

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

In re:	)	Jointly Administered at
	)	Case No. 03-35592 JKF
MID-VALLEY, INC., <i>et. al.</i> ,	)	
	)	Chapter 11
Reorganized Debtors.	)	Document No. <u>2669</u>
_____	)	

**ORDER OF COURT PERMITTING THE FILING OF CERTAIN DOCUMENTS WITHOUT REOPENING THE REORGANIZATION CASES<sup>1</sup>**

**WHEREAS**, this Court entered an Order of Final Decree on November 21, 2005 at Docket No. 2514 ordering that the Reorganized Debtors’ Reorganization Cases be closed; and

**WHEREAS**, pursuant to the terms of the Confirmation Order, the Asbestos PI Trust Documents and the Silica PI Trust Documents, certain additional informational and other filings are anticipated to be made including, but not limited to (i) annual reports to be filed by the Asbestos and Silica PI Trusts; and (ii) amended Plan Exhibits filed by the Reorganized Debtors (collectively, the “Additional Filings”); and

**WHEREAS**, at the hearing held on November 6, 2006, this Court indicated that the Additional Filings should not necessitate the reopening of these Reorganization Cases or any related payment of filing fees; it is hereby

**ORDERED**, that the Clerk of this Court is directed to accept the Additional Filings and the Additional Filings shall not require the reopening of these Reorganized Cases or

<sup>1</sup> Capitalized terms used herein without definition shall have the meaning ascribed to such terms in the Uniform Glossary of Defined Terms for Plan Documents filed of record on November 5, 2004 (Dkt. No. 2086).

the payment of any related filing fees; and it is further

**ORDERED**, each such Additional Filing shall include a copy of this Order, affixed to the front of the Additional Filing; and it is further

**ORDERED**, that counsel for the Reorganized Debtors shall immediately serve a copy of this Order on (i) each entity set forth in the Reorganized Debtors' current Official Service List; (ii) each entity set forth on the current Bankruptcy Rule 2002 Notice List; and (iii) any other parties-in-interest, and file a certificate of service with the Clerk of the Bankruptcy Court within ten (10) days hereof; and it is further

**ORDERED**, that the Clerk of the Bankruptcy Court is hereby directed to make a notation on the dockets that, the Reorganization Cases (Case Nos. 03-35592, 03-35593, 03-35595, 03-35596, 03-35597, 03-35599, 03-35600, and 03-35601) have been closed.

Dated: 11/16/2006

Dated: 12:39:42 \_\_\_\_\_, 2006

  
Judith K. Fitzgerald **wmk**  
United States Bankruptcy Judge

IN THE UNITED STATES BANKRUPTCY COURT  
WESTERN DISTRICT OF PENNSYLVANIA

In re:	§	Jointly Administered at
	§	Case No. 03-35592-JKF
MID-VALLEY, INC., et al.,	§	
	§	Chapter 11
Reorganized Debtors	§	
_____	§	

**DII INDUSTRIES, LLC ASBESTOS PI TRUST'S 2015 ANNUAL REPORT AND  
NOTICE OF UNCLAIMED PROPERTY**

2015 ANNUAL REPORT

Pursuant to the DII Industries, LLC Asbestos PI Trust Agreement, the Trustees of the DII Industries, LLC Asbestos PI Trust ("Trust") report the following 2015 activities:

I. Financial Statements

The Trust's Special-Purpose Financial Statements with Report of Independent Auditors for the Years Ended December 31, 2015 and 2014 are attached as Exhibit A.

II. Claims Summary

A summary regarding the number and type of claims the Trust disposed of in 2015 is attached as Exhibit B.

III. Trustees' Fees, Expenses, and Activities

The Trustees earned \$925,476 in 2015 (a) conducting weekly meetings with the Trust's staff, quarterly meetings with the Trust Advisory Committee and Legal Representative, and discrete meetings with issue-specific sub-committees of the Trust Advisory Committee and Legal Representative; (b) overseeing the Trust's financial portfolio and holding regular meetings with the Trust's financial advisors and investment managers; (c) monitoring the Trust's activity in arbitrations, mediations, and litigation; (d) reviewing the policies and processes the Trust

utilizes to evaluate claims; (e) monitoring the Trust's claims processing facility's performance; (f) reviewing and evaluating the Trust's staffing needs and staff compensation; (g) supervising the Trust's claims audit program; (h) establishing a provisional framework for the evaluation of Foreign Claims; (i) supervising the preparation of the Trust's financial statements; (j) supervising the implementation of enhanced information security measures; (k) overseeing the review of documents regarding the debtors' products and sales thereof; and (l) otherwise administering the Trust. Additionally, the Trust reimbursed \$52,335 of the expenses the Trustees incurred.

In particular, the Trustees devoted significant attention to the (a) consideration of whether certain releases can or should be asserted as defenses to second disease (malignancy) claims, (b) creation of a provisional framework for the evaluation of Foreign Claims, and (c) further enhancement, and results, of the Trust's claims audit program.

