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6 Attorneys for the Western Asbestos Settlement Trust

7 **UNITED STATES BANKRUPTCY COURT**  
8 **NORTHERN DISTRICT OF CALIFORNIA**  
9 **OAKLAND DIVISION**

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

Case No. 02-46284-RLE

Chapter 11

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

Date: June 26, 2012

Time: 1:30 p.m.

Place: 1300 Clay Street, Room 201  
Oakland, CA 94604

17 The Trustees of the Western Asbestos Settlement Trust by and through their counsel, John P.  
18 Sande, III, Esq. of Jones Vargas, hereby file the Eighth Annual Report and Accounting, Audited  
19 Financial Statements, and Claim Report.

20 Respectfully submitted this 27<sup>th</sup> day of April, 2012.

21 JONES VARGAS, CHARTERED

22 By: //s// John P. Sande, III  
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Attorneys for the Western Asbestos Settlement Trust

1 **EIGHTH ANNUAL REPORT AND ACCOUNTING**  
2 **OF WESTERN ASBESTOS SETTLEMENT TRUST**

3 The Trustees of the Western Asbestos Settlement Trust (“Trust”) hereby submit this Eighth  
4 Annual Report and Accounting (“Annual Report”) covering Trust activities occurring from January  
5 1, 2011 to and including December 31, 2011 (“Accounting Period”), and certain activities of the  
6 Trust, specified below, that took place outside the Accounting Period. This Annual Report is  
7 submitted to the U.S. Bankruptcy Court for the Northern District of California, Oakland Division, *In*  
8 *Re Western Asbestos Company*, Case no. 02-46284-RLE, in accordance with the Second Amended  
9 Joint Plan of Reorganization (“Plan”); the Court’s January 27, 2004, Order Confirming Second  
10 Amended Joint Plan of Reorganization and Granting Related Relief (“Order Confirming the Plan”);  
11 and the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case Valuation Matrix, as  
12 amended from time to time, established pursuant to the Plan,<sup>1</sup> and pursuant to the laws of the State of  
13 Nevada, where the Trust is organized and where it resides. The factual statements in this Annual  
14 Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of  
15 Motion to Approve and Settle Western Asbestos Settlement Trust’s Eighth Annual Report, the  
16 Audited Financial Statements, and the Claim Report, as described in paragraphs 6, 7, and 8, *infra*.  
17 Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan  
18 Documents. This Court has approved each Annual Report beginning in 2005.

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

21 2. Appointment of Trustees: In its February 2, 2004, Order Approving Futures  
22 Representative’s Motion for Approval of Appointment of Trustees for the Western Asbestos  
23 Settlement Trust, this Court approved the appointment of Sandra R. Hernandez, M.D., John F.  
24 Luikart and Stephen M. Snyder as Trustees of the Trust, who have acted in that capacity since that  
25

26 <sup>1</sup> The Appendix includes the Plan; Order Confirming the Plan; Tenth Amendment to and Complete Restatement of  
27 Western Asbestos Settlement Trust Agreement (“Trust Agreement”); Second Amendment to and Complete Restatement  
28 of Western Asbestos Settlement Trust Bylaws (“Trust Bylaws”); First Amendment to and Complete Restatement of  
Western Asbestos Settlement Trust Case Valuation Matrix (“Matrix”); First Amendment to and Complete Restatement  
of the Western Asbestos Company/Western Mac Arthur Co./Mac Arthur Co. Asbestos Personal Injury Settlement Trust  
Distribution Procedures (“TDP”); other controlling documents approved by this Court; and other documents as indicated.

1 time. Elected in 2004 by the other two Trustees, Stephen M. Snyder has continued to serve as  
2 Managing Trustee throughout the Accounting Period.

3 3. Appointment of Trust Advisory Committee (“TAC”): In the Order Confirming the  
4 Plan, this Court approved the appointment of Alan Brayton, Jack Clapper, David M. McClain, Phil  
5 Harley, and Michael Sieben as the initial members of the TAC. Mr. Brayton has served as the Chair  
6 of TAC since the Effective Date of the Trust. Messrs. Clapper, McClain and Sieben have continued  
7 to serve as members of the TAC since the Effective Date of the Trust. Jerry Neil Paul’s appointment  
8 to replace Phil Harley as a member of the TAC was approved by this Court in June 2009.

9 4. Appointment and Continuation of Futures Representative: The Honorable Charles B.  
10 Renfrew was appointed as the Futures Representative in the Western Reorganization Cases on  
11 November 25, 2002, and his continued appointment as the Futures Representative of the Trust was  
12 approved by this Court in the Order Confirming the Plan. Judge Renfrew has served as the Trust’s  
13 Futures Representative since the Effective Date of the Trust.

14 5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code  
15 to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, the  
16 Trust’s fiscal year is the calendar year. Except where otherwise stated, all reports attached to this  
17 Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement requires the  
18 Trustees to file income tax and other returns and statements in a timely manner, and comply with all  
19 withholding obligations as legally required, including fulfilling requirements to maintain its status as  
20 a Qualified Settlement Fund. The Trust has complied with its tax obligations on a quarterly basis  
21 based upon the advice of Sitkoff/O’Neil Accountancy Corporation, the certified public accountants  
22 retained by the Trust to prepare its annual tax returns. The 2011 federal tax return must be filed on  
23 or before September 17, 2012. The Trust resides in Nevada, and Nevada has no state income tax.  
24 Although the Trust is not subject to tax in California, the Trustees file a tax return in California each  
25 year, attaching a copy of the Trust’s federal tax return, but showing no California taxable income or  
26 state tax liability.

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

28 The Trustees shall cause to be prepared and filed with the Bankruptcy Court, as soon  
as available, and in any event within 120 days following the end of each fiscal year,

1 an annual report containing financial statements of the Trust (including, without  
2 limitation, a statement of the net claimants' equity of the Trust as of the end of such  
3 fiscal year and a statement of changes in net claimants' equity for such fiscal year)  
4 audited by a firm of independent certified public accountants selected by the Trustees  
5 and accompanied by an opinion of such firm as to the fairness of the financial  
statements' presentation of the equity presently available to current and future  
claimants and as to the conformity of the financial statements with accounting  
principles generally accepted in the United States, except for the special-purpose  
accounting methods...

6 The special-purpose accounting methods were adopted by the Trustees with the approval of the TAC  
7 and the Futures Representative in the Third Amendment to and Complete Restatement of the  
8 Western Asbestos Settlement Trust Agreement, dated February 28, 2005. The Trust's financial  
9 statements are prepared using special-purpose accounting methods that depart from Generally  
10 Accepted Accounting Principles (GAAP) in certain instances in order to better disclose the amount  
11 and changes in net claimants' equity.

