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UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

11 In re:
12 WESTERN ASBESTOS COMPANY,
13 Debtor.

Case No. 13-31914-HLB

Chapter 11

**FIFTEENTH ANNUAL REPORT AND
ACCOUNTING, AUDITED
FINANCIAL STATEMENTS, AND
CLAIM REPORT**

Date: July 2, 2019

Time: 10:00 a.m.

Place: Courtroom 19
450 Golden Gate Ave, 16th Floor
San Francisco, CA 94102

19 The Trustees of the Western Asbestos Settlement Trust by and through their counsel,
20 Eve H. Karasik of Levene, Neale, Bender, Yoo & Brill, hereby file the Fifteenth Annual Report and
21 Accounting, Audited Financial Statements, and Claim Report.

22 Respectfully submitted this 29th day of April, 2019.

23 By: //s// Eve H. Karasik
24 EVE H. KARASIK
25 LEVENE, NEALE, BENDER,
26 YOO & BRILL L.L.P.
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28 Bankruptcy Counsel for the Western
Asbestos Settlement Trust

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**FIFTEENTH ANNUAL REPORT AND ACCOUNTING
OF WESTERN ASBESTOS SETTLEMENT TRUST**

The Trustees of the Western Asbestos Settlement Trust (“Trust”) hereby submit this Fifteenth Annual Report and Accounting (“Annual Report”) covering Trust activities occurring from January 1, 2018 to and including December 31, 2018 (“Accounting Period”), and certain activities of the Trust that took place outside the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Northern District of California, San Francisco Division (the “Bankruptcy Court”), *In Re Western Asbestos Company*, Case No. 13-31914-HLB, in accordance with the *Second Amended Joint Plan of Reorganization* [Docket No. 1002] (“Plan”); the January 27, 2004 *Order Confirming Second Amended Joint Plan of Reorganization and Granting Related Relief* [Docket No. 1205] (“Confirmation Order”); and the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case Valuation Matrix, as amended from time to time, established pursuant to the Plan,¹ and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The Trust Agreement states in Section 7.11 that the Trust is governed by Nevada law. Section 164.015 of the Nevada Revised Statutes allows the Trust to render an accounting and seek approval for its past actions. The factual statements in this Annual Report are supported by the Declaration of Jack Luikart, Managing Trustee, in Support of Motion to Approve and Settle Western Asbestos Settlement Trust’s Fifteenth Annual Report and Accounting, the Audited Financial Statements, and the Claim Report, as described in paragraphs 7, 8, and 9, *infra*. Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan Documents.

1. Case Assignment: This matter, originally filed as a Chapter 11 bankruptcy case, was assigned for all purposes to United States Bankruptcy Judge Leslie Tchaikovsky of the Oakland Court who approved each Annual Report from 2005-2009. On September 1, 2010, the

¹ The Appendix [Docket Nos. 1841-2 through 1841-7; 1847] includes the Plan; Confirmation Order; Third Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix (“Matrix”) the Third Amendment to and Complete Restatement of Western Asbestos Settlement Trust Bylaws (the “Trust Bylaws”); certain other controlling documents approved by the Court; and other documents as indicated. The versions of the Trust’s governing documents which have been amended are the Trust Agreement, and Trust Distribution Procedures (all as defined below) and are attached to this Annual Report as the Sixteenth Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement (the “Trust Agreement”) Exhibit “C”, and the Third Amendment to and Complete Restatement of the Western Asbestos Company/Western Mac Arthur Co./Mac Arthur Co. Asbestos Personal Injury Settlement Trust Distribution Procedures (the “Trust Distribution Procedures”) Exhibit “D”.

1 case was transferred to United States Bankruptcy Judge Roger Efremsky who approved the Annual
2 Reports from 2010-2012. On August 5, 2013, Judge Efremsky recused himself from the case
3 [Docket No. 1782]. Thereafter, the case was assigned to United States Bankruptcy Judge William
4 J. Lafferty, III, of the Oakland Court, who recused himself from the matter on August 16, 2013.
5 The case and any adversary proceedings then were transferred to Chief United States Judge Alan
6 Jaroslovsky for the Bankruptcy Court for the Northern District of California for further disposition
7 [Docket No. 1784]. On August 21, 2013, the case and all adversary proceedings were transferred
8 to United States Bankruptcy Judge Thomas E. Carlson of the Bankruptcy Court for all purposes
9 [Docket No. 1786] who approved the Annual Reports from 2013-2015. The original case number
10 of 02-46284-WJL was changed to 13-31914-TC [Docket No. 1788]. On December 1, 2016, the
11 case and all adversary proceedings were transferred to United States Bankruptcy Judge Hannah L.
12 Blumenstiel who approved the 2016 and 2017 reports and with whom the case continues to reside.
13 The case number of 13-31914-TC was changed to 13-31914-HLB [Docket No. 1853].

14 2. Effective Date: In compliance with Sections 4.1 and 7.2 of the Plan, and the
15 Glossary of Terms for the Plan Documents, the Effective Date of the Trust is April 22, 2004.

