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Attorneys for Trustees of the
Western Asbestos Settlement Trust

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

In re: WESTERN ASBESTOS COMPANY, WESTERN MACARTHUR CO., and MACARTHUR CO., Debtors.	Case No. 02-46284-T thru 02-46286-T ***Jointly Administered under 02-46284-T*** Chapter 11 **FOURTH ANNUAL REPORT AND ACCOUNTING OF WESTERN ASBESTOS SETTLEMENT TRUST** Date: May 19, 2008 Time: 11:00 a.m. Place: 1300 Clay Street, Room 201 Oakland, CA 94604

Western Asbestos Settlement Trust by and through its counsel, Janet L. Chubb, Esq., of Jones Vargas, herewith files its Fourth Annual Report and Accounting.

Respectfully submitted this 25th day of April, 2008.

JONES VARGAS

By: /s/ Janet L. Chubb
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FOURTH ANNUAL REPORT AND ACCOUNTING OF WESTERN ASBESTOS SETTLEMENT TRUST

The Trustees of the Western Asbestos Settlement Trust ("Trust") hereby submit this Fourth Annual Report and Accounting ("Annual Report") covering Trust activities occurring from January 1, 2007, to and including December 31, 2007 ("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, Oakland Division, *In Re Western Asbestos Company*, Case no. 02-46284-T, in accordance with the Second Amended Joint Plan of Reorganization ("Plan"); the Court's January 27, 2004, Order Confirming Second Amended Joint Plan of Reorganization and Granting Related Relief ("Order Confirming the Plan"); Sixth Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement ("Trust Agreement"); First Amendment to and Complete Restatement of Western Asbestos Settlement Trust Bylaws ("Trust Bylaws"); Case Valuation Matrix ("Matrix"); First Amendment to and Complete Restatement of the Western Asbestos Company/ Western Mac Arthur Co./Mac Arthur Co. Asbestos Personal Injury Settlement Trust Distribution Procedures ("TDP"); other controlling documents approved by this Court[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 Western Asbestos Settlement Trust's Fourth Annual Report, the Audited Financial Statements, and the Claim Report, as described in paragraphs 5 and 6, *infra*. Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan Documents.

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

2. Appointment of Trustees: In its February 2, 2004, Order Approving Futures Representative's Motion for Approval of Appointment of Trustees for the Western Asbestos Settlement Trust, this Court approved the appointment of SANDRA R. HERNANDEZ, M.D.,

[1] The Appendix includes all sections of the Plan Documents, Court Orders, and Agreements referenced herein.

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JOHN LUIKART and STEPHEN M. SNYDER as Trustees of the Trust, who have acted in that capacity since that time. Elected in 2004 by the other two Trustees, Stephen M. Snyder has continued to serve as Managing Trustee throughout 2007.

3. Tax Obligations: 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 Trust has complied with its tax obligations on a quarterly basis based upon the advice of Sitkoff/O'Neil Accountancy Corporation, the certified public accountants retained by the Trust to prepare its annual tax returns. The 2007 federal tax return must be filed on or before September 15, 2008. The Trust resides in Nevada and Nevada has no state income tax. Although the Trust is not subject to tax in California, the Trustees will file a tax return in California, attaching a copy of the Trust's federal tax return but showing no California taxable income or state tax liability.

Based on the opinion of tax counsel and relevant authorities, the Trust allocated a portion of each of the 2004, 2006 and 2007 partial payments it made on Pre-Petition Liquidated Default Claims between the judgment amount, which is excluded from income as damages on account of personal physical injury, and interest, which the Trust reported on a Form 1099. In December of 2007, the Trust learned that there may be authority for allocating partial payments entirely to the nontaxable judgment, and none to interest, until the amount of the judgment has been paid in full. The Trust is therefore seeking a ruling from the Internal Revenue Service to confirm that nontaxable treatment of the partial payments, as discussed in paragraph 21. b., *infra*.

4. 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 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 set forth.

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Western Asbestos Asbestos Trust Annual Reports, 2007 annual report
ACL Doc 14545 · Page 3 of 16
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The special-purpose accounting methods were adopted by the Trustees with the approval of the TAC and the Futures Representative in the Third Amendment to and Complete Restatement of the Western Asbestos Settlement Trust Agreement, dated February 28, 2005. 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.

The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, except where otherwise stated, all reports attached to this Annual Report cover the Accounting Period.