12 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the  
13 Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton LLP,  
14 the independent certified public accountants retained by the Trust to perform the annual audit of its  
15 financial statements. The Trust's audited financial statements ("Audited Financial Statements") are  
16 attached hereto as Exhibit "A". These include a Statement of Net Claimants' Equity, a Statement of  
17 Changes in Net Claimants' Equity, a Statement of Cash Flows and explanatory Notes. The  
18 Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects  
19 total assets of the Trust at market value and on the other comprehensive basis of accounting adopted  
20 by the Trust. These Audited Financial Statements show, among other things, that as of December  
21 31, 2011, total Trust assets were \$820,398,636, total liabilities were \$27,874,970, and Net  
22 Claimants' Equity was \$792,523,666.

23 8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with the  
24 Audited Financial Statements, the Trust shall file with the Court a report containing a summary  
25 regarding the number and type of claims disposed of during the period covered by the financial  
26 statements. The Western Asbestos Settlement Trust Claim Report As Of December 31, 2011  
27 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust  
28 received 893 claims, paid 568 claims, and made settlement offers on 762 claims. Since the Trust

1 received its first Trust Claim<sup>2</sup> on August 27, 2004, the Trust has received 9,746 Trust Claims, paid  
2 6,718 Trust Claims, and 1,640 Trust Claims have been withdrawn.<sup>3</sup>

3 Section 5.4 of the TDP provides that the Trust shall pay Pre-Petition Default,  
4 Settlement, and Matrix Claims (hereafter “Pre-Petition Liquidated Claims”)<sup>4</sup> “[as] soon as  
5 practicable after the Effective Date”. The vast majority of these claims were paid in 2004, and by  
6 December 2005, the Trust had paid 99% of all Pre-Petition Liquidated Claims. No Pre-Petition  
7 Liquidated Claims were paid during the Accounting Period. The Trust has not yet received proper  
8 release documents for thirty-one (31) remaining unpaid Pre-Petition Liquidated Claims in the total  
9 amount of \$703,112.

10 9. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement, the  
11 Annual Report, including the Audited Financial Statements and Claim Report, has been sent to the  
12 Futures Representative, the TAC, the Debtors, and the Office of the United States Trustee with  
13 responsibility for the Northern District of California, and has been made available for inspection by  
14 the public in accordance with procedures established by this Court.

15 10. Trustees’ Meetings: Article II, Section 4 of the Trust Bylaws provides that the  
16 Trustees shall meet in Nevada, or a state other than California, at least four times per year, as close  
17 as practicable on a quarterly basis. The Trustees held four (4) meetings during the Accounting  
18 Period (February 17, 2011, April 21, 2011, September 15-16, 2011, and November 17-18, 2011).  
19 All meetings were held in Reno, Nevada.

20 11. Arbitrations: During the accounting period, no arbitrations were held pursuant to  
21 Section 5.9 of the Trust Distribution Procedures.

22 12. Payment Percentage: Section 4.2 of the TDP provides that, commencing on the first  
23 day of January, after the Plan has been confirmed and no less frequently than once every three years  
24 thereafter, the Trustees shall reconsider the Payment Percentage to assure that it is based on accurate  
25

26 <sup>2</sup> “Trust Claims” are any claims submitted to the Trust after the Effective Date.

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

28 <sup>4</sup> See this Court’s February 3, 2004 Memorandum of Decision after Confirmation Hearing included in the Appendix filed  
herewith.

1 current information and may, after such reconsideration, change the Payment Percentage if necessary  
2 with the consent of the TAC and the Futures Representative. In its April 14, 2004, Order Under  
3 Fed.R.Bankr.P. 9019 Approving Compromises with Settling Insurers, this Court approved a  
4 Payment Percentage to the Trust's claimants of 31.5%. The Payment Percentage was increased to  
5 34.2% effective January 1, 2006, to 40% on July 24, 2007, and to 44% on February 18, 2010. The  
6 Payment Percentage remained at 44% during the Accounting Period.

7 13. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust calculate  
8 an annual payment limit for claims based upon a model of the amount of cash flow anticipated to be  
9 necessary over the entire life of the Trust to ensure that funds will be available to treat all present  
10 and future claimants as similarly as possible. At the November 17, 2011 meeting, the Maximum  
11 Annual Payment for 2012 was set at \$65,000,000, plus the amount of \$341,900,262 of excess funds  
12 carried over from prior years, which Section 2.5 of the TDP requires to be rolled over and remain  
13 dedicated to the respective Disease Category in the Jurisdiction to which they were originally  
14 allocated.

15 14. Inflation Adjustment: The original Payment Percentage approved by this Court was  
16 based upon projections of future claims payments adjusted annually for inflation. Beginning in  
17 2006, all claims payments made during a calendar year include a cost of living adjustment based  
18 upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and*  
19 *Clerical Workers* (CPI-W) announced in January each year. Thus, as of January 1, 2011, all claims  
20 payments made during the calendar year were increased by 15.78% to account for inflation.

21 At the November 17, 2011 meeting, the CPI-W to be published in January 2012 was  
22 approved for use by the Trust in making the 2012 cost of living adjustment for claims payments.  
23 The CPI-W of 3.2% was issued on January 19, 2012. Consequently, all claims payments made  
24 during the 2012 calendar year will have a compounded inflation rate of 19.48% added to the  
25 payment amount.

26 15. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires  
27 the Trustees to cause to be prepared a budget and cash flow projections prior to the commencement  
28 of each fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees

1 approved the 2012 budget and the required four-year budget and cash flow projections on November  
2 17, 2011. Pursuant to the Trust Agreement, these were provided to the Futures Representative and  
3 TAC. The budget for operating expenses in 2012 totals \$2,219,000.<sup>5</sup>

4 16. J.T. Thorpe Settlement Trust and Thorpe Insulation Company Asbestos Settlement  
5 Trust Administration: As initially described in the Trust's Third Annual Report and Accounting, the  
6 Trust and J.T. Thorpe Settlement Trust ("J.T. Thorpe Trust") entered into a Trust Facilities and  
7 Services Sharing Agreement. The J.T. Thorpe Trust agreed to pay a negotiated monthly amount.  
8 Such arrangement was approved by this Court in the order approving the Trust's Third Annual  
9 Report. Pursuant to the annual reconciliation of fees presented at the February 17, 2011 meeting, the  
10 Advance Payments were set at \$24,000 per month for 2011. The annual reconciliation presented on  
11 February 16, 2012 set the Advance Payments at \$27,000 per month for 2012.

