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Bankruptcy Counsel for the Plant Insulation Company Asbestos Settlement Trust

**UNITED STATES BANKRUPTCY COURT**

**NORTHERN DISTRICT OF CALIFORNIA**

**SAN FRANCISCO DIVISION**

| | |
|---|---|
| In re:<br><br>PLANT INSULATION COMPANY, a California corporation,<br><br>Debtor. | Case No. 09-31347-TC<br><br>Chapter 11<br><br>**FIRST ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT**<br><br>Date: June 10, 2013<br>Time: 9:30 a.m.<br>Place: 235 Pine Street, 19th Floor<br>San Francisco, CA 94104 |

The Trustees of the Plant Insulation Company Asbestos Settlement Trust by and through their counsel, Eve H. Karasik and Gabriel I. Glazer of Stutman, Treister & Glatt Professional Corporation hereby file this First Annual Report and Accounting, Audited Financial Statements, and Claim Report.

Respectfully submitted this 30th day of April, 2013.

By: /s/ Gabriel I. Glazer
EVE H. KARASIK, and
GABRIEL I. GLAZER, Members of
STUTMAN, TREISTER & GLATT
PROFESSIONAL CORPORATION
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Bankruptcy Counsel for the Plant Insulation Company Asbestos Settlement Trust



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**FIRST ANNUAL REPORT AND ACCOUNTING OF PLANT INSULATION COMPANY ASBESTOS SETTLEMENT TRUST**

The Trustees of the Plant Insulation Company Asbestos Settlement Trust ("Trust") hereby submit this First Annual Report and Accounting ("Annual Report") covering Trust activities occurring from the commencement of the Trust on November 16, 2012 to and including December 31, 2012 ("Accounting Period"), and certain activities of the Trust, specified below, that took place outside the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Northern District of California, San Francisco Division, *In re Plant Insulation Company*, Case No. 09-31347-TC, in accordance with the Amended and Restated Second Amended Plan of Reorganization of Plant Insulation Company ("Plan"); the Court's April 3, 2012 Order Confirming Amended and Restated Second Amended Plan of Reorganization of Plant Insulation Company ("Confirmation Order"); and the Trust Agreement, Trust Bylaws, Trust Distribution Procedures, and Case Valuation Matrix, as amended from time to time, established pursuant to the Plan,[1] and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle Plant Insulation Company Asbestos Settlement Trust's Annual Report, the Audited Financial Statements, and Claim Report, as described in paragraphs 6, 7, and 8, *infra*. Capitalized terms not defined herein are as defined in the Plan.

1. Effective Date: In compliance with Sections 4.1 and 7.2 of the Plan, the Effective Date of the Trust is November 16, 2012.

2. Appointment of Trustees: In the Confirmation Order, this Court approved the appointment of John F. Luikart and Sandra R. Hernandez, M.D. as the initial trustees of the Trust, who have acted in that capacity since that time.

[1] The Appendix includes the Plan; Confirmation Order; First Amended and Completely Restated Plant Insulation Company Asbestos Settlement Trust Agreement ("Trust Agreement"); First Amended and Completely Restated Plant Insulation Company Asbestos Settlement Trust Bylaws ("Trust Bylaws"); First Amended and Completely Restated Plant Insulation Company Asbestos Settlement Trust Case Valuation Matrix (the "Case Valuation Matrix"); Plant Insulation Company Asbestos Personal Injury Settlement Trust Distribution Procedures ("Trust Distribution Procedures"); other controlling documents approved by this Court; and other documents as indicated.


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Pursuant to Section 4.1 of the Trust Agreement, the number of Trustees was increased to three (3) on November 28, 2012 and Mr. Stephen M. Snyder was appointed to serve as the third Trustee. Mr. Snyder has served as a Trustee of the Trust since November 28, 2012. On February 7, 2013, Mr. Snyder was designated by the other two Trustees as Managing Trustee, with the consent of the Trust Advisory Committee and Futures Representative.

3. Appointment of Trust Advisory Committee ("TAC"): In the Confirmation Order, this Court approved the appointment of Jerry Neil Paul, Matthew Bergman, David McClain, Alan Brayton, and Ronald Shingler as the initial members of the TAC. Mr. Brayton has served as the Chair of TAC since the Effective Date of the Trust.