5. 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 Grant Thornton LLP, the independent certified public accountants retained by the Trust to perform the annual audit of its financial statements. 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 adopted by the Trust. These Audited Financial Statements show, among other things, that as of December 31, 2007, total Trust assets were $1,033,627,574, total liabilities were $53,357,112, and Net Claimants' Equity was $980,270,462.

6. 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. The Western Asbestos Settlement Trust Claim Report As Of December 31, 2007 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 933 claims, paid and closed 917 claims, and made settlement offers on an additional 218 claims. Since the Trust received its first Trust claim[2] on August 27, 2004, the Trust

[2] A claim submitted to the Trust after the Effective Date.

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has received 5,909 claims, paid and closed 3,525 claims, and 975 claims have been withdrawn.

Section 5.4 of the TDP provides that the Trust shall pay Pre-Petition Default, Settlement, and Matrix Claims (hereafter "Pre-Petition Liquidated Claims")[3] "[as] soon as practicable after the Effective Date". The vast majority of these claims were paid in 2004, and by December 2005, the Trust had paid 99% of all Pre-Petition Liquidated Claims. During the Accounting Period, the Trust paid two (2) Pre-Petition Liquidated Claims in the total amount of $5,182.86. That amount was paid in trust to the representative law firms after appropriate releases from the respective claimants were received by the Trust. The Trust has not yet received proper release documents for 37 remaining unpaid Pre-Petition Liquidated Claims in the total amount of $645,762.67.

7. 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 quarter as soon as practicable after the Effective Date, and on or about the anniversary of the Effective Date. The Trustees held five (5) meetings during the Accounting Period (February 22, 2007, April 19, 2007, July 24, 2007, September 20, 2007, and November 15, 2007). All meetings were held at the Trust headquarters in Reno, Nevada.

8. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement, the Annual Report, including the Audited Financial Statements and Claim Report, has been sent to the Approving Entities and the Office of the United States Trustee with responsibility for the Northern District of California, and has been made available for inspection by the public in accordance with procedures established by this Court.

9. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires the Trustees to cause to be prepared 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 2008 budget and the required four-year budget and cash flow projections on November 15, 2007. Pursuant to the Trust Agreement, these were provided to the

[3] See this Court's February 3, 2004 Memorandum of Decision after Confirmation Hearing.

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ACL Doc 14545 · Page 5 of 16 asbestosclaims.law/library/14545/5

Approving Entities. The budget for operating expenses in 2008 is $3,751,965.[4]

10. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust calculate an annual payment limit for claims based upon a model of the amount of cash flow anticipated to be necessary over the entire life of the Trust to ensure that funds will be available to treat all present and future claimants as similarly as possible. At the November 15, 2007, meeting, the Maximum Annual Payment for 2008 was set at $62,530,350, plus the amount of $40,359,650 of excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled over and remain dedicated to the respective Disease Category in the Jurisdiction to which they were originally allocated.

11. Custodial Accounts: Wells Fargo Bank, N.A., continues to act as custodian for the Trust.

12. Set Aside Fund: The Trust continues to maintain a separate account with Wells Fargo Bank, N.A. entitled "Claims Defense Fund for Ordway and Milwaukee, Van Packer, and Mac Arthur and Western Mac Arthur" as required by the Trust Documents. This account holds the legally required amount in cash and securities for certain indemnification obligations. No claims were made against any of these indemnity funds during the Accounting Period.

13. Indemnity Fund: Section 4.6 of the Trust Agreement provides that the Trust shall indemnify the Trustees, the Trust's officers and employees, the Futures Representative, the TAC and each of their respective agents. The Trustees, the Futures Representative, the TAC and their respective agents have a first priority lien upon the Trust's assets to secure the payment of any amounts payable to them pursuant to Section 4.6.

In 2004, the Trust established an indemnity fund in the amount of $40,000,000, as described in the Trust's Third Annual Report and Accounting. All interest earned by the fund is returned to the Trust quarterly. During the accounting period, no claims were made against the fund and no money was paid from the fund.