12 As described in the Trust's Seventh Annual Report and Accounting, the Trust and  
13 Thorpe Insulation Company Asbestos Settlement Trust ("Thorpe Insulation Trust") entered into a  
14 Trust Facilities and Services Sharing Agreement in 2010 and amendments were approved on April  
15 21, 2011, with the consent of the Futures Representative and TAC. The agreement provided: (i) for  
16 the Thorpe Insulation Trust to pay to the Trust, for all processing costs and its share of fixed costs,  
17 the amount of \$35,000 each month for the first eight months, and \$27,000 each month beginning on  
18 July 1, 2011 through the end of the Initial Term for the sharing of the Trust employees; and (ii) for  
19 an accounting through the end of 2011 and each year thereafter to identify and adjust actual costs as  
20 shared to insure that each trust is paying its proportionate share of the expenses. Such arrangement  
21 was approved by this Court in the order approving the Trust's Seventh Annual Report. The United  
22 States Court of Appeals for the Ninth Circuit issued an opinion on January 24, 2012, which may  
23 affect confirmation of the Plan pursuant to which the Thorpe Insulation Trust was created and  
24 commenced operations. On February 28, 2012, the United States Bankruptcy Court presiding over  
25 the Thorpe Insulation Chapter 11 proceedings confirmed, until further order, Thorpe Insulation  
26 Trust's power to continue to perform under its agreement with the Trust, pending resolution or other

27  
28 <sup>5</sup> This figure is net of facilities sharing payments which are budgeted for \$612,000, net of claimant payments which are budgeted for \$65,008,029, net of extraordinary legal fees which are budgeted for \$1,125,000, and net of income tax payments which are budgeted for \$2,000,000.

1 outcomes affecting the decision of the United States Court of Appeals for the Ninth Circuit. A copy  
2 of the *Order Approving Continued Operation of the Thorpe Insulation Company Asbestos Settlement*  
3 *Trust in the Ordinary Course of Business Pending Further Instruction* entered on February 28, 2012  
4 in the U.S. Bankruptcy Court for the Central District of California, Los Angeles Division, *In re*  
5 *Thorpe Insulation Company, In re Pacific Insulation Company, Debtors*, Case Nos. 2:07-19271-BB  
6 and 2:07-20016-BB (jointly administered under Case No. 2:07-20016-BB) is included in the  
7 Appendix filed herewith.

8 17. Operating Fund: The Operating Fund was established at Wells Fargo Bank, N.A. as  
9 described in all the Trust's Annual Reports. During the Accounting Period, transfers were made  
10 from the Settlement Fund to the Operating Fund to pay anticipated operating expenses of the Trust.

11 18. Set Aside Funds: The Trust continues to maintain separate funds for the defense and  
12 indemnification of Ordway and Milwaukee, Van Packer, Mac Arthur and Western Mac Arthur, and  
13 ERC as required by the Trust Documents and/or settlement agreements. These accounts hold the  
14 legally required amounts in cash and securities for certain indemnification obligations. As described  
15 in the Trust's Seventh Annual Report and Accounting, the Trust received a claim from Van Packer  
16 Company in 2010. Trust counsel is still researching the Trust's indemnification obligations, if any.

17 19. Indemnity Fund (Self-Insured Retention): Section 4.6 of the Trust Agreement  
18 provides that the Trust shall indemnify the Trustees, the Trust's officers and employees, the Futures  
19 Representative, the TAC and each of their respective agents. The Trustees, the Futures  
20 Representative, the TAC and their respective agents have a first priority lien upon the Trust's assets  
21 to secure the payment of any amounts payable to them pursuant to Section 4.6.

22 In 2004, the Trust established an indemnity fund in the amount of \$40,000,000, as  
23 described in all the Trust's Annual Reports. All interest earned by the fund is returned to the Trust  
24 quarterly. During the Accounting Period, no claims were made against the fund and no money was  
25 paid from the fund.

26 On September 15, 2011, revisions were made to the Indemnity Agreement to allow for  
27 limited fluctuation of the fund due to possible market asset fluctuations.

1           20.    Special Budget Fund: A Special Budget Fund was approved in this Court's May 18,  
2 2005 Order to Approve and Settle Western Asbestos Settlement Trust's Annual Report and  
3 Accounting, Audited Financial Statements, and Claim Report; and to Approve Resolution Regarding  
4 the FAIR Act. All interest earned by the Special Budget Fund is returned to the Trust quarterly.  
5 There has been no change in this fund during the Accounting Period.

6           21.    Settlement Fund Control Account and Control Agreements: Section 4.7 of the Trust  
7 Agreement grants to the Trustees, the Futures Representative and the TAC, a security interest in all  
8 of the assets of the Trust to secure the indemnification obligations of the Trust to such parties. The  
9 Trustees, the TAC, the Futures Representative and their agents have a security interest in the assets  
10 of the Trust. The Trust entered into five separate Control Agreements in 2005 as described in detail  
11 in the Trust's Second Annual Report and Accounting. There has been no change in these Control  
12 Agreements during the Accounting Period.

13           22.    Legal Disputes:

14           a.    *Western Asbestos Settlement Trust, et al. v. Zurich-American Insurance Co., et*  
15 *al.*, San Francisco Sup.Ct., Case No. CGC04-436181, November 9, 2004: This is an insurance  
16 coverage action against various insurers for recovery under numerous primary and excess policies  
17 issued to the Debtors starting in 1946. The Trustees retained Morgan Lewis & Bockius LLP to  
18 represent the Trust in the *Zurich* litigation pursuant to an hourly fee arrangement, capped monthly, in  
19 addition to a success fee based on the amount of the final award. The Trust reports on the amounts  
20 paid and accrued to the law firm at each Trustees' meeting.

21           In addition, as described in the Trust's Seventh Annual Report and Accounting, the  
22 Trust entered into a Settlement Agreement with The Home Insurance Company in Liquidation on  
23 February 18, 2011 in connection with its Proof of Claim submitted on June 11, 2004. Pursuant to  
24 the terms of the settlement agreement, the Home Liquidator filed a motion for approval of the  
25 settlement in the State of New Hampshire, Merrimack County Superior Court, *In the Matter of the*  
26 *Liquidation of The Home Insurance Company*, Docket No. 03-E-0106 ("Liquidation Court  
27 Proceeding"). A joint motion by the Home Liquidator and the Trust to stay the disputed claim  
28 proceeding was also filed in the Liquidation Court Proceeding, which joint motion was granted on

1 March 15, 2011. The settlement was approved in the Liquidation Court Proceeding subject to  
2 resolution of certain objections, which have now been resolved. The order approving the settlement  
3 agreement was entered on May 2, 2011 and a copy is included in the Appendix filed herewith. A  
4 motion by the Home Liquidator for approval of an interim distribution to claimants with allowed  
5 class II claims was filed in the Liquidation Court Proceeding and was granted on March 13, 2012  
6 and a copy of that order is included in the Appendix filed herewith.

7           b. Subpoena in *National Union Fire Insurance Company of Pittsburgh, PA., et al. v.*  
8 *Porter Hayden Company*: As described in the Trust's Seventh Annual Report and Accounting, the  
9 Trust was served with a Subpoena to Testify at a Deposition in a Civil Action issued by the United  
10 States District Court for the District of Nevada on October 7, 2010. The subpoena was issued on  
11 behalf of National Union Fire Insurance Company of Pittsburgh, PA ("National Union") and sought  
12 production of claims information. The Trust and National Union reached resolution on all issues  
13 except for the venue for determining claimant objections. A status conference was held on  
14 November 7, 2011. A hearing was held on November 22, 2011. The Court ruled that claimant  
15 objections should be determined by the United States District Court for the District of Maryland,  
16 Baltimore Division ("Maryland Court"), in the underlying action. A copy of the order is included in  
17 the Appendix filed herewith. Upon request by National Union, the Trust will proceed to notify its  
18 claimants of the subpoena to allow them the opportunity to object.

