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Bankruptcy Counsel for the Western Asbestos Settlement Trust

**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION**

In re:	Case No. 13-31914 TC
WESTERN ASBESTOS COMPANY,	Chapter 11
Debtor.	<b>TWELFTH ANNUAL</b>

# **TWELFTH ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT**

Date: June 10, 2016  
Time: 9:30 a.m.  
Place: Courtroom 16  
450 Golden Gate Ave, 16<sup>th</sup> Floor  
San Francisco, CA 94102

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

Respectfully submitted this 26th day of April, 2016.

By: //s// Eve H. Karasik  
EVE H. KARASIK  
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## Bankruptcy Counsel for the Western Asbestos Settlement Trust

## **TWELFTH ANNUAL REPORT AND ACCOUNTING OF WESTERN ASBESTOS SETTLEMENT TRUST**

The Trustees of the Western Asbestos Settlement Trust (“Trust”) hereby submit this Twelfth Annual Report and Accounting (“Annual Report”) covering Trust activities occurring from January 1, 2015 to and including December 31, 2015 (“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 “San Francisco Court”), *In Re Western Asbestos Company*, Case No. 13-31914 TC, 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,<sup>1</sup> 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 Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle Western Asbestos Settlement Trust’s Twelfth 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. The Honorable Leslie Tchaikovsky of the United States Bankruptcy Court for the Northern District of California, Oakland Division (the “Oakland Court”) approved each Annual Report beginning in 2005 until the Western Asbestos bankruptcy case was transferred to the Honorable Roger Efremsky of the Oakland Court. Judge Efremsky approved the 2010, 2011 and 2012 Annual Reports. In 2013, the Western

<sup>1</sup> The Appendix includes the Plan; Confirmation Order; Twelfth Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement (“Trust Agreement”); Third Amendment to and Complete Restatement of Western Asbestos Settlement Trust Bylaws (“Trust Bylaws”); Second Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix (“Matrix”); Second 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 the Court; and other documents as indicated.

1 Asbestos bankruptcy case was transferred to the Honorable Thomas E. Carlson who approved the  
2 2013 and 2014 Annual Reports.

3       1.     Case Assignment: This matter, originally filed as a Chapter 11 bankruptcy  
4 case, was assigned for all purposes to United States Bankruptcy Judge Leslie Tchaikovsky of the  
5 Oakland Court. On September 1, 2010, the case was transferred to United States Bankruptcy Judge  
6 Roger Efremsky. On August 5, 2013, Judge Efremsky recused himself from the case [Docket No.  
7 1782]. Thereafter, the case was assigned to United States Bankruptcy Judge William J. Lafferty, III,  
8 of the Oakland Court, who recused himself from the matter on August 16, 2013. The case and any  
9 adversary proceedings then were transferred to Chief United States Judge Alan Jaroslovsky for the  
10 Bankruptcy Court for the Northern District of California for further disposition [Docket No. 1784].  
11 On August 21, 2013, the case and all adversary proceedings were transferred to United States  
12 Bankruptcy Judge Thomas E. Carlson of the San Francisco Court for all purposes [Docket No.  
13 1786]. The original case number of 02-46284-WJL was changed to 13-31914-TC [Docket No.  
14 1788].

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

17       3.     Appointment of Trustees: In its February 2, 2004 Order Approving Futures  
18 Representative's Motion for Approval of Appointment of Trustees for the Western Asbestos  
19 Settlement Trust [Docket No. 1262] the Oakland Court approved the appointment of Sandra R.  
20 Hernandez, M.D., John F. Luikart and Stephen M. Snyder as Trustees of the Trust, who have acted  
21 in that capacity since that time. Elected in 2004 by the other two Trustees, Stephen M. Snyder has  
22 continued to serve as Managing Trustee since that time.

23       4.     Appointment of Trust Advisory Committee ("TAC"): In the Confirmation  
24 Order, the Oakland Court approved the appointment of Alan Brayton, Jack Clapper, David M.  
25 McClain, Phil Harley, and Michael Sieben as the initial members of the TAC. Mr. Brayton has  
26 served as the Chair of TAC since the Effective Date of the Trust. Messrs. Clapper and McClain  
27 have continued to serve as members of the TAC since the Effective Date of the Trust. Jerry Neil  
28 Paul's appointment to replace Phil Harley as a member of the TAC was approved by the Oakland

Court in June 2009. As described in the Trust's Eleventh Annual Report, Mr. Sieben resigned as a member of the TAC in November of 2014 and Michael S. Polk was nominated by the remaining members of the TAC to succeed Mr. Sieben pursuant to Section 6.3 of the Trust Agreement. On June 30, 2015, Michael S. Polk's appointment to replace Michael Sieben as a member of the TAC was approved by this Court.

5. Appointment and Continuation of Futures Representative: The Honorable Charles B. Renfrew, retired, was appointed as the Futures Representative in the Western Asbestos cases on November 25, 2002, and his continued appointment as the Futures Representative of the Trust was approved by the Oakland Court in the Confirmation Order. Judge Renfrew has served as the Trust's Futures Representative since the Effective Date of the Trust.

6. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement requires the Trustees to file income tax and other returns and statements in a timely manner, and comply with all withholding obligations as legally required, including fulfilling requirements to maintain the Trust's status as a Qualified Settlement Fund. The Trust has complied with its tax obligations on a quarterly basis. The 2014 federal tax return was filed by its extended due date of September 15, 2015 and the 2015 federal tax return will be filed by its extended due date of September 15, 2016. The Trust resides in Nevada, and Nevada has no state income tax. Although the Trust is not subject to tax in California, the Trustees file a tax return in California each year, attaching a copy of the Trust's federal tax return, but showing no California taxable income or state tax liability.