14. Special Budget Fund: A Special Budget fund was approved in this Court's May

[4] This figure is net of claimant payments which are budgeted for $102,890,000, net of income tax payments which are budgeted for $5,000,000, and after taking into consideration the J.T. Thorpe facility sharing payment of $252,000

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ACL Doc 14545 · Page 6 of 16
Published by AsbestosClaims.Law
asbestosclaims.law/library/14545/6

18, 2005, Order to Approve and Settle Western Asbestos Settlement Trust's Annual Report and Accounting, Audited Financial Statements, and Claim Report; and to Approve Resolution Regarding the FAIR Act ("May 18, 2005, Order") in the event federal tort reform legislation that would seek to confiscate Trust accounts such as the FAIR Act (S.B. 852) passes. The Special Budget Fund was established to permit the Trust to continue to operate on a limited basis so that if and when the Act is overturned, the Trust will be able to begin paying claims with minimal interruption and expense. In keeping with the May 18, 2005, Order, the Managing Trustee is in charge of administering and reporting on the Special Budget Fund. All interest earned by the fund is returned to the Trust quarterly. In accordance with the May 18, 2005, Order, the Managing Trustee has reported regarding the disposition and status of these monies at each regular meeting in 2007 to determine whether to increase or decrease the amount in this Special Budget Fund. No changes were recommended to adjust the amount during the Accounting Period. As of December 31, 2007, the Special Budget Fund contained $37,715,912.16.

15. Settlement Fund Control Account and Control Agreements: Section 4.7 of the Trust Agreement grants to the Trustees, the Futures Representative and the TAC, a security interest in all of the assets of the Trust to secure the indemnification obligations of the Trust to such parties. The Trustees, the TAC, the Futures Representative and their agents have a security interest in the assets of the Trust, including, but not limited to, the five Wells Fargo Bank, N.A. sub-accounts, including the Set Aside Fund, Indemnity Fund, Operating Account, Special Budget Fund and Settlement Fund Account ("Specific Funds"). The Trust has entered into five separate Control Agreements with respect to the Specific Funds, as described in the Trust's Third Annual Report and Accounting. There has been no change in these Control Agreements during the Accounting Period.

16. Resolution Regarding Payment Percentage: Section 4.2 of the TDP provides that, commencing on the first day of January, after the Plan has been confirmed and no less frequently than once every three years thereafter, the Trustees shall reconsider the Payment Percentage to assure that it is based on accurate current information and may, after such reconsideration, change the Payment Percentage if necessary with the consent of the TAC and the Futures Representative.

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In its April 14, 2004, Order Under Fed.R.Bankr.P. 9019 Approving Compromises with Settling Insurers, this Court approved a Payment Percentage to the Trust's claimants of 31.5%. The Payment Percentage was increased to 34.2% effective January 1, 2006, as described in the Trust's Third Annual Report and Accounting. At the February 22, 2007, meeting, the TAC requested a review of the Payment Percentage and claims projections and the Trustees and Approving Entities agreed to employ Dr. Thomas Vasquez of Analysis Research Planning Corporation to utilize the previous research and analyze new data to determine if the claims projections made at the commencement of the Trust should be revised. Dr. Vasquez was requested to update the forecast as necessary and to determine if the Payment Percentage should be adjusted. Dr. Vasquez submitted his report dated July 1, 2007, to the parties and based upon his conclusions, the Payment Percentage was increased to 40% at the July 24, 2007, meeting.

17. Resolution Regarding Inflation Adjustment: The original Payment Percentage approved by this Court was based upon projections of future claims payments adjusted annually for inflation. Beginning in 2006, all claims payments made during a calendar year 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) announced in January each year, as described in the Trust's Third Annual Report and Accounting. Consequently, as of January 1, 2007, all claims payments made during the calendar year were increased by 6.09% to account for inflation in 2005 and 2006. At the November 15, 2007, meeting, the CPI-W to be published in January 2008, was approved for use by the Trust in making the 2008 cost of living adjustment for claims payments. Thus, all claims payments made during the 2008 calendar year are increased by 10.65% to account for inflation in 2005, 2006, and 2007.

18. Amendments to the Trust Documents: During the Accounting Period, certain of the Trust documents were revised and placed on the Trust's website as follows:

a. As previously set forth in the Trust's Third Annual Report and Accounting: on February 22, 2007, the following significant changes were made to the Trust Agreement:

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ACL Doc 14545 · Page 8 of 16
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Paragraphs 2.2(c) (i) 6 and 7 of the Trust Agreement were amended to restate financial reporting of interest and dividend income on available-for-sale securities on a net realized and unrealized gains and losses basis; Paragraph 2.2(d) was amended to remove the requirement that the budgets be sent to the Debtors; Paragraph 4.5(a), 4.6(b) and (d) and 5.5(a) were amended to reflect the current compensation of the Trustees, TAC and Futures Representative.