4. Appointment and Continuation of Futures Representative: The Honorable Charles B. Renfrew was appointed as the Futures Representative in the Debtor's case on June 2, 2009, and his continued appointment as the Futures Representative of the Trust was approved by this Court in the Confirmation Order. Judge Renfrew has served as the Trust's Futures Representative since the Effective Date of the Trust.

5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. Section 2.2(b) of the Trust Agreement requires the Trustees to file income tax and other returns and statements in a timely manner, and comply with all withholding obligations as legally required, including fulfilling requirements to maintain its status as a Qualified Settlement Fund. The federal tax return for 2012 will be filed on or before September 16, 2013. The Trust resides in Nevada, and Nevada has no state income tax. Although the Trust is not subject to tax in California, the Trustees intend to file a tax return in California each year and attach a copy of the Trust's federal tax return that shows no California taxable income or state tax liability.

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

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


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> and accompanied by an opinion of such firm as to the fairness of the financial statements' presentation of the equity presently available to current and future claimants and as to the conformity of the financial statements with accounting principles generally accepted in the United States, except for the special-purpose accounting methods . . . .

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

7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the Trust Agreement, the Trust has caused its accounts to be audited by independent certified public accountants, Grant Thornton, LLP. The Trust's audited financial statements ("Audited Financial Statements") are attached hereto as Exhibit "A". These include a Statement of Net Claimants' Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and Explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis of accounting utilized by the Trust. These Audited Financial Statements show, among other things, that as of December 31, 2012, total Trust assets were $7,368,626, total liabilities were $491,372 and Net Claimants' Equity was $6,877,254.

8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with the Audited Financial Statements, the Trust shall file with the Court a report containing a summary regarding the number and type of claims disposed of during the period covered by the financial statements. As of December 31, 2012, there were no claims submitted to the Trust.

Section 5.5 of the TDP provides that, "As soon as practicable after the Effective Date, the Trust shall pay all Trust Claims that were liquidated by (i) a settlement agreement entered into prior to the Petition Date for the particular claim, or (ii) a judgment of any kind entered on or before October 15, 2007 (collectively, "Pre-Petition Liquidated Claims")." As of December 31, 2012, there were no Pre-Petition Liquidated Claims submitted to the Trust for payment.

9. Claims Processing Procedures: Section 5.3(b) of the TDP provides that within six months after the establishment of the Trust (on or before May 16, 2013), the Trustees, with the consent of the TAC and Futures Representative, shall adopt procedures for reviewing and liquidating



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all unliquidated Trust Claims. The Trust is in the process of developing a claims processing system, an official claim form, claim form instructions, policies, and other forms for submitting and processing unliquidated Trust Claims.

10. Public Inspection: In compliance with Section 2.2(c)(iii) of the Trust Agreement, the Annual Report, including the Audited Financial Statements and Claim Report, has been provided to the TAC and Futures Representative, filed with the Office of the United States Trustee with responsibility for the Northern District of California, and made available for inspection by the public.

11. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the Trustees shall meet in Nevada, or a state other than California, at least once per calendar quarter. The Trustees held two (2) meetings during the Accounting Period (November 17, 2012 and November 28, 2012). The meetings were held in Reno, Nevada.

12. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the 2013 budget and the required four-year budget and cash flow projections on November 28, 2012. Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for operating expenses in 2013 is $2,031,700.

13. Trust Facilities and Services Sharing Agreement with Western Asbestos Settlement Trust: On November 28, 2012, the Trust and Western Asbestos Settlement Trust (the "Western Trust") entered into a "Trust Facilities and Services Sharing Agreement" (the "Sharing Agreement"). The Sharing Agreement provides: (i) for the Trust to pay to the Western Trust, for all processing costs and its share of fixed costs, the amount of $15,000 for the period of November 16, 2012 to December 31, 2012 and $15,000/month during the remainder of the initial term of the Sharing Agreement, and (ii) for an accounting through the end of 2013 and each year thereafter to identify and adjust actual costs as shared to insure that each trust is paying its proportionate share of the expenses.