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

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, an annual report containing financial statements of the Trust (including, without limitation, a statement of the net claimants' equity of the Trust as of the end of such fiscal year and a statement of changes in net claimants' equity for such fiscal year)

1 audited by a firm of independent certified public accountants selected by the Trustees  
2 and accompanied by an opinion of such firm as to the fairness of the financial  
3 statements' presentation of the equity presently available to current and future  
4 claimants and as to the conformity of the financial statements with accounting  
5 principals generally accepted in the United States, except for the special-purpose  
6 accounting methods.

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

10                 8.        Financial Report: In accordance with the requirements of Section 2.2(c)(i) of  
11 the Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton  
12 LLP, the independent certified public accountants retained by the Trust to perform the annual audit  
13 of its financial statements. The Trust's audited financial statements ("Audited Financial  
14 Statements") are attached hereto as Exhibit "A." These include a Statement of Net Claimants'  
15 Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and  
16 Explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate  
17 balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis  
18 of accounting adopted by the Trust. These Audited Financial Statements show, among other things,  
19 that as of December 31, 2015, total Trust assets were \$595,169,624, total liabilities were  
20 \$36,718,469, and Net Claimants' Equity was \$558,451,156.

21                 9.        Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along  
22 with the Audited Financial Statements, the Trust shall file with the court a report containing a  
23 summary regarding the number and type of claims disposed of during the period covered by the  
24 financial statements. The Western Asbestos Settlement Trust Claim Report As Of December 31,  
25 2015 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust  
26 received 618 claims, paid 452 claims, and made settlement offers on 497 claims. Since the Trust  
27 received its first Trust Claim<sup>2</sup> on August 27, 2004, the Trust has received 12,570 Trust Claims, paid  
28 9,090 Trust Claims, and 2,539 Trust Claims have been withdrawn.<sup>3</sup>

27                 2 "Trust Claims" are any claims submitted to the Trust after the Effective Date.

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

1           Section 5.4 of the TDP provides that the Trust shall pay Pre-Petition Default,  
2 Settlement, and Matrix Claims (hereafter “Pre-Petition Liquidated Claims”)<sup>4</sup> “[as] soon as  
3 practicable after the Effective Date.” The vast majority of these claims were paid in 2004, and by  
4 December 2005, the Trust had paid 99% of all Pre-Petition Liquidated Claims. During the  
5 Accounting Period, one (1) Pre-Petition Liquidated Claim was paid in the total amount of \$6,191.  
6 The Trust has not yet received proper release documents for fourteen (14) remaining unpaid Pre-  
7 Petition Liquidated Claims in the total amount of \$155,572.

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

15           11.     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 five (5) meetings during the Accounting  
18 Period (February 26-27, 2015, March 24, 2015, April 16, 2015, September 15, 2015, and November  
19 19-20, 2015). The February, April, September and November meetings were held in Nevada, and  
20 the March meeting was held in Arizona.

21           12.     Arbitrations: During the Accounting Period, no arbitrations were held  
22 pursuant to Section 5.9 of the Trust Distribution Procedures.

23           13.     Payment Percentage: Section 4.2 of the TDP provides that, commencing on  
24 the first day of January, after the Plan has been confirmed and no less frequently than once every  
25 three years thereafter, the Trustees shall reconsider the Payment Percentage to assure that it is based  
26  
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<sup>4</sup> See the Oakland Court’s February 3, 2004 *Memorandum of Decision after Confirmation Hearing* [Docket No. 1265] included in the Appendix filed herewith.

1 on accurate current information and may, after such reconsideration, change the Payment Percentage  
2 if necessary with the consent of the TAC and the Futures Representative. In its April 14, 2004,  
3 "Order Under Fed.R.Bankr.P. 9019 Approving Compromises with Settling Insurers," the Oakland  
4 Court approved a Payment Percentage to the Trust's claimants of 31.5%. The Payment Percentage  
5 was increased to 34.2% effective January 1, 2006, to 40% on July 24, 2007, and to 44% on February  
6 18, 2010. As described in the Trust's Tenth Annual Report, the Payment Percentage was reviewed  
7 on February 7, 2013 and remained at 44%. As described in the Trust's Eleventh Annual Report, the  
8 Payment Percentage was again reviewed on September 23, 2014 and increased to 48%.

9           14.     Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust  
10 calculate an annual payment limit for claims based upon a model of the amount of cash flow  
11 anticipated to be necessary over the entire life of the Trust (the "Maximum Annual Payment") to  
12 ensure that funds will be available to treat all present and future claimants as similarly as possible.  
13 At the November 20, 2015 meeting, the Maximum Annual Payment for 2016 was set at  
14 \$55,700,000, plus the amount of excess funds carried over from prior years, which Section 2.5 of the  
15 TDP requires to be rolled over and remain dedicated to the respective Disease Category in the  
16 Jurisdiction (as such terms are described in the TDP) to which they were originally allocated.

17           15.     Inflation Adjustment: The original Payment Percentage approved by the  
18 Oakland Court was based upon projections of future claims payments adjusted annually for inflation.  
19 Beginning in 2006, all claims payments made during a calendar year include a cost of living  
20 adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban*  
21 *Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the November  
22 20, 2015 meeting, the CPI-W to be published in January 2016 was approved for use by the Trust in  
23 making the 2016 cost of living adjustment for claims payments. The CPI-W of 0.4% was issued on  
24 January 20, 2016 and all inflation adjustments are cumulative. Consequently, all claims payments  
25 made during the 2016 calendar year will have a cumulative inflation rate of 24.2% added to the  
26 payment amount.

