestos or asbestos-containing products by Wallace & Gale. Travelers Casualty and Surety Company, f/k/a Aetna Casualty and Surety Company (Travelers) and Wallace & Gale filed the Fourth Amended Plan of Reorganization (the Plan) in the United States Bankruptcy Court for the District of Maryland, Greenbelt Division (the Court) on or about April 17, 2001. The United States District Court for the District of Maryland affirmed the Plan on May 23, 2002. The Plan provided for the creation of the Wallace & Gale Asbestos Settlement Trust to resolve and satisfy all Asbestos BI Claims asserted against Wallace & Gale.

General: The Trust is established pursuant to the Trust Agreement. The Trust is irrevocable and is governed by a single Trustee. Upon termination of the Trust, the Trust Assets will be distributed in accordance with the Trust Agreement.

The purposes of the Trust are to:

(a) assume any and all liability and obligation, within the meaning of section 524(g)(2)(B)(i)(I) of the Bankruptcy Code, of the Settlor or its successors-in-interest, for, and be solely responsible for the payment of, Asbestos BI Claims and Demands subject to the provisions of section 3.01 of the Trust Agreement;

(b) use the Trust Assets and income to pay holders of valid and allowed Asbestos BI Claims and Demands in accordance with the Trust Agreement on a fair and substantially equivalent basis;

(c) enhance, preserve and administer the Trust Assets and such other property as may become part of the Trust;

(d) implement the intentions of the Plan regarding Asbestos BI Claims and Demands; and

(e) comply in all respects with the requirements of a trust set forth in the applicable sections of the Bankruptcy Code.

All capitalized terms incorporated into this financial statement are defined in the Trust Agreement and related documents and not otherwise defined in the Trust Agreement shall have meanings assigned to them in the Plan or Bankruptcy Code. All definitions are incorporated herein by reference.

Under the Trust Agreement a Trustee's Advisory Committee (the TAC) has been formed to consult with the Trustee with respect to critical issues affecting the Trust. Where consultation is required under the Trust Agreement or the Claims Procedures, the Trustee only needs to seek advice from the TAC and shall be independent and free to accept or reject any recommendations offered by the TAC.

Wallace & Gale Asbestos Settlement Trust

Notes to Financial Statements
Modified Cash Basis

Note 1. Description of the Trust (Continued)

Benefits: The purpose of the Plan Implementation Agreement, which became effective by an order of the Court dated April 8, 2003, was to implement the Asbestos BI Claims Resolution Procedures. The Claims Procedures established methods for resolving Asbestos BI Claims and provide reasonable assurances that the Trust will value and be able to pay similar present and future claims in substantially the same manner.

Asbestos BI Claims can either be tendered directly to the Trust or to Travelers. The Trust will tender Asbestos BI Claims which it believes trigger any of the Policies to Travelers. Tender by the Trust of an Asbestos BI Claim to Travelers shall be considered a tender to all Insurers. Pursuant to the provisions of the Claims Procedures, the Trust shall establish a "Payment Percentage" which may be changed periodically (25.6% at December 31, 2011, and 2010). The Trust's share of a judgment entered pursuant to the Claims Procedures shall be the Liquidated Value as to any particular claim. For each Asbestos BI Claim which has been reduced to a Liquidated Value, Travelers will determine an Allocation Period, the period of Unaggregated Exposure and the period of Aggregated Exposure. In addition, for each Asbestos BI Claim which has been reduced to Liquidated Value, Travelers will determine the Covered Amount and the Uncovered Amount. The Amount Due to any particular Asbestos BI Claim is determined by multiplying the Liquidated Value by the Payment Percentage. The smaller of the Amount Due or the Covered Amount is the Paid Amount. At the direction of the Trust certain Preserved Limits are immediately available for payment to claimants for whom the Paid Amount is less than the Amount Due. The Trust may instruct the Insurers to delay payment of Preserved Limits or to change the priority or order of payments as necessary to treat similar present and future Asbestos BI Claims on a substantially equivalent basis. As of December 31, 2011 and 2010, the Trust has not paid any Asbestos BI Claims.

Insurers' reimbursements: The Insurers have agreed to reimburse reasonable and necessary expenses incurred by the Trust after December 31, 2008 in fulfilling its obligations under the Plan, Policies, Claims Procedures, Trust Agreement and Plan Implementation Agreement, subject to a total maximum of $400,000 per calendar year. Trust expenses in excess of $400,000 incurred in a calendar year may be carried-over to the following calendar year, subject to the continuing $400,000 annual maximum payment. No Trust expense may be carried-over more than one year after it was incurred. As of December 31, 2011, the Trust has $359,032 of incurred expenses eligible for reimbursement in 2012. The Insurers have no obligation to reimburse Trust expenses incurred during any periods in which certain Trust assets exceed $1 million. When and if Trust assets fall below $1 million, the Insurers' obligation to reimburse Trust expenses will resume.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Trust's financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Investments are reported at fair value and all other Trust transactions and obligations are recorded on the cash basis.