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14. Legal Disputes:

a. *Appeal of Confirmation Order*, United States District Court for the Northern District of California, Case No. 12-cv-01887-RS (the "District Court") and United States Court of Appeals for the Ninth Circuit, Appeal Nos. 12-17466, 12-17467 and 12-17511 (the "Ninth Circuit"): On April 10, 2012, Fireman's Fund Insurance Company, American Automobile Insurance Company, OneBeacon Insurance Company, United States Fidelity and Guaranty Company, United States Fire Insurance Company, ACE Fire Insurance Company, ACE Property and Casualty Insurance Company, Safety National Casualty Corporation, American Home Assurance Company, Granite State Insurance Company, The Insurance Company of the State of Pennsylvania, Insurance Company of the West, and Transport Insurance Company (collectively, the "Insurers") appealed the Confirmation Order to the District Court. In their appeal, the Insurers made a number of arguments for reversal, including that: (1) the proposed injunctive relief in the Plan violated their Constitutional rights, exceeded the authorization provided by the Bankruptcy Code, interfered with their common law and contractual rights under state law, and contravened general principles of equity; (2) the Plan did not meet the specific requirements of 11 U.S.C. § 524(g); (3) the Plan was not filed in "good faith" as required by Bankruptcy Code section 1129(a); (4) continuing the deadline for settlements by insurers would further prejudice non-settling insurers; and (5) the Plan did not meet the "best interest of creditors" test. On October 9, 2012, the District Court affirmed the Confirmation Order. Subsequent motions to stay the Confirmation Order and the District Court's affirmation of it were denied by the District Court, the Ninth Circuit, and the United States Supreme Court.

A group of Insurers filed a Notice of Appeal of the District Court's decision to the Ninth Circuit on November 1, 2012. Separate appeals of the District Court's decision were filed by United States Fire Insurance Company and by ACE Fire Insurance Company and ACE Property and Casualty Insurance Company. United States Fire Insurance Company's appeal was consolidated with that of the larger Insurer group. These appeals remain pending. Oral arguments in the consolidated appeals of the Insurer group and United States Fire Insurance Company are scheduled for April 19, 2013.



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b. *Motion for Order Approving Settlement Agreement with the Allianz Companies, Designating the Allianz Companies as Settling Asbestos Insurers Under the Plan, and Approving the Sale of Insurance Policies Free and Clear of Liens, Claims, and Interests*, Docket No. 2130, filed by the Debtor, the Committee and the Futures Representative on May 16, 2012: In connection with confirmation of the Plan, the Debtor entered into a settlement agreement with Fireman's Fund Insurance Company, American Automobile Insurance Company, and National Surety Corporation (collectively, the "Allianz Companies"). The Debtor filed a motion for approval of the settlement agreement jointly with the Committee and the Futures Representative, which agreement contemplated (i) the payment by the Fireman's Fund Entities of $69 million in settlement installment payments to the Debtor or a settlement trust, (ii) the sale by the Debtor of insurance policies free and clear of claims to the Allianz Companies, and (iii) the designation of the Allianz Companies as "Settling Asbestos Insurers" under the Plan.

On July 5, 2012, this Court entered its "Order (A) Approving Settlement Agreement with the Allianz Companies, (B) Designating the Allianz Companies as Settling Asbestos Insurers Under the Plan, and (C) Approving the Sale of Insurance Policies Free and Clear of Liens, Claims, and Interests" (the "Allianz Settlement Order"). On July 17, 2012, ACE Fire Insurance Company and ACE Property and Casualty Insurance Company filed an appeal of the Allianz Settlement Order to the United States District Court for the Northern District of California (the "District Court"). *See* Docket No. 2242. On July 30, 2012, OneBeacon Insurance Company filed a separate appeal of the Allianz Settlement Order to the District Court. *See* Docket No. 2267.