27           16.     Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement  
28 requires the Trustees to cause to be prepared a budget and cash flow projections prior to the

1 commencement of each fiscal year covering such fiscal year and the succeeding four fiscal years.  
2 The Trustees approved the 2016 budget and the required four-year budget and cash flow projections  
3 on November 20, 2015. Pursuant to the Trust Agreement, these were provided to the Futures  
4 Representative and TAC. The budget for operating expenses, including investment fees, in 2016  
5 totals \$4,058,843.<sup>5</sup>

6           17. J.T. Thorpe Settlement Trust, Thorpe Insulation Company Asbestos  
7 Settlement Trust, and Plant Insulation Company Asbestos Settlement Trust Administration: As  
8 initially described in the Trust's Third Annual Report, the Trust and J.T. Thorpe Settlement Trust  
9 ("J.T. Thorpe Trust") entered into a Trust Facilities and Services Sharing Agreement. The J.T.  
10 Thorpe Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by the  
11 Oakland Court in the order approving the Trust's Third Annual Report. As described in the Trust's  
12 Eleventh Annual Report, pursuant to the annual reconciliation of fees presented on February 27,  
13 2015, the Trust and the J.T. Thorpe Trust set the advance payments at \$35,000 per month for 2015.  
14 Pursuant to the annual reconciliation of fees presented on February 18, 2016, the Trust and the J.T.  
15 Thorpe Trust agreed that the advance payments shall be \$37,000 per month for 2016. The total  
16 amount paid to the Trust by the J.T. Thorpe Trust, after accounts were reconciled for 2015, was  
17 \$403,086.

18           As initially described in the Trust's Seventh Annual Report, the Trust and Thorpe  
19 Insulation Company Asbestos Settlement Trust ("Thorpe Insulation Trust") entered into a Trust  
20 Facilities and Services Sharing Agreement. The Thorpe Insulation Trust agreed to pay a negotiated  
21 monthly amount. Such arrangement was approved by the Oakland Court in the order approving the  
22 Trust's Seventh Annual Report. As described in the Trust's Eleventh Annual Report, pursuant to the  
23 annual reconciliation of fees presented on February 27, 2015, the Trust and the Thorpe Insulation  
24 Trust set the advance payments at \$37,000 per month for 2015. Pursuant to the annual reconciliation  
25 of fees presented on February 18, 2016, the Trust and the Thorpe Insulation Trust agreed that the  
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28 <sup>5</sup> This figure is net of facilities sharing payments which are budgeted for \$1,440,000, and excludes claimant payments  
budgeted for \$55,700,000, extraordinary legal fees budgeted for \$730,000 and income tax payments budgeted for  
\$10,000,000.

1 advance payments shall be \$39,000 per month for 2016. The total amount paid to the Trust by the  
2 Thorpe Insulation Trust, after accounts were reconciled for 2015, was \$419,081.

3 As initially described in the Trust's Tenth Annual Report, the Trust and Plant  
4 Insulation Company Asbestos Settlement Trust ("Plant Trust") entered into a Trust Facilities and  
5 Services Sharing Agreement. The Plant Trust agreed to pay a negotiated monthly amount. Such  
6 arrangement was approved by this Court in the order approving the Trust's Tenth Annual Report.  
7 As described in the Trust's Eleventh Annual Report, pursuant to the annual reconciliation of fees  
8 presented on February 27, 2015, the Trust and the Plant Trust set the advance payments at \$42,000  
9 per month for 2015. Pursuant to an interim reconciliation of fees presented on September 15, 2015,  
10 the Trust and the Plant Trust revised the advance payments to \$37,000 per month as of July 1, 2015.  
11 Pursuant to the annual reconciliation of fees presented on February 18, 2016, the Trust and the Plant  
12 Trust agreed that the advance payments shall be \$44,000 per month for 2016. The total amount paid  
13 to the Trust by the Plant Trust, after accounts were reconciled for 2015, was \$472,304.

14 As described in the Trust's Eleventh Annual Report, during the Accounting Period,  
15 the Trusts each consulted with outside counsel concerning the continued viability and fairness of the  
16 Facilities Sharing Agreements by and between each of the four Trusts and, based on advice of  
17 counsel, each of the Trusts determined that the formula and methodology being used should continue  
18 and was fair to all Trusts.

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

23 19. Set Aside Funds: The Trust continues to maintain separate funds for the  
24 defense and indemnification of Ordway and Milwaukee, Van Packer, Mac Arthur and Western Mac  
25 Arthur, and ERC as required by the Trust Documents and/or settlement agreements. These accounts  
26 hold the legally required amounts in cash and securities for certain indemnification obligations.  
27 During the Accounting Period, no claims were made against and nothing was paid from this fund.  
28

1           20.     Indemnity Fund (Self-Insured Retention): Section 4.6 of the Trust Agreement  
2 provides that the Trust shall indemnify the Trustees, the Trust's officers and employees, the Futures  
3 Representative, the TAC and each of their respective agents. The Trustees, the Futures  
4 Representative, the TAC and their respective agents have a first priority lien upon the Trust's assets  
5 to secure the payment of any amounts payable to them pursuant to Section 4.6. In addition to the  
6 first priority lien on all the Trust's assets, in 2004, the Trust established an indemnity fund in the  
7 amount of \$40,000,000, as described in all the Trust's Annual Reports. All interest earned by the  
8 fund is returned to the Trust quarterly. During the Accounting Period, no claims were made against  
9 the indemnity fund and nothing was paid from the indemnity fund.