16 3. Appointment of Trustees: In its February 2, 2004 Order Approving Futures
17 Representative's Motion for Approval of Appointment of Trustees for the Western Asbestos
18 Settlement Trust [Docket No. 1262], the Oakland Court approved the appointment of Sandra R.
19 Hernández, M.D., John F. Luikart and Stephen M. Snyder as Trustees of the Trust, who have acted
20 in that capacity since that time. Elected in 2004 by the other two Trustees, Stephen M. Snyder
21 served as Managing Trustee until February 22, 2019. On January 9, 2019, Stephen M. Snyder,
22 pursuant to Section 4.2(c) of the Trust Agreement, gave proper notice that he was retiring as Trustee
23 as of April 30, 2019. Stephen M. Snyder was asked to extend the retirement date to May 31, 2019.
24 The Trustees, Trust Advisory Committee, and the Futures Representative agreed in writing to extend
25 the retirement date to May 31, 2019. On February 22, 2019, pursuant to Section 4.1 of the Trust
26 Agreement, John F. Luikart was elected by the Trustees to be the Managing Trustee of the Trust.
27 As a result of the retirement of Mr. Snyder, a change has been adopted to the Trust Agreement in
28 Section 4.6(f) (set forth in paragraph 25 infra). As well, the Trust has entered into a Transition

1 Agreement with Mr. Snyder and a Consulting Agreement. The Transition agreement as approved,
2 is attached as Exhibit "E".

3 4. Appointment of Trust Advisory Committee ("TAC"): In the Confirmation
4 Order, the Oakland Court approved the appointment of Alan Brayton, Jack Clapper, David M.
5 McClain, Phil Harley, and Michael Sieben as the initial members of the TAC. Mr. Brayton has
6 served as the Chair of TAC since the Effective Date of the Trust. Messrs. Clapper and McClain
7 have continued to serve as members of the TAC since the Effective Date of the Trust. Jerry Neil
8 Paul's appointment to replace Phil Harley as a member of the TAC was approved by the Oakland
9 Court in June 2009. Michael S. Polk's appointment to replace Michael Sieben as a member of the
10 TAC was approved by this Court in June 2015. Mr. Polk passed away in August of 2018. In
11 November 2018, Michael R. Strom's appointment to replace Mr. Polk as a member of the TAC was
12 approved by this Court.

13 5. Appointment of Futures Representative: The Honorable Charles B. Renfrew,
14 retired, was appointed as the Futures Representative in the Western Asbestos cases on November
15 25, 2002, and his continued appointment as the Futures Representative of the Trust was approved
16 by the Oakland Court in the Confirmation Order. Judge Renfrew served as the Trust's Futures
17 Representative from the Effective Date of the Trust until his death on December 14, 2017. The
18 Trust's Motion for Order Approving Trustees' Selection of Honorable David F. Levi to Serve as
19 Futures Representative was filed on March 15, 2018, and the order was entered on April 10, 2018.

20 6. Fiscal Year and Tax Obligations: The Trust is required by the Internal
21 Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis.
22 Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports
23 attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement
24 requires the Trustees to file income tax and other returns and statements in a timely manner, and
25 comply with all withholding obligations as legally required, including fulfilling requirements to
26 maintain the Trust's status as a Qualified Settlement Fund. The Trust has complied with its tax
27 obligations on a quarterly basis. The 2017 federal tax return was filed by its extended due date of
28 September 17, 2018 and the 2018 federal tax return will be filed by its extended due date of

1 September 16, 2019. The Trust resides in Nevada, and Nevada has no state income tax. Although
2 the Trust is not subject to tax in California, the Trustees file a tax return in California each year,
3 attaching a copy of the Trust's federal tax return, but showing no California taxable income or state
4 tax liability.

5 7. Annual Report: Section 2.2(c)(i) of the Trust Agreement provides in pertinent
6 part:

7 The Trustees shall cause to be prepared and filed with the Bankruptcy
8 Court, as soon as available, and in any event within 120 days following
9 the end of each fiscal year, an annual report containing financial
10 statements of the Trust (including, without limitation, a statement of the
11 net claimants' equity of the Trust as of the end of such fiscal year and a
12 statement of changes in net claimants' equity for such fiscal year)
13 audited by a firm of independent certified public accountants selected
14 by the Trustees and accompanied by an opinion of such firm as to the
15 fairness of the financial statements' presentation of the equity presently
16 available to current and future claimants and as to the conformity of the
17 financial statements with accounting principles generally accepted in
18 the United States, except for the special-purpose accounting methods....

15 The Trust's financial statements are prepared using special-purpose accounting
16 methods that depart from Generally Accepted Accounting Principles (GAAP) in certain respects in
17 order to better disclose the amount and changes in net claimants' equity.