19           23. Amendments to the Trust Documents:

20           a. As described in the Trust's Seventh Annual Report and Accounting, on February  
21 17, 2011, Section IV(b)(vii) of the Matrix was amended to allow for a pathological diagnosis of  
22 occupational levels of asbestos bodies or asbestos fibers in lung tissue to be considered when  
23 determining medical causation. A copy of the *First Amendment to and Complete Restatement of*  
24 *Western Asbestos Settlement Trust Case Valuation Matrix* is included in the Appendix filed  
25 herewith.

26           b. As described in the Trust's Seventh Annual Report and Accounting, on April 21,  
27 2011, Section 2.2(g) of the Trust Agreement was amended to acknowledge that consents by the TAC  
28 and Futures Representative whether by signature or as reflected in all approved Trustees' meeting

1 minutes shall constitute the required form and substance of consent. A copy of the *Ninth*  
2 *Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement* is  
3 included in the Appendix filed herewith.

4 c. On September 16, 2011, Sections 4.1 of the Trust Facilities and Services Sharing  
5 Agreements with the J.T. Thorpe Trust and Thorpe Insulation Trust were amended to allow for the  
6 agreed upon amounts of monthly fees advanced to be reflected in the minutes of Trustees meetings.

7 d. On September 15, 2011, paragraph 1 of the Indemnity Agreement was amended  
8 as described in paragraph 19, *supra*.

9 e. On November 18, 2011, Section 3.2 of the Trust Agreement was amended  
10 concerning the investment of the Trust's funds. A copy of the *Tenth Amendment to and Complete*  
11 *Restatement of Western Asbestos Settlement Trust Agreement* was posted on the Trust's Web site and  
12 is included in the Appendix filed herewith.

13 24. Extension of Arbitration Procedures: At the April 21, 2011 meeting, the Western  
14 Asbestos Settlement Trust Arbitration Procedures that were approved on November 15, 2007 and  
15 extended to April 22, 2011, were further extended to April 21, 2013.

16 25. Notifications to Beneficiaries: During the Accounting Period and, additionally, from  
17 January 1, 2012 to and including April 20, 2012, the following notifications were placed on the  
18 Trust's Web site:

19 a. Notice of amendment to the Matrix (posted on March 3, 2011) as described in  
20 paragraph 24(a), *supra*.

21 b. Notice of approved modifications to site and ship lists (posted on Mach 3, 2011).

22 c. Notice of the Trust's policy concerning declarations (posted on April 5, 2011)  
23 submitted in support of site, asbestos exposure, and/or dates of exposure, or any other facts relevant  
24 to claims.

25 d. Notice of the hearing on the Trust's Seventh Annual Report and Accounting  
26 (posted on April 28, 2011).

27 e. Notice of documents added to the Web site (posted on May 2, 2011).

28 f. Notice of approved modification to ships list (posted on September 26, 2011).

1 g. Notice regarding comments to the Trust (posted on November 28, 2011).

2 h. Notice of timing of requests for consideration at February 2012 meeting (posted  
3 on November 28, 2011).

4 26. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at the  
5 September 16, 2011 meeting and there were no recommended changes to the existing \$250.00 fee  
6 during the Accounting Period or as of the date hereof.

7 27. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the Trust to  
8 report the amounts paid to the Trustees for compensation and expenses. Research was conducted by  
9 the Trust staff, at the request of the Trustees, concerning compensation received by similarly situated  
10 fiduciaries, both within and outside of asbestos trusts. The research demonstrated that the Trustees'  
11 compensation was well inside the norm for similarly situated fiduciaries. On November 17, 2011, it  
12 was determined by the TAC and the Futures Representative that the compensation paid to the  
13 Trustees was appropriate for the level of risk incurred and work performed by the Trustees. During  
14 the Accounting Period, the Trustees each received per annum compensation in the amount of  
15 \$70,000 paid in quarterly installments. The total paid to all Trustees for hourly compensation was  
16 \$176,020 and \$5,182 was the total amount of expenses incurred by all Trustees.

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

19 a. Anthem Blue Cross Blue Shield: Trust employee health insurance plan carrier.

20 b. BlackRock Financial Management: One of eight investment managers for the  
21 Trust described in paragraph 29, *infra*.

22 c. Callan Associates, Inc.: Investment consultant for the Trust described in  
23 paragraph 29, *infra*.

24 d. Dwight Asset Management Company: One of eight investment managers for the  
25 Trust described in paragraph 29, *infra*.

26 e. Eagle Capital Management, LLC: One of eight investment managers for the  
27 Trust described in paragraph 29, *infra*.

28

1 f. Harding Loevner, LP: One of eight investment managers for the Trust described  
2 in paragraph 29, *infra*.

3 g. Jones Vargas: Law firm that acts as Nevada counsel responsible for the legal  
4 administration of the Trust, bankruptcy matters, and counsel to the Trust in the *National Union*  
5 matter described in paragraph 22, *supra*.

6 h. Morgan Lewis & Bockius LLP: Counsel to Debtors and counsel to the Trust in  
7 the *Zurich* matter described in paragraph 22, *supra*.

8 i. Standish Mellon Asset Management Company: One of eight investment  
9 managers for the Trust described in paragraph 29, *infra*.

10 j. State Street Global Advisors: One of eight investment managers for the Trust  
11 described in paragraph 29, *infra*.

12 29. Trust Investment Management: Article 3 of the Trust Agreement authorizes the Trust  
13 to administer the investment of funds in the manner in which individuals of ordinary prudence,  
14 discretion and judgment would act in the management of their own affairs, subject to certain  
15 limitations. The Trust closely monitors any market volatility with its investment advisors and  
16 continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc.  
17 continued to assist the Trust during the Accounting Period as its investment consultant. BlackRock  
18 Financial Management, Inc., Dwight Asset Management Company, Eagle Capital Management,  
19 LLC, Harding Loevner, LP, Standish Mellon Asset Management Company, LLC, and State Street  
20 Global Advisors have continued to act as investment managers to the Trust. On February 16, 2012,  
21 it was determined that Silvercrest Asset Management Group LLC and Westwood Management  
22 Corporation could be engaged as additional investment managers for the Trust. In addition, the  
23 Trust's Investment Policy Statement was amended on February 16, 2012, a copy of which is  
24 included in the Appendix filed herewith.

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26 The Trustees submit that the Annual Report and attached exhibits demonstrate the Trust  
27 acted prudently and expeditiously in executing its legal obligations during the Accounting Period  
28 and up to and including the date hereof. The Trust conscientiously worked to execute equitable

1 claims procedures and process Trust Claims with due diligence during the Accounting Period and up  
2 to and including the date hereof. Moreover, the Trust worked with its accountants and financial  
3 advisors to preserve and grow Trust assets in order to fulfill the purpose of the Trust--paying valid  
4 asbestos claims. In so doing, the Trust carefully complied with all Plan documents and the mandates  
5 of this Court.