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

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

22           23.     Legal Disputes:

23           a.       *Home and CNA insurance coverage-related litigation.*

24           i.       *Western Asbestos Settlement Trust, et al. v. Zurich-American*  
25 *Insurance Co., et al.*, San Francisco Sup.Ct., Case No. CGC04-436181, November 9, 2004 (the  
26 "Zurich case" and the "Zurich Court"): This is an insurance coverage action against Zurich  
27 Insurance Company and several Zurich-related subsidiaries ("Zurich") seeking recovery for asbestos  
28 bodily injury liabilities under primary level insurance policies issued by the Home Insurance

Company (“Home”) for the period 1976 to 1983. This was an action seeking to hold Zurich responsible for the insuring obligations of Home, which is now in liquidation and unable to pay its policy obligations in full. The Trust timely submitted a claim in the Home insolvency proceedings in 2004 and, after substantial negotiations with the Home liquidator, reached a settlement that provided for an allowed claim in the liquidation proceedings in the amount of \$242.5 million. Because of its insolvency, it is not expected that Home will be able to pay the entire allowed amount, but instead will pay a portion of the allowed amount over a period of several years. As described in the Trust’s Eleventh Annual Report, the Trust and Zurich reached a settlement agreement where the parties agreed to dismiss the case with prejudice, with each party to bear its own costs and fees. The case was dismissed in April 2015.

ii. In February 2013, the Trust filed a lawsuit against the California Insurance Guarantee Association ("CIGA") in the Alameda Superior Court, captioned *Stephen M. Snyder, et al. v. California Insurance Guarantee Association*, Civil Case No. RG13666656. This action seeks recovery from CIGA for asbestos bodily injury liabilities that would otherwise be covered by the Home under its policies issued from 1976 to 1983, to the extent that Home is unable to pay as a result of its insolvency. CIGA is a state-regulated organization that provides insurance coverage, under certain circumstances, for insurance companies that have become insolvent and unable to pay their claims. CIGA was previously a defendant in the Zurich case in a declaratory relief count, but was dismissed without prejudice in 2012 as a condition of the settlement with Home on the allowed claim.

The action in Alameda County was designated “complex” and was assigned to the complex court. CIGA filed a demurrer to the Trust’s complaint on various grounds, including that the suit was barred by a three-year statute of limitations. On June 28, 2013, the Judge in this matter sustained the demurrer without leave to amend, finding that the action was untimely, inasmuch as CIGA had been previously sued for declaratory relief in the Zurich case and that the statute of limitations had run.

The Trust filed a timely appeal of the ruling sustaining the demurrer without leave to amend on July 19, 2013. On September 17, 2014, the California Court of Appeal issued its

1 ruling (modified on October 7, 2014) reversing the trial court's sustaining of CIGA's demurrer  
2 without leave to amend insofar as it was based on the statute of limitations. A subsequent petition to  
3 the California Supreme Court by CIGA was denied. On December 11, 2014, the Court of Appeal  
4 issued a remittitur. Thereafter, the case was reassigned to Judge Wynne Carville. CIGA answered  
5 the Complaint, a trial plan was submitted and approved and the parties were working toward a Phase  
6 1 trial on dispositive issues. In December 2015, this case was transferred to Judge Winifred Smith.  
7 Case Management Conferences were held on February 5, 2016 and March 24, 2016. The parties  
8 agreed to pursue partial motions for summary adjudication. The next Case Management Conference  
9 is set for July 26, 2016.

10                             iii. In the Zurich case, the Trust also sued Continental Casualty  
11 Company ("CNA") in connection with an insurance policy that appears to have been issued to Bay  
12 Cities Asbestos Company, Western's corporate predecessor, for the period 1946-1949. The policy  
13 has never been located, but there is secondary evidence reflecting its existence. A bench trial was  
14 held in 2006 and 2007, over a period of seven weeks, as to whether the existence and material terms  
15 of the policy could be proven. The Trust contends that the evidence supports the existence and  
16 material terms of the policy and that there are no aggregate limits applicable to asbestos claims.  
17 CNA contends that the evidence is insufficient to prove the existence of the policy and, alternatively,  
18 the policy would not provide coverage for the Bay Cities asbestos liabilities on various grounds,  
19 even if proven. As described in the Trust's Eleventh Annual Report, the court had not rendered a  
20 decision on the issues and the Judge announced he would be retiring sometime in 2015. In the fall of  
21 2015, the Trust and CNA reached a settlement agreement where the parties agreed to dismiss the  
22 case with prejudice, with the Trust paying a portion of CNA's costs. The case was dismissed in  
23 November 2015.

24                             b. *Western Asbestos Settlement Trust v. Michael J. Mandelbrot and*  
25 *Mandelbrot Law Firm*, Adversary Proceeding No. 13-03205 United States Bankruptcy Court for the  
26 Northern District of California, San Francisco Division.

27                             On January 23, 2014, the Trustees entered into an agreement with the  
28 Mandelbrot Law Firm and its principal, Michael J. Mandelbrot (herein "Mandelbrot"), requiring that

1 Mandelbrot transfer all its pending claims to other counsel and cease “immediately” further claims-  
2 filing activity with the Trust. This agreement was made on the record during a bench trial of the J.T.  
3 Thorpe Trust and the Thorpe Insulation Trust (the “Thorpe Trusts”) adversary proceedings (*J.T.*  
4 *Thorpe Settlement Trust and Thorpe Insulation Company Asbestos Settlement Trust*, U.S.  
5 Bankruptcy Court for the Central District of California Case No. 2:12-ap-02182BB) presided over  
6 by the Honorable Sheri Bluebond. In the stipulation, Mandelbrot agreed, among other things, that the  
7 Thorpe Trusts’ decision to stop accepting further evidence from Mandelbrot in 2013 was reasonable  
8 and, further, that it was reasonable for this Trust to take similar actions. Accordingly, this Trust  
9 joined the stipulation and since has acted in conformity with its terms.

10                 However, after making the stipulation, Mandelbrot’s trial counsel was  
11 substituted out as counsel, and Mandelbrot disavowed the agreement and unsuccessfully challenged  
12 its validity in Judge Bluebond’s court. After further hearings, Judge Bluebond entered judgment  
13 reaffirming the validity and enforceability of the agreement (the “Judgment and Order”).