18 8. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of
19 the Trust Agreement, the Trust has caused its financial statements to be audited by Eide Bailly, LLP,
20 the independent certified public accountants retained by the Trust to perform the annual audit of its
21 financial statements. The Trust's audited financial statements ("Audited Financial Statements") are
22 attached hereto as Exhibit "A" These include a Statement of Net Claimants' Equity, a Statement of
23 Changes in Net Claimants' Equity, a Statement of Cash Flows and Explanatory Notes. The
24 Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects
25 total assets of the Trust at market value and on the other comprehensive basis of accounting adopted
26 by the Trust. These Audited Financial Statements show, among other things, that as of December
27 31, 2018, total Trust assets were \$619,408,513, total liabilities were \$37,292,158, and Net
28 Claimants' Equity was \$582,116,355.

1 9. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along
2 with the Audited Financial Statements, the Trust shall file with the court a report containing a
3 summary regarding the number and type of claims disposed of during the period covered by the
4 financial statements. The Western Asbestos Settlement Trust Claim Report as Of December 31,
5 2018 (“Claim Report”), is attached hereto as Exhibit “B”. During the Accounting Period, the Trust
6 received 837 claims, paid 258 claims, and made settlement offers on 109 claims. During the
7 Accounting Period and since the Trust received its first Trust Claim² on August 27, 2004, the Trust
8 has received 14,740 Trust Claims, paid 10,071 Trust Claims, and 2,943 Trust Claims have been
9 withdrawn or rejected.³

10 Section 5.4 of the TDP provides that the Trust shall pay Pre-Petition Default,
11 Settlement, and Matrix Claims (hereafter “Pre-Petition Liquidated Claims”)⁴ “[as] soon as
12 practicable after the Effective Date.” The vast majority of these claims were paid in 2004, and by
13 December 2005, the Trust had paid 99% of all Pre-Petition Liquidated Claims. A proper release for
14 one (1) Pre-Petition Liquidated Claim was received after the end of the Accounting Period, which
15 resulted in a payment of \$41,586, reducing the remaining number pending a release to thirteen (13)
16 for a total amount unpaid of \$123,506. The Trust continues to diligently search for the remaining
17 claimants and heirs.

18 10. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement,
19 the Annual Report, including the Audited Financial Statements and Claim Report, has been sent to
20 the Futures Representative, the TAC, the Debtors, and the Office of the United States Trustee with
21 responsibility for the Northern District of California, and has been filed with the United States
22 Bankruptcy Court for the Northern District of California. Accordingly, the Annual Report and
23 attached and related documents have been made available for inspection by the public in accordance
24 with procedures previously established.

25 _____
26 ² “Trust Claims” are any claims submitted to the Trust after the Effective Date.

27 ³ “Withdrawn or Rejected Claims” include claims which are not qualified and/or claims with deficiencies that have not
28 been cured beyond a certain time period, and/or claims that have remained on hold beyond a certain time period.

⁴ See the Oakland Court’s February 3, 2004 *Memorandum of Decision after Confirmation Hearing* [Docket No. 1265]
included in the Appendix.

1 11. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
2 Trustees shall meet in Nevada, or a state other than California, at least four times per year, as close
3 as practicable on a quarterly basis. The Trustees held five (5) meetings during the Accounting
4 Period (February 22-23, 2018, April 19-20, 2018, May 16, 2018, September 13-14, 2018, and
5 November 15-16, 2018). The April, May and September meetings were held in Nevada, and the
6 February and November meetings were held in Arizona.

7 12. Arbitrations: During the Accounting Period, no arbitrations were held
8 pursuant to Section 5.9 of the Trust Distribution Procedures. However, one pro bono evaluation
9 was held during the Accounting Period resulting in a settlement of the dispute regarding the value
10 of the claim filed with the Trust.

11 13. Payment Percentage: Section 4.2 of the TDP provides that, commencing on
12 the first day of January, after the Plan has been confirmed and no less frequently than once every
13 three years thereafter, the Trustees shall reconsider the Payment Percentage to assure that it is based
14 on accurate current information and may, after such reconsideration, change the Payment
15 Percentage, if necessary, with the consent of the TAC and the Futures Representative. In its April
16 14, 2004, "Order Under Fed.R.Bankr.P. 9019 Approving Compromises with Settling Insurers," the
17 Oakland Court approved a Payment Percentage to the Trust's claimants of 31.5%. The Payment
18 Percentage was increased to 34.2% on January 1, 2006, to 40% on July 24, 2007, and to 44% on
19 February 18, 2010. The Payment Percentage was reviewed on February 7, 2013 and remained at
20 44%. The Payment Percentage was reviewed on September 23, 2014 and increased to 48%. In
21 September 2017, a preliminary review of the Payment Percentage was conducted. The Trust
22 anticipates completing this year, 2019, the preliminary reviews of the Payment Percentage that were
23 conducted in September 2017 and in the Spring of 2018 and 2019.