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# EXHIBIT A

# EXHIBIT A



Financial Statements and Report of Independent  
Certified Public Accountants

**Western Asbestos Settlement Trust**

December 31, 2011 and 2010

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**Report of Independent Certified Public Accountants**

To the Trustees of Western Asbestos Settlement Trust

We have audited the accompanying special-purpose statements of net claimants' equity of Western Asbestos Settlement Trust (the Trust), organized in the State of Nevada, for the years ended December 31, 2011 and 2010 and the related statements of changes in net claimants' equity and cash flows for the years then ended. These special-purpose financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

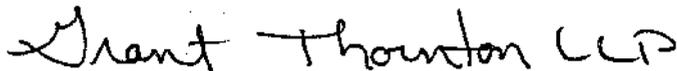
As described in Note A, these special-purpose financial statements were prepared on a special-purpose basis of accounting and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States. The special-purpose basis of accounting has been used in order to present the amount of equity presently available to current and future claimants, and the changes in equity during the period.

In our opinion, the accompanying special-purpose financial statements of Western Asbestos Settlement Trust, as of and for the years ended December 31, 2011 and 2010, are fairly presented, in all material respects, on the basis of accounting described in Note A.

Our audits were conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The supplementary schedule is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been

subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America establish the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the special-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Trust and Trustees, the beneficiaries of the Trust, the Futures Representative, the Futures Counsel, the members of the Trust Advisory Committee, and the United States Bankruptcy Court for the Northern District of California, Oakland Division and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report which, upon filing with the United State Bankruptcy Court for the Northern District of California, Oakland Division is a matter of public record.



Reno, Nevada  
April 9, 2012

**Western Asbestos Settlement Trust**

**STATEMENTS OF NET CLAIMANTS' EQUITY**

**December 31,**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 40,000,000	\$ 40,000,000
Unrestricted	774,379,365	776,767,781
Total cash, cash equivalents and investments	814,379,365	816,767,781
Accrued interest and dividend receivables	5,899,788	5,863,336
Prepaid federal income tax	119,483	882,070
Total assets	\$ 820,398,636	\$ 823,513,187
<b>LIABILITIES</b>		
Accrued expenses	\$ 1,017,063	\$ 746,662
Claim processing deposits	398,000	366,250
Unpaid claims (Note D)		
Outstanding offers	9,979,795	6,069,011
Pre-petition liquidated claims	703,112	690,085
Deferred tax liability	15,777,000	8,593,000
Total liabilities	\$ 27,874,970	\$ 16,465,008
<b>NET CLAIMANTS' EQUITY</b>	\$ 792,523,666	\$ 807,048,179

accompanying notes are an integral part of these statements.

**Western Asbestos Settlement Trust**

**STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY**

**For the years ended December 31,**

	<b>2011</b>	<b>2010</b>
<b>Net claimants' equity, beginning of year</b>	\$ 807,048,179	\$ 955,388,005
<b>Additions to net claimants' equity</b>		
Investment income	21,003,149	24,746,623
Trust facility and staff sharing income received	628,644	527,398
Net decrease in outstanding claim offers	-	8,159,890
Net realized and unrealized gains on available-for-sale securities	20,516,305	27,696,719
Total additions	42,148,098	61,130,630
<b>Deductions from net claimants' equity</b>		
Operating expenses	3,200,551	3,893,260
Provision for income taxes, current	1,500,016	1,302,893
Provision for income taxes, deferred	7,184,000	9,695,000
Claims settled	40,449,697	194,579,303
Net increase in deferred rent	427,563	-
Net increase in outstanding claim offers	3,910,784	-
Total deductions	56,672,611	209,470,456
<b>Net claimants' equity, end of year</b>	\$ 792,523,666	\$ 807,048,179

accompanying notes are an integral part of these statements.

**Western Asbestos Settlement Trust**

**STATEMENTS OF CASH FLOWS**

**For the years ended December 31,**

	<b>2011</b>	<b>2010</b>
<b>Cash inflows:</b>		
Investment income receipts	\$ 20,966,697	\$ 27,198,874
Trust facility and staff sharing income received	628,644	527,398
Increase in claim processing deposits	31,750	-
Net realized gains on		
Available-for-sale securities	-	12,257,807
Total cash inflows	21,627,091	39,984,079
<b>Cash outflows:</b>		
Claim payments made	40,436,670	194,505,726
Net realized losses on		
Available-for-sale securities	656,099	-
Decrease in claim processing deposits	-	10,250
Disbursements for Trust operating expenses	3,357,713	3,979,474
Disbursements for Trust income taxes	737,429	1,261,929
Total cash outflows	45,187,911	199,757,379
Net cash inflows (outflows)	(23,560,820)	(159,773,300)
<b>Non-cash changes:</b>		
Net unrealized gains on available-for-sale securities	21,172,404	15,438,912
<b>NET DECREASE IN CASH, CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE</b>	<b>(2,388,416)</b>	<b>(144,334,388)</b>
<b>Cash, cash equivalents and investments available-for sale, beginning of year</b>	<b>816,767,781</b>	<b>961,102,169</b>
<b>Cash, cash equivalents and investments available-for-sale, end of year</b>	<b>\$ 814,379,365</b>	<b>\$ 816,767,781</b>

accompanying notes are an integral part of these statements.

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2011 and 2010**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

**1. Description of Trust**

The Western Asbestos Settlement Trust (the Trust), organized pursuant to the laws of the state of Nevada with its office in Reno, Nevada, was established pursuant to the Western Asbestos Company (Western Asbestos), Western Mac Arthur Co. (Western Mac Arthur) and Mac Arthur Co. (Mac Arthur), (collectively the Debtors), Second Amended Joint Plan of Reorganization (the Plan), dated November 18, 2003. The Trust was formed to assume the Debtors' liabilities resulting from pending and potential litigation involving individuals exposed to asbestos who have manifested asbestos-related diseases or conditions; liquidate, resolve, pay and satisfy all current and future asbestos-related claims in accordance with the Plan; preserve, hold, manage and maximize the Trust assets for use in paying and satisfying allowed asbestos-related claims; prosecute, settle and manage the disposition of the asbestos in-place insurance coverage; and prosecute, settle and manage asbestos insurance coverage actions. Upon approval of the Plan, the Trust assumed liability for existing and future asbestos health claims against the Debtors. The Trust was created effective April 22, 2004.

The Trust was initially funded with cash, Western Asbestos securities, notes receivable and insurance settlement proceeds. Since its creation, all notes receivable have been collected. The Trust's funding is dedicated solely to the settlement of asbestos health claims and the related costs thereto, as defined in the Plan.