A. Second Disease (Malignancy) Claims

To resolve claims based on nonmalignant asbestos-related diseases asserted in the tort system, many Trust claimants executed agreements that released Halliburton and Harbison-Walker Entities from claims based on both the nonmalignant diseases that the claimants had developed and malignant asbestos-related diseases that they might develop in the future. During 2015, the Trustees discussed with the Trust Advisory Committee and Legal Representative whether the Trust can or should assert such releases as defenses to Trust claims based on malignant asbestos-related diseases. Those discussions resulted, on October 27, 2015, in the following amendments to Sections 2.1 and 5.9 of the DII Industries, LLC Asbestos PI Trust Seventh Amended Trust Distribution Procedures, which clarify that the Trust can assert such releases as defenses to malignant disease claims only in limited circumstances (deleted language is stricken through, and added language is underlined):

## 5.9 Second Disease (Malignancy) Claims

A claimant who resolved a claim against a Halliburton Entity (or one of its predecessors), a Harbison-Walker Entity (or one its predecessors), or the Asbestos PI Trust based on ~~The holder of an Asbestos Unsecured PI Trust Claim (including a holder of a Qualifying Settled Asbestos PI Trust Claim)~~ involving a non-malignant asbestos-related disease (~~Disease Levels I-IV~~) may file a ~~new Asbestos Unsecured PI Trust Claim~~ claim against the Asbestos PI Trust ~~for~~ based on a malignant asbestos-related disease (mesothelioma or lung, colon, rectal, laryngeal, esophageal, pharyngeal, or stomach cancer). (~~Disease Levels V-VIII~~) that is subsequently diagnosed; provide, however, that, with respect to a holder of a ~~Qualifying Settled Asbestos PI Trust Claim,~~ ~~†The Asbestos PI Trust may~~ shall not assert a release that resolved the non-malignant asbestos-related disease claim as a defense to ~~such second~~ the malignant asbestos-related disease claim ~~any~~ unless the release made was executed pursuant to the applicable ~~an~~ Asbestos/Silica PI Trust Claimant Settlement Agreement. Except as set forth in the preceding sentence, this provision does not restrict the Asbestos PI Trust's ability to assert a release as a defense to a claim, including a Foreign Claim. ~~Any additional~~ The Asbestos PI Trust's payments to which such claimant may be entitled with respect to ~~such~~ of a malignant asbestos-related disease claim shall not be reduced by the amount paid ~~for the~~ to resolve a non-malignant asbestos-related disease claim; ~~provided that~~ unless the malignant disease had not been diagnosed by the time the claimant when the non-malignant disease claim was paid with respect to the original claim involving the non-malignant disease. All other provisions of this TDP, including the statutes of limitations and repose provided in section 5.1(a)(2) shall apply for determining the validity of the malignant asbestos-related disease claim.

The final sentence of Section 2.1 of the Trust Distribution Procedures was clarified as follows:

Under no circumstances, however, shall any claimant receive more than the full liquidated value of each of one Harbison-Walker Asbestos PI Trust Claim and one Non-Harbison-Walker Asbestos PI Trust Claim (as defined in section 5.3(a)(3) below) as such value(s) is (are) determined under this TDP, except as set forth in Section 5.9 below.

### B. Evaluation of Foreign Claims

In 2015, the Trustees, with the assistance of Trust staff and counsel, developed, and proposed the establishment of, matrices that would govern the Trust's valuation of certain Foreign mesothelioma Claims. They further developed and proposed amendments to the Trust

Distribution Procedures that would clarify that the Trust can require claimants asserting certain Foreign Claims to submit evidence of their recoveries from other entities. After consulting with the Trust Advisory Committee and Legal Representative, the Trustees agreed to suspend the Committee's and Representative's deadlines to respond to these proposals while the Trust evaluates a subset of pending Foreign Claims. After completion of that evaluation, the framework pursuant to which Foreign Claims are evaluated and valued will be reconsidered.

C. Claims Audit Program

Throughout 2015, the Trust continued to develop its audit program, and the Trustees and Trust staff worked to provide more information about audit results to the Trust Advisory Committee and Legal Representative.

The Trust resolved 399 random and other individual claim audits in 2015. Eighty-three percent of such claims were resolved as submitted, three percent were resolved at lower Disease Levels, eight percent were withdrawn, and six percent were disallowed when the Trust found that the information submitted in response to its audit requests showed that the claims were not compensable. In light of audit findings, the Trustees and Trust staff considered and implemented policy and processing changes.

In addition to audits of individual claims, the Trust conducted or worked on resolving targeted audits of six law firms' claims in 2015. The Trust initiated these targeted audits in response to concerns about the firms' filings. For example, information obtained through the Trust's random audit program contradicted the information several firms initially submitted with their claims, and affidavits submitted by other firms appeared to have been altered by someone other than the affiants. The Trust resolved, or expects to resolve, most of these targeted audits through agreements with the audited firms that allow them to continue filing claims under

conditions that better ensure that the Trust pays only compensable claims. However, the Trust was not able to reach such an agreement in 2015 with one audited firm. The Trust will no longer accept new claims from that firm but will process the firm's pending claims.

IV. Trust Advisory Committee Fees, Expenses, and Activities

In 2015, the Trust paid the Trust Advisory Committee and its legal counsel and other professionals \$130,515 in fees and reimbursed \$7,519 of the expenses they incurred. During the year, the Committee advised the Trustees in their performance of the activities listed above.

V. Legal Representative Fees, Expenses, and Activities

In 2015, the Trust paid the Legal Representative and its legal counsel and other professionals \$176,989 in fees and reimbursed \$4,592 of the expenses they incurred. Like the Trust Advisory Committee, the Legal Representative advised the Trustees in their performance of the activities listed above.

VI. Additional Information

For additional information regarding the Trust's financial statements or operations, please contact its Executive Director, Marcellene Malouf, at P.O. Box 821628, Dallas, Texas 75382 or at 214-271-0551 or go to [www.diiasbestostrust.org](http://www.diiasbestostrust.org).

