JANET L. CHUBB, ESQ.
Nevada State Bar No. 176
JONES VARGAS
100 W. Liberty St, 12th Floor
P.O. Box 281
Reno, NV 89504-0281
Telephone: 775-786-5000
Fax: 775-786-1177
Email: jlc@jonesvargas.com
and tbw@jonesvargas.com

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

FIFTH ANNUAL REPORT AND ACCOUNTING OF WESTERN ASBESTOS SETTLEMENT TRUST, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT

Date: June 18, 2008
Time: 11:00 a.m.
Place: 1300 Clay Street, Room 201
Oakland, CA 94604

The Trustees of the Western Asbestos Settlement Trust (the "Trust") by and through their counsel, Janet L. Chubb, Esq., of Jones Vargas, herewith file the Trust's Fifth Annual Report and Accounting, Audited Financial Statements, and Claim Report.

Respectfully submitted this 29th day of April, 2008.

JONES VARGAS

By: /s/ Janet L. Chubb
JANET L. CHUBB (Calif. Bar No. 41292)
100 West Liberty Street, 12th Floor
P. O. Box 281
Reno, NV 89504-0281
Telephone: 775-786-5000
Fax: 775-786-1177
Email: jlc@jonesvargas.com
and tbw@jonesvargas.com

Attorneys for the Trustees of the
Western Asbestos Settlement Trust

JONES VARGAS
100 W. Liberty Street, 12th Floor
P.O. Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report
ACL Doc 14544 · Page 1 of 34
Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/1

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

FIFTH ANNUAL REPORT AND ACCOUNTING OF WESTERN ASBESTOS SETTLEMENT TRUST

The Trustees of the Western Asbestos Settlement Trust ("Trust") hereby submit this Fifth Annual Report and Accounting ("Annual Report") covering Trust activities occurring from January 1, 2008, to and including December 31, 2008 ("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"); Second Amendment to and Complete Restatement of Western Asbestos Settlement Trust Bylaws ("Trust Bylaws"); Case Valuation Matrix including the amendments to Sections VII c. and VIII ("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 Fifth Annual Report, the Audited Financial Statements, and the Claim Report, as described in paragraphs 6 and 7, *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., John F.

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

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 2 of 15

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/2

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 2008.

3. New Trust Advisory Committee ("TAC") Member: Mr. Jerry N. Paul has been appointed to replace Philip A. Harley as a member of the TAC.

4. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement requires the Trustees to file income tax and other returns and statements in a timely manner, and comply with all withholding obligations as legally required, including fulfilling requirements to maintain 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 2008 federal tax return must be filed on or before September 15, 2009. 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, 2007 and 2008 partial payments it made to claimants 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 as income to claimants on a Form 1099. As described in the Trust's Fourth Annual Report and Accounting, 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 sought a ruling from the Internal Revenue Service ("IRS") to confirm that nontaxable treatment of the partial payments. In October of 2008, the Trust was informed that the IRS would not be ruling on its request. In December of 2008, the

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 3 of 15

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/3

Trust notified its beneficiaries of the IRS's decision and attached a copy of the IRS "no rule" letter. A copy of the Memorandum sent to the Trust's beneficiaries is included in the Appendix filed herewith.

5. 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.

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.

6. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the Trust Agreement, the Trust has caused its financial statements 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, 2008, total Trust assets were $890,522,843, total liabilities were $11,262,911, and Net Claimants' Equity was $879,259,932.

7. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report
ACL Doc 14544 · Page 4 of 34
Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/4

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, 2008 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 864 claims, paid and closed 897 claims, and made settlement offers on an additional 916 claims. Since the Trust received its first Trust claim[2] on August 27, 2004, the Trust has received 6,771 claims, paid and closed 4,422 claims, and 1,295 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 one (1) Pre-Petition Liquidated Claim in the amount of $21,105. That amount was paid in trust to the representative law firm after the appropriate release from the claimant was received by the Trust. The Trust has not yet received proper release documents for thirty-four (34) remaining unpaid Pre-Petition Liquidated Claims in the total amount of $600,325.

8. Bi-Annual Claims Report: Section 5.7(b) of the TDP requires the Trust to provide a report reviewing filed claims, paid claims, average payments and disallowed claims by Compensable Disease every two (2) years. This report was presented at the November 13, 2008, Trustees' meeting. A copy of the report is included in the Appendix filed herewith.

