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5 Bankruptcy Counsel for the Western Asbestos Settlement Trust
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9 **UNITED STATES BANKRUPTCY COURT**
10 **NORTHERN DISTRICT OF CALIFORNIA**
11 **SAN FRANCISCO DIVISION**

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

Case No. 13-31914 TC

Chapter 11

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

Date: June 26, 2015

Time: 9:30 a.m.

Place: 235 Pine Street, 19th Floor
San Francisco, CA 94104

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

22 Respectfully submitted this 29th day of April, 2015.

23
24 By: //s// Eve H. Karasik
EVE H. KARASIK
LEVENE, NEALE, BENDER,
25 YOO & BRILL L.L.P.
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27 Bankruptcy Counsel for the Western
Asbestos Settlement Trust
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1 **ELEVENTH ANNUAL REPORT AND ACCOUNTING**
2 **OF WESTERN ASBESTOS SETTLEMENT TRUST**

3 The Trustees of the Western Asbestos Settlement Trust (“Trust”) hereby submit this
4 Eleventh Annual Report and Accounting (“Annual Report”) covering Trust activities occurring from
5 January 1, 2014 to and including December 31, 2014 (“Accounting Period”), and certain activities of
6 the 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, San Francisco
8 Division (the "San Francisco Court"), *In Re Western Asbestos Company*, Case No. 13-31914 TC, in
9 accordance with the *Second Amended Joint Plan of Reorganization* [Docket No. 1002] (“Plan”); the
10 *January 27, 2004 Order Confirming Second Amended Joint Plan of Reorganization and Granting*
11 *Related Relief* [Docket No. 1205] (“Confirmation Order”); and the Trust Agreement, Bylaws, Trust
12 Distribution Procedures, and Case Valuation Matrix, as amended from time to time, established
13 pursuant to the Plan,¹ and pursuant to the laws of the State of Nevada, where the Trust is organized
14 and where it resides. The Trust Agreement states in Section 7.11 that the Trust is governed by
15 Nevada law. Section 164.015 of the Nevada Revised Statutes allows the Trust to render an
16 accounting and seek approval for its past actions. The factual statements in this Annual Report are
17 supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to
18 Approve and Settle Western Asbestos Settlement Trust’s Eleventh Annual Report and Accounting,
19 the Audited Financial Statements, and the Claim Report, as described in paragraphs 7, 8, and 9,
20 *infra*. Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan
21 Documents. The Honorable Leslie Tchaikovsky of the United States Bankruptcy Court for the
22 Northern District of California, Oakland Division (the "Oakland Court") approved each Annual
23 Report beginning in 2005 until the Western Asbestos bankruptcy case was transferred to the
24 Honorable Roger Efremsky of the Oakland Court. Judge Efremsky approved the 2010, 2011 and

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27 ¹ The Appendix includes the Plan; Confirmation Order; Twelfth Amendment to and Complete Restatement of Western
28 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 2012 Annual Reports. In 2013, the Western Asbestos bankruptcy case was transferred to the
2 Honorable Thomas E. Carlson who approved the 2013 Annual Report.

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 throughout the Accounting Period.

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, McClain and
27 Sieben have continued to serve as members of the TAC since the Effective Date of the Trust
28 however, in November of 2014, Mr. Sieben resigned. Pursuant to Section 6.3 of the Trust

1 Agreement, Michael S. Polk has been nominated by the remaining members of the TAC to succeed
2 Mr. Sieben as a member of the TAC. Jerry Neil Paul's appointment to replace Phil Harley as a
3 member of the TAC was approved by the Oakland Court in June 2009.

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

9 6. Fiscal Year and Tax Obligations: The Trust is required by the Internal
10 Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis.
11 Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports
12 attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement
13 requires the Trustees to file income tax and other returns and statements in a timely manner, and
14 comply with all withholding obligations as legally required, including fulfilling requirements to
15 maintain the Trust's status as a Qualified Settlement Fund. The Trust has complied with its tax
16 obligations on a quarterly basis. The 2013 federal tax return was filed by its extended due date of
17 September 15, 2014 and the 2014 federal tax return will be filed by its extended due date of
18 September 15, 2015. The Trust resides in Nevada, and Nevada has no state income tax. Although
19 the Trust is not subject to tax in California, the Trustees file a tax return in California each year,
20 attaching a copy of the Trust's federal tax return, but showing no California taxable income or state
21 tax liability.

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

24 The Trustees shall cause to be prepared and filed with the Bankruptcy Court, as soon
25 as available, and in any event within 120 days following the end of each fiscal year,
26 an annual report containing financial statements of the Trust (including, without
27 limitation, a statement of the net claimants' equity of the Trust as of the end of such
28 fiscal year and a statement of changes in net claimants' equity for such fiscal year)
audited by a firm of independent certified public accountants selected by the Trustees
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

1 principles generally accepted in the United States, except for the special-purpose
2 accounting methods.

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

6 8. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of
7 the Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton
8 LLP, the independent certified public accountants retained by the Trust to perform the annual audit
9 of its financial statements. The Trust's audited financial statements ("Audited Financial
10 Statements") are attached hereto as Exhibit "A." These include a Statement of Net Claimants'
11 Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and
12 Explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate
13 balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis
14 of accounting adopted by the Trust. These Audited Financial Statements show, among other things,
15 that as of December 31, 2014, total Trust assets were \$651,664,000, total liabilities were
16 \$61,337,749, and Net Claimants' Equity was \$590,326,251.

17 9. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along
18 with the Audited Financial Statements, the Trust shall file with the court a report containing a
19 summary regarding the number and type of claims disposed of during the period covered by the
20 financial statements. The Western Asbestos Settlement Trust Claim Report As Of December 31,
21 2014 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust
22 received 611 claims, paid 539 claims, and made settlement offers on 649 claims. Since the Trust
23 received its first Trust Claim² on August 27, 2004, the Trust has received 12,000 Trust Claims, paid
24 8,764 Trust Claims, and 2,450 Trust Claims have been withdrawn.³

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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
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”)⁴ “[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, no Pre-Petition Liquidated Claims were paid; however, one (1) Pre-Petition
6 Liquidated Claim was paid in January of 2015 in the total amount of \$6,191. The Trust has not yet
7 received proper release documents for fourteen (14) remaining unpaid Pre-Petition Liquidated
8 Claims in the total amount of \$154,946.

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

16 11. Trustees’ Meetings: Article II, Section 4 of the Trust Bylaws provides that the
17 Trustees shall meet in Nevada, or a state other than California, at least four times per year, as close
18 as practicable on a quarterly basis. The Trustees held six meetings during the Accounting Period
19 (January 13, 2014, February 20-21, 2014, March 25, 2014, April 17, 2014, September 22-23, 2014,
20 and November 20-21, 2014). The January, February, April, September and November meetings
21 were held in Nevada, and the March meeting was held in Arizona.