NOTICE OF UNCLAIMED PROPERTY

Pursuant to section 9.6(a) of the Conformed Fourth Amended and Restated Joint Prepackaged Plan of Reorganization for the Debtors under Chapter 11 of the United States Bankruptcy Code, attached as Exhibit C is information regarding unclaimed or undeliverable funds that the Trust distributed.

/s/

\_\_\_\_\_  
Alan R. Kahn, Managing Trustee  
DII Industries, LLC Asbestos PI Trust

/s/

\_\_\_\_\_  
Mark M. Gleason, Trustee  
DII Industries, LLC Asbestos PI Trust

/s/

\_\_\_\_\_  
Honorable Robert M. Parker, Trustee  
DII Industries, LLC Asbestos PI Trust



# Exhibit A

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

Special-Purpose Financial Statements  
with  
Report of Independent Auditors

Years Ended December 31, 2015 and 2014

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

Table of Contents

---

	<u>Page</u>
Report of Independent Auditors	I - 2
Financial Statements:	
Special-Purpose Statements of Net Claimants' Equity	3
Special-Purpose Statements of Changes in Net Claimants' Equity	4
Special-Purpose Statements of Changes in Investments	5
Notes to Special-Purpose Financial Statements	6 - 17



Accountants + Consultants

15301 Dallas Parkway  
Suite 960  
Addison, Texas 75001  
MAIN 214 545 3965  
FAX 214 545 3966  
[www.bkmsh.com](http://www.bkmsh.com)

## **REPORT OF INDEPENDENT AUDITORS**

To the Trustees of  
DII Industries, LLC Asbestos PI Trust

We have audited the accompanying special-purpose financial statements of the DII Industries, LLC Asbestos PI Trust (the Trust), which comprise the statements of net claimants' equity as of December 31, 2015 and 2014, and the related special-purpose statements of changes in net claimants' equity and changes in investments for the years 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 its Trustees, 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 fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. 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 from 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 Trust'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 Trust'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.

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 financial position of the Trust as of December 31, 2015 and 2014, and the results of its operations and their changes in investments for the years then ended in conformity with the special-purpose method of accounting.

**Basis of Accounting**

We draw attention to Note 2 of the special-purpose financial statements which describes the method of accounting. These financial statements were prepared on a special-purpose method of accounting, which is a method of accounting other than accounting principles generally accepted in the United States of America. The special-purpose method of accounting has been used in order to communicate to the beneficiaries of the Trust the net assets available for the payment of claims and the related operating expenses of the Trust. Our opinion is not modified with respect to this matter.

**Effect of Adopting New Accounting Standard**

As discussed in Note 2 and 8 to the special-purpose financial statements, the Trust changed the presentation of investments measured using net asset value. The change has been applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

**Restriction of Use**

This report is intended for the information and use of the Trustees, management of the Trust, and for filing with the United States Bankruptcy Court for Western District of Pennsylvania – Pittsburgh Division, and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report, which, upon filing with the United States Bankruptcy Court for the Western District of Pennsylvania – Pittsburgh Division, is a matter of public record.

*BKM Aowan Horan, LLP*

April 12, 2016  
Addison, Texas

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

Special-Purpose Statements of Net Claimants' Equity

	December 31,	
	2015	2014
<b>ASSETS</b>		
Investments, at fair value	\$ 2,078,356,341	\$ 2,145,911,906
Investment income receivable	16,763,739	16,630,143
Due from hedge fund	922,736	-
Prepaid expenses and other assets	309,938	466,448
Property and equipment, net	106,205	80,391
Income taxes receivable	4,064,681	-
Total assets	<b>2,100,523,640</b>	2,163,088,888
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	799,396	916,217
Income taxes payable	-	5,131,540
Settled but unpaid claims	4,170,338	4,981,273
Deferred tax liability	103,311,905	108,501,566
Total liabilities	<b>108,281,639</b>	119,530,596
<b>Net claimants' equity (Note 2)</b>	<b>\$ 1,992,242,001</b>	<b>\$ 2,043,558,292</b>

See accompanying notes to special-purpose financial statements

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

Special-Purpose Statements of Changes in Net Claimants' Equity

	Years ended December 31,	
	2015	2014
<b>Additions</b>		
Interest and dividend income, net	\$ 51,555,749	\$ 46,975,179
Net realized gain on investments	5,109,962	12,779,614
Net unrealized gain on investments, net of investment fees and expenses	-	33,185,985
Income tax benefit	1,301,944	-
Total additions	57,967,655	92,940,778
<b>Deductions</b>		
Asbestos claims payment expense	(67,837,729)	(109,625,901)
Net unrealized loss on investments, net of investment fees and expenses	(33,168,800)	-
Operating and legal expenses	(8,277,417)	(8,462,807)
Income tax expense	-	(25,462,679)
Total deductions	(109,283,946)	(143,551,387)
Change in net claimants' equity	(51,316,291)	(50,610,609)
<b>Net claimants' equity, beginning of year</b>	<b>2,043,558,292</b>	<b>2,094,168,901</b>
<b>Net claimants' equity, end of year</b>	<b>\$ 1,992,242,001</b>	<b>\$ 2,043,558,292</b>