Use of estimates: The preparation of financial statements in conformity with the modified cash basis accounting principles requires the Trust Parties to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Wallace & Gale Asbestos Settlement Trust

Notes to Financial Statements
Modified Cash Basis

Note 2. Summary of Significant Accounting Policies (Continued)

Valuation of Investments: The Trust's investments which include life insurance policies and interest-bearing cash are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date. See Note 5 for a discussion of fair value measurements. Interest income and dividends received are recorded on the cash basis. The decrease in the value of the life insurance policies is shown as a component of investment income on the statements of changes in net assets available for benefits.

Risks and uncertainties: The Plan invests in various investment securities. 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 values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Recently adopted accounting pronouncement: In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, "*Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*, (ASU 2011-04)". ASU 2011-04 amended ASC 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. This pronouncement did not have a material impact on the financial statements.

Subsequent events: The Trust has evaluated subsequent events for potential recognition and/or disclosure through March 30, 2012, the date the financial statements were available to be issued.

Note 3. Tax Status

The Trust is intended to qualify pursuant to Section 468B of the Internal Revenue Code and the Treasury Regulations as a qualified settlement fund and is subject to federal income taxes.

Accounting principles generally accepted in the United States of America require trust management to evaluate tax positions taken by the Trust and recognize a tax liability (or asset) if the Trust has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The trustee has analyzed the tax positions taken by the plan, and has concluded that as of December 31, 2011 and 2010 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. With few exceptions, the Trust is no longer subject to income tax examinations for years before 2008.

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Wallace & Gale Asbestos Settlement Trust

Notes to Financial Statements
Modified Cash Basis

Note 4. Investments

The Trust's investments consists of interest-bearing cash and life insurance policies. The following is a schedule of the Trust's investments as of December 31, 2011 and 2010. Investments that exceed 5% of the Trust's net assets have been separately identified.

	2011	2010
Interest-bearing cash		
Park View Federal Savings Bank savings account	$ 59,616	$ 34,729
Life insurance policies		
Principal Financial Group - policy 2-661-564	16,062	21,112
New England Financial - policy 6584544	9,798	14,062
Other life insurance policies	6,664	8,357
	32,524	43,531
	$ 92,140	$ 78,260

Note 5. Fair Value Measurements

FASB guidance established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Inputs are broadly defined as assumptions market participants would use in pricing an assets or liability. The three levels of the fair value hierarchy under FASB standards are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the reporting entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 5. Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010:

Interest bearing cash: Valued at cost which approximates fair value.

Life insurance policies: Policies are valued at their cash surrender value, which approximates fair value, at year-end as determined by the insurer. The cash surrender value is generally the sum of money the insurer will pay the policy holder in the event the policy is voluntarily terminated before its maturity.

Interest bearing cash of $59,616 and $34,729 at December 31, 2011 and 2010, respectively, is considered a Level 1 asset. At December 31, 2011 and 2010 life insurance policies had a fair value of $32,524 and $43,531, respectively, and are classified as a Level 2 asset within the fair value hierarchy.

Note 6. Trust Termination

The Trust shall terminate on the Termination Date. The Termination Date is defined as ninety days after the first to occur of the following events:

(a) All Asbestos BI Claims filed with the Trust have been allowed, liquidated and satisfied in accordance with the Trust Agreement and the Claims Procedures, and twelve consecutive months have elapsed during which no new Asbestos BI Claims have been filed with the Trust, and in the opinion of the Trustee, after consultation with the TAC, and upon certification of a qualified epidemiologist, it is unlikely that new Asbestos BI Claims or Demands will be filed against the Trust.

(b) If, in the judgment of the Trustee after consultation with the TAC, the continued administration of the Trust is uneconomic or inimical to the best interests of the persons holding Asbestos BI Claims or Demands, and the Trustee has obtained an Order of the Bankruptcy Court that the termination of the Trust will not expose or subject any party protected by the Channeling Injunction to an increased or undue risk of liability on any Asbestos BI Claims, or in any other way jeopardize the validity, scope or enforceability of the Channeling Injunction; or

(c) Twenty-one years less ninety-one days have passed after the death of the last survivor of all of the descendants of Joseph Patrick Kennedy living on the date thereof.

On the Termination Date, after providing for the payment of all of the Trust's liabilities, all monies remaining in the Trust shall be applied to charitable purposes as determined by the Trustee.

Note 7. Related Party Transaction

Pursuant to Section 5.05 of the Trust Agreement, the Trustee is entitled to receive compensation for his services in the amount of $75,000 per annum plus reasonable out-of-pocket costs and expenses incurred in connection with the performance of his duties. Fees and expenses paid by the Trust for Trustee services amounted to $75,486 and $76,167 for the years ended December 31, 2011 and 2010, respectively.