b. On September 20, 2007, the following significant changes were made to the Trust Agreement: Paragraph 4.3(a) was revised to allow the Approving Entities to apply to the Bankruptcy Court to fill the vacancy of one (1) Trustee position should the need arise; Paragraph 4.5(a) was revised to reflect the current hourly compensation of the Managing Trustee, which was reviewed and increased to $550 by the Futures Representative and TAC, with the consent of the non-managing Trustees, on July 24, 2007; and Paragraph 4.6, "Compensation and Expenses of TAC Members" was removed from Article 4, "Trustees" and added as Paragraph 6.5 to Article 6, "Trust Advisory Committee", and the paragraphs under Articles 4 and 6 were renumbered accordingly.

c. On September 20, 2007, a previously approved revision to Section 4 of the Trust Bylaws concerning the annual meeting requirement. The amendment allows the annual meetings to be held "on or about" the anniversary of the Effective Date.

d. On September 20, 2007, the Trust Facilities and Services Sharing Agreement entered into with the J.T. Thorpe Settlement Trust was amended as follows: revisions were made throughout the document to provide for the addition of two (2) Trustees of the J.T. Thorpe Settlement Trust; and Paragraph 4.2 was revised to change the measuring period for the Annual Reconciliation to be on a calendar year basis and to specify the time period of July 1, 2007, to and including December 31, 2008, for the next reconciliation.

19. Arbitration Procedures: The current Trust Arbitration Procedures and forms enacted pursuant to Section 5.9(a)-(c) of the TDP were reviewed by the Trust and revisions were approved at the September 20, 2007, meeting. Additional updated procedures and forms were approved on November 15, 2007. Claims Resolution Management Corporation ("CRMC") of Falls Church, Virginia, was retained by the Trust to assist in the administration of claims that

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proceed through arbitration. CRMC provides arbitration management services and arbitrators to other similar asbestos bankruptcy trusts.

20. Fraud Audit: Trust Claims Audit procedures were approved at the February 2, 2006, meeting and the Claims Processing and Internal Controls Audit was conducted by Mr. David Maxam in 2006 as described in the Trust's Third Annual Report and Accounting. One of Mr. Maxam's recommendations was that the Trust should conduct an internal claims processing audit in 2007. Such an audit was conducted in July of 2007, by the Trust's outside claims consultant, Mr. Charles LaGrave. Mr. LaGrave's findings were reported at the September 20, 2007, meeting and indicated that the Trust was in compliance with the established claims processing practices.

Financial Investigative Services, Inc. (FIS) was retained by the Trust to conduct the remaining two phases of the audit which include: (1) a random sample of paid claims to verify that they were valid claims and that the claimants had received the appropriate amounts from their attorney representatives; and (2) a random sample of in-process claims to confirm that the supporting medical documents provided are based upon actual tests, x-rays, examinations, etc. and that the reviewing doctor's diagnosis is reasonable. The findings of the first phase will be completed and reported by the end of the third quarter 2008 and it is anticipated that the findings of the second phase will be completed and reported by the end of 2008.

21. Claims and Legal Disputes: The Trust has been involved in three (3) legal disputes during the Accounting Period:

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

b. On April 27, 2007, Patricia Grizzle, Successor-in-Interest of the Estate of Jessy

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Grizzle, Deceased, filed a Motion for Order *Nunc Pro Tunc*, Clarification of Second Amended Joint Plan of Reorganization, in this Bankruptcy Court proceeding. Ms. Grizzle's Motion asserted that the portion of default judgment interest paid by the Trust should be reclassified as principal and not be reported to the Internal Revenue Service as interest income until after the amount of the default judgment has been paid in full. A hearing on said Motion was conducted on November 26, 2007. The Motion was denied without prejudice and the Order Denying Patricia Grizzle's Motion for Order *Nunc Pro Tunc*, Clarification of Second Amended Joint Plan of Reorganization Without Prejudice was filed on December 17, 2007. Since that time, the Trust learned that there may be authority for allocating partial payments entirely to the nontaxable judgment, and none to default judgment interest, until the amount of the default judgment has been paid in full. The Trust is therefore seeking a ruling from the Internal Revenue Service to confirm that nontaxable treatment of the partial payments. Based on this authority, the Trust notified the holders of Pre-Petition Liquidated Default Claims of the possibility to claim a refund of any federal, state, and local income taxes that they paid with respect to the interest reported by the Trust on Forms 1099 in 2004 and 2006. A copy of the Memorandum sent to the Trust's beneficiaries is included in the Appendix filed herewith.