22 12. Arbitrations: During the accounting period, no arbitrations were held
23 pursuant to Section 5.9 of the Trust Distribution Procedures.

24 13. Payment Percentage: Section 4.2 of the TDP provides that, commencing on
25 the first day of January, after the Plan has been confirmed and no less frequently than once every
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28 ⁴ See the Oakland Court’s February 3, 2004 *Memorandum of Decision after Confirmation Hearing* [Docket No. 1265]
included in the Appendix filed herewith.

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

10 14. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
11 calculate an annual payment limit for claims based upon a model of the amount of cash flow
12 anticipated to be necessary over the entire life of the Trust (the "Maximum Annual Payment") to
13 ensure that funds will be available to treat all present and future claimants as similarly as possible.
14 At the November 20, 2014 meeting, the Maximum Annual Payment for 2015 was set at
15 \$65,700,000, plus the amount of \$334,723,645 of excess funds carried over from prior years, which
16 Section 2.5 of the TDP requires to be rolled over and remain dedicated to the respective "Disease
17 Category" in the "Jurisdiction" (as such terms are described in the TDP) to which they were
18 originally allocated.

19 15. Inflation Adjustment: The original Payment Percentage approved by the
20 Oakland Court was based upon projections of future claims payments adjusted annually for inflation.
21 Beginning in 2006, all claims payments made during a calendar year include a cost of living
22 adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban*
23 *Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the November
24 20, 2014 meeting, the CPI-W to be published in January 2015 was approved for use by the Trust in
25 making the 2015 cost of living adjustment for claims payments. The CPI-W of 0.3% was issued on
26 January 16, 2015. Consequently, all claims payments made during the 2015 calendar year will have
27 a compounded inflation rate of 23.7% added to the payment amount.
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1 16. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement
2 requires the Trustees to cause to be prepared a budget and cash flow projections prior to the
3 commencement of each fiscal year covering such fiscal year and the succeeding four fiscal years.
4 The Trustees approved the 2015 budget and the required four-year budget and cash flow projections
5 on November 21, 2014. Pursuant to the Trust Agreement, these were provided to the Futures
6 Representative and TAC. The budget for operating expenses, including investment fees, in 2015
7 totals \$4,737,200.⁵

8 17. J.T. Thorpe Settlement Trust, Thorpe Insulation Company Asbestos
9 Settlement Trust, and Plant Insulation Company Asbestos Settlement Trust Administration: As
10 initially described in the Trust's Third Annual Report, the Trust and J.T. Thorpe Settlement Trust
11 ("J.T. Thorpe Trust") entered into a Trust Facilities and Services Sharing Agreement. The J.T.
12 Thorpe Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by the
13 Oakland Court in the order approving the Trust's Third Annual Report. As described in the Trust's
14 Tenth Annual Report, pursuant to the annual reconciliation of fees presented on February 20, 2014,
15 the Trust and the J.T. Thorpe Trust set the advance payments at \$29,000 per month for 2014.
16 Pursuant to the annual reconciliation of fees presented on February 27, 2015, the Trust and the J.T.
17 Thorpe Trust agreed that the advance payments shall be \$35,000 per month for 2015. The total
18 amount paid to the Trust by the J.T. Thorpe Trust, after accounts were reconciled for 2014, was
19 \$392,714.

20 As initially described in the Trust's Seventh Annual Report, the Trust and Thorpe
21 Insulation Company Asbestos Settlement Trust ("Thorpe Insulation Trust") entered into a Trust
22 Facilities and Services Sharing Agreement. The Thorpe Insulation Trust agreed to pay a negotiated
23 monthly amount. Such arrangement was approved by the Oakland Court in the order approving the
24 Trust's Seventh Annual Report. As described in the Trust's Tenth Annual Report, pursuant to the
25 annual reconciliation of fees presented on February 20, 2014, the Trust and the Thorpe Insulation
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27 ⁵ This figure is net of facilities sharing payments which are budgeted for \$1,236,000, and excludes claimant payments
28 budgeted for \$65,700,000, extraordinary legal fees budgeted for \$965,000 and income tax payments budgeted for
\$8,500,000. Budgeted investment fees were previously reported as a reduction to investment income. The 2015
operating expense budget includes investment fees of \$2,434,000.

1 Trust set the advance payments at \$32,000 per month for 2014. Pursuant to an interim reconciliation
2 of fees presented on September 23, 2014, the Trust and the Thorpe Insulation Trust revised the
3 amount of the advance payments to \$29,000 per month as of October 1, 2014. Pursuant to the
4 annual reconciliation of fees presented on February 27, 2015, the Trust and the Thorpe Insulation
5 Trust agreed that the advance payments shall be \$37,000 per month for 2015. The total amount paid
6 to the Trust by the Thorpe Insulation Trust, after accounts were reconciled for 2014, was \$440,455.

7 As described in the Trust's Tenth Annual Report, the Trust was requested to share its
8 resources to administer and process the Plant Insulation Company Asbestos Settlement Trust ("Plant
9 Trust"). The Trustees concluded that sharing resources as proposed would result in a more efficient
10 and economical operation for the benefit of both the current and future claimants of each of the
11 Trusts, and would enable the Trust to retain full use of its existing resources, without imposing
12 additional burdens that might slow the processing of Trust claims. The Trustees also concluded that
13 entering into a resources sharing agreement with the Plant Trust would be in the best interests of the
14 Trust's beneficiaries and that doing so was permitted by Trust documents and Nevada law. The
15 Trust and the Plant Trust entered into a Trust Facilities and Services Sharing Agreement (the
16 "Sharing Agreement") as of November 28, 2012. The Sharing Agreement provides: (i) for the Plant
17 Trust to pay a monthly amount, subject to the annual adjustment, of \$15,000 to the Trust for
18 processing and its share of fixed costs for the period of November 16, 2012 to December 31, 2012
19 and \$15,000 per month during the remainder of the initial term of the Sharing Agreement; and (ii)
20 for an annual accounting through the end of 2013 and each year thereafter to identify and adjust
21 actual costs as shared to insure that each trust is paying its proportionate share of the expenses.

22 On February 20, 2014, the Trust agreed that the advance payments could remain at
23 \$15,000 per month for 2014 to accommodate the Plant Trust's interim operations and insufficient
24 resources due to delays in finalizing the Plant Trust's bankruptcy approval process. Pursuant to an
25 interim reconciliation of fees presented on September 23, 2014, the Trust and the Plant Trust revised
26 the advance payments to \$30,000 per month for 2014. As a result, the Plant Trust paid an additional
27 amount of \$135,000 to the Trust. Pursuant to the annual reconciliation of fees presented on February
28 27, 2015, the Trust and the Plant Trust agreed that the advance payments shall be \$42,000 per month

1 for 2015. The total amount paid to the Trust by the Plant Trust, after accounts were reconciled for
2 2014, was \$471,950.