24 14. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
25 calculate an annual payment limit for claims based upon a model of the amount of cash flow
26 anticipated to be necessary over the entire life of the Trust (the "Maximum Annual Payment") to
27 ensure that funds will be available to treat all present and future claimants as similarly as possible.
28

1 At the November 15, 2018 meeting, the Maximum Annual Payment for 2019 was set at
2 \$37,962,493, plus the amount of excess funds carried over as of December 31, 2018.

3 15. Inflation Adjustment: The original Payment Percentage approved by the
4 Oakland Court was based upon projections of future claim payments adjusted annually for inflation.
5 Beginning in 2006, all claim payments made during a calendar year include a cost of living
6 adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban*
7 *Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the November
8 15, 2018 meeting, the CPI-W to be published in January 2019 was approved for use by the Trust in
9 making the cost of living adjustment for claims payments made in 2019. The CPI-W of 1.8% was
10 issued on January 11, 2019 and all inflation adjustments are cumulative. Consequently, all claim
11 payments made during the 2019 calendar year will have a cumulative inflation rate of 31.8% added
12 to the payment amount.

13 The Trust began indexing Economic, Medical Loss, and assumed Future Medical
14 Loss and Funeral Expenses Base Case Values in 2018. The Economic Base Case is now set at
15 \$263,603. The Medical Loss Base Case is set at \$312,210. The Assumed Future Medical Loss and
16 Funeral Expenses is set at \$117,079.

17 16. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement
18 requires the Trustees prepare a budget and cash flow projection prior to the commencement of each
19 fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved
20 the 2019 budget and the required four-year budget and cash flow projections on November 15, 2018.
21 Pursuant to the Trust Agreement, the 2019 budget was provided to the Futures Representative and
22 TAC.

23 17. Facilities Sharing Agreements: As initially described in the Trust's Third
24 Annual Report, the Trust and J.T. Thorpe Settlement Trust ("J.T. Thorpe Trust") entered into a Trust
25 Facilities and Services Sharing Agreement. The J.T. Thorpe Trust agreed to pay a negotiated
26 monthly amount and such arrangement was approved by the Oakland Court in the order approving
27 the Trust's Third Annual Report. Pursuant to the annual reconciliation of fees presented on
28 February 22, 2019, the Trust and the J.T. Thorpe Trust agreed that the advance payments shall be

1 \$36,000 per month for 2019. The total amount paid to the Trust by the J.T. Thorpe Trust, after
2 accounts were reconciled for 2018, was \$412,041.

3 As initially described in the Trust's Seventh Annual Report, the Trust and Thorpe
4 Insulation Company Asbestos Settlement Trust ("Thorpe Insulation Trust") entered into a Trust
5 Facilities and Services Sharing Agreement and the Thorpe Insulation Trust agreed to pay a
6 negotiated monthly amount. Such arrangement was approved by the Oakland Court in the order
7 approving the Trust's Seventh Annual Report. Pursuant to the annual reconciliation of fees
8 presented on February 22, 2019, the Trust and the Thorpe Insulation Trust agreed that the advance
9 payments shall be \$40,000 per month for 2019. The total amount paid to the Trust by the Thorpe
10 Insulation Trust, after accounts were reconciled for 2018, was \$454,050.

11 As initially described in the Trust's Tenth Annual Report, the Trust and Plant
12 Insulation Company Asbestos Settlement Trust ("Plant Trust") entered into a Trust Facilities and
13 Services Sharing Agreement and the Plant Trust agreed to pay a negotiated monthly amount. Such
14 arrangement was approved by this Court in the order approving the Trust's Tenth Annual Report.
15 Pursuant to the annual reconciliation of fees presented on February 22, 2019, the Trust and the Plant
16 Trust agreed that the advance payments shall be \$37,000 per month for 2019. The total amount
17 paid to the Trust by the Plant Trust, after accounts were reconciled for 2018, was \$441,141.

18 18. Settlement Fund: The Settlement Fund was established at Wells Fargo Bank,
19 N.A., to pay valid claims.

20 19. Operating Fund: The Operating Fund was established at Wells Fargo Bank,
21 N.A. During the Accounting Period, transfers were made from the Settlement Fund to the
22 Operating Fund to pay anticipated operating expenses of the Trust. In February 2019, Wells Fargo
23 Bank experienced a server disruption that affected certain areas of the United States. Although it
24 did not impact the Trust or its ability to access funds, the Trustees decided that it was prudent to
25 place funds with another financial institution to ensure that funds for short-term operating costs,
26 including payroll, would be available in the event of future disruption. The Trust deposited \$250,000
27 with Sierra Pacific Federal Credit Union in Reno, NV.

1 20. Set Aside Funds: The Trust continues to maintain separate funds for the
2 defense and indemnification of Ordway and Milwaukee, Van Packer, and ERC as required by the
3 Trust Documents and/or settlement agreements. These accounts hold the legally required amounts
4 in cash and securities for certain indemnification obligations. During the Accounting Period, no
5 claims were made against, and no payments were made from any of these funds.