c. By letter dated March 6, 2007, the Hartford Accident and Indemnity Company ("Hartford") notified the Trust of Hartford's intention to conduct an audit of all claims submitted to the Trust. Hartford's rights to audit Trust claims information, and the Trust's obligations to accommodate these rights, are spelled out in the original settlement agreement between Hartford and the Debtors (i.e., Mac Arthur Company, Western Mac Arthur Company and Western Asbestos Company) that was approved as a part of the January 27, 2004 Plan Confirmation Order. The Trust determined that, even though this request for claims information is not being made by subpoena, because of the existence of this Court's approval any individual claim information it provides to Hartford should be provided under guidelines of the Trust's Third Party Disclosure Policy in order to provide claimants an opportunity to address any objections to this Court. The Trust provided notice of Hartford's intent to audit through a general notification e-mail to Plaintiffs' attorneys and by posting the general notification on the Trust's website. Since that

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Western Asbestos Asbestos Trust Annual Reports, 2007 annual report
Published by AsbestosClaims.Law
ACL Doc 14545 · Page 11 of 16
asbestosclaims.law/library/14545/11

time, the Trust Advisory Committee and the Futures Representative filed an adversary proceeding in this Bankruptcy Court proceeding seeking declaratory and injunctive relief to limit the scope of Hartford's audit and its use of information received in the course of the audit, including personal claims information. The Trust has intervened in the action. Hartford opposes restrictions on the scope of its review and on its ability to use the information it obtains. Hartford counterclaimed seeking "an order granting specific performance of Hartford's audit right under the Settlement Agreement, requiring the Trust to grant Hartford complete access to review and/or audit the Trust and Trust documents, including allowing Hartford to copy Trust documents." A hearing was held before this Court on March 31, 2008, and the parties' oral arguments were taken under submission. On April 11, 2008, this Court entered an order permitting Hartford to obtain copies of any Trust documents to the extent necessary to perform the audit subject to a protective order; thereby granting the injunctive relief sought by the Trust Advisory Committee and Futures Representative and further, that the injunction should mirror the limitations set forth in the stipulated protective orders executed during the active phase of the Bankruptcy proceedings.

22. Reimbursement of USF&G: Section 2.4 of the Trust Agreement provides that the Trust shall reimburse USF&G for certain amounts specified in Section 3.2(c) of the USF&G Settlement Agreement.[5] The Trust has estimated funds due to USF&G and deposited these in an interest bearing account with Wells Fargo Bank. The Trust calculates the 30 day T-Bill interest rate monthly as required by the USF&G Settlement Agreement and Section 2.4 of the Trust Agreement. Each year the Trust has continued to calculate the interest owed, less the cost of investing the funds and the taxes paid on the funds. The Trust has not yet paid USF&G because USF&G has not responded and not submitted an invoice detailing the amount due. The Trust made numerous requests for USF&G to provide an invoice, with no response. The Trust has also presented USF&G with its own calculation reflecting the amount due in March, 2006, (Exhibit

[5] Section 3.2(c) of the June 3, 2002 USF&G Settlement Agreement states: All amounts advanced (1) under Section 3.2(a)(i) through (iii) [for fees incurred by (i) Debtors in defending asbestos claims, (ii) the Futures Representative in connection with the Chapter 11 Cases, and (iii) Asbestos Plaintiffs' Counsel in seeking Plan Approval] or (2) for fees and expenses of the USF&G Parties that were requested to be performed by the Asbestos Plaintiffs' Counsel, shall be reimbursed to the USF&G Parties by the 524(g) Trust, with interest at the 30-day T bill rate accrued from the date of payment by the USF&G Parties, within (15) fifteen days following the 524(g) Trust's recovery from any of the Other Insurers of any amounts, whether by judgment, settlement or otherwise, but in no event shall such fees exceed the amounts recovered by the Trust.

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Western Asbestos Asbestos Trust Annual Reports, 2007 annual report
ACL Doc 14545 · Page 12 of 16
Published by AsbestosClaims.Law
asbestosclaims.law/library/14545/12

"C") and despite several follow up communications, including correspondence and telephone calls; USF&G has failed to respond. As a result of USF&G's disregard of the Trust's many attempts to satisfy its obligation, the Trust has had to continue to use its staff time, and to pay for additional audit time, accounting time and investment management fees.

The Trust has an obligation to pay claimants and properly calculate future amounts which may be owed. The uncertainty created by USF&G's failure to respond, makes the task more difficult and requires the Trust to expend funds that should be reserved for payments to claimants. Thus, the Trust intends to cease accruing interest on the estimated funds due as of December 31, 2007, in the amount of $27,434,206.00 as set forth in Exhibit "D" on June 30, 2008. The Trust has specifically provided USF&G with notice by mailing copies of this Annual Report, the motion, declaration in support of the motion, and proposed order via certified mail, return receipt requested, to counsel for USF&G and to USF&G directly.