3 At the beginning of 2015, the Trusts each consulted with outside counsel concerning
4 the continued viability and fairness of the Facilities Sharing Agreements by and between each of the
5 four Trusts and, based on advice of counsel, each of the Trusts determined that the formula and
6 methodology being used should continue and was fair to all Trusts.

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

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

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

25 21. Special Budget Fund: A Special Budget Fund was approved in the Oakland
26 Court's May 18, 2005 *Order to Approve and Settle Western Asbestos Settlement Trust's Annual*
27 *Report and Accounting, Audited Financial Statements, and Claim Report; and to Approve*
28

1 *Resolution Regarding the FAIR Act* [Docket No. 1595]. There has been no change in this fund
2 during the Accounting Period.

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

10 23. Legal Disputes:

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

12 i. *Western Asbestos Settlement Trust, et al. v. Zurich-American*
13 *Insurance Co., et al., San Francisco Sup.Ct., Case No. CGC04-436181, November 9, 2004 (the*
14 *"Zurich case" and the "Zurich Court")*: This is an insurance coverage action against Zurich
15 Insurance Company and several Zurich-related subsidiaries ("Zurich") seeking recovery for asbestos
16 bodily injury liabilities under primary level insurance policies issued by the Home Insurance
17 Company ("Home") for the period 1976 to 1983. This was an action seeking to hold Zurich
18 responsible for the insuring obligations of Home, which is now in liquidation and unable to pay its
19 policy obligations in full. The Trust timely submitted a claim in the Home insolvency proceedings
20 in 2004 and, after substantial negotiations with the Home liquidator, reached a settlement that
21 provided for an allowed claim in the liquidation proceedings in the amount of \$242.5 million.
22 Because of its insolvency, it is not expected that Home will be able to pay the entire allowed amount,
23 but instead will pay a portion of the allowed amount over a period of several years. In late February,
24 2015, the Trust and Zurich reached a settlement agreement where the parties agreed to dismiss the
25 case with prejudice. Each party is to bear its own costs and fees.

26 ii. In February 2013, the Trust filed a lawsuit against the California
27 Insurance Guarantee Association ("CIGA") in the Alameda Superior Court, captioned *Stephen M.*
28 *Snyder, et al. v. California Insurance Guarantee Association*, Civil Case No. RG13666656. This

1 action seeks recovery from CIGA for asbestos bodily injury liabilities that would otherwise be
2 covered by the Home under its policies issued from 1976 to 1983, to the extent that Home is unable
3 to pay as a result of its insolvency. CIGA is a state-regulated organization that provides insurance
4 coverage, under certain circumstances, for insurance companies that have become insolvent and
5 unable to pay their claims. CIGA was previously a defendant in the Zurich case in a declaratory
6 relief count, but was dismissed without prejudice in 2012 as a condition of the settlement with Home
7 on the allowed claim.

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

14 The Trust filed a timely appeal of the ruling sustaining the demurrer without
15 leave to amend on July 19, 2013. On September 17, 2014, the California Court of Appeal issued its
16 ruling (modified on October 7, 2014) reversing the trial court’s sustaining of CIGA’s demurrer
17 without leave to amend insofar as it was based on the statute of limitations. A subsequent petition to
18 the California Supreme Court by CIGA was denied. On December 11, 2014, the Court of Appeal
19 issued a remittitur. Thereafter, the case was reassigned to Judge Wynne Carvill.

20 iii. In the Zurich case, the Trust also sued Continental Casualty
21 Company (“CNA”) in connection with an insurance policy that appears to have been issued to Bay
22 Cities Asbestos Company, Western’s corporate predecessor, for the period 1946-1949. The policy
23 has never been located, but there is secondary evidence reflecting its existence. A bench trial was
24 held in 2006 and 2007, over a period of seven weeks, as to whether the existence and material terms
25 of the policy could be proven. The Trust contends that the evidence supports the existence and
26 material terms of the policy and that there are no aggregate limits applicable to asbestos claims.
27 CNA contends that the evidence is insufficient to prove the existence of the policy and, alternatively,
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1 the policy would not provide coverage for the Bay Cities asbestos liabilities on various grounds,
2 even if proven. To date, the court has not rendered a decision on the issues.

3 In early 2015, the parties learned that the Judge in this matter is retiring
4 sometime in the spring of 2015. He has indicated that the CNA portion of the case will be
5 transferred to a new judge shortly. The Trust has not yet received the notice of transfer to a new
6 judge.

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

10 On January 23, 2014, the Trustees entered into an agreement with the
11 Mandelbrot Law Firm and its principal, Michael J. Mandelbrot (herein “Mandelbrot”), requiring that
12 Mandelbrot transfer all its pending claims to other counsel and cease “immediately” further claims-
13 filing activity with the Trust. This agreement was made on the record during a bench trial of the J.T.
14 Thorpe Trust and the Thorpe Insulation Trust (the “Thorpe Trusts”) adversary proceedings (*J.T.*
15 *Thorpe Settlement Trust and Thorpe Insulation Company Asbestos Settlement Trust*, U.S.
16 Bankruptcy Court for the Central District of California Case No. 2:12-ap-02182BB) presided over
17 by the Honorable Sheri Bluebond. In the stipulation, Mandelbrot agreed, among other things, that the
18 Thorpe Trusts’ decision to stop accepting further evidence from Mandelbrot in 2013 was reasonable
19 and, further, that it was reasonable for this Trust to take similar actions. Accordingly, this Trust
20 joined the stipulation and since has acted in conformity with its terms.

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

25 Mr. Mandelbrot filed a Motion to Stay Enforcement of the Judgment and
26 Order Following Trial. On May 27, 2014, Judge Bluebond of the U.S. Bankruptcy Court for the
27 Central District of California heard and denied Mandelbrot’s motion to stay enforcement of the
28 judgment and order following trial. Thereafter, in early June 2014, Mandelbrot appealed the

1 Judgment and Order and filed a motion to stay enforcement of the judgment and order pending
2 appeal before the Honorable Virginia A. Phillips of the United States District Court for the Central
3 District of California, who has been assigned to hear Mr. Mandelbrot's appeal of the Judgment and
4 Order. Prior to the hearing on the motion, which was scheduled for July 7, 2014, Judge Phillips
5 denied Mr. Mandelbrot's motion on the grounds that Mr. Mandelbrot had failed to meet his burden
6 of establishing an abuse of discretion by the Bankruptcy Court in denying the requested stay.⁶

7 Thereafter, on June 18, 2014, and pursuant to a briefing schedule established
8 by the United States District Court, Mr. Mandelbrot filed his District Court brief. Briefing on Mr.
9 Mandelbrot's appeal was completed on July 15, 2014, and no decision has been issued.

10 As a result of the stipulation, and consistent with its terms, the Trust is not
11 accepting claims from Mandelbrot and all claims previously submitted by Mandelbrot have been
12 transferred to new counsel.