6 21. Indemnity Fund (Self-Insured Retention): Section 4.6 of the Trust Agreement
7 provides that the Trust shall indemnify the Trustees, the Trust's officers and employees, the Futures
8 Representative, the TAC and each of their respective agents. The Trustees, the Futures
9 Representative, the TAC and their respective agents have a first priority lien upon all of the Trust's
10 assets to secure the payment of any amounts payable to them pursuant to Section 4.6. In addition
11 to the first priority lien on all the Trust's assets, in 2004, the Trust established an indemnity fund in
12 the amount of \$40,000,000, as described in all the Trust's Annual Reports. All interest earned by
13 the fund is returned to the Trust quarterly. During the Accounting Period, no claims were made
14 against, and no payments were made from this fund.

15 In November 2018, the Indemnity Agreement was amended to provide that any
16 indemnified expenses shall be paid primarily and first from insurance proceeds and then from the
17 Indemnity Fund or other assets of the Trust. If the Indemnity Fund or other assets have
18 funded such expenses prior to payment by insurance proceeds, then such expenses shall be
19 reimbursed to the Indemnity Fund or other assets from the insurance proceeds. The Indemnity
20 Agreement was also amended to reflect that the insurance premiums and deductibles on the
21 insurance policies may be paid from the Indemnity Fund or other assets of the Trust. The Trust
22 purchased a Directors and Officers/Errors and Omissions policy in 2018 and a Directors and
23 Officers/Errors and Omissions Excess DIC policy in 2019.

24 22. Special Budget Fund: A Special Budget Fund was approved in the Oakland
25 Court's May 18, 2005 *Order to Approve and Settle Western Asbestos Settlement Trust's Annual*
26 *Report and Accounting, Audited Financial Statements, and Claim Report; and to Approve*
27 *Resolution Regarding the FAIR Act* [Docket No. 1595]. There has been no change in this fund
28 during the Accounting Period.

1 23. Settlement Fund Control Account and Control Agreements: Section 4.7 of
2 the Trust Agreement grants the Trustees, the Futures Representative and the TAC a security
3 interest in all of the assets of the Trust to secure the indemnification obligations of the Trust to
4 such parties. The Trustees, the TAC, the Futures Representative and their agents have a security
5 interest in the assets of the Trust. The Trust entered into five separate Control Agreements in
6 2005 as described in detail in the Trust's Second Annual Report.

7 In November 2018, a Security Agreement was entered into between the Trust and
8 the Trustees, Futures Representative and the TAC granting a security interest in all of the Trust's
9 personal property and assets to secure the Trust's indemnity and defense of the Trustees, Futures
10 Representative, TAC, employees, agents, predecessors, and successors against claims and
11 liabilities incurred in the performance of their duties as specified in the Trust Agreement. A UCC-
12 1 Financing Statement was filed in Nevada to perfect the security interest. In addition, a 2018
13 Control Agreement was entered into between the parties and Wells Fargo to perfect the security
14 interest in the assets maintained at Wells Fargo, including the Indemnity Fund. Western Asbestos
15 already had five separate Control Agreements dating back to 2005. These remained in place, but a
16 new Control Agreement identifying all accounts was included in the 2018 Control Agreement
17 which also included the Indemnity Fund, accounts, deposits, securities, financial assets,
18 investment property and security entitlements, among other things.

19 24. Executive Staff Update: The Executive Director of the Trust, Sara Beth Brown, was
20 hired in May of 2004, and has served in that capacity since that time for this Trust and,
21 subsequently, for the three other Trusts which share facilities with this Trust. She has properly
22 notified the Trustees that she will retire effective May 4, 2019. Laura Paul, currently the Claims
23 Manager, has been appointed Acting Executive director upon the event of Sara Beth Brown's
24 retirement.

25 25. Civil Investigative Demand: On September 12, 2018, the Department of Justice issued
26 a Civil Investigative Demand to the Trust pursuant to the False Claims Act focused on whether the
27 Medicare Program has been reimbursed in accordance with the Medicare Secondary Payer act for
28 payments made by the Trust. The Trust and the Department of Justice have established a portion

1 of a protocol to limit the production of data to those claimants who had exposure to Western
2 Companies on or after 12/5/1980 and whose first payment from the Trust was on or after
3 1/1/2009. The Trust continues to work with Department of Justice to reach agreement on the data
4 fields to be produced. Pending final resolution of the protocol the Trust has filed objections to the
5 Civil Investigative Demand. The Trust has provided notice to affected Trust beneficiaries with an
6 opportunity to object. No objections from beneficiaries were have so far been received by the
7 Trust.

8 26. Legal Disputes:

9 a. *Home Insurance Company in Liquidation (“HICIL”) and California Insurance*
10 *Guarantee Association (“CIGA”).* As initially described in the Trust’s Seventh Annual Report,
11 the Trust and the HICIL Liquidator reached a settlement that provided for an allowed claim in the
12 liquidation proceedings in the amount of \$242.5 million. Due to its insolvency, HICIL will not
13 likely be able to pay the entire allowed claim, but instead will only pay a portion of the allowed
14 amount over a period of several years.