Thereafter, the District Court consolidated the two appeals for joint administration, and on October 9, 2012, the District Court entered an order dismissing the appeals on the grounds of mootness.

c. *Motion for Order (A) Approving Settlement with the ACE Companies, (B) Designating the ACE Companies as Settling Asbestos Insurers Under the Plan, and (C) Approving the Sale of Insurance Policies Free and Clear of Liens, Claims, and Interests*, Docket No. 2376, filed on October 17, 2012: After confirmation of the Plan but before the Effective Date, and before the deadline for settlements in the Plan, the Debtor sought Bankruptcy Court approval of a


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settlement (the "ACE Settlement") with the ACE Fire Underwriters Insurance Company ("ACE Fire") and ACE Property & Casualty Insurance Company ("ACE P&C") (collectively, the "ACE Companies"). The ACE Settlement provided (i) that the ACE Companies would make a $53 million payment to an escrow fund, (ii) for the sale from the Debtor of the relevant insurance policies to the ACE Companies, and (iii) that the ACE Companies would be designated as "Settling Asbestos Insurers" entitled to the benefit of certain injunctions in the Plan. This Court approved the ACE Settlement by entering an order on October 24, 2012 (the "ACE Settlement Order"). United States Fidelity and Guaranty Company, OneBeacon Insurance Company, Safety National Casualty Corporation, Transport Indemnity Company, Insurance Company of the West, Insurance Company of the State of Pennsylvania, Granite State Insurance Company, American Home Assurance Company and United States Fire Insurance Company (collectively, the "USF&G Insurers") filed a motion for reconsideration of the ACE Settlement Order on September 29, 2012. After conducting a hearing, this Court denied the reconsideration motion. On April 4, 2013, the USF&G Insurers filed a notice of appeal of the ACE Settlement Order, and simultaneously elected to have that appeal heard by the District Court.

d. *Appeal of Order Appointing Sheppard, Mullin, Richter & Hampton, LLP as Counsel for Committee*, Docket No. 2572, filed on March 21, 2013: At the outset of the Bankruptcy Case, the Committee filed an application to employ Sheppard Mullin Richter & Hampton LLP ("Sheppard Mullin") as its counsel. United States Fire Insurance Company ("U.S. Fire") objected to the Committee's application, arguing that Sheppard Mullin had a disabling conflict arising from its representation of U.S. Fire in a prior, concluded matter. Prior to the Debtor's bankruptcy filing, U.S. Fire had sought an injunction in California state court to prevent Sheppard Mullin from representing the informal committee of asbestos creditors of Plant Insulation Company. Sheppard Mullin removed that state court action, which also involves a counterclaim by Sheppard Mullin for unpaid fees, to the Bankruptcy Court where it remains pending as Adversary Proceeding No. 09-03112. The Bankruptcy Court approved the Committee's application to employ Sheppard Mullin by a memorandum decision entered on August 5, 2009 as Docket No. 275 and an order entered on August 12, 2009 as Docket No. 282 (collectively, the "SMRH Order").


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U.S. Fire filed an initial appeal of the SMRH Order on August 21, 2009. The District Court dismissed that appeal on April 14, 2010 as the SMRH Order was not yet final and appealable. On March 21, 2013, after the approval of Sheppard Mullin's final application for approval of compensation and reimbursement of expenses, U.S. Fire filed an appeal of the SMRH Order and all of the interim and final orders granting fee awards and reimbursement requests to Sheppard Mullin. U.S. Fire and Sheppard Mullin entered into a stipulation that was filed with the Bankruptcy Court on April 4, 2013 to extend the time in which U.S. Fire must file its statement of issues and designation of record on appeal, as the parties are in negotiations over a potential settlement.