13 24. Amendments to the Trust Documents: As described in the Trust's Tenth
14 Annual Report, the Western Asbestos Settlement Trust Bylaws and Trust Agreement were amended
15 on February 20, 2014, and amendments to the Trust Distribution Procedures and Matrix were
16 approved on March 25, 2014. Copies of the Third Amendment to and Complete Restatement of the
17 Western Asbestos Settlement Trust Bylaws, Eleventh Amendment to and Complete Restatement of
18 Western Asbestos Settlement Trust Agreement, Second Amendment to and Complete Restatement
19 of the Western Asbestos Company/Western Mac Arthur Co./Mac Arthur Co. Asbestos Personal
20 Injury Settlement Trust Distribution Procedures, and Second Amendment to and Complete
21 Restatement of Western Asbestos Settlement Trust Case Valuation Matrix are included in the
22 Appendix filed herewith.

23
24
25
26 ⁶ Attached hereto as Exhibit "C" is the Honorable Virginia A. Phillips' Minute Order (1) Denying Motion to Stay
27 Enforcement of Judgment and Order following Trial (Doc. No. 10) and (2) Vacating July 7, 2014 Hearing (in
28 Chambers) (Document 26). In her Order, Judge Phillips noted that even if she were to engage in a *de novo*
consideration, she would agree with the decision of the Bankruptcy Court on the merits of the motions brought before
the Bankruptcy Court.

1 On November 20, 2014, sections 4.5(a) and 6.5(b) of the Trust Agreement were
2 amended to allow for an annual increase in Trustee and TAC compensation based upon the Federal
3 Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers*
4 (CPI-W) announced in January each year. A copy of the Twelfth Amendment to and Complete
5 Restatement of Western Asbestos Settlement Trust Agreement is included in the Appendix filed
6 herewith.

7 25. Notifications to Beneficiaries: During the Accounting Period and,
8 additionally, from January 1, 2015 to and including April 16, 2015, the following notifications were
9 placed on the Trust's Web site:

- 10 a. Notice of Suspension of Pro Bono Evaluation Procedures (posted
11 January 14, 2014);
 - 12 b. Notice of settlement of Mandelbrot adversary proceeding (posted
13 January 31, 2014);
 - 14 c. Notice of claims processing FTP server maintenance (posted February
15 18, 2014);
 - 16 d. Notice of computer system incursion (posted February 21, 2014);
 - 17 e. Notice/update regarding computer system incursion (posted March 6,
18 2014);
 - 19 f. Notice regarding submission of claims in paper form (posted March
20 14, 2014);
 - 21 g. Notice/update regarding settlement of Mandelbrot adversary
22 proceeding (posted April 16, 2014);
 - 23 h. Notice/update regarding submission of claims (posted April 25, 2014);
 - 24 i. Notice of hearing on the Trust's Tenth Annual Report and Accounting
25 (posted May 1, 2014);
 - 26 j. Notice of approved modifications to the TDP and Matrix (posted May
27 1, 2014);
- 28

1 k. Notice/update regarding settlement of Mandelbrot adversary
2 proceeding (posted May 5, 2014);

3 l. Notice/update regarding settlement of Mandelbrot adversary
4 proceeding (posted May 12, 2014);

5 m. Notice/updated regarding submission of claims (posted July 10, 2014);

6 n. Notice of Payment Percentage Increase (posted October 6, 2014); and

7 o. Notice regarding compliance with court order in settlement of
8 Mandelbrot adversary proceeding (posted March 6, 2015).

9 26. Attempt to Place False Claim in Database/Overhaul of Network
10 Infrastructure: On February 18, 2014, Trust staff discovered that an attempt had been made to place
11 a fictitious claim within the Trust database on or about February 15, 2014. In response to the
12 incursion, the Trust unplugged the system from the internet and took it off-line. A cyber-security
13 firm was hired to conduct a forensic investigation. The Trust also hired a law firm that specialized
14 in the legal requirements, if any, related to the false claim placement. The cyber-security firm's
15 investigation revealed no evidence of exfiltration of data on or from the Trust's server. There was
16 also no evidence that the intruder accessed any personally identifiable information or protected
17 health information contained elsewhere in the Trust's system. Based on the cyber-security firm's
18 findings, the law firm determined that potentially applicable state and federal data breach
19 notification laws did not require notice to any third parties of the attempted false claim
20 placement. In an abundance of caution, the following law enforcement agencies were contacted to
21 report the data breach: the Reno Police Department, the Monterey Park Police Department (where
22 the private post office box for the fictitious law firm was located), and the Las Vegas office of the
23 Federal Bureau of Investigation. All three agencies noted the data breach but did not pursue an
24 investigation despite follow up by the law firm. The Trust began again accepting claims in paper
25 form on March 14, 2014, and the Trust also began accepting claims on CD on April 25, 2014.

26 As a result of this false claim placement attempt, the Trust determined that it needed
27 an independent information technology company to review the Trust's network infrastructure and
28 security. After consultation with other trusts across the country, the Trust retained the information

1 technology firm of STF Consulting of Atlantic Highlands, NJ in June of 2014. By the end of June,
2 2014, STF Consulting had implemented increased security measures so that on July 10, 2014, the
3 Trust opened up its system to again allow electronic filing of claims. STF Consulting has completed
4 a total overhaul of the Trust's core network infrastructure and has continued to refine the network
5 throughout the remainder of 2014 and the first quarter of 2015.

6 27. System Development: During the Accounting Period, the Trust entered into a
7 contract with an outside vendor to develop an updated claims processing system and move to a new
8 platform, which is expected to be completed within weeks.

9 28. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at
10 the September 22, 2014 meeting and there were no recommended changes to the existing \$250.00
11 fee during the Accounting Period or as of the date hereof.

12 29. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the
13 Trust to report the amounts paid to the Trustees for compensation and expenses. During the
14 Accounting Period, the Trustees each received per annum compensation in the amount of \$70,000
15 paid in quarterly installments. The total paid to all Trustees for hourly compensation and for
16 reimbursement of expenses was \$126,007 and \$6,284, respectively.

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

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

21 b. BlackRock Financial Management: One of eight investment managers
22 for the Trust described in paragraph 31, *infra*;

23 c. Callan Associates, Inc.: Investment consultant for the Trust described
24 in paragraph 31, *infra*;

25 d. Eagle Capital Management, LLC: One of eight investment managers
26 for the Trust described in paragraph 31, *infra*;

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

1 f. Harding Loevner, LP: One of eight investment managers for the Trust
2 described in paragraph 31, *infra*;

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

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

7 i. Segall Bryant & Hamill: One of eight investment managers for the
8 Trust described in paragraph 31, *infra*;

9 j. Silvercrest Asset Management Group LLC: One of eight investment
10 managers for the Trust described in paragraph 31, *infra*;

11 k. Snyder Miller & Orton LLP: Counsel to the Trust in an advisory
12 capacity for various legal issues that arise from time to time;

13 l. Standish Mellon Asset Management Company: One of eight
14 investment managers for the Trust described in paragraph 31, *infra*;

15 m. State Street Global Advisors: One of eight investment managers for
16 the Trust described in paragraph 31, *infra*; and

17 n. Westwood Management Corporation: One of eight investment
18 managers for the Trust described in paragraph 31, *infra*.