9. 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 four times per year, as close as practicable on a quarterly basis. The Trustees held four (4) meetings during the Accounting Period (February 21, 2008, April 17, 2008, June 19, 2008, and November 13, 2008). All meetings were held in Reno, Nevada.

10. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement, the

[2] "Trust Claims" are any claims submitted to the Trust after the Effective Date.
[3] See this Court's February 3, 2004 Memorandum of Decision after Confirmation Hearing.

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 5 of 15

Annual Report, including the Audited Financial Statements and Claim Report, has been sent to the Approving Entities, the Debtors, 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.

11. 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 2009 budget and the required four-year budget and cash flow projections on November 13, 2008. Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for operating expenses in 2009 totals $2,959,500.[4]

12. 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 13, 2008, meeting, the Maximum Annual Payment for 2009 was set at $61,844,875, plus the amount of $300,636,836 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.

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

14. 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.

15. Indemnity Fund: Section 4.6 of the Trust Agreement provides that the Trust shall

[4] This figure is net of claimant payments which are budgeted for $62,624,656, net of extraordinary legal fees which are budgeted for $4,462,000, and net of income tax payments which are budgeted for $4,000,000.

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 6 of 15

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/6

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 Fourth 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.

16. Special Budget Fund: A Special Budget Fund was approved in this Court's May 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 2008 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, 2008, the Special Budget Fund contained $36,705,361. At the February 19, 2009, Trustees' meeting, it was decided to decrease the Special Budget Fund to a nominal amount ($1,000) sufficient to allow the account to remain open so that additional funds may be deposited in the future if necessary. In addition, the managing secured party was released from any further responsibility, including the requirement to report on the Special Budget Fund at each regular meeting of the Trustees. A copy of the *Resolution of Non-Managing Trustees Regarding Special Budget Fund* is included in the Appendix filed herewith.

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 7 of 15

17. 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 Fourth Annual Report and Accounting. There has been no change in these Control Agreements during the Accounting Period.

18. 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. 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, and to 40% on July 24, 2007, as described in the Trust's Fourth Annual Report and Accounting. The Payment Percentage remained at forty percent (40%) during the Accounting Period.

19. 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 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 Fourth Annual Report and Accounting. Consequently, as of January 1, 2008, all claims payments made during the calendar year were increased by 10.65% to account for inflation. At the February 19, 2009, meeting, the CPI-W of -.50% published in January 2009, was reviewed and

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report
ACL Doc 14544 · Page 8 of 34
Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/8

approved for use by the Trust in making the 2009 cost of living adjustment for claims payments. Thus, all claims payments made during the 2009 calendar year will have an additional 10.10% added to the payment amount.

20. Amendments to the Trust Documents: During the Accounting Period, Section 4 of the Trust Bylaws was revised regarding the requirement as to when Trust meetings should be conducted to allow more flexibility in scheduling.

21. Compliance Audit: As described in the Trust's Fourth Annual Report and Accounting, 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, including that the attorney fees were calculated in accordance with the TDP; 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 compliance audit has been completed and the findings were reported at the February 19, 2009, Trustees' meeting with some issues requiring follow up by the Trust. It is anticipated that those issues will be satisfactorily addressed and the final report will be presented at the September 17, 2009, Trustees' meeting.

22. Claims and Legal Disputes: The Trust has been involved in two (2) 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 success fee 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.

One of the insurers named in the action is Employers Reinsurance Corporation ("ERC"). After extensive discovery, and several weeks before the case against ERC was set for

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 9 of 15

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/9

trial, the parties reached a settlement. Based on advice of counsel, the Trustees, with the consent of the TAC and the Futures Representative, determined that the settlement amount (which remains confidential under the settlement agreement) was fair and reasonable under the circumstances, taking into account the strengths and weaknesses of the parties' legal and factual positions.

b. As described in the Trust's Fourth Annual Report and Accounting, 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, 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 time, the TAC 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 opposed 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 TAC and Futures Representative and further, that the

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report
ACL Doc 14544 · Page 10 of 34
Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/10

injunction should mirror the limitations set forth in the stipulated protective orders executed during the active phase of the Bankruptcy proceedings. The *Order and Permanent Injunction Granting Trust Fiduciaries' Motion for Partial Summary Judgment, Denying Hartford Accident and Indemnity Company's Motions for Judgment on the Pleadings or Summary Judgment, Ordering Production of Audit Information, and Dismissing Trust Fiduciaries Second Cause of Action as Moot* was entered in this Court on August 11, 2008, and on August 21, 2008, Hartford filed a *Notice of Appeal and Notice of Election to have Appeal Heard by a District Judge*.