23. Notifications to Beneficiaries: During the Accounting Period, the following notifications were placed on the Trust's website and forwarded to all interested parties via electronic mail on or about the date of the website posting:

a. Notice of an amendment to Section VII d of the Case Valuation Matrix regarding minimum exposure requirements and pro-rata awards; blended exposure rates; and allocation of exposure time at multiple sites (posted on March 14, 2007).

b. Notice of claims audit request by Hartford Accident and Indemnity Company (posted on May 10, 2007).

c. Notice of increase in Payment Percentage (posted on August 6, 2007).

d. Notice of modified Prima Facie notification process (posted on October 31, 2007).

e. Notices regarding updates to the ship and job site lists and updated claim form (posted on March 14, 2007, May 10, 2007, August 7, 2007, and December 17, 2007).

24. 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 an annual payment in the amount $65,000, plus a retroactive

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payment in the amount of $3,750.[6] The total paid to all Trustees for hourly compensation was $258,036 and $10,013 was the total amount of expenses incurred by all Trustees.

25. Filing Fee: Pursuant to Section 6.4 of the TDP, there were no recommended changes to the current amount of the filing fee during the Accounting Period.

26. J.T. Thorpe Settlement Trust Administration: On June 29, 2006, the Trust entered into the Trust Facilities and Services Sharing Agreement with the J.T. Thorpe Settlement Trust (the "J.T. Thorpe Trust") as described in the Trust's Third Annual Report and Accounting. The agreement provides:

i) for the J.T. Thorpe Trust to pay all of its own start up costs and a monthly amount, subject to the annual adjustment described in iii), of $21,000 to the Trust for processing and its share of fixed costs ("Advance Payments") as well as the hiring of the Trust Executive Director as its Executive Director;

ii) for the sharing of the Trust employees other than the Executive Director; and

iii) for an annual accounting to identify and adjust costs as shared to insure that each trust is paying its proportionate share of the expenses.

On July 24, 2007, the Trust provided a written reconciliation of the costs incurred by the J.T. Thorpe Trust. The reconciliation demonstrated that the Annual Services Cost was in excess of the total amount of the Advance Payments. That excess amount, including interest, totaled $46,308 and was paid by the J.T. Thorpe Trust on July 24, 2007. At that time, it was approved that the amount of the Advance Payments shall remain at $21,000 per month.

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

a. Analysis Research Planning Corporation ("ARPC"): Consulting firm hired to help the Trust develop a claims manual, claims processing procedures, create a system to process claims, provide program updates and improvements to the claims processing system and provide

[6] As described in the Trust's Third Annual Report and Accounting, the Trustees' annual payment was increased from $50,000 to $65,000, effective January 1, 2007. The retroactive payment was for the period of January 1, 2007, through and including March 31, 2007.

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monthly maintenance. Dr. Vasquez of ARPC also acts as the expert professional with whom the Trustees and Approving Entities consult.

b. BlackRock Financial Management: One of five investment managers for the Trust.

c. Dwight Asset Management Company: One of five investment managers for the Trust.

d. Eagle Capital Management, LLC: One of five investment managers for the Trust.

e. Fergus, a Law Firm: Counsel to The Honorable Charles Renfrew, Futures Representative.

f. Jones Vargas: Law firm that acts as Nevada counsel responsible for the legal administration of the Trust and bankruptcy matters.

g. Morgan Lewis & Bockius LLP: Counsel to Debtors, counsel to the Trust in the *Zurich* and *Hartford* matters described in paragraph 21, *supra*.

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

i. Standish Mellon Asset Management Company: One of five investment managers for the Trust.

j. State Street Global Advisors: One of five investment managers for the Trust.

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

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Western Asbestos Asbestos Trust Annual Reports, 2007 annual report
ACL Doc 14545 · Page 15 of 16
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The Trustees submit that the Annual Report and attached exhibits demonstrate the Trust acted prudently and expeditiously in executing its legal obligations during the Accounting Period. The Trust conscientiously worked to execute equitable claims procedures and process Trust Claims with due diligence during the Accounting Period. 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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Western Asbestos Asbestos Trust Annual Reports, 2007 annual report
ACL Doc 14545 · Page 16 of 16
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