14                 Mandelbrot filed a Motion to Stay Enforcement of the Judgment and Order  
15 Following Trial. On May 27, 2014, Judge Bluebond of the U.S. Bankruptcy Court for the Central  
16 District of California heard and denied Mandelbrot’s motion to stay enforcement of the judgment  
17 and order following trial. Thereafter, in early June 2014, Mandelbrot appealed the Judgment and  
18 Order and filed a motion to stay enforcement of the judgment and order pending appeal before the  
19 Honorable Virginia A. Phillips of the United States District Court for the Central District of  
20 California, who has been assigned to hear Mandelbrot’s appeal of the Judgment and Order. Prior to  
21 the hearing on the motion, which was scheduled for July 7, 2014, Judge Phillips denied  
22 Mandelbrot’s motion on the grounds that Mandelbrot had failed to meet the burden of establishing  
23 an abuse of discretion by the Bankruptcy Court in denying the requested stay.

24                 Thereafter, on June 18, 2014, and pursuant to a briefing schedule established  
25 by the United States District Court, Mandelbrot filed a District Court brief. Briefing on  
26 Mandelbrot’s appeal was completed on July 15, 2014, and on September 3, 2015, Judge Phillips  
27 affirmed the Bankruptcy Court’s Judgment and Order. On September 17, 2015, Mandelbrot filed a  
28 notice of appeal with the United States Court of Appeals for the Ninth Circuit. Mandelbrot filed an

1 opening brief in late January 2016 and the Trusts filed their responsive brief on February 26, 2016.  
2 Mandelbrot filed a reply brief on April 7, 2016. It is anticipated that oral argument will occur  
3 sometime in the first quarter of 2017.

4 As a result of the stipulation, and consistent with its terms, the Trust is not  
5 accepting claims from Mandelbrot and all claims previously submitted by Mandelbrot have been  
6 transferred to new counsel. The Trust believes it is obligated to advise claims filers that Mandelbrot  
7 is not permitted to file claims with the Trust and on March 6, 2015, posted such a notification on its  
8 Web site. However, the Trust has been informed that Mandelbrot's Web site has continued to  
9 publish allegations of Trust fiduciary misconduct similar in tone to those adjudicated before the U.S.  
10 Bankruptcy Court for the Central District of California and to include the Trust in lists of asbestos  
11 trusts with which Mandelbrot files claims despite the Judgment and Order precluding Mandelbrot  
12 from filing claims with the Trust.

13       24. Amendments to the Trust Documents: The Trust Documents were not  
14 amended during the Accounting Period.

15       25. Notifications to Beneficiaries: During the Accounting Period and,  
16 additionally, from January 1, 2016 to and including April 15, 2016, the following notifications were  
17 placed on the Trust's Web site:

18           a. Notice regarding compliance with court order in settlement of  
19 Mandelbrot adversary proceeding (posted March 6, 2015);

20           b. Notice of timing of requests for consideration at September 2015  
21 meeting (posted April 17, 2015);

22           c. Notice of hearing on the Trust's Eleventh Annual Report and  
23 Accounting (posted April 30, 2015);

24           d. Notice of updated hearing time on the Trust's Eleventh Annual Report  
25 and Accounting (posted May 11, 2015);

26           e. Notice regarding new Web based claims processing system (posted  
27 May 13, 2015);  
28

f. Notice/update regarding new Web based claims processing system (posted July 22, 2015); and

g. Notice of timing of requests for consideration at Trustees' meetings  
(posted March 4, 2016).

26. Claims Processing System Development: As described in the Trust's Eleventh Annual Report, in 2014, the Trust entered into a contract with an outside vendor to develop an updated claims processing system and move to a new platform. In July of 2015, development of the system was sufficient for the Trust to begin processing claims utilizing the new Web based platform.

27. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at the September 15, 2015 meeting and there were no recommended changes to the existing \$250.00 fee during the Accounting Period or as of the date hereof.

28. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the Trust to report the amounts paid to the Trustees for compensation and expenses. During the Accounting Period, the Trustees each received per annum compensation in the amount of \$70,210 paid in quarterly installments. The total paid to all Trustees for hourly compensation and for reimbursement of expenses was \$111,132 and \$3,138, respectively.

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

a. BlackRock Financial Management: One of eight investment managers for the Trust described in paragraph 30, *infra*;

b. Eagle Capital Management, LLC: One of eight investment managers for the Trust described in paragraph 30, *infra*;

c. Fergus, a Law Office: Counsel to the Honorable Charles Renfrew,  
Futures Representative;

d. Harding Loevner, LP: One of eight investment managers for the Trust described in paragraph 30, *infra*;

e. Morgan Lewis & Bockius: Counsel to the Trust in the Zurich litigation, and the Mandelbrot investigation and adversary proceeding described in paragraphs 23(a) and 23(b), *supra*;

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

g. Segall Bryant & Hamill: One of eight investment managers for the paragraph 30, *infra*;

h. Silvercrest Asset Management Group LLC: One of eight investment managers for the Trust described in paragraph 30, *infra*;

i. Standish Mellon Asset Management Company: One of eight investment managers for the Trust described in paragraph 30, *infra*;

j. United Healthcare: Trust employee health insurance plan carrier;

k. Verus Claims Services, LLC: Vendor retained to develop an updated claims processing system; and

l. Westwood Management Corporation: One of eight investment managers for the Trust described in paragraph 30, *infra*.