23. Subpoena in *Congoleum Corporation v. Ace American Insurance Co., et al.*: On January 23, 2009, the Trust was served with a Subpoena Duces Tecum issued by the Second Judicial District Court of the State of Nevada ("Nevada Court") pursuant to an Order for Commissions from the Superior Court of New Jersey obtained by First State Insurance Company ("FSIC") and Twin City Fire Insurance Company ("TCFIC"). The Trust timely filed an objection to the subpoena in the Nevada Court. The Trust also filed a petition for instructions in this Bankruptcy Court proceeding seeking the Court's approval of the Trust's decision to expend additional Trust resources to vindicate its objection filed in the Nevada Court to the production of personal private and confidential Trust beneficiary information to FSIC and TCFIC unless (1) FSIC and TCFIC demonstrate that the individuals whose information is sought are claiming damages against FSIC and TCFIC directly or indirectly through Congoleum; (2) FSIC and TCFIC demonstrate that they have been unable to obtain the documents they seek through less burdensome means from the individual claimants and their counsel directly; (3) the individuals whose Trust information is sought are adequately identified by FSIC and TCFIC so that the Trust will not release confidential documents in error; (4) a protective order is issued that limits FSIC's and TCFIC's use and dissemination of any documents produced (and, ultimately, provides for the return and/or destruction of the information provided); and (5) FSIC and TCFIC agree to pay for all expenses associated with the production and the subpoena, including all attorneys fees and expenses and all Trust out-of-pocket and personnel expenses. A hearing was held before this Court on April 6, 2009, and on April 23, 2009, an order was filed and entered in this Court approving the Trustees' expenditure of Trust funds and stating that the Trustees are acting

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 11 of 15

appropriately in incurring the expenses necessary to seek limitations from the Nevada Court with respect to the subpoena. A copy of the *Order on Trustees' Petition for Instructions* is included in the Appendix filed herewith.

24. 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. Updated notice of the claims audit request by Hartford Accident and Indemnity Company (posted on March 14, 2008).

b. Notice of the correct method of calculating attorneys' fees (deducting costs before the fee is calculated) and the maximum fee allowed (25% of the net recovery) pursuant to Section 8.4 of the TDP (posted on May 15, 2008).

c. Notice reminding law firms to return the refunded filing fee to the claimant if it was paid by the claimant (posted on May 20, 2008).

d. Notice of the Trust's use of Social Security records to calculate an injured party's exposure in certain cases (posted on July 22, 2008).

25. 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. The total paid to all Trustees for hourly compensation was $180,590 and $5,155 was the total amount of expenses incurred by all Trustees.

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

27. J.T. Thorpe Settlement Trust Administration: As described in the Trust's Fourth Annual Report and Accounting, the Trust entered into the Trust Facilities and Services Sharing Agreement (the "Facilities Agreement") with the J.T. Thorpe Settlement Trust on June 29, 2006. The Facilities Agreement provides:

i) for the J.T. Thorpe Settlement 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

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 12 of 15

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 September 20, 2007, the Facilities Agreement was amended 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. An interim reconciliation was presented during the meeting on November 13, 2008, and at that time, it was agreed that the J.T. Thorpe Settlement Trust should pay the anticipated shortfall in the Annual Services Cost of $64,365 and that the Advance Payments should be increased to $27,000 per month beginning with the July 2008, payment. The final reconciliation was presented at the February 19, 2009, meeting and it was determined that the Trust should reimburse the J.T. Thorpe Settlement Trust for an overpayment in the amount of $936.93 plus interest in the amount of $3.47 and that the Advance Payments should remain at $27,000 for 2009. A copy of the *Second Amendment to and Complete Restatement of the Trust Facilities and Services Sharing Agreement* is included in the Appendix filed herewith.

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

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

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

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

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

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 13 of 15

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/13

e. Financial Investigative Services, Inc.: Private investigation firm retained by the Trust to conduct the compliance audit as described in paragraph 21, *supra*.

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 22, *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.

29. 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. The Trust's conservative and diversified asset allocation limited its exposure to the sharp decline that existed in the general market during 2008.

30. Conflict of Interest Policy: At the February 21, 2008, Trustees' meeting, a Conflict of Interest Policy and Certification was approved with the consent of the TAC and the Futures Representative. A copy of the Policy is included in the Appendix filed herewith.