The Trust processes and pays all asbestos-related claims in accordance with the Western Asbestos Settlement Trust Agreement, as amended and restated, the Case Valuation Matrix, as amended and restated, (Matrix) and Trust Distribution Procedures, as amended and restated, (TDP) (collectively, the Trust Documents).

**2. Special-Purpose Accounting Methods**

The Trust's financial statements are prepared using special-purpose accounting methods that differ from accounting principles generally accepted in the United States. The special-purpose accounting methods were adopted in order to present the amount of equity available for payment of current and future claims. These special-purpose accounting methods are as follows:

- The financial statements are prepared using the accrual basis of accounting, as modified below.
- The funding received from Western Asbestos, Western Mac Arthur, and Mac Arthur and its liability insurers is recorded directly to net claimants' equity. These funds do not represent income of the Trust. Offers for asbestos health claims are reported as deductions from net claimants' equity and do not represent expenses of the Trust.
- Costs of non-income producing assets, which will be exhausted during the life of the Trust and are not available for satisfying claims, are expensed when incurred. These costs include acquisition costs of computer hardware, software, software development, office furniture, leasehold improvements, and other prepaid expenses such as rent and insurance.

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. Special-Purpose Accounting Methods - Continued

- Future fixed liabilities and contractual obligations entered into by the Trust are recorded directly against net claimants' equity. Accordingly, the future minimum commitments outstanding at period end for non-cancelable obligations have been recorded as deductions from net claimants' equity.
- The liability for unpaid claims reflected in the statement of net claimants' equity represents settled but unpaid claims and outstanding offers. A claims liability is recorded once an offer is made to the claimant at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.
- Available-for-sale securities are recorded at fair value. All interest and dividend income on available-for-sale securities, net of investment expenses is included in investment income on the statement of changes in net claimants' equity. Net realized and unrealized gains and losses on available-for-sale securities are recorded as a separate component on the statement of changes in net claimants' equity.
- Realized gains and losses on available-for-sale securities are recorded based on the security's amortized cost. At the time a security is sold, all previously recorded unrealized gains and losses are reversed and recorded net, as a component of other unrealized gains and losses in the accompanying statement of changes in net claimants' equity.

3. Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and cash invested in money market funds.

4. Investments

Fair value measurements are determined through the use of an independent, nationally recognized pricing service. For securities that have quoted prices in active markets, market quotations are provided. For securities that do not trade on a daily basis, the pricing service provides fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment spreads and measures of volatility. The Trust reviews on an ongoing basis the reasonableness of the methodologies used by the pricing service, as well as determines the aggregate portfolio price performance and reviews it against applicable indices.

5. Deposits

Claims processing deposits represent filing fees collected for each unliquidated claim, which fees are refunded by the Trust if the claim is paid.

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

**6. Use of Estimates**

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates.

**7. Concentration of Risk**

Financial instruments that potentially subject the Trust to concentrations of risk consist of cash, cash equivalents and investments. Cash equivalents consist of money market accounts and certificates of deposit. Cash equivalents and demand deposits are in excess of Federal Deposit Insurance Corporation limits.

The Trust utilizes risk controls to meet investment objectives authorized by its Trustees. Such risk controls include the use of outside investment advisors meeting predetermined criteria, and third-party quantitative and qualitative risk measurement evaluation tools. The Trust believes its risk control practices are appropriate to meet investment objectives.

Investment securities, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

**8. Income Taxes**

On January 1, 2009, the Trust adopted accounting guidance for recognizing, measuring, presenting, and disclosing uncertain tax positions taken or expected to be taken. The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

As of December 31, 2011, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States. Although the Trust owes no tax to the State of California, it files an annual tax return in California reporting no taxable income or tax owed. The Trust is no longer subject to United States federal tax examinations for years before 2008.

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2011 and 2010**

**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS**

The Trust has classified its investments as available for sale, and recorded the securities at estimated fair value, as follows:

	December 31, 2011	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 923,269	\$ 923,269
Equity securities	1,152,194	62,170
U.S. Government obligations	22,983,010	23,122,738
Municipal bonds	857,774	996,981
Asset-backed debt	9,221,491	9,081,127
Corporate debt	5,736,261	5,813,715
	\$ 40,873,999	\$ 40,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 820,831	\$ 820,831
Cash equivalents	49,786,293	49,786,293
Equity securities	232,747,823	250,540,646
U.S. Government obligations	31,661,341	31,848,924
Municipal bonds	391,104,751	420,217,070
Asset-backed debt	12,891,720	12,769,436
Corporate debt	8,279,071	8,396,165
	\$727,291,830	\$774,379,365
	December 31, 2010	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 2,077,276	\$ 2,077,276
Equity securities	1,152,193	27,199
U.S. Government obligations	23,810,142	23,828,692
Municipal bonds	1,365,016	1,339,211
Asset-backed debt	7,952,393	7,740,999
Corporate debt	4,905,313	4,986,623
	\$ 41,262,333	\$ 40,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 1,231,721	\$ 1,231,721
Cash equivalents	141,363,932	141,363,932
Equity securities	166,045,804	183,857,515
U.S. Government obligations	33,370,923	33,404,773
Municipal bonds	390,239,455	398,804,694
Asset-backed debt	11,302,512	11,090,286
Corporate debt	6,909,968	7,014,860
	\$750,464,315	\$776,767,781

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2011 and 2010**

**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued**

The Trust accounts for investments according to a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Trust's assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where significant inputs are observable or can be corroborated by observable market data.

Level 3 - Valuations based on models where significant inputs are not observable, and for which the determination of fair value requires significant management judgment or estimation.

Assets and liabilities measured at fair value on a recurring basis, including financial instruments for which the Trust accounts, were as follows at:

	December 31, 2011		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 820,831	\$ -	\$ -
Cash equivalents	50,709,562	-	-
Equity securities	250,602,816	-	-
U.S. Government obligations	22,762,505	32,209,157	-
Municipal bonds	-	421,214,051	-
Asset-backed debt	-	21,032,861	817,702
Corporate debt	14,209,880	-	-
	<u>\$339,105,594</u>	<u>\$474,456,069</u>	<u>\$ 817,702</u>
	December 31, 2010		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 1,231,721	\$ -	\$ -
Cash equivalents	143,441,208	-	-
Equity securities	183,884,714	-	-
U.S. Government obligations	21,847,794	35,385,671	-
Municipal bonds	15,901,362	384,242,543	-
Asset-backed debt	117,636	16,870,665	1,842,984
Corporate debt	6,360,358	5,641,125	-
	<u>\$372,784,793</u>	<u>\$442,140,004</u>	<u>\$1,842,984</u>

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2011 and 2010**

**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued**

The Trust experiences transfers in and out of levels within the fair value hierarchy primarily due to the market activity of the underlying security. The Trust's policy is to recognize transfers in and out at the actual date the event or change in circumstance caused the transfer. Between the measurement dates of December 31, 2010 and December 31, 2011, approximately \$15,901,000 of municipal bond securities transferred from Level 1 to Level 2 due to the unavailability of quoted prices in active markets for identical securities; and approximately \$5,641,000 of corporate debt securities transferred from Level 2 to Level 1 due to the availability of quoted prices in active markets for identical securities. Between the measurement dates of December 31, 2009 and December 31, 2010, approximately \$13,390,000 of municipal bond securities transferred from Level 2 to Level 1 due to the availability of quoted prices in active markets for identical securities.