30. Trust Investment Management: Article 3 of the Trust Agreement authorizes the Trust to administer the investment of funds in the manner in which individuals of ordinary prudence, discretion and judgment would act in the management of their own affairs, subject to certain limitations. The Trust closely monitors any market volatility with its investment advisors and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc. continued to assist the Trust during the Accounting Period as its investment consultant. BlackRock Financial Management, Inc., Eagle Capital Management, LLC, Harding Loevner, LP, Segall Bryant & Hamill, Silvercrest Asset Management Group LLC, Standish Mellon Asset Management Company, LLC, State Street Global Advisors, and Westwood Management Corporation have continued to act as investment managers to the Trust.

Additionally, the Trust's Investment Policy Statement was amended on February 27, 2015 and February 18, 2016, copies of which are included in the Appendix filed herewith.

\* \* \*

1           The Trustees submit that the Annual Report and attached exhibits demonstrate the  
2 Trust acted prudently and expeditiously in executing its legal obligations during the Accounting  
3 Period and up to and including the date hereof. The Trust conscientiously worked to execute  
4 equitable claims procedures and process Trust Claims with due diligence during the Accounting  
5 Period and up to and including the date hereof. Moreover, the Trust worked with its accountants and  
6 financial advisors to preserve and grow Trust assets in order to fulfill the purpose of the Trust--  
7 paying valid asbestos claims. In so doing, the Trust carefully complied with all Plan documents and  
8 the mandates of the San Francisco Bankruptcy Court.

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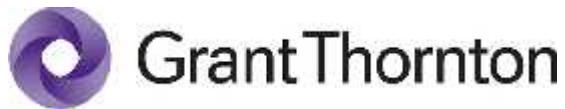
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# **EXHIBIT A**



Financial Statements and Report of Independent  
Certified Public Accountants

**Western Asbestos Settlement Trust**

December 31, 2015 and 2014

# Contents

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Schedule of Operating Expenses	19



## Report of Independent Certified Public Accountants

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Trustees  
Western Asbestos Settlement Trust

We have audited the accompanying financial statements of Western Asbestos Settlement Trust ("the Trust"), organized in the State of Nevada, which comprise the statements of net claimants' equity as of December 31, 2015 and 2014, and the related statements changes in net claimants' equity and cash flows for the years then ended, and the related notes to the financial statements.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Trust's other basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net claimants' equity of Western Asbestos Settlement Trust as of December 31, 2015 and 2014, and the changes in net claimants' equity and cash flows for the years then ended in accordance with the Trust's other basis of accounting.

**Basis of accounting**

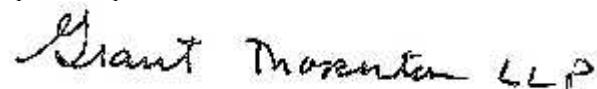
We draw attention to Note A.2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the Trust's other basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Supplementary information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expense for the years ended December 31, 2015 and 2014 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Restriction on use**

Our 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, San Francisco Division and is not intended to be and should not be used by anyone other than these specified parties.



Reno, Nevada  
April 14, 2016

**Western Asbestos Settlement Trust**

**STATEMENTS OF NET CLAIMANTS' EQUITY**

**December 31,**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 40,000,000	\$ 40,000,000
Unrestricted	<u>548,282,738</u>	<u>607,865,762</u>
Total cash, cash equivalents and investments	588,282,738	647,865,762
Accrued interest and dividend receivables	3,703,617	3,798,238
Prepaid federal income tax	<u>3,183,270</u>	-
Total assets	<u>\$ 595,169,625</u>	<u>\$ 651,664,000</u>
<b>LIABILITIES</b>		
Accrued expenses	\$ 532,390	\$ 703,074
Claim processing deposits	253,750	246,000
Unpaid claims (Note D)		
Outstanding offers	7,810,757	12,132,537
Pre-petition liquidated claims	155,572	161,137
Income tax payable	-	515,001
Deferred tax liability	<u>27,966,000</u>	<u>47,580,000</u>
Total liabilities	<u>\$ 36,718,469</u>	<u>\$ 61,337,749</u>
<b>NET CLAIMANTS' EQUITY</b>	<u><u>\$ 558,451,156</u></u>	<u><u>\$ 590,326,251</u></u>

The 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>2015</b>	<b>2014</b>
<b>Net claimants' equity, beginning of year</b>	<b>\$ 590,326,251</b>	<b>\$ 782,848,680</b>
<b>Additions to net claimants' equity</b>		
Investment income	14,307,286	19,257,452
Filing fee income	28,000	103,000
Net decrease in outstanding claim offers	4,294,986	-
Trust facility and staff sharing income received	1,515,119	1,212,498
Net decrease in deferred rent	94,887	91,937
Net realized and unrealized gains on available-for-sale securities	-	30,141,310
Benefit for income taxes, deferred	19,614,000	10,562,000
Federal tax reductions	-	699,504
Total additions	<b>39,854,278</b>	<b>62,067,701</b>
<b>Deductions from net claimants' equity</b>		
Operating expenses	5,424,210	6,600,398
Provision for income taxes, current	20,401,729	25,107,423
Claims settled	43,680,897	219,745,179
Net realized and unrealized losses on available-for-sale securities	2,222,537	-
Net increase in outstanding claim offers	-	3,137,130
Total deductions	<b>71,729,373</b>	<b>254,590,130</b>
<b>Net claimants' equity, end of year</b>	<b>\$ 558,451,156</b>	<b>\$ 590,326,251</b>

The accompanying notes are an integral part of these statements.