31. Arbitration Panel Seminar: On July 17, 2008, the Trust conducted a training seminar for the panel of arbitrators from Claims Resolution Management Corporation (CRMC). The Trust Arbitration Procedures requires this training for panel members to be eligible to arbitrate claims of the Trust. All panel members participated in the seminar.

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report
ACL Doc 14544 · Page 14 of 34
Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/14

***

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.

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

Case: 02-46284, Doc# 1712, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 15 of 15



Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Western Asbestos Settlement Trust

December 31, 2008 and 2007

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report
ACL Doc 14544 · Page 16 of 34
Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/16

Contents

	Page
Report of Independent Certified Public Accountants	3
Statements of Net Claimants' Equity	4
Statements of Changes in Net Claimants' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplemental Schedule	
Schedule of Operating Expenses	17

Case: 02-46284, Doc# 1712-1, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 2 of 17

Audit • Tax • Advisory

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

Report of Independent Certified Public Accountants

To the Trustees of Western Asbestos Settlement Trust

We have audited the accompanying special-purpose statements of net claimants' equity of Western Asbestos Settlement Trust (the Trust), organized in the State of Nevada, for the years ended December 31, 2008 and 2007, and the related statements of changes in net claimants' equity and cash flows for the years then ended. These special-purpose financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the accompanying special-purpose financial statements of Western Asbestos Settlement Trust, as of and for the years ended December 31, 2008 and 2007, are fairly presented, in all material respects, on the basis of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. This information has been subjected to the auditing procedures applied in our audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

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

Grant Thornton LLP

Reno, Nevada
March 27, 2009

Case: 02-46284, Doc# 1712-1, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 3 of 17

Western Asbestos Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2008	2007
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	$ 56,432,880	$ 56,342,302
Unrestricted	797,802,012	966,239,650
Total cash, cash equivalents and investments	854,234,892	1,022,581,952
Accrued interest and dividend receivables	8,729,812	8,911,868
Prepaid federal income tax	163,231	2,133,754
Deferred tax asset	27,394,908	-
Total assets	$ 890,522,843	$ 1,033,627,574
LIABILITIES		
Accrued expenses	$ 729,479	$ 824,690
Claim processing deposits	387,000	498,500
Deferred tax liability	-	14,420,000
Unpaid claims (Note D)		
Outstanding offers	9,472,390	9,397,346
Pre-petition liquidated claims	621,624	645,764
Reimbursement obligation	-	27,434,246
Lease commitments payable	52,418	136,566
Total liabilities	$ 11,262,911	$ 53,357,112
NET CLAIMANTS' EQUITY	$ 879,259,932	$ 980,270,462

The accompanying notes are an integral part of these statements.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/19

Western Asbestos Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	2008	2007
Net claimants' equity, beginning of year	$ 980,270,462	$ 1,150,877,094
Additions to net claimants' equity		
Initial funding	-	4,041
Investment income	32,826,096	40,644,401
J. T. Thorpe Trust facility and staff sharing income received	353,096	298,308
Net decrease in outstanding claim offers	-	1,386,742
Provision for income taxes	37,842,164	-
Net decrease in lease commitments payable	84,148	-
Net realized and unrealized gains on available-for-sale securities	-	15,738,730
Total additions	71,105,504	58,072,222
Deductions from net claimants' equity		
Operating expenses	6,454,391	2,655,094
Provision for income taxes	-	11,468,672
Claims settled	47,635,162	213,697,340
Net realized and unrealized losses on available-for-sale securities	117,791,033	-
Net increase in outstanding claim offers	75,044	-
Net increase in lease commitments payable	-	99,942
Net increase in reimbursement obligation	160,404	757,806
Total deductions	172,116,034	228,678,854
Net claimants' equity, end of year	$ 879,259,932	$ 980,270,462

The accompanying notes are an integral part of these statements.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/20