15. Amendments to the Trust Documents:

a. On November 17, 2012, the Trust Agreement was amended as set forth herein. Typographical errors were corrected throughout. Section 2.2(c)(i)(6) was amended to allow the Trust to record securities issued by the Reorganized Debtor at cost if no market value is available. Section 2.2(g) was amended to acknowledge that consents by the TAC and Futures Representative whether by signature or as reflected in all approved Trustees' meeting minutes shall constitute the required form and substance of consent. Section 3.2(d)(ii) was amended to add that all long term debt instruments other than those of the Reorganized Debtor be rated above investment grade by a nationally recognized statistical rating agency. Section 3.2 (d)(iv) was amended to add that the Trust may invest in REITS, MLPs, and Royalty Trusts and may invest no more than 45% of its assets in stock, excluding any securities issued by the Reorganized Debtor. Section 3.2(d)(v) was amended to be consistent with Section 3.2(d)(i). Section 3.2(e) was added to limit the acquisition and holding of a Trust security to not exceed 5% of the aggregate value of the Trust Estate, excluding any securities issued by the Reorganized Debtor. Section 4.5 was amended to allow for the travel time of the Trustees to be paid at the regular hourly rate and provide that the Trustee compensation will not be reviewed until the order confirming the Plan has become a final order and no longer subject to appeal and annually thereafter.

b. On November 17, 2012, the Bylaws were amended to provide for meetings to be held at least four times per year as close as practicable on a quarterly basis.

c. On November 17, 2012, the Matrix was amended to correct typographical


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errors throughout and to allow for a pathological diagnosis of occupational levels of asbestos bodies or asbestos fibers in lung tissue to be considered when determining medical causation.

d. On February 7, 2013, the Trust Agreement was amended as set forth herein. Section 4.1 of the Trust Agreement was amended to increase the number of Trustees to three, to designate Stephen M. Snyder as Managing Trustee, and to reflect that if the Trustees cannot agree by a majority vote, that the dispute shall be resolved by the Bankruptcy Court. Section 4.2(a) was amended to be consistent with the addition of a third Trustee. A copy of the *Second Amended and Completely Restated Plant Insulation Company Asbestos Settlement Trust Agreement* is included in the Appendix filed herewith.

16. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the Trust to report the amounts paid to the Trustees for compensation and expenses. During the Accounting Period, the Trustees each received per annum compensation in the amount $40,000. The total paid to all Trustees for hourly compensation was $20,875 and $1,532 was the total amount of expenses incurred by all Trustees.

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

a. Sheppard, Mullin, Richter & Hampton LLP: Legal counsel to the TAC.

18. Final Fee Applications: All Final Fee Applications were approved by this Court in March 2013.

***

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



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# EXHIBIT A

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Grant Thornton

# Financial Statements and Report of Independent Certified Public Accountants

## Plant Asbestos Settlement Trust

December 31, 2012




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## Report of Independent Certified Public Accountants

Trustees
Plant Asbestos Settlement Trust

We have audited the accompanying financial statements of Plant Asbestos Settlement Trust ("the Trust"), organized in the State of Nevada, which comprise the statement of net claimants' equity as of December 31, 2012, and the related statements of changes in net claimants' equity and cash flows for the period from inception (November 16, 2012) through December 31, 2012, 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 audit. We conducted our audit 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.



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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of Plant Asbestos Settlement Trust as of December 31, 2012, and the changes in net claimants' equity and cash flows for the period from inception (November 16, 2012) through December 31, 2012, 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 Expenses for the period from inception (November 16, 2012) through December 31, 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Restriction on use

Our report is intended solely for the information and use of the management of the Trust and Trustees, the beneficiaries of the Trust, the Futures Representative, the Futures Counsel, the members of the Trust Advisory Committee, and the United States Bankruptcy Court for the Northern District of California, San Francisco Division and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Reno, Nevada
April 15, 2013



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## Plant Asbestos Settlement Trust

## STATEMENT OF NET CLAIMANTS' EQUITY

### December 31, 2012

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 5,061,626 |
| Investment in reorganized debtor | 2,000,000 |
| Deferred tax asset | 307,000 |
| Total assets | $ 7,368,626 |
| **LIABILITIES** | |
| Accounts payable | $ 289,924 |
| Accounts payable to Trustees | 21,448 |
| Facility and staff sharing agreement payable | 180,000 |
| Total liabilities | $ 491,372 |
| **NET CLAIMANTS' EQUITY** | $ 6,877,254 |

The accompanying notes are an integral part of this statement.