See accompanying notes to special-purpose financial statements

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

Special-Purpose Statements of Changes in Investments

	Years ended December 31,	
	<u>2015</u>	<u>2014</u>
<b>Investment inflows</b>		
Investment income, including		
net realized gains	\$ <b>55,609,379</b>	\$ 59,776,042
Change in unrealized gains on investments	<b>(33,168,800)</b>	33,185,985
Total inflows	<b>22,440,579</b>	92,962,027
 <b>Investment outflows</b>		
Asbestos claims payments	<b>(68,648,664)</b>	(105,602,871)
Operating and legal payments	<b>(8,263,542)</b>	(8,361,644)
Income taxes paid, net of refunds received	<b>(13,083,938)</b>	(8,400,000)
Total outflows	<b>(89,996,144)</b>	(122,364,515)
Net decrease in investments	<b>(67,555,565)</b>	(29,402,488)
<b>Investments</b> , beginning of year	<b>2,145,911,906</b>	2,175,314,394
<b>Investments</b> , end of year	<b>\$ 2,078,356,341</b>	<b>\$ 2,145,911,906</b>

See accompanying notes to special-purpose financial statements



**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

**Note I – Description of the Trust*****General***

The DII Industries, LLC Asbestos PI Trust (the Trust) is a Pennsylvania common law trust, and is a Qualified Settlement Fund within the meaning of Treasury Department regulations issued pursuant to Section 468B of the Internal Revenue Code. The Trust was created on January 20, 2005, in connection with confirmation of the Chapter 11 Joint Plan of Reorganization (the Plan) for DII Industries, LLC and certain of its affiliated debtors and debtors-in-possession (the Debtors). The Debtors were direct or indirect subsidiaries of the Halliburton Company (Halliburton). The Plan was confirmed by order entered on July 21, 2004, by the United States Bankruptcy Court for the Western District of Pennsylvania (the Order). The Order was affirmed by the United States District Court for the Western District of Pennsylvania on December 1, 2004. The Plan became effective on January 20, 2005. The purpose of the Trust is to assume the asbestos liabilities of the Debtors, Halliburton, Harbison-Walker Refractories Company, and certain other businesses, and to use the Trust's assets and income to pay holders of those asbestos liabilities in such a way that all holders of similar asbestos claims, both current and future, are treated in a substantially equivalent manner.

Halliburton and its affiliates were granted the protection of a permanent channeling injunction entered by the Bankruptcy Court and the District Court in connection with the Order. The injunction enjoins the assertion of Asbestos Unsecured PI Trust Claims (Asbestos Claims) against those entities and channels such claims to the Trust for resolution.

The Trustees are fiduciaries to the beneficiaries of the Trust and are responsible for administering the Trust and the Trust's assets in accordance with the Plan.

The Trust is governed by a Trust Agreement (TA) and Trust Distribution Procedures (TDP) that establish the framework and criteria for allowance and payment of Asbestos Claims by the Trust.

The Trust's assets consist primarily of cash and cash equivalents and investments, which, with the earnings 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 allowable Asbestos Claims and operational expenses of the Trust, on the one hand, and total assets and net earnings, on the other.

The Trust will terminate in accordance with TA article 7.2.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

---

**Note 2 – Summary of Significant Accounting Policies*****Basis of accounting***

The Trust's financial statements are prepared using a special-purpose accounting method adopted by the Trust and its Trustees, which differs from accounting principles generally accepted in the United States of America (GAAP). The special-purpose accounting method does not record the Trust's ultimate claims liability but otherwise conforms with GAAP.

***Cash and cash equivalents***

The Trust considers all highly liquid debt instruments purchased with an original maturity of three (3) months or less to be cash equivalents.

***Investments***

Investments are stated at estimated fair value. When quoted prices in active markets for identical assets are available, these quoted market prices are used to determine the fair value. In other cases the Trust may hold investments for which there is no active market or the market is dislocated. When determining the fair value of such investments, the valuation is dependent on facts and circumstances requiring judgment by management. In exercising that judgment, management relies upon the valuation by its managers and advisors. It is acceptable to use inputs based on estimates or assumptions, or to make adjustments to observable inputs to determine fair value when markets are not active and relevant observable inputs are not available.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which exempts investments measured using net asset value (NAV) from categorization within the fair value hierarchy table. The guidance requires retrospective application for fiscal years beginning after December 15, 2016. The Trust elected to early adopt the provisions of this new standard. See Note 8.

Changes in fair value are recorded as additions and deductions to net claimants' equity. Realized gains and losses on investments in securities are calculated based on the specific identification method. The Trust records securities transactions on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest is recorded on an accrual basis. All investments are considered to be available for sale.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

---

**Note 2 – Summary of Significant Accounting Policies – (Continued)*****Due from hedge fund***

Investments in hedge funds which have been liquidated prior to year-end, for which amounts have not been received by the Trust, are presented as due from hedge fund on the accompanying special-purpose statements of net claimants' equity.

***Claims and claims processing expense***

Amounts due to claimants for allowed claims are recorded when approved and signed releases are received and verified. Claims processing expenses are recorded as incurred and are included in operating and legal expenses in the special-purpose statements of changes in net claimants' equity. Claims approved for payment with signed release forms received and verified before the end of the year are accrued for in the special-purpose statements of net claimants' equity. See Note 4.

***Property and equipment***

Property and equipment is stated at cost less accumulated depreciation and amortization. The Trust uses both straight-line and accelerated methods of depreciation over the estimated useful lives of the assets. Depreciation expense was approximately \$29,000 and \$25,000 for each of the years ended December 31, 2015 and 2014, respectively, and is included in operations and legal expenses in the accompanying special-purpose statements of changes in net claimants' equity.

***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. Net claimants' equity is available for (i) the payments of allowed asbestos-related claims and (ii) operational expenses of the Trust.