**Western Asbestos Settlement Trust**

**STATEMENTS OF CASH FLOWS**

For the years ended December 31,

	<b>2015</b>	<b>2014</b>
<b>Cash inflows:</b>		
Investment income receipts	\$ 14,429,907	\$ 20,688,623
Increase in claim processing deposits	7,750	-
Trust facility and staff sharing income received	1,515,119	1,212,498
Net realized gains on available-for-sale securities	47,196,610	56,761,943
Federal tax reductions	-	699,504
Total cash inflows	63,149,386	79,362,568
<b>Cash outflows:</b>		
Claim payments made	43,706,937	219,745,179
Decrease of outstanding offers, pre-trust claims	6,319	-
Decrease in claim processing deposits	-	89,000
Disbursements for Trust operating expenses	5,500,007	6,849,652
Disbursements for Trust income taxes	24,100,000	23,528,250
Total cash outflows	73,313,263	250,212,081
Net cash outflows	(10,163,877)	(170,849,513)
<b>Non-cash changes:</b>		
Net unrealized losses on available-for-sale securities	(49,419,147)	(26,620,633)
<b>NET INCREASE IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE</b>	(59,583,024)	(197,470,146)
<b>Cash, cash equivalents and investments available-for sale, beginning of year</b>	647,865,762	845,335,908
<b>Cash, cash equivalents and investments available-for-sale, end of year</b>	\$ 588,282,738	\$ 647,865,762

The accompanying notes are an integral part of these statements.

# Western Asbestos Settlement Trust

## NOTES TO FINANCIAL STATEMENTS

**December 31, 2015 and 2014**

### **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 for which the Debtors' are legally responsible; liquidate, resolve, pay and satisfy all valid 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, 2015 and 2014**

**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 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, 2015 and 2014**

**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. 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**

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, 2015, 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 2012 and state examinations for years before 2011.

**9. Reclassifications**

Certain prior year amounts have been reclassified to current year presentation. These reclasses had no impact on net claimants' equity.

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**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, 2015	
	Cost	Fair Value
<b><u>Restricted</u></b>		
Cash equivalents	\$ 185,573	\$ 185,573
U.S. Government obligations	18,118,504	18,123,298
Municipal bonds	1,277,906	1,200,891
Asset-backed debt	2,585,181	2,568,183
Corporate debt	<u>18,283,319</u>	<u>17,922,055</u>
	<u>\$ 40,450,483</u>	<u>\$ 40,000,000</u>
<b><u>Unrestricted</u></b>		
Cash demand deposits	\$ 376,188	\$ 376,188
Cash equivalents	73,723,224	73,723,224
Equity securities	121,531,067	184,538,230
U.S. Government obligations	20,281,864	20,278,121
Municipal bonds	236,566,132	245,191,124
Asset-backed debt	2,371,775	2,356,619
Corporate debt	<u>22,125,516</u>	<u>21,819,232</u>
	<u>\$ 476,975,766</u>	<u>\$ 548,282,738</u>
<b><u>December 31, 2014</u></b>		
	Cost	Fair Value
<b><u>Restricted</u></b>		
U.S. Government obligations	\$ 19,922,592	\$ 20,086,049
Municipal bonds	1,438,313	1,399,846
Asset-backed debt	2,798,088	2,775,719
Corporate debt	<u>15,937,801</u>	<u>15,738,386</u>
	<u>\$ 40,096,794</u>	<u>\$ 40,000,000</u>
<b><u>Unrestricted</u></b>		
Cash demand deposits	\$ 594,667	\$ 594,667
Cash equivalents	30,016,017	31,016,016
Equity securities	175,434,869	284,251,373
U.S. Government obligations	21,947,573	22,162,712
Municipal bonds	236,230,007	247,662,439
Asset-backed debt	3,364,477	3,342,224
Corporate debt	<u>18,971,736</u>	<u>18,836,331</u>
	<u>\$ 486,559,346</u>	<u>\$ 607,865,762</u>

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**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, 2015		
	Level 1	Level 2	Level 3
<b>Assets</b>			
Cash demand deposits	\$ 376,188	\$ -	\$ -
Cash equivalents	73,908,797	-	-
Equity securities	184,538,230	-	-
U.S. Government obligations	8,421,271	29,980,148	-
Municipal bonds	-	246,392,015	-
Asset-backed debt	-	4,821,064	103,738
Corporate debt and other	<u>39,741,287</u>	<u>-</u>	<u>-</u>
	<u>\$ 306,985,773</u>	<u>\$ 281,193,227</u>	<u>\$ 103,738</u>

	December 31, 2014		
	Level 1	Level 2	Level 3
<b>Assets</b>			
Cash demand deposits	\$ 594,667	\$ -	\$ -
Cash equivalents	31,016,016	-	-
Equity securities	284,251,373	-	-
U.S. Government obligations	7,528,633	34,720,128	-
Municipal bonds	-	249,062,285	-
Asset-backed debt	-	5,966,929	151,014
Corporate debt and other	<u>-</u>	<u>34,574,717</u>	<u>-</u>
	<u>\$ 323,390,689</u>	<u>\$ 324,324,059</u>	<u>\$ 151,014</u>

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**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. No securities were transferred between Level 1 to Level 2.

Activity in Level 3 investments for the years ended December 31, 2015 and 2014 was:

	Mortgage Backed Securities	
	2015	2014
Balance at January 1	\$ 151,014	\$ 426,664
Sales	(44,738)	(273,371)
Unrealized loss	(2,538)	(2,279)
 Balance at December 31	<u>\$ 103,738</u>	<u>\$ 151,014</u>

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2015:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ -	\$ 5,321,936	\$ 11,729,826	\$ 21,349,657
Municipal bonds	8,209,564	101,543,846	107,499,430	29,139,175
Asset-backed debt	-	3,450,957	404,195	1,069,650
Corporate debt	<u>475,254</u>	<u>23,785,295</u>	<u>12,384,019</u>	<u>2,639,596</u>
  	<u>\$ 8,684,818</u>	<u>\$ 134,102,034</u>	<u>\$ 132,017,470</u>	<u>\$ 54,198,078</u>

## Western Asbestos Settlement Trust

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**December 31, 2015 and 2014**

#### **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, includes:

Acquisition of furniture and equipment	\$ 90,992
Acquisition of computer hardware and software	<u>291,267</u>
	<u><u>\$ 382,259</u></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, 2015 and 2014 were \$136,695 and \$69,493, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$29,932 and \$28,704 for the years ended December 31, 2015 and 2014, 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, withdrawn 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, 2015 and 2014, 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 (see Note G).