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## Plant Asbestos Settlement Trust

## STATEMENT OF CHANGES IN NET CLAIMANTS' EQUITY

**For the period from inception (November 16, 2012) through December 31, 2012**

| | |
|---|---|
| **Net claimants' equity, at inception** | $ - |
| **Additions to net claimants' equity** | |
| Initial funding | 7,525,956 |
| Investment income | 666 |
| Provision for income taxes, deferred | 307,000 |
| Total additions | 7,833,622 |
| **Deductions from net claimants' equity** | |
| Operating expenses | 776,368 |
| Net increase in facility and staff sharing agreement | 180,000 |
| Total deductions | 956,368 |
| **Net claimants' equity, end of year** | $ 6,877,254 |

The accompanying notes are an integral part of this statement.



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**Plant Asbestos Settlement Trust**

**STATEMENT OF CASH FLOWS**

**For the period from inception (November 16, 2012) through December 31, 2012**

| | |
|---|---|
| **Cash inflows:** | |
| Initial funding | $ 7,525,956 |
| Investment income receipts | 666 |
| Total cash inflows | 7,526,622 |
| **Cash outflows:** | |
| Investment in reorganized debtor | 2,000,000 |
| Disbursements for trust operating expenses | 464,996 |
| Total cash outflows | 2,464,996 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 5,061,626 |
| **Cash and cash equivalents, beginning of period** | - |
| **Cash and cash equivalents, end of period** | $ 5,061,626 |

The accompanying notes are an integral part of this statement.



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## NOTE A - SUMMARY OF ACCOUNTING POLICIES

### 1. Description of Trust

Plant 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 Plant Insulation Company (the "Debtor") Amended and Restated Second Amended Plan of Reorganization, dated April 2, 2012. The Trust was formed to assume the Debtor's liabilities resulting from pending and potential litigation involving individuals exposed to asbestos who have manifested asbestos-related diseases or conditions, for which the Debtor has legal responsibility; 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 the effective date of the Plan, the Trust assumed liability for existing and future asbestos related claims against the Debtor. The Trust became effective on November 16, 2012.

The Trust was initially funded with cash, a note receivable and insurance settlement proceeds. The Trust's funding is dedicated solely to the settlement of asbestos related claims and the related costs thereto, as defined in the Plan.

The Trust will process and pay all asbestos related claims in accordance with the Plant Asbestos Settlement Trust Agreement, as amended and restated, the Case Valuation Matrix, as amended and restated, (Matrix) and Trust Distribution Procedures, (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 Plant Insulation Company and its liability insurers is recorded directly to net claimants' equity. These funds do not represent income of the Trust. Offers for asbestos related 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 and software development.
- 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.



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NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. **Special-Purpose Accounting Methods** - Continued

- The liability for unpaid claims will be reflected in the statement of net claimants' equity and will represent settled but unpaid claims and outstanding offers. A claims liability will be recorded once an offer is made to the claimant at the amount equal to the expected pro rata payment. No liability will be 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, excluding any securities issued by the Reorganized Debtor which shall be recorded at cost, if no fair value is available. All interest and dividend income on available-for-sale securities, net of investment expenses, are included in investment income on the statements of changes in net claimants' equity. Realized and unrealized gains and losses on available-for-sale securities will be recorded as separate components on the statement of changes in net claimants' equity.

- Realized gains/losses on available-for-sale securities will be recorded based on the security's original cost. At the time a security is sold, all previously recorded unrealized gains/losses will be reversed and recorded net, as a component of other unrealized gains/losses in the 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. **Use of Estimates**

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires management 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.

5. **Concentration of Risk**

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



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NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. 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, 2012, 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 period from inception (November 16, 2012) through December 31, 2012. 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 will file income tax returns in the United States. Although the Trust owes no tax to the State of California, it will file an annual tax return in California reporting no taxable income or tax owed.

NOTE B - TRANSACTIONS WITH REORGANIZED DEBTOR

Pursuant to the Plan, the Trust invested $2 million in the common stock of Bayside Insulation and Construction, Inc. ("Bayside"), the Reorganized Debtor, for an ownership percentage of 40%. Bayside has the right to purchase the shares back during the ten years subsequent to the effective date of the Plan at a purchase price of the principal amount paid for the shares by the Trust plus simple interest at 10% per year. Five years subsequent to the effective date of the Plan, the Trust has the right to require the Reorganized Debtor to repurchase the shares. The Trust recorded this investment at cost as an asset on the accompanying statement of net claimants' equity, in accordance with the Trust documents.