15 In February 2013, the Trust sought recovery from California Insurance Guarantee
16 Association (“CIGA”) for asbestos bodily injury liabilities that would otherwise be covered by the
17 Home Insurance Company (“Home”) under its policies issued from 1976 to 1983, to the extent
18 that Home was unable to pay as a result of its insolvency. *Stephen M. Snyder, et al. v. California*
19 *Insurance Guarantee Association*, Alameda County Superior Court Civil Case No. RG13666656.
20 CIGA demurred to the complaint alleging that the Trust’s claims were barred by the statute of
21 limitations. On June 28, 2013, the Judge sustained the demurrer without leave to amend and the
22 Trust appealed the ruling. On September 17, 2014, the California Court of Appeal reversed the
23 trial court’s order sustaining CIGA’s demurrer without leave to amend insofar as it was based on
24 the statute of limitations. A subsequent petition to the California Supreme Court by CIGA was
25 denied. The case was remitted to Judge Wynne Carville and in December 2015, this case was
26 transferred to Judge Winifred Smith.

1 In June 2015 and August 2016, HICIL made interim distributions of 15% and 10%,
2 respectively, of the Trust's allowed claim, which funds were placed in an escrow account pending
3 the outcome of the CIGA case.

4 The Phase I trial was held for approximately eight days beginning on August 14,
5 2017. On January 30, 2018, Judge Smith issued a tentative decision that the Trust had met its
6 burden of proof establishing that there was no 'other insurance' 'available' to pay the Allowed
7 Claim in the Home Liquidation. The Court entered a final decision denying CIGA's motion for
8 summary judgment on March 21, 2018. The trial on the remaining issues in the case was initially
9 set for September 17, 2018, then moved to December 10, 2018, and later continued to January 14,
10 2019.

11 Under these circumstances, the Trustees, with the full consent and approval of the
12 TAC and the Futures Representative, engaged in settlement negotiations with CIGA, resulting in a
13 definitive settlement agreement dated December 26, 2018. CIGA requested and the Trust agreed
14 that it would request that the Court file the settlement agreement under seal. The motion to seal
15 will be filed contemporaneously with the Annual Report. The Trust has already received a portion
16 of the settlement monies. There is potential in the settlement for the Trust to receive further funds
17 depending on the final outcome of the Home liquidation.

18 The Trustees, the TAC, and the Futures Representative concluded that the settlement
19 reached was in the best interests of all Trust beneficiaries. The Trust has been pursuing insurance
20 recoveries for its beneficiaries as a result of the Home Insurance Company insolvency for over 15
21 years and the settlement enables the Trust to increase net claimants' equity on behalf of the Trust
22 beneficiaries. The settlement also eliminated litigation risk and significant expense in an
23 undeveloped area of the law.

24 The Trust agreed to dismiss its action against CIGA with prejudice and agreed not to
25 object to CIGA's request to vacate the Phase I decision. The Court entered an order vacating the
26 Phase I decision on January 5, 2019, and entered the dismissal with prejudice on January 28, 2019.

27 b. *Western Asbestos Settlement Trust v. Michael J. Mandelbrot and Mandelbrot*
28 *Law Firm* ("Mandelbrot"), Adversary Proceeding No. 13-03205 U.S. Bankruptcy Court for the

1 Northern District of California, San Francisco Division. In October 2013, this Court dismissed
2 this adversary proceeding without prejudice as not ripe for declaratory relief. The J.T. Thorpe
3 Settlement Trust and Thorpe Insulation Settlement Trust (the “Thorpe Trusts”) investigated claims
4 submitted to them and in a letter dated May 24, 2013, set forth reasons why they would decline to
5 accept further evidence or claims from Mandelbrot. Those adversary proceedings (*J.T. Thorpe
6 Settlement Trust and Thorpe Insulation Company Asbestos Settlement Trust*, U.S. Bankruptcy
7 Court for the Central District of California Case No. 2:12-ap-02182BB), presided over by the
8 Honorable Sheri Bluebond, continued to a bench trial. The evidence produced during pre-trial
9 discovery, and in the trial before Judge Bluebond, caused the Trustees of this Trust to conclude
10 that it was appropriate to stop accepting further evidence from Mr. Mandelbrot.

11 Therefore, as initially described in the Trust’s Eleventh Annual Report, on January
12 23, 2014, the Trustees entered into an agreement with Mandelbrot, requiring that Mandelbrot
13 transfer all pending claims to other counsel and immediately cease further claims filing activity with
14 the Trust. This agreement was made on the record during the bench trial of the Thorpe Trusts. In
15 the stipulation, Mandelbrot agreed, among other things, that the Thorpe Trusts’ decision to stop
16 accepting further evidence from Mandelbrot in 2013 was reasonable and, further, that it was
17 reasonable for this Trust to take similar actions. Accordingly, this Trust became a party to the
18 stipulated agreement and since then has acted in conformity with its terms.