Activity in Level 3 investments for the years ended December 31, 2011 and 2010 was:

	Mortgage Backed Securities	
	2011	2010
Balance at January 1	\$1,842,984	\$5,130,799
Transfers from/(to) Level 2	-	852,395
Purchases(sales)	(625,659)	(4,662,836)
Redemptions	(397,757)	(590,442)
Realized loss	(290,433)	(1,292,619)
Unrealized gain	288,567	2,405,687
	<u>\$ 817,702</u>	<u>\$1,842,984</u>

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2011:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$10,074,129	\$ 10,335,756	\$ 4,614,628	\$ 29,947,149
Municipal bonds	2,208,866	133,569,453	189,055,488	96,380,244
Asset-backed debt	-	6,307,662	1,368,956	14,173,945
Corporate debt	-	8,037,803	6,172,077	-
	<u>\$12,282,995</u>	<u>\$158,250,674</u>	<u>\$201,211,149</u>	<u>\$140,501,338</u>

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE C - FIXED ASSETS

The cost of non-income producing assets that will be exhausted during the life of the Trust and are not available for satisfying claims are expensed as incurred. Since inception, the cost of fixed assets expensed, net of disposals, include:

Acquisition of furniture and equipment	\$125,441
Acquisition of computer hardware and software	<u>409,274</u>
	<u>\$534,715</u>

These items have not been recorded as assets, but rather as operating expenses and direct deductions from net claimants' equity in the accompanying financial statements. The cost of fixed assets that were expensed during the years ended December 31, 2011 and 2010 were \$19,366 and \$21,216, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$21,667 and \$22,656 for the years ended December 31, 2011 and 2010, respectively.

NOTE D - CLAIM LIABILITIES

The Trust distinguishes between claims that were resolved prior to the establishment of the Trust and claims received and processed using the Trust Documents after the creation of the Trust (Trust Claims). The claims filed prior to the creation of the Trust were grouped into three categories: default, matrix and settlement claims (Pre-petition Liquidated Claims).

The cases underlying the Pre-petition Liquidated Claims were stayed by the court until the Plan was confirmed. The Trust approved and immediately made offers to pay, subject to receiving a claimant release, the approved Payment Percentage of the liquidated value of each Pre-Petition Liquidated Claim. Certain Pre-petition Liquidated Claims were further reduced by payments made by the Debtors' insurers prior to the formation of the Trust.

For all claims, a liability for unpaid claims is recorded at the time the offer is extended and the release authorization is mailed. Funds are mailed after the approved release is signed, received, and approved by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected or expires after six months. Offers may be extended an additional six months upon written request and good cause. As of the years ended December 31, 2011 and 2010, there were no expired offers.

All claimants are entitled to the full liquidated value of their claim. Under the TDP, claimants receive an initial pro rata payment equal to the approved Payment Percentage of the claim's liquidated value. The remaining obligation for the unpaid portion of the liquidated amount is not recorded and is not a liability of the Trust, unless the Payment Percentage is increased. In that instance, the Trust would be obligated to retroactively pay the increased percentage to all previously paid claimants.

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE D - CLAIM LIABILITIES - Continued

In the interest of treating all claimants equitably in accordance with the Plan, the Trustees have recommended that all payments made during each calendar year ended December 31, 2006 through December 31, 2011 include a Cost of Living Adjustment for inflation based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W). Claims liabilities at year end are adjusted for any approved Inflation Adjustments. Inflation Adjustments are cumulative. Cumulative Inflation Adjustments of 19.48% and 15.78% are included in outstanding claims liabilities as of December 31, 2011 and 2010, respectively.

The Trust processed and approved approximately \$44,339,000 and \$40,760,000 of Trust Claims during the years ended December 31, 2011 and 2010, respectively.

NOTE E - COMMITMENTS AND CONTINGENCIES

The Trust leases its offices in Reno, Nevada, under a non-cancelable operating lease. The lease contains escalation provisions, options to extend and expires August 31, 2016.

The Trust paid \$76,987 and \$96,323 in rental expense during the years ended December 31, 2011 and 2010, respectively. Future minimum rental commitments under this operating lease are:

Years ending December 31,	
2012	\$ 86,856
2013	89,314
2014	91,937
2015	94,887
2016	64,569
	<hr/>
	\$427,563
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## Western Asbestos Settlement Trust

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

#### NOTE F - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into facilities and staff sharing agreements with the J. T. Thorpe Settlement Trust, (J. T. Thorpe Trust) and the Thorpe Insulation Company Asbestos Settlement Trust (Thorpe Insulation Trust). The three trusts are related through common Trustees. Under the agreements, and in exchange for advance monthly payments, the Trust provides use of its facilities and services relating to administration and claims processing. The agreement automatically renews for additional one-year periods unless either party provides six months written notice. The amounts of advanced monthly payments are agreed upon between the trusts from time to time. As of December 31, 2011, the equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Trust.

The reconciliation is performed and recorded in the period subsequent to the reconciliation period. For the agreement with the J. T. Thorpe Trust, the reconciliation performed for the year ended December 31, 2011 resulted in an additional payment to the Trust of approximately \$39,000. The reconciliation performed for the year ended December 31, 2010 resulted in an additional payment to the J.T. Thorpe Trust of approximately \$31,000, and the reconciliation performed for the year ended December 31, 2009 resulted in an additional payment to the Trust of approximately \$1,000. For the agreement with the Thorpe Insulation Trust, the reconciliation performed for the fourteen month period ended December 31, 2011 resulted in an additional payment to the Trust of approximately \$21,000. The next reconciliation period for both trusts will be the twelve-month period ending December 31, 2012. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest.

#### NOTE G - NET CLAIMANTS' EQUITY

The Trust was created pursuant to the Plan approved by the United States Bankruptcy Court for the Northern District of California, Oakland Division. The TDP was adopted pursuant to the Plan and concurrently with the Trust Agreement. It is designed to provide fair and equitable treatment for all Trust claims that may presently exist or may arise in the future. The TDP prescribes certain procedures for distributing the Trust's limited assets, including pro rata payments and initial determination of claim value based on scheduled diseases values, jurisdictions, and individual factual information concerning each claimant as set forth in the Trust Documents.