In addition, the Trust also received warrants to purchase up to 51% of Bayside's common stock, during the exercise period, which ends in 2022. The Plan documents authorize for a five-year secured, revolving loan to be made available to the Reorganized Debtor. In addition to producing audited financial statements and satisfying several conditions, the maximum amount that the Reorganized Debtor may borrow or have outstanding at any time is based on the eligible accounts receivable, as in a standard loan agreement of commercial banks. No amounts were outstanding as of December 31, 2012. In accordance with the Plan documents, no amounts are recorded for these transactions as no cost has been incurred to date.

NOTE C - CLAIMS PROCESSING AGREEMENT

Pursuant to the Plan, the Trust entered into a claims processing agreement with Bayside. Under the agreement, and in exchange for monthly payments, Bayside is responsible for performing certain obligations related to processing and documenting claims filed in the tort system against non-settling insurers. During the period from inception (November 16, 2012) through December 31, 2012, the Trust incurred $90,000 in claims processing fees.



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## NOTE D - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into a facilities and staff sharing agreement with the Western Asbestos Settlement Trust, (the Western Trust). The two trusts are related through common trustees. Under the agreement, and in exchange for advance monthly payments, the Western Trust provides use of its facilities and services relating to administration and claims processing. The initial monthly payment of $15,000 will be in place through December 31, 2013; and provisions allow for automatic renewal for additional one-year periods unless either party provides written notice. The Western Trust is required to provide a written calendar year reconciliation of the annual services costs compared to the advance payments. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The first reconciliation period will be the fourteen-month period ending December 31, 2013. The future payments under this agreement have been recorded as a liability on the accompanying statement of net claimants' equity.

## NOTE E - NET CLAIMANTS' EQUITY

The Trust was created pursuant to the Plan confirmed by the United States Bankruptcy Court for the Northern District of California, San Francisco Division. The TDP was adopted pursuant to the Plan and concurrently with the Trust Agreement. It is designed to provide fair and equitable treatment for all Trust claims that may presently exist or may arise in the future. The TDP prescribes certain procedures for distributing the Trust's limited assets, including pro rata payments and initial determination of claim value based on scheduled disease values, 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 Funds Received Ratio is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

The Trustees, with the consent of the Trust Advisory Committee ("TAC") and Future Representative, will set the Initial Funds Received Ratio once the trust has collected sufficient assets to make the expense and burden on claimants of a distribution worthwhile. As of December 31, 2012, the Initial Funds Received Ratio had not been set, and the Trust has not processed any Trust claims during the period from inception (November 16, 2012) through December 31, 2012.



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## NOTE F - INCOME TAXES

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 35% for the period from inception (November 16, 2012) through December 31, 2012 and 39.6% for subsequent periods.

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

The provision for income taxes consists of the following for the period from inception (November 16, 2012) through December 31, 2012:

| | |
|---|---|
| Federal income tax – current | $ - |
| Deferred income tax benefit | 307,000 |
| | $307,000 |

The components of the deferred income tax asset, as presented in the statement of net claimants' equity consisted of the following at December 31 2012:

| | |
|---|---|
| Deferred tax asset | |
| Loss carryforward | $307,000 |

## NOTE G - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 15, 2013 the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure.



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# SUPPLEMENTAL INFORMATION

**Plant Asbestos Settlement Trust**

## SCHEDULE OF OPERATING EXPENSES

**For the period from inception (November 16, 2012) through December 31, 2012**

| | | |
|---|---|---|
| Accounting | $ | 998 |
| Claims processing | | 719 |
| Claims processing agreement - Bayside | | 90,000 |
| Futures representative | | 104,326 |
| Insurance | | 185,000 |
| Legal fees | | 37,968 |
| Legal fees - court ordered | | 19,099 |
| Trust advisory committee | | 180,851 |
| Trust facility and staff sharing expense | | 15,000 |
| Trustee fees | | 142,407 |
| | $ | 776,368 |



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