## Western Asbestos Settlement Trust

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

**December 31, 2015 and 2014**

#### **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, 2015 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 24.20% and 23.70% are included in outstanding claims liabilities as of December 31, 2015 and 2014, respectively.

The Trust processed and approved approximately \$39,385,158 and \$43,730,889 of Trust Claims during the years ended December 31, 2015 and 2014, 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 \$101,449 and \$101,876 in rental expense during the years ended December 31, 2015 and 2014, respectively. Future minimum rental commitments, excluding parking and utility expenses, under this operating lease are:

Year ending December 31, 2016	<u>\$ 64,569</u>
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#### **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), the Thorpe Insulation Settlement Trust (Thorpe Insulation Trust) and Plant Asbestos Settlement Trust (Plant Asbestos Trust). The four 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 agreements automatically renew for additional one-year periods unless either party provides written notice. The amounts of advanced monthly payments are agreed upon between the trusts from time to time. As of December 31, 2015, the equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Trust.

Additional payment (refund) due based on the reconciliation performed as of December 31:

	2015	2014
J.T. Thorpe Trust	\$ 3,078	\$ 45,000
Thorpe Insulation Trust	81	65,000
Plant Asbestos Trust	(1,692)	112,000

Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest.

**Western Asbestos Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**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, San Francisco 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, 44% in February 2010, and 48% in September 2014. These changes were made with the consent of the TAC and Futures Representative. The increases were retroactive for claims approved since inception.

**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 \$68,242 and \$64,097 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014**

**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 39.6% for the years ended December 31, 2015 and 2014.

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 (benefit) for income taxes consists of the following for the years ended December 31:

	2015	2014
Income tax – current	\$ 20,401,729	\$ 25,107,423
Deferred income tax expense (benefit)	<u>(19,614,000)</u>	<u>(10,562,000)</u>
	<u><u>\$ 787,729</u></u>	<u><u>\$ 14,545,423</u></u>

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:

	2015	2014
<u>Deferred tax asset (liability)</u>		
Unrealized appreciation	\$ (28,032,000)	\$ (47,602,000)
Other, net	66,000	22,000
	<u><u>\$ (27,966,000)</u></u>	<u><u>\$ (47,580,000)</u></u>

**NOTE K - SUBSEQUENT EVENTS**

The Trust evaluated subsequent events through April 14, 2016, 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>2015</b>	<b>2014</b>
Accounting	\$ 46,350	\$ 55,730
Claims processing/claims system development	660,817	653,373
Computer equipment	6,335	2,728
Futures representative	183,866	213,973
Information technology support	22,096	24,044
Insurance	12,538	7,651
Investment expense	1,926,933	2,882,457
Legal fees	754,915	867,584
Office expense	29,376	39,756
Office furniture and equipment	12,558	10,307
Payroll and related taxes	1,142,410	1,067,795
Pension plan contribution and fees	68,242	64,097
Rent and utilities	136,062	131,923
System security	-	76,078
Travel and meals	6,910	22,894
Trust advisory committee	47,519	30,270
Trustee fees	353,468	379,174
Trustees professional	13,815	70,564
	5,424,210	6,600,398
Less: Reimbursement pursuant to the shared services agreements to process and pay claims and provide operational and administrative support	(1,515,119)	(1,212,498)
	<u>\$ 3,909,091</u>	<u>\$ 5,387,900</u>

# **EXHIBIT B**

## EXHIBIT "B"

### Western Asbestos Settlement Trust Claim Report As of December 31, 2015

This report is submitted pursuant to Section 2.2 (c)(ii) of the Twelfth 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 the additional amounts.

During the Accounting Period, one (1) Pre-Petition Liquidated Claim was paid in the amount of \$6,191, at the approved Payment Percentage of 48%, which also included an additional 23.7% to account for inflation based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W"). The Trust has not yet received proper releases for fourteen (14) Pre-Petition Liquidated Claims in the total amount of \$155,572. That amount is based upon the current Payment Percentage of 48% of the total liquidated value, and includes the inflation adjustment of 24.2% utilized for claims payments made in 2016.

#### **Trust Claims**

Claims received and disposed of from January 1, 2015, through December 31, 2015, in accordance with the Second Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix ("Matrix") and the Second 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, 2015, Trust Claims were paid at the approved Payment Percentage of 48%. Payments made on Trust Claims in 2015 included an additional 23.7% to account for inflation based upon the CPI-W.

During the Accounting Period, 618 claims were received. In addition, offers were issued to 497 claimants. Further, 452 claims were paid.

Below is a summary of the number and type of claims disposed of (paid) in 2015.

Compensable Disease	Number of California Claims	Number of Minnesota Claims	Number of North Dakota Claims	Totals
Grade II Non-Malignant	64	24	0	88
Grade I Non-Malignant	44	8	0	52
Grade I Non-Malignant Enhanced Asbestosis	15	1	0	16
Grade I Non-Malignant Serious Asbestosis	31	2	0	33
Colo-Rectal Cancer	7	1	0	8
Laryngeal Cancer	3	0	0	3
Non-Hodgkin's Lymphoma	0	1	0	1
Other Organ Cancer	1	0	0	1
Lung Cancer	77	13	0	90
Mesothelioma	133	27	0	160
Totals	375	77	0	452