***Concentration 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 cash and cash equivalents at financial institutions it considers to be of high credit quality. At times, the Trust may have cash deposits in banks that exceed federally insured limits. The Trust has not experienced any losses in such accounts and based on consultations with its advisors, does not believe it is exposed to any significant credit risk.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

---

**Note 2 – Summary of Significant Accounting Policies – (Continued)*****Concentration of credit risk - continued***

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

The Trust has a formal investment policy that provides for diversification and establishes standards to invest the Trust's assets.

***Use of estimates***

The preparation of the special-purpose financial statements requires the Trustees 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 financial statement date, and the reported amounts of additions to and deductions from net claimants' equity during the reporting periods. Significant items subject to such estimates and assumptions include the carrying value of investments and the recorded values of current and deferred income taxes. Actual results could differ from these estimates.

***Income taxes***

The Trust reports its income to the Internal Revenue Service (IRS) as a Qualified Settlement Fund which is taxed at the highest rate applicable to trusts under Section 1(e) of the Internal Revenue Code (the Code), which is 39.6% for the years ending December 31, 2015 and 2014. The Trust is subject to federal income taxes based on modified gross income, as defined by the Code.

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 more likely than not that the deferred tax assets may not be realized. The amount of income taxes the Trust pays is subject to ongoing audits by federal authorities. The Trust's estimate of the potential outcome of any uncertain tax issues is subject to the Trustees' 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 Trust's assessment of such tax positions 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 and legal expenses, respectively. At December 31, 2015 and 2014, the Trust has no unrecognized tax benefits.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

---

**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 financial statements. The accompanying special-purpose financial statements consider events through April 12, 2016, the date on which the special-purpose financial statements were available to be issued. See Note 8.

***New accounting pronouncements***

In February 2016 the FASB issued ASU No. 2016-02, [Leases \(Topic 842\)](#). The new standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this Update supersedes FASB ASC 840, Leases. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Trust is currently assessing the impact of adopting this ASU on its financial statements and related disclosures.

**Note 3 – Funding of the Trust**

Funding of the Trust was set forth in the Plan. On January 20, 2005, the effective date of the Trust, the Trust received \$950,000 in cash proceeds, a note receivable from Halliburton in the amount of \$30,742,628 due December 31, 2005, and 59,500,000 shares of Halliburton stock from the Debtors, which had a market value of \$2,504,652,500. The value of funding, as of the effective date, totaled \$2,536,345,128.

All shares of the Halliburton stock were sold on March 23, 2005, generating proceeds to the Trust of \$2,481,983,000, net of fees and other charges of \$46,767,000. The note receivable was paid in full at a discounted amount of \$30,685,035 by December 31, 2005. The net cash realized from the funding of the Trust totaled \$2,513,618,035.

The Plan also provides for additional funding through the Asbestos PI Trust Additional Funding Agreement. Under the Asbestos PI Trust Additional Funding Agreement, the Debtors are obligated to pay the Trust any insurance recoveries in excess of \$2,300,000,000. This obligation ceases once the Debtors have paid an aggregate of \$700,000,000 to the Trust. No proceeds were received or due during the years ended December 31, 2015 and 2014, in connection with the Asbestos PI Trust Additional Funding Agreement. No estimate of any future collection under this obligation has been recorded as it is uncertain to occur.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

**Note 4 – Claims Processing**

The Trust reviews and determines Asbestos Claims in accordance with the TDP. The TDP provides for processing, and either disallowing or allowing, liquidating, and paying all Asbestos Claims as required by the Plan and the TA. For the years ended December 31, 2015 and 2014, approximately \$67,800,000 and \$109,600,000, respectively, were expensed as asbestos claims payments. On December 31, 2015 and 2014, the Trust had approximately \$4,200,000 and \$5,000,000, respectively, in allowed claims which were qualified for payment but were unpaid at year-end.

The TDP requires the Trust to dedicate 60% of the Maximum Available Payment (MAP), as defined in the TDP, to the payment of claims involving severe asbestosis and malignancies (Category A claims) and to dedicate 40% of the MAP to claims involving non-malignant asbestosis and pleural disease (Category B claims). This is measured annually. During the years ended December 31, 2015 and 2014, the Trust did not exhaust the MAP for either Category A or Category B claims.

**Note 5 – Estimated Asbestos Claims**

At inception, the Trust's economic liability experts estimated that 1,851,886 claims would ultimately be filed over the life of the Trust. This projected an ultimate claims liability of approximately \$3,700,000,000 before the application of the payment percentage. The Trust's experts updated their forecast during 2014 and estimated that 262,000 claims would be paid over the remaining life of the Trust. This estimate projects an updated remaining claims liability of \$2,900,000,000 before the application of the payment percentage. The updated 2014 claim liability includes projections for both future foreign and domestic claims. There was no update to the estimate performed during 2015.

**Note 6 – Trust Advisory Committee and Legal Representative**

The TA sets forth the role and responsibility of the Trust Advisory Committee (TAC) and Legal Representative (LR). 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 TA and the TDP. The TAC is comprised of eight attorneys who are engaged by Current Claimants.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

**Note 6 – Trust Advisory Committee and Legal Representative – (Continued)**

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

**Note 7 – Taxation**

The Trust's federal income tax expense is calculated as follows:

	Years ended December 31,	
	<u>2015</u>	<u>2014</u>
Net taxable income	\$ <b>21,196,554</b>	\$ 30,653,662
Tax rate	<b>39.6%</b>	39.6%
Current federal income tax expense	<b>8,393,835</b>	12,138,850
Adjustment to prior year estimates	<b>(1,990,056)</b>	2,806,714
Benefits for change in tax position	<b>(2,516,062)</b>	-
Deferred federal income tax expense (benefit)	<b>(5,189,661)</b>	10,517,115
Income tax expense (benefit)	<b>\$ (1,301,944)</b>	<b>\$ 25,462,679</b>

The benefit for change in tax position relates to refunds received on amended returns for tax years 2011 through 2014.