19 After making the stipulation, however, Mandelbrot substituted his trial counsel and
20 disavowed the agreement. He unsuccessfully challenged its validity in Judge Bluebond’s U.S.
21 Bankruptcy Court. After further hearings, Judge Bluebond entered judgment reaffirming the
22 validity and enforceability of the agreement (the “Judgment and Order”).

23 On May 27, 2014, Judge Bluebond of the U.S. Bankruptcy Court for the Central
24 District of California heard and denied Mandelbrot’s motion to stay enforcement of the Judgment
25 and Order. Thereafter, in early June 2014, Mandelbrot appealed the Judgment and Order and filed
26 a motion to stay enforcement of the Judgment and Order pending appeal before the Honorable
27 Virginia A. Phillips (“Judge Phillips”) of the United States District Court for the Central District of
28 California. Judge Phillips denied Mandelbrot’s motion to stay enforcement.

1 Thereafter, Mandelbrot filed a District Court brief. On September 3, 2015, Judge
2 Phillips affirmed the U.S. Bankruptcy Court’s Judgment and Order. On September 17, 2015,
3 Mandelbrot filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit.
4 Oral arguments were heard on February 17, 2017 and on September 14, 2017, the Ninth Circuit
5 vacated the District Court’s affirmance and remanded the case to the District Court for further fact-
6 finding and/or briefing on two issues: (i) whether federal law overrides the California statutes
7 because this is a 524(g) trust and (ii) what impact, if any, the case of *Golden v. California Emergency*
8 *Physicians Medical Group*, 782 F. 3d 1083 (9th Cir. 2015) (“Golden”) has in this matter.

9 On November 6, 2017, the Trust made a Request for Remand of Appeal to the U.S.
10 Bankruptcy Court following the Ninth Circuit Appeal which was opposed by Mandelbrot. The
11 District Court remanded this matter to the U.S. Bankruptcy Court on November 15, 2017. A hearing
12 was held on February 8, 2018, and based upon the briefs submitted and oral argument presented,
13 Judge Bluebond issued Supplemental Findings of Fact and Conclusions of Law on Remand.

14 In sum, Judge Bluebond held that the settlement and the claim-filing prohibition was
15 valid and enforceable as to all four Trusts under California law, including specifically § 16600 and,
16 to the extent at all applicable, Rule 1-500, because the settlement was reasonable and did not operate
17 as a restraint of a substantial character on Mandelbrot’s practice.

18 Mandelbrot filed his notice of appeal on February 20, 2018 and shortly thereafter
19 approached counsel for the Trusts regarding a dismissal of the appeal in April 2018. A Joint
20 Stipulation regarding Dismissing the Appeal was filed and on May 10, 2018, Judge Phillips of the
21 USDC, Central District of California, signed the order Granting Joint Stipulation Dismissing
22 Appeal. The litigation with Mr. Mandelbrot and the Mandelbrot Law Firm has been fully and finally
23 resolved.

24 Post dismissal, Mr. Mandelbrot continued to file pleadings and documents in the JT
25 Thorpe and Thorpe Insulation Settlement Trusts’ bankruptcies. The Trusts served and filed a
26 “Motion of JT Thorpe and Thorpe Insulation Company Asbestos Settlement Trust for Entry of an
27 Order Striking Dockets 1804, 1806 and 1808 and Granting Related Relief” on November 7, 2018.
28 Mr. Mandelbrot filed an “Opposition to Order Striking Dockets 1804, 1806 and 1808 and Granting

1 Related Relief.” A hearing was held on November 28, 2018. Prior to the hearing, the Court issued
2 a tentative ruling, which the Court read into the record at the hearing. The Court also heard oral
3 argument from counsel for the Trusts and Mr. Mandelbrot. On December 13, 2018, Judge Bluebond
4 issued an order which struck certain docket entries from the record and classified certain docket
5 entries as “private.” Mr. Mandelbrot was ordered, as a person and as a firm, not to represent that he
6 is counsel to or otherwise represents claimants or beneficiaries in connection with the JT Thorpe
7 and Thorpe Insulation Trusts. In the Order, Judge Bluebond stated that she would prepare and
8 submit to the State Bar of California a judicial discipline referral form concerning the conduct of
9 Michael Mandelbrot in connection with the JT Thorpe Inc. and Thorpe Insulation Company Cases.
10 On January 3, 2019, Judge Bluebond submitted a Discipline Referral Form with Appendix regarding
11 Mr. Mandelbrot to the California State Bar.

12 As a result of the January 23, 2014 stipulation, and consistent with its terms, the
13 Trust is not accepting claims from Mandelbrot and all claims previously submitted by Mandelbrot
14 have been transferred to new counsel. The Trust advised claims filers that Mandelbrot is not
15 permitted to file claims with the Trust and on March 6, 2015, posted such a notification on its Web
16 site. The Trust has been informed that Mandelbrot’s Web site has continued to include the Trust in
17 lists of asbestos trusts with which Mandelbrot files claims, despite the Judgment and Order
18 precluding Mandelbrot from filing claims with the Trust. Under the circumstances, the Trust
19 continues to monitor compliance with the Judgment and Order.