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

1 Additionally, the Trust's Investment Policy Statement was amended on November 20,
2 2014 and February 27, 2015, copies of which are included in the Appendix filed herewith.

3 ***

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



Financial Statements and Report of Independent
Certified Public Accountants

Western Asbestos Settlement Trust

December 31, 2014 and 2013

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Report of Independent Certified Public Accountants

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, 2014 and 2013, 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 assets and liabilities of Western Asbestos Settlement Trust as of December 31, 2014 and 2013, 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

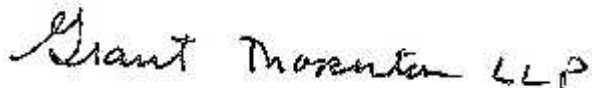
We draw attention to Note A.2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the Trust's other basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion 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, 2014 and 2013 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, Oakland Division and is not intended to be and should not be used by anyone other than these specified parties.



Reno, Nevada
April 15, 2015

Western Asbestos Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2014	2013
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 40,000,000	\$ 40,000,000
Unrestricted	607,865,762	805,335,908
Total cash, cash equivalents and investments	647,865,762	845,335,908
Accrued interest and dividend receivables	3,798,238	5,126,409
Prepaid federal income tax	-	1,064,172
Total assets	\$ 651,664,000	\$ 851,526,489
LIABILITIES		
Accrued expenses	\$ 703,074	\$ 1,044,265
Claim processing deposits	246,000	335,000
Unpaid claims (Note D)		
Outstanding offers	12,132,537	9,005,735
Pre-petition liquidated claims	161,137	150,809
Income tax payable	515,001	-
Deferred tax liability	47,580,000	58,142,000
Total liabilities	\$ 61,337,749	\$ 68,677,809
NET CLAIMANTS' EQUITY	\$ 590,326,251	\$ 782,848,680

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,

	2014	2013
Net claimants' equity, beginning of year	\$ 782,848,680	\$ 783,022,349
Additions to net claimants' equity		
Investment income	19,360,452	21,280,208
Net decrease in outstanding claim offers	-	6,578,637
Trust facility and staff sharing income received	1,212,498	993,564
Increase in initial funding	-	259,785
Net decrease in deferred rent	91,937	111,051
Net realized and unrealized gains on available-for-sale securities	30,141,310	67,644,822
Benefit for income taxes, deferred	10,562,000	-
Federal tax reductions	699,504	-
Total additions	62,067,701	96,868,067
Deductions from net claimants' equity		
Operating expenses	6,600,398	7,559,706
Provision for income taxes, current	25,107,423	5,332,608
Provision for income taxes, deferred	-	24,211,000
Claims settled	219,745,179	59,938,422
Net increase in outstanding claim offers	3,137,130	-
Total deductions	254,590,130	97,041,736
Net claimants' equity, end of year	\$ 590,326,251	\$ 782,848,680

The accompanying notes are an integral part of these statements.

Western Asbestos Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2014	2013
Cash inflows:		
Investment income receipts	\$ 20,688,623	\$ 21,413,398
Trust facility and staff sharing income received	1,212,498	993,564
Initial funding	-	259,785
Net realized gains on available-for-sale securities	56,761,943	6,508,521
Federal tax reductions	699,504	-
Total cash inflows	79,362,568	29,175,268
Cash outflows:		
Claim payments made	219,745,179	59,932,707
Decrease in claim processing deposits	89,000	51,250
Disbursements for Trust operating expenses	6,849,652	7,725,028
Disbursements for Trust income taxes	23,528,250	6,997,125
Total cash outflows	250,212,081	74,706,110
Net cash outflows	(170,849,513)	(45,530,842)
Non-cash changes:		
Net unrealized (losses) gains on available-for-sale securities	(26,620,633)	61,136,301
NET INCREASE (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	(197,470,146)	15,605,459
Cash, cash equivalents and investments available-for sale, beginning of year	845,335,908	829,730,449
Cash, cash equivalents and investments available-for-sale, end of year	\$ 647,865,762	\$ 845,335,908

The accompanying notes are an integral part of these statements.

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2014 and 2013

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, 2014 and 2013

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, 2014, 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 2011 and state examinations for years before 2010.

9. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net claimants' equity.

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

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, 2014	
	Cost	Fair Value
<u>Restricted</u>		
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	15,937,801	15,738,386
	\$ 40,096,794	\$ 40,000,000
<u>Unrestricted</u>		
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	18,971,736	18,836,331
	\$ 486,559,346	\$ 607,865,762
	December 31, 2013	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 433,582	\$ 433,582
U.S. Government obligations	17,032,460	16,583,770
Municipal bonds	1,440,903	1,376,862
Asset-backed debt	2,645,780	2,628,127
Corporate debt	19,519,905	18,977,659
	\$ 41,072,630	\$ 40,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 480,583	\$ 480,861
Cash equivalents	41,726,363	41,903,371
Equity securities	239,413,973	378,574,336
U.S. Government obligations	23,026,773	22,426,637
Municipal bonds	323,189,481	333,226,344
Asset-backed debt	3,544,513	3,516,183
Corporate debt	25,981,626	25,208,176
	\$ 657,363,312	\$ 805,335,908

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

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, 2014		
	Level 1	Level 2	Level 3
<u>Assets</u>			
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	-	34,574,717	-
	<u>\$ 323,390,689</u>	<u>\$ 324,324,059</u>	<u>\$ 151,014</u>

	December 31, 2013		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 480,861	\$ -	\$ -
Cash equivalents	42,336,953	-	-
Equity securities	378,574,336	-	-
U.S. Government obligations	12,619,353	26,391,054	-
Municipal bonds	-	334,603,206	-
Asset-backed debt	-	5,717,646	426,664
Corporate debt	44,185,835	-	-
	<u>\$ 478,197,338</u>	<u>\$ 366,711,906</u>	<u>\$ 426,664</u>

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

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, 2014 and 2013 was:

	Mortgage Backed Securities	
	2014	2013
Balance at January 1	\$ 426,664	\$ 489,075
Sales	(273,371)	-
Unrealized gain (loss)	(2,279)	(62,411)
Balance at December 31	\$ 151,014	\$ 426,664

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2014:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ -	\$ 7,203,317	\$ 6,315,900	\$ 28,729,544
Municipal bonds	3,170,086	117,941,349	100,268,007	27,682,843
Asset-backed debt	-	3,458,404	779,329	1,880,210
Corporate debt	2,247,895	14,771,788	15,858,340	1,696,694
	\$ 5,417,981	\$ 143,374,858	\$ 123,221,576	\$ 59,989,291

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

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	\$ 90,367
Acquisition of computer hardware and software	<u>489,516</u>
	<u>\$ 579,883</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, 2014 and 2013 were \$69,493 and \$55,208, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$28,704 and \$29,163 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013

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, 2014 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 23.70% and 23.33% are included in outstanding claims liabilities as of December 31, 2014 and 2013, respectively.