The Trust's net deferred income tax liability is comprised of unrealized gains on investments of approximately \$103,300,000 and \$108,500,000 at December 31, 2015 and 2014, respectively.

The Trust tax returns for the years beginning January 1, 2012 remain open for examination by governmental authorities.

**Note 8 – Investments at Fair Value**

The TA provides general guidelines for the investments of the Trust. More specific policies and guidelines are set forth in the Investment Guidelines which were developed by the Trust's financial advisor and adopted by the Trustees.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

**Note 8 – Investments at Fair Value – (Continued)**

The Trust's financial advisor routinely reviews the Trust's asset allocation model and portfolio managers.

The estimated cost basis and fair values of the Trust's investments are as follows:

	December 31, 2015		December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 109,598,056	\$ 109,598,056	\$ 95,228,488	\$ 95,228,488
Equity securities	201,121,049	329,205,124	197,278,191	336,545,182
Foreign equity funds	30,000,000	67,926,572	76,110,008	131,990,560
Debt securities	1,354,457,295	1,406,837,705	1,335,532,335	1,394,714,239
Hedge funds	72,930,121	164,788,884	98,344,264	187,433,437
	<u>\$ 1,768,106,521</u>	<u>\$ 2,078,356,341</u>	<u>\$ 1,802,493,286</u>	<u>\$ 2,145,911,906</u>

The Trust had a cumulative net unrealized gain on investments of approximately \$310,250,000 and \$343,420,000 at December 31, 2015 and 2014, respectively. The Trust's net realized gain on sale of investments was approximately \$5,110,000 and \$12,780,000 for the years ended December 31, 2015 and 2014, respectively. The amortization of bond discount expense included in interest and dividend income was approximately \$17,293,000 and \$23,638,000 for the years ended December 31, 2015 and 2014, respectively. Investment fees and expenses included in net unrealized gain (loss) on investments was approximately \$6,186,000 and \$8,415,000 for the years ended December 31, 2015 and 2014, respectively.

The following is a description of the valuation methodologies used for financial assets measured at fair value, including the general classification of such assets pursuant to the valuation hierarchy. There were no changes in valuation techniques during the years ended December 31, 2015 and 2014.

**Cash and cash equivalents**

Cash equivalents are carried at cost, which approximates fair value. Cash and cash equivalents include cash balances and money market funds which are classified as Level 1.



**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

---

**Note 8 – Investments and Fair Value Measurements – (Continued)*****Equity securities***

All of the Trust's investments in equity securities are those which are publicly traded and are SEC filers. These securities are classified as Level 1, as quoted prices are available for these securities in an active market.

***Debt securities***

The Trust's investments in debt securities do not have quoted market prices. These fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow and are classified with Level 2 of the valuation hierarchy. These level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset-backed, and other securities.

***Foreign equity funds***

The Trust invests in foreign equity funds which do not have quoted market prices. The fair values are estimated by using pricing models and quoted prices of the publicly traded international securities included in the funds. The funds are classified within Level 2 of the valuation hierarchy.

***Hedge funds***

The fair value for hedge funds are based on the net asset values as provided by general partners, a third party administrator, or investment managers, which are subject to independent financial statement audits. The Trust invests in hedge funds which pursue multiple strategies to diversify risk and reduce volatility. The Trust's independent financial advisors monitor, regularly meet with, and review each fund manager. Additionally, the Trustees regularly review manager performance reports and meet directly with the fund managers annually. During 2015 the Trust adopted ASU 2015-07 and as a result hedge funds will no longer be included in the fair value hierarchy table but will be shown as a reconciling item. As of December 31, 2015 and 2014, there were no unfunded commitments to the hedge funds.

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

**Note 8 – Investments at Fair Value – (Continued)*****Hedge funds – continued***

The hedge funds are subject to various restrictions or lock-up provisions which could prevent the Trust from realizing the current fair value estimate. There are no remaining lock-up periods which prohibit redemption; however, the Trust's investments may be subject to certain fees and expenses upon liquidation before various dates. The Trust's liquidity by exit date without fees at December 31, 2015, is summarized as follows:

Liquidity within			
0 – 6 months		\$	81,562,021
7 – 12 months			64,172,617
13 – 18 months			684,972
19 – 24 months			17,975,753
25 – 36 months			-
Designated illiquid			393,521
		\$	<u>164,788,884</u>

Financial assets with changes in fair value that are measured on a recurring basis were as follows:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 109,598,056	\$ -	\$ -	\$ 109,598,056
Equity securities	329,205,124	-	-	329,205,124
Foreign equity funds	-	67,926,572	-	67,926,572
Debt securities	-	1,406,837,705	-	1,406,837,705
	<u>\$ 438,803,180</u>	<u>\$ 1,474,764,277</u>	<u>\$ -</u>	<u>\$ 1,913,567,457</u>
Hedge funds measured at net asset value				<u>164,788,884</u>
Investments at fair value				<u>\$ 2,078,356,341</u>

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

## Notes to Special-Purpose Financial Statements

**Note 8 – Investments at Fair Value – (Continued)**

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 95,228,488	\$ -	\$ -	\$ 95,228,488
Equity securities	336,545,182	-	-	336,545,182
Foreign equity funds	-	131,990,560	-	131,990,560
Debt securities	-	1,394,714,239	-	1,394,714,239
	<u>\$ 431,773,670</u>	<u>\$ 1,526,704,799</u>	<u>\$ -</u>	<u>\$ 1,958,478,469</u>
Hedge funds measured at net asset value				<u>187,433,437</u>
Investments at fair value				<u>\$ 2,145,911,906</u>

**Note 9 – Commitments and Contingencies****Leases**

The Trust has a non-cancelable lease for office space that expires at the end of July 2018. Rent expense for the years ended December 31, 2015 and 2014, was approximately \$146,000 and \$135,000, respectively.