Under the TDP, the Trust forecasts its anticipated annual sources and uses of cash until the last projected future claim has been paid. A pro rata Payment Percentage is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

Based on research and testimony presented during the bankruptcy, the court approved an initial payment to claimants of 31.5% of the liquidated value of then current and estimated future claims (Payment Percentage). The TDP gives the Trustees, with the consent of the Trust Advisory Committee ("TAC") and the Futures Representative, the power to periodically update its estimate of the Payment Percentage based on updated assumptions regarding its future assets and liabilities and, if appropriate, propose additional changes in the Payment Percentage. The Payment Percentage was increased by the Trustees to 34.2% in February 2006, 40.0% in July 2007, and 44% in February 2010. These changes were made with the consent of the TAC and Futures Representative. The increases were retroactive for claims approved since inception.

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2011 and 2010**

**NOTE H - EMPLOYEE BENEFIT PLANS**

The Trust has established a defined contribution retirement savings plan under Section 401(k) of the Internal Revenue Code for all eligible employees after completion of certain age and service requirements. Employees may voluntarily elect to defer their compensation or fund a Roth IRA and invest in various options for their retirement. The plan allows employees to defer a percentage of their salaries within limits set by the Internal Revenue Code, with the Trust matching contributions by employees of up to 4% of their salaries. The Trust may also make discretionary contributions to employee accounts. The total Trust contribution and expenses under the plan were approximately \$47,900 and \$44,500 for the years ended December 31, 2011 and 2010, respectively.

**NOTE I - RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS**

To avoid the high costs of director and officer liability insurance, and pursuant to the Trust Agreement, the Trust has elected to be self insured and has established a segregated security fund of \$40 million. These funds are devoted exclusively to securing the obligations of the Trust to indemnify the former and current Trustees and officers, employees, agents and representatives of the Trust. The funds are held in a separate Trust bank account, and the investment earnings on these funds accrue to the benefit of the Trust.

As of December 31, 2011 and 2010, cash, cash equivalents and investments of \$40,000,000 were restricted for this purpose.

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2011 and 2010**

**NOTE J - INCOME TAXES**

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 35%.

The Trust records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities.

The provision for income taxes consists of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Federal income tax – current	\$1,500,016	\$ 1,302,893
Deferred income tax expense	7,184,000	9,695,000
	\$8,684,016	\$10,997,893

The components of the deferred income tax asset (liability), as presented in the statements of net claimants' equity consisted of the following at December 31:

	2011	2010
<u>Deferred tax asset (liability)</u>		
Depreciation and amortization	\$ -	\$ 1,000
Capital loss carryforwards	397,000	167,000
Unrealized appreciation	(16,175,000)	(8,765,000)
Other, net	1,000	4,000
	(\$15,777,000)	(\$8,593,000)

**NOTE K - SUBSEQUENT EVENTS**

The Trust evaluated subsequent events through April 9, 2012, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure.

**SUPPLEMENTAL INFORMATION**

**Western Asbestos Settlement Trust**

**SCHEDULE OF OPERATING EXPENSES**

**For the years ended December 31,**

	<b>2011</b>	<b>2010</b>
Accounting	\$ 57,348	\$ 83,054
Claims review	-	6,811
Claims processing/claims system development	473,540	459,267
Computer equipment	10,310	5,292
Information technology support	24,434	44,062
Futures representative	101,724	258,094
Insurance	8,521	3,601
Legal fees	1,007,306	1,410,763
Office expense	29,260	11,705
Office furniture and equipment	9,057	15,924
Payroll and related taxes	876,958	875,096
Pension plan contribution and fees	54,394	48,125
Rent and utilities	118,701	114,740
Travel, meals and entertainment	5,187	6,375
Trust advisory committee	19,930	75,715
Trustee fees	388,677	432,498
Trustees professional	15,204	42,138
	3,200,551	3,893,260
Less: Reimbursement pursuant to the shared services agreements to process and pay claims and provide operational and administrative support	(628,644)	(527,398)
	\$ 2,571,907	\$ 3,365,862

# EXHIBIT B

# EXHIBIT B

## **EXHIBIT “B”**

### **Western Asbestos Settlement Trust Claim Report As of December 31, 2011**

This report is submitted pursuant to Section 2.2 (c)(ii) of the Tenth Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement, which requires the Trust to file with the Bankruptcy Court a summary of the number and type of claims disposed of during the time period covered by the financial statements (“Accounting Period”). This report summarizes the Trust’s processing of the claims liquidated by default, settlement agreement, or the settlement matrix prior to April 22, 2004, the Effective Date of the Trust (“Pre-Petition Liquidated Claims”) and the claims received since the Effective Date of the Trust (“Trust Claims”).

#### **Pre-Petition Liquidated Claims**

In 2004, the Trust implemented a procedure to pay the Pre-Petition Liquidated Claims in accordance with the Plan, the Trust Distribution Procedures and the Confirmation Order. The Confirmation Order, as amended on April 14, 2004, provided that the initial payment to Pre-Petition Liquidated claimants was to be 31.5% of the total liquidated value of each claim. The total liquidated value of California default claims includes statutory interest. As the Payment Percentage has been raised, the Pre-Petition Liquidated Claims, that were paid earlier, have received this additional compensation.

No Pre-Petition Liquidated Claims were paid during the Accounting Period. The Trust has not yet received proper release documents for thirty-one (31) remaining Pre-Petition Liquidated Claims in the total amount of \$703,112.

#### **Trust Claims**

Claims received and disposed of from January 1, 2011, through December 31, 2011, in accordance with the First Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix (“Matrix”) and the First Amendment to and Complete Restatement of the Western Asbestos Company/Western Mac Arthur Co. /Mac Arthur Co. Asbestos Personal Injury Settlement Trust Distribution Procedures (“TDP”) are as set forth below.

The value of each compensable disease is determined by the Matrix and TDP. Claim compensation is adjusted for individual claimants based upon jurisdiction and tort related individual characteristics including, but not limited to: age, marital status, dependents, medical specials, economic loss, and whether living at the time of commencement of litigation or filing the claim with the Trust. Each valid claim is awarded a total liquidated value. As of December 31, 2011, Trust Claims were paid at the approved Payment Percentage of 44%. Payments made on Trust Claims included an additional 15.78% to account for inflation based upon the CPI-W.

During the Accounting Period, 893 claims were received, 568 claims were paid, and 762 claims received offers.

Below is a summary of the number and type of claims disposed of (paid) in 2011.

Compensable Disease	Number of California Claims	Number of Minnesota Claims	Number of North Dakota Claims	Totals
Grade II Non-Malignant	143	42	0	185
Grade I Non-Malignant	51	14	0	65
Grade I Non-Malignant Enhanced Asbestosis	29	1	0	30
Grade I Non-Malignant Serious Asbestosis	25	1	0	26
Chronic Lymphocytic Leukemia	0	0	0	0
Colo-Rectal	7	3	0	10
Esophageal	1	0	0	1
Kidney	1	1	0	2
Laryngeal	0	1	0	1
Non-Hodgkin's Lymphoma	2	1	0	3
Other Organ Cancer	2	0	0	2
Lung Cancer	78	12	0	90
Mesothelioma	135	18	0	153
Totals	474	94	0	568