The Trust processed and approved approximately \$43,730,889 and \$53,608,129 of Trust Claims during the years ended December 31, 2014 and 2013, 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 \$101,876 and \$104,284 in rental expense during the years ended December 31, 2014 and 2013, respectively. Future minimum rental commitments, excluding parking and utility expenses, under this operating lease are:

Years ending December 31,	
2015	\$ 94,887
2016	64,569
	<hr/>
	\$ 159,456
	<hr/> <hr/>

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

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. For the agreement with J.T Thorpe Trust, the agreement automatically renews for additional one-year periods unless either party provides six months written notice. For the agreements with Thorpe Insulation Trust and Plant Asbestos Trust, 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, 2014, 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 J. T. Thorpe Trust, the reconciliation performed for the year ended December 31, 2014 resulted in an additional payment to the Trust of approximately \$45,000. The reconciliation performed for the year ended December 31, 2013 resulted in an additional payment to the Trust of approximately \$56,000. For the agreement with Thorpe Insulation Trust, the reconciliation performed for the year ended December 31, 2014 resulted in an additional payment to the Trust of approximately \$65,000. The reconciliation performed for the year ended December 31, 2013 resulted in an additional payment to the Trust of approximately \$69,000. For the agreement with Plant Asbestos Trust, the reconciliation performed for the year ended December 31, 2014 resulted in an additional payment to the Trust of approximately \$112,000. The reconciliation performed for the period of November 16, 2012 through December 31, 2013 resulted in an additional payment to the Trust of approximately \$4,000. 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.

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE G - NET CLAIMANTS' EQUITY - Continued

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 \$64,097 and \$56,416 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013

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, 2014 and 2013.

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:

	2014	2013
Income tax – current	\$ 25,107,423	\$ 5,332,608
Deferred income tax expense (benefit)	(10,562,000)	24,211,000
	\$ 14,545,423	\$ 29,543,608

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:

	2014	2013
<u>Deferred tax asset (liability)</u>		
Unrealized appreciation	\$ (47,602,000)	\$ (58,144,000)
Other, net	22,000	2,000
	\$ (47,580,000)	\$ (58,142,000)

NOTE K - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 15, 2015, 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,

	2014	2013
Accounting	\$ 55,730	\$ 56,686
Claims processing/claims system development	653,373	581,775
Computer equipment	2,728	24,846
Futures representative	213,973	437,371
Information technology support	24,044	56,549
Insurance	7,651	13,506
Investment expense	2,882,457	2,731,514
Legal fees	867,584	1,946,488
Office expense	39,756	50,480
Office furniture and equipment	10,307	30,362
Payroll and related taxes	1,067,795	1,021,305
Pension plan contribution and fees	64,097	56,416
Rent and utilities	131,923	122,240
System security	76,078	-
Travel and meals	22,894	13,620
Trust advisory committee	30,270	2,594
Trustee fees	379,174	413,838
Trustees professional	70,564	116
	<u>6,600,398</u>	<u>7,559,706</u>
Less: Reimbursement pursuant to the shared services agreements to process and pay claims and provide operational and administrative support	<u>(1,212,498)</u>	<u>(993,564)</u>
	<u>\$ 5,387,900</u>	<u>\$ 6,566,142</u>

EXHIBIT “B”

EXHIBIT “B”

Western Asbestos Settlement Trust Claim Report As of December 31, 2014

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, no Pre-Petition Liquidated Claims were paid; however, one (1) Pre-Petition Liquidated Claim was paid in January of 2015 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 \$154,946. That amount is based upon the current Payment Percentage of 48% of the total liquidated value, and includes the inflation adjustment of 23.7% utilized for claims payments made in 2015.

Trust Claims

Claims received and disposed of from January 1, 2014, through December 31, 2014, 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. The Payment Percentage was increased from 44% to 48% on September 23, 2014. All previously paid Trust Claims eligible for the increased amount have received this additional compensation. As of December 31, 2014, Trust Claims were paid at the approved Payment Percentage of 48%. Payments made on Trust Claims in 2014 included an additional 23.33% to account for inflation based upon the CPI-W.

During the Accounting Period, 611 claims were received. In addition, offers were issued to 649 claimants. Further, 539 claims were paid.

Below is a summary of the number and type of claims disposed of (paid) in 2014.

Compensable Disease	Number of California Claims	Number of Minnesota Claims	Number of North Dakota Claims	Totals
Grade II Non-Malignant	100	13	0	113
Grade I Non-Malignant	64	3	0	67
Grade I Non-Malignant Enhanced Asbestosis	45	5	0	50
Grade I Non-Malignant Serious Asbestosis	31	3	0	34
Colo-Rectal	13	5	0	18
Esophageal	4	1	0	5
Non-Hodgkin's Lymphoma	2	1	0	3
Chronic Lymphocytic Leukemia	0	1	0	1
Other Organ Cancer	2	0	0	2
Lung Cancer	86	17	0	103
Mesothelioma	117	26	0	143
Totals	464	75	0	539

EXHIBIT “C”

PRIORITY SEND

JS-6

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES -- GENERAL

Case No. CV 14-03883-VAP
USBC Case No. 2:02-BK-14216-BB
ADVERSARY Case No. 2:12-AP-02182-BB

Date: July 3, 2014

Title: IN RE: J.T. THORPE, INC. & THORPE INSULATION COMPANY,
DEBTORS

=====

PRESENT: HONORABLE VIRGINIA A. PHILLIPS, U.S. DISTRICT JUDGE

Marva Dillard
Courtroom Deputy

None Present
Court Reporter

ATTORNEYS PRESENT FOR
PLAINTIFFS:

ATTORNEYS PRESENT FOR
DEFENDANTS:

None

None

PROCEEDINGS: MINUTE ORDER (1) DENYING MOTION TO STAY
ENFORCEMENT OF JUDGMENT AND ORDER
FOLLOWING TRIAL (DOC. NO. 10); AND (2) VACATING
JULY 7, 2014 HEARING(IN CHAMBERS)

Before the Court is a Motion to Stay Enforcement of (1) Judgment in Adversary Proceeding, and (2) Order Following Trial on Adversary Complaints and Motion for Instructions (Doc. No. 10) ("Motion"), filed by Appellants Michael J. Mandelbrot ("Mandelbrot") and the Mandelbrot Law Firm (collectively, "Appellants") on June 4, 2014. Appellees J.T. Thorpe Settlement Trust and Thorpe Insulation Company Asbestos Settlement Trust (collectively, "Appellees") filed an Opposition to the Motion (Doc. No. 13) ("Opposition"), and a Request for Judicial Notice (Doc. No. 14)

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CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
 IN RE J.T. THORPE, INC. & THORPE INSULATION
 MINUTE ORDER of July 3, 2014

("Appellees' RJN") on June 16, 2014. The Futures Representative, Charles B. Renfrew, filed a Joinder in the Opposition (Doc. No. 15), also on June 16, 2014. Appellants filed their Request for Judicial Notice (Doc. No. 19) ("Appellants' RJN") as well as their Objection to Appellees' RJN (Doc. No. 18) on June 19, 2014. The Motion is appropriate for resolution without a hearing, and accordingly, the Court VACATES the July 14, 2014 hearing on this Motion. See Fed. R. Civ. P. 78; Local R. 7-15. After considering the papers filed in support of, and in opposition to, the Motion, the Court DENIES the Motion as set forth below.