Future minimum lease payments for the remaining non-cancelable terms of the lease are as follows:

Years Ending December 31:	Amount
2016	\$ 176,174
2017	180,231
2018	182,598
	<u>\$ 539,003</u>

**DII INDUSTRIES, LLC ASBESTOS PI TRUST**

Notes to Special-Purpose Financial Statements

---

**Note 9 – Commitments and Contingencies – (Continued)**

***Retirement plan***

The Trust maintains a safe-harbor 401(k) benefit plan (the Plan), which covers all employees after one year of service who work at least 1,000 hours per year. Each year the Trust makes a matching contribution to the Plan up to 4% of the employees' annual compensation. The Trust also contributes 3% of every eligible employee's salary, whether or not they have elected to participate. The Trust's matching and safe harbor contributions were approximately \$117,000 and \$92,000 for the years ended December 31, 2015 and 2014, respectively.

# Exhibit B

## CLAIMS DISPOSED OF IN 2015

	<b>HAL Claims</b>	<b>HAL Payments</b>	<b>HW Claims</b>	<b>HW Payments</b>
<b>Claims Paid in 2015</b>	<b>5,780</b>	<b>\$27,929,296.28</b>	<b>3,191</b>	<b>\$40,786,163.01</b>
Level I. Other Asbestos Disease	21	\$2,100.00	8	\$2,400.00
Level II. Asbestosis/Pleural Disease	2,374	\$929,230.20	1,358	\$1,835,586.80
Level III. Asbestosis/Pleural Disease	1,520	\$1,297,594.80	750	\$1,919,103.60
Level IV. Severe Asbestosis	96	\$285,423.57	61	\$592,880.65
Level V. Other Cancer	126	\$380,995.58	69	\$642,676.44
Level VI. Lung Cancer 2	144	\$237,255.47	81	\$656,807.18
Level VII. Lung Cancer 1	496	\$1,917,943.37	348	\$6,465,393.23
Level VIII. Mesothelioma	1,003	\$22,878,753.29	516	\$28,671,315.11
<b>Claims Withdrawn in 2015</b>	<b>6,749</b>		<b>7,439</b>	
<b>Claims Disallowed in 2015</b>	<b>1,127</b>		<b>1,041</b>	

# Exhibit C

## UNCLAIMED PROPERTY

<u>Claimant Name</u>	<u>Distribution Amount</u>	<u>Date Distribution Was Returned to the Trust</u>
Edward Harrison	\$1,384.54	10/03/07
Darrell Hindman	\$30.56	10/03/07
Billy Watkins	\$30.56	10/03/07
Gary Zimmer	\$30.56	10/03/07
Donald Hill	\$30.56	10/03/07
James Dolan	\$30.56	10/03/07
Richard Crow	\$30.56	10/03/07
Charles Watters	\$30.56	10/03/07
Albert Cruciano	\$532.54	10/03/07
Oscar Howard	\$532.54	10/03/07
Willie Dee Wilkins	\$30.57	10/03/07
Aurthur Davis	\$30.00	10/03/07
Wayne Cuthrell	\$30.57	10/03/07
Virginia Burchfield	\$215.18	10/03/07
John Lewter	\$30.57	10/03/07
Ben Reeves	\$30.57	10/03/07
Alphonso Newby	\$30.57	10/03/07
Lehman Boyd	\$1,384.55	10/03/07
William Huggins	\$3,123.64	10/03/07
Henry Whitaker	\$1,384.55	10/03/07
Rufus Outlaw	\$30.57	10/03/07
William McKenney	\$30.56	10/03/07
James Murphy	\$1,800.00	12/17/07
Melvin Nash	\$62.66	02/29/08
Joseph Witte	\$62.66	02/29/08
Roy Wilson	\$30.56	02/29/08
Joseph Manijak	\$1,384.54	02/29/08
Austin Chatman	\$243.31	02/29/08
Edward Piaskowski	\$2,775.66	02/29/08
Peter Neforos	\$62.66	11/13/08
Eddie Smith	\$62.66	11/13/08
Ary Moats	\$62.66	11/13/08
Michael Ioannu	\$62.66	11/13/08
George Douglas	\$1,384.55	11/13/08
William Green	\$1,384.55	11/13/08
Wade Johnson	\$30.57	11/13/08
Allen Kane	\$30.57	11/13/08