20 In addition, Mr. Mandelbrot continues to publish allegations of Trust fiduciary
21 misconduct similar to those adjudicated before the U.S. Bankruptcy Court for the Central District
22 of California and to post allegations against Trust personnel regarding fraud, corruption, bias and
23 preferential treatment on his blog. The Trust previously investigated these accusations through
24 outside counsel, who reached the same conclusion as had been reached by the Trust in years past --
25 that the allegations are meritless.

26 27. Amendments to the Trust Documents Amendment to Section 4.6(f), of the
27 Trust Agreement were approved on April 19, 2019. A true and correct copy of the Sixteenth
28 Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement is

1 attached hereto as Exhibit “C”. Amendment to Section 6.2(j) of the Trust Distribution Procedures
2 were approved on February 22, 2019. A true and correct copy of the Third Amendment to and
3 Complete Restatement of the Western Asbestos Company/Western Mac Arthur Co./Mac Arthur Co.
4 Asbestos Personal Injury Settlement Trust Distribution Procedures is attached hereto as Exhibit
5 “D”.

6 28. Notifications to Beneficiaries: During the Accounting Period and,
7 additionally, from January 1, 2019 to and including April 19, 2019, the following notifications were
8 placed on the Trust’s Web site:

9 a. Notice of hearing on Trust’s Fourteenth Annual Report and Accounting
10 (posted April 26, 2018);

11 b. Notice of modification to California Land Site List (posted May 15, 2018);

12 c. Notice of Policy Regarding Claims of Certain Statuses (posted May 15, 2018);

13 d. Notice of Update to 1/31/14 and 4/16/14 Notices to Beneficiaries and potential
14 Beneficiaries of the JT Thorpe Settlement Trust, Thorpe Insulation Settlement Trust, Western
15 Asbestos Settlement Trust and Plant Asbestos Settlement Trust (posted June 5, 2018);

16 e. Notice of Payment Percentage (posted June 13, 2018);

17 f. Notice of the 2019 Indexed Base Case Values for Economic and Medical Loss
18 (posted April 16, 2019); and

19 g. Notice of modification to the Trust Distribution Procedures (posted April 16,
20 2019).

21 29. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at
22 the September 13, 2018 meeting and there were no recommended changes to the existing \$250.00
23 fee during the Accounting Period or as of the date hereof.

24 30. Trustees’ Compensation: Section 4.5(c) of the Trust Agreement requires the
25 Trust to report the amounts paid to the Trustees for compensation and expenses. During the
26 Accounting Period, the Trustees each received per annum compensation in the amount of \$73,479
27 paid in quarterly installments. The total paid to all Trustees for hourly compensation and for
28 reimbursement of expenses was \$362,207 and \$6,046, respectively.

1 31. Significant Vendors: Although the Trust has many vendors, those who were
2 paid more than \$100,000 during the Accounting Period are listed alphabetically below.

3 a. Aon Risk Insurance Services, West, Inc.: D&O/E&O insurance;

4 b. BlackRock Financial Management: One of eight investment managers for the
5 Trust described in paragraph 32, *infra*;

6 c. Eagle Capital Management, LLC: One of eight investment managers for the
7 Trust described in paragraph 32, *infra*;

8 d. Fergus, a Law Office: Counsel to the Trust;

9 e. Harding Loevner, LP: One of eight investment managers for the Trust
10 described in paragraph 32, *infra*;

11 f. Klee, Tuchin, Bogdanoff & Stern LLP: Counsel to the Trust;

12 g. Morgan Lewis & Bockius: Counsel to the Trust in the Home Insurance
13 Company in Liquidation and California Insurance Guarantee Association matters, and the
14 Mandelbrot investigation and adversary proceeding described in paragraphs 23(a) and 23(b), *supra*;

15 h. Park Center Tower, LLC: Landlord for the Trust's offices;

16 i. James N. Penrod: Person Most Knowledgeable and Expert Witness in the
17 Home Insurance Company in Liquidation and California Insurance Guarantee Association matters.

18 j. Schiff Hardin LLP: Law firm that acts as outside general counsel for the Trust
19 and assists with various legal matters as requested by the Trust;

20 k. Silvercrest Asset Management Group LLC: One of eight investment
21 managers for the Trust described in paragraph 32, *infra*;

22 l. Standish Mellon Asset Management Company: One of eight investment
23 managers for the Trust described in paragraph 32, *infra*;

24 m. United Healthcare: Trust employee health insurance plan carrier; and

25 n. Verus Claims Services, LLC: Claim Processing System Maintenance,
26 Licensing, and Consulting Services Agreement; and

27 o. Westwood Management Corporation: One of eight investment managers for
28 the Trust described in paragraph 32, *infra*.