I. BACKGROUND

This is an appeal of the United States Bankruptcy Court's May 28, 2014 denial of Appellants' Motion to Stay Enforcement of (1) Judgment in Adversary Proceedings, and (2) Order Following Trial on Adversary Complaints and Motion for Instructions ("Bankruptcy Court Motion"). Mandelbrot is a California attorney who has filed numerous claims for compensation for asbestos-related injuries against Appellees on behalf of individual clients. The parties commenced an adversary proceeding in the Bankruptcy Court after a dispute arose over audits of claims filed by Mandelbrot, and Appellees alleged Mandelbrot had exhibited a pattern of filing unreliable evidence in support of the claims. (See Appellees' RJN Ex. 4 at 6-7; Opp'n at 5-6.)

In January 2014, the Bankruptcy Court held a trial, beginning with the Appellees' case-in-chief. (See Appellees' RJN Ex. 4 at 8-9.) On January 23, 2014, while the trial was pending, the parties entered into a stipulated settlement agreement ("Agreement"), which was recited into the record. (Id. at 13.) Mandelbrot stipulated that he would file no new claims against Appellees, the Western Asbestos Settlement Trust, and the Plant Insulation Settlement Trust. He also stipulated that he would transfer his current clients to new counsel. (Id. at 13-15.) On January 31, 2014, however, Mandelbrot sought to withdraw from the Agreement (id. at 12-13), leading Appellees to file a Motion to Enforce January 23, 2014 Stipulated Agreement, which the Bankruptcy Court granted on April 7, 2014 (see Appellees' RJN Ex. 1). Also on April 7, 2014, the Bankruptcy Court issued an Order Following Trial on Adversary Complaints and Motion for Instructions, and a Judgment in Adversary Proceedings, in favor of Appellees. (Id. Exs. 2, 3.)

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On April 21, 2014, Appellants filed the Bankruptcy Court Motion, seeking a stay of judgment pending appeal. The Bankruptcy Court held a hearing on this motion on May 27, 2014, and issued an Order denying the motion on June 4, 2014. (Id. Ex. 8.) That court found that Appellants do not have a reasonable likelihood of success on the merits of their appeal, and that the public interest demanded that the motion be denied. (Id. at 2.)

On May 20, 2014, Appellants filed a Notice of Appeal of the Bankruptcy Court's Order in this Court. (Doc. No. 1.) On June 4, 2014, Appellants filed the Motion. On June 16, 2014, Appellees filed the Opposition and their RJN. On June 19, 2014, Appellants filed their RJN and Objection to Appellees' RJN.

II. REQUESTS FOR JUDICIAL NOTICE

In their RJN, Appellees request that the Court take judicial notice of the following nine documents from the record of this case before the Bankruptcy Court, Case No. 2:12-AP-02182-BB:

- (1) Order Granting Motion to Enforce January 23, 2014 Stipulated Agreement, Docket No. 232 (Appellees' RJN Ex. 1);
- (2) Order Following Trial on Adversary Complaints and Motion for Instructions, Docket No. 233 (id. Ex. 2);
- (3) Judgment in Adversary Proceedings, Docket No. 234 (id. Ex. 3);
- (4) Findings of Fact and Conclusions of Law, Docket No. 235 (id. Ex. 4);
- (5) May 24, 2013 Letter from Stephen M. Snyder, Managing Trustee, to Michael J. Mandelbrot, Esq. and the Mandelbrot Law Firm, Trial Exhibit 227¹ (id. Ex. 5);
- (6) Trusts' Notice of Completion of Providing Notice to Beneficiaries and Potential Beneficiaries as Specified in April 7, 2014 Court Order, Docket No. 256 (id. Ex. 6);
- (7) Transcript of Proceedings of Hearing Re Motion to Stay Enforcement of Judgment in Adversary Proceeding and Order Following Trial on Adversary Complaints and Motion for Instructions, Docket No. 281 (id.

¹ In its Findings of Fact and Conclusions of Law, the Bankruptcy Court ordered that this letter be "a part of the public record."

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- Ex. 7);
- (8) Order Denying Mandelbrot Amended Motion to Stay Enforcement of Judgment in Adversary Proceeding and Order Following Trial on Adversary Complaints and Motion for Instructions, Docket No. 283 (id. Ex. 8); and
 - (9) Trust Distribution Procedures for the J.T. Thorpe Settlement Trust, Exhibit A to Declaration of Sara Beth Brown in Support of "Notice of Motion and Motion for Approval of Continued Claim Payment by the J.T. Thorpe Settlement Trust in Accordance With Additional Evaluation Criteria," Docket No. 11 (id. Ex. 9).

In the Objection to Appellees' RJN, Appellants ask the Court to deny judicial notice of Appellees' Exhibits 5, 6, 7, and 8, asserting that these documents are "unreliable, contain perjury or perjured testimony, and were prepared by those with interests adverse to the Trusts who should be removed." (Objection to Appellees' RJN at 2.)

- In their RJN, Appellants ask the Court to take judicial notice of the following:
- (1) Mandelbrot Opposition to Enforcement of Settlement Agreement, and Declaration of Michael J. Mandelbrot in Support of Opposition of Motion to Enforce Settlement Agreement, filed in Bankruptcy Court Case No. 2:12-AP-02182, Docket No. 216 (Appellants' RJN Ex. A); and
 - (2) Objection to Western Asbestos Tenth Annual Report and Accounting, in Bankruptcy Court Case No. 13-31914, Docket No. 1814 (id. Ex. B-P).

A court may take judicial notice of court filings and other matters of public record. See Reyn's Pasta Bella, LLC v. Visa USA, Inc., 442 F.3d 741, 746 n.6 (9th Cir. 2006) (citing Burbank-Glendale-Pasadena Airport Auth. v. City of Burbank, 136 F.3d 1360, 1364 (9th Cir. 1998)). Both Appellants and Appellees have provided reference and case numbers for these documents showing that they were in fact court documents and matters of public record. See Grant v. Aurora Loan Servs., Inc., 736 F. Supp. 2d 1257, 1264 (C.D. Cal. 2010) (citing cases); Velazquez v. GMAC Mortg. Corp., 605 F. Supp. 2d 1049, 1057-58 (C.D. Cal. 2008). Despite Appellants' objection to Appellees' RJN Exhibits 5-8, the Court finds no good cause to deny judicial notice of these documents, as they too are court documents and

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matters of public record. The Court's judicial notice of the existence of certain records, however, does not denote notice of the truth, reliability, or admissibility of the contents of the documents. See Erie R.R. v. Tompkins, 304 U.S. 64, 78 (1938); Wyatt v. Terhune, 315 F.3d 1108, 1114 (9th Cir. 2003).