## UNCLAIMED PROPERTY

<u>Claimant Name</u>	<u>Distribution Amount</u>	<u>Date Distribution Was Returned to the Trust</u>
Thomas Nealis	\$65.16	02/05/09
Stephen Makos	\$900.00	06/30/09
Anthony Marcinkevich	\$30.57	07/28/09
Joseph Roberts	\$30.57	07/28/09
Thomas Simpson	\$30.57	07/28/09
Fred Pless	\$1,384.55	07/28/09
Eleanor Barrett	\$142.65	07/28/09
Jerry Whitney	\$244.54	07/28/09
Verna Rickman	\$1,207.10	07/28/09
Charles Engle	\$62.66	07/28/09
John Marsh	\$221.13	09/15/09
Charles Ray	\$1,429.69	10/16/09
Claudious Johns	\$31.79	12/14/09
Charles Lovett	\$31.79	01/13/10
Charles Harvey	\$1,439.69	01/13/10
Sid Sharpe	\$148.33	01/14/10
Lloyd Griffee	\$31.79	01/19/10
Ronald Cheslock	\$1,439.69	01/25/10
Charles Coles	\$772.50	01/29/10
Joseph Novak	\$772.50	01/29/10
John Gorman	\$31.79	01/29/10
Charles Best	\$31.79	02/04/10
Herman Rose	\$1,439.69	02/25/10
Thomas Struhar	\$31.79	02/25/10
Donald Watson-Bey	\$31.79	02/25/10
Donald Willis	\$31.79	02/25/10
Emmett Wyman	\$1,439.69	03/31/10
Gladys Russell	\$1,439.69	03/31/10
Henry Lassen	\$31.79	04/02/10
Howard Huff	\$31.79	04/02/10
Othello Armstrong	\$30.57	04/19/10
James Smerowski	\$62.66	04/19/10
George Wilson	\$62.66	04/19/10
Lawrence Miller	\$62.66	04/19/10
Marvin Mezick	\$31.79	05/17/10
Ira Pearce	\$4,140.00	07/02/10
Ray Beamon	\$31.79	08/12/10

## UNCLAIMED PROPERTY

<u>Claimant Name</u>	<u>Distribution Amount</u>	<u>Date Distribution Was Returned to the Trust</u>
Percy Brown	\$1,439.69	08/12/10
Gene Draughn	\$31.79	08/12/10
Eugene Mezick	\$31.79	08/12/10
Burdell White	\$772.50	08/16/10
Roland Johnson	\$31.79	08/19/10
Dennis Hall	\$31.79	08/19/10
Richard Kroll	\$31.79	08/30/10
Carroll Conway	\$31.79	09/27/10
George Goddard	\$772.50	10/04/10
George Broadmax	\$31.79	10/22/10
James Long	\$31.79	11/12/10
Charles Harris	\$31.79	11/12/10
Shirley Reese	\$31.79	11/12/10
Louis Lett	\$31.79	11/12/10
John Erickson	\$508.60	12/01/10
Ray Beamon	\$1,407.90	12/06/10
Stanley Adams	\$1,440.00	12/27/10
Guyton Weaver	\$65.16	12/27/10
Oscar Hetrick	\$62.66	12/28/10
John Narum	\$30.57	12/28/10
Thomas McMonagle	\$2,838.32	12/28/10
John Kirn	\$2,838.32	12/28/10
John Flynn	\$62.66	12/28/10
Richard Clark	\$62.66	12/28/10
Bernard Magness	\$62.66	12/28/10
James Hollins	\$31.79	02/03/11
Samuel Bauckman	\$772.50	03/07/11
Arthur Carroll	\$772.50	03/07/11
Lester Cramer	\$772.50	03/07/11
Bart Ecret	\$772.50	03/07/11
Edward Fair	\$1,440.00	03/07/11
William Falvey	\$772.50	03/07/11
Joseph Finelli	\$1,440.00	03/07/11
Robert Gilliard	\$1,440.00	03/07/11
Michael Greenawald	\$1,440.00	03/07/11
Grayson Hayes	\$595.00	03/07/11
Donald Hunsberger	\$772.50	03/07/11

## UNCLAIMED PROPERTY

<u>Claimant Name</u>	<u>Distribution Amount</u>	<u>Date Distribution Was Returned to the Trust</u>
William Hutchings	\$2,572.50	03/07/11
Robert Kibler	\$4,800.00	03/07/11
Elizabeth Macario	\$1,440.00	03/07/11
Stephen Makos	\$360.00	03/07/11
Lawrence Mugni	\$1,440.00	03/07/11
Roy Vail	\$1,440.00	03/07/11
Kenneth Via	\$8,054.50	03/07/11
Earl Smith	\$1,440.00	03/07/11
Eddie Crittenden	\$772.50	04/18/11
Harry Moore	\$772.50	07/14/11
Lendon Daugherty	\$2,963.65	08/24/11
Richard Clark		
Robert Jones		
Burton Arnold		
James Tilley	\$902.20	01/20/12
Donald Boatwright	\$19.92	01/20/12
Walter Coleman	\$19.92	01/20/12
Ledford Stepp	\$902.20	01/20/12
Henry Hogue	\$902.20	01/20/12
Arthur Ramsey	\$902.20	01/20/12
John Gibbs	\$19.92	01/20/12
Samuel Morcom	\$19.92	01/20/12
Stanley Birch	\$772.50	02/14/12
John Wagner	\$1,440.00	02/14/12
Edward Jaworski	\$1,440.00	02/28/12
Samuel Adamo	\$1,440.00	05/07/12
Roy Smith	\$1,440.00	07/09/12
Eddie Crittenden	\$595.00	07/25/12
Frank Burns	\$772.50	08/28/12
Ted Sherrill	\$19.92	10/10/12
Herbert Stephenson	\$158.93	10/10/12
Hazel Jones	\$150.00	09/19/13
Cleophus Veasey	\$2,572.50	05/02/14
David Grantham	\$177.50	07/23/15