The Court thus GRANTS judicial notice of all the documents requested in Appellees' RJN and Appellants' RJN.

III. JURISDICTION AND STANDARD OF REVIEW

28 U.S.C. § 158(a) confers jurisdiction on federal district court to entertain an appeal from a bankruptcy court; it provides in pertinent part: "The district courts of the United States shall have jurisdiction to hear appeals . . . from final judgments, orders, and decrees."

Federal Rule of Bankruptcy Procedure 8005 provides that a bankruptcy court may stay a case pending the outcome of an appeal or make other appropriate orders to protect the interests of the parties involved. Fed. R. Bankr. P. 8005. A party seeking a stay must generally file the motion with the bankruptcy court first before seeking relief from a district court. Id.

A stay is not a matter of right – "even if irreparable injury might otherwise result." Nken v. Holder, 556 U.S. 418, 433 (2009). Rather, a stay is an exercise of judicial discretion. Id. A movant must generally satisfy four elements: "(1) appellant is likely to succeed on the merits of the appeal; (2) appellant will suffer irreparable injury; (3) no substantial harm will come to appellee; and (4) the stay will do no harm to the public interest." In re Irwin, 338 B.R. 839, 843 (E.D. Cal. 2006) (internal quotation marks omitted). The first two factors are the most important. Nken, 556 U.S. at 434.

After a bankruptcy court denies a motion to stay, the district court may only review the denial for abuse of discretion. In re Irwin, 338 B.R. at 847; Universal Life Church v. United States, 191 B.R. 433, 444 (E.D. Cal. 1995) ("When a bankruptcy court has ruled on the issue of a stay of its order pending appeal, the district court, sitting as an appellate court, reviews that decision for abuse of discretion."). Thus, Appellants' request that the Court conduct a de novo review the Bankruptcy Court's

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denial of the motion to stay is unavailing. "Abuse of discretion" is the proper standard for the Court's review of the Motion.

IV. DISCUSSION

Appellants fail to establish that the Bankruptcy Court abused its discretion in denying their Bankruptcy Court Motion. The Motion never addresses how the Bankruptcy Court abused its discretion, and merely requests a de novo review of the Bankruptcy Court Motion by pointing the Court to the April 21, 2014 filing of the Bankruptcy Court Motion – without even attaching a copy of the motion but only reproducing a portion of the Bankruptcy Court's docket in the body of the Motion. (See Mot. at 2.) As Appellants fail to address the central question before this Court – the issue of the Bankruptcy Court's abuse of discretion – they fail to meet their burden as the moving party. Even if Appellants had argued that the Bankruptcy Court abused its discretion, the Court, as discussed below, finds Appellants cannot demonstrate that the Bankruptcy Court abused its discretion in denying a stay request. (See Appellees' RJN Ex. 8 at 2.)

In the Bankruptcy Court Motion, Appellants asserted that the Agreement violates California's public policy as expressed in California Business & Professions Code Section 16600 and California Rule of Professional Conduct 1-500. (Bankr. Ct. Mot. at 5-9; see also Opp'n at 13-19.) According to Appellants, the Agreement, which prevents Mandelbrot from filing new claims to Appellees and two other trusts, violates Section 16600's prohibition of contracts that restrain parties from engaging in a lawful profession, and Rule 1-500's disallowance of settlement agreements that restrict the right to practice law. (See Bankr. Ct. Mot. at 5-7.) On May 27, 2014, at the hearing on the Bankruptcy Court Motion, the Bankruptcy Court indicated to the parties that the motion in consideration essentially was seeking to relitigate the case, and that the court stood by the Findings of Fact and Conclusions of Law ("Findings") (in which the court found to the Agreement be valid, binding, and enforceable), as the Findings not only were based on the parties' knowing and voluntary entry into the Agreement itself, but also were consistent with the evidence the court had heard during the trial. (Appellees' RJN Ex. 7 at 3-4; id. Ex. 4 at 11-13.) On June 4, 2014, the Bankruptcy Court formalized its conclusion in an Order denying the Bankruptcy Court Motion, holding that Appellants failed to show that they have a reasonable likelihood of success on the merits of their appeal, or that the public interest

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demands a stay. (See id. Ex. 8 at 2.) Therefore, even if the remaining standards necessary to obtain a stay had been satisfied – i.e., whether Appellants will suffer irreparable injury, and whether no substantial harm will come to Appellees, the court found the Bankruptcy Court Motion should be denied. (Id.)

The record shows that the Bankruptcy Court considered the evidence and the issue of the enforceability of the Agreement, found Appellants' arguments to be unpersuasive, concluded that the Agreement was valid and enforceable, and denied the Bankruptcy Court Motion. (See Appellees' RJN Exs. 4, 7, 8; see also Appellants' RJN Ex. A.) This decision can hardly be said to be an "arbitrary, fanciful or unreasonable" judicial action, which no reasonable [person] would adopt. See In re Irwin, 338 B.R. at 844 (quoting In re Blackwell, 162 B.R. 117, 119 (E.D. Pa. 1993) (defining "abuse of discretion")). "If reasonable [persons] could differ as to the propriety of the action taken by the trial court, then it cannot be said that the trial court abused its discretion." Id. In consideration of the highly deferential standard of review, the Court cannot conclude that the Bankruptcy Court abused its discretion.

Moreover, even if the Court were to engage in a de novo consideration of Appellants' stay request, the Court would agree with Appellees that: (1) permitting Appellants with an established record of filing unreliable evidence in support of their clients' claims would undermine the public interest of ensuring the integrity of the claims process and a proper administration of mass-asbestos trusts created under bankruptcy court authority (see Opp'n at 11-13); (2) Appellants are unlikely to prevail on their argument that the Agreement violates Section 16600 and Rule 1-500, as the two provisions are inapplicable to the instant dispute arising out of Appellants' own misconduct (id. at 13-18); (3) Appellants, in the Bankruptcy Court Motion, fail to show any irreparable injury they will suffer absent a stay (id. at 19-20; see also Bankr. Ct. Mot. at 9-10); and (4) Appellees and their beneficiaries, including individual claimants, will receive substantial injury, if a stay is issued, as the stay likely will lead to delays and conflicting instructions (Opp'n at 20-21). Thus, the Court also agrees with the Bankruptcy Court on the merits of the Bankruptcy Court Motion.

V. CONCLUSION

For the foregoing reasons, the Court DENIES Appellants' Motion to Stay

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CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

Enforcement of Judgment in Adversary Proceeding and Order Following Trial on
Adversary Complaints and Motion for Instructions (Doc. No. 10).

IT IS SO ORDERED.

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