Western Asbestos Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2008	2007
Cash inflows:		
Initial funding	$ -	$ 4,041
Investment income receipts	33,008,152	41,278,968
Net realized gains on Available-for-sale securities	-	6,178,097
J. T. Thorpe Trust facility and staff sharing income received	353,096	298,308
Total cash inflows	33,361,248	47,759,414
Cash outflows:		
Claim payments made	47,659,302	213,656,502
Total cash claim payments	47,659,302	213,656,502
Net realized losses on Available-for-sale securities	6,084,231	-
Decrease in claim processing deposits	111,500	175,750
Decrease in reimbursement obligation	27,594,650	-
Disbursements for Trust operating expenses	6,549,602	2,930,957
Disbursements for Trust income taxes	2,002,221	3,111,998
Total cash outflows	90,001,506	219,875,207
Net cash outflows	(56,640,258)	(172,115,793)
Non-cash changes:		
Net unrealized gains (losses) on available-for-sale securities	(111,706,802)	9,560,633
NET DECREASE IN CASH, CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	(168,347,060)	(162,555,160)
Cash, cash equivalents and investments available-for sale, beginning of year	1,022,581,952	1,185,137,112
Cash, cash equivalents and investments available-for-sale, end of year	$ 854,234,892	$ 1,022,581,952

The accompanying notes are an integral part of these statements.

Western Asbestos Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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 22, 2002. The Trust was formed to assume the Debtors' liabilities resulting from pending and potential litigation involving individuals exposed to asbestos who have manifested asbestos-related diseases or conditions; liquidate, resolve, pay and satisfy all current and future asbestos related claims in accordance with the Plan; preserve, hold, manage and maximize the Trust assets for use in paying and satisfying allowed asbestos related claims; prosecute, settle and manage the disposition of the asbestos in-place insurance coverage; and prosecute, settle and manage asbestos insurance coverage actions. Upon approval of the Plan, the Trust assumed liability for existing and future asbestos health claims against the Debtors. The Trust was created effective April 22, 2004.

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

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

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:

a. The financial statements are prepared using the accrual basis of accounting, as modified below.

b. The funding received from Western Asbestos, Western 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.

c. 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.

d. Future fixed liabilities and contractual obligations entered into by the Trust are recorded directly against net claimants' equity. Accordingly, the future minimum rental commitments outstanding at period end for non-cancelable operating leases, net of any sublease agreements, have been recorded as deductions from net claimants' equity.

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report
ACL Doc 14544 · Page 22 of 34
Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/22

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. Special-Purpose Accounting Methods - Continued

e. 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.

f. Available-for-sale securities are recorded at fair value. All interest and dividend income on available-for-sale securities, net of investment expenses is included in investment income on the statement of changes in net claimants' equity. Net realized and unrealized gains and losses on available-for-sale securities are recorded as a separate component on the statement of changes in net claimants' equity.

g. 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

The Trust has adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. Fair value is generally determined based on quoted market prices in active markets for identical assets. If quoted market prices are not available, the Trust uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Trust may make adjustments for risk and uncertainties, if a market participant would include such an adjustment in its pricing.

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.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/23

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 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.

7. Concentration of Risk

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

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

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

8. Reclassifications

Certain reclassifications have been made to the December 31, 2007 financial statements to conform to the December 31, 2008 presentation. The reclassifications have no effect on net claimants' equity.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

The Trust has classified its investments as available for sale and records the financial assets at fair value. The Trust has adopted SFAS 157 "Fair Value Measurements," effective January 1, 2008. SFAS 157 establishes 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 prices in active markets for identical assets. Level 1 assets generally include cash, cash equivalents, and equity securities that are traded in an active exchange market.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. Level 2 assets and liabilities include derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category

Western Asbestos Asbestos Trust Annual Reports, 2008 annual report Published by AsbestosClaims.Law
ACL Doc 14544 · Page 24 of 34 asbestosclaims.law/library/14544/24

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

generally includes agency mortgage-backed securities, U.S. Government obligations, municipal bonds and corporate and other debt.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. The Trust has no level 3 assets.

The following table summarizes the valuation of financial assets measured at fair value on a recurring basis in the statement of net claimants' equity at December 31:

	December 31, 2008	
	Cost	Market
Restricted		
Cash equivalents	$ 56,432,880	$ 56,432,880
Unrestricted		
Cash demand deposits	$ 702,396	$ 702,396
Cash equivalents	33,347,074	33,347,074
Equity securities	182,477,733	138,617,761
U.S. Government obligations	46,889,872	49,069,498
Municipal bonds	502,206,731	493,619,438
Mortgage backed securities	73,461,821	58,778,869
Corporate and other debt	29,026,845	23,666,976
	$868,112,472	$797,802,012

	December 31, 2007	
	Cost	Market
Restricted		
Cash equivalents	$ 56,342,302	$ 56,342,302
Unrestricted		
Cash demand deposits	$ 642,208	$ 642,208
Cash equivalents	60,086,372	60,086,372
Equity securities	187,170,714	226,727,769
U.S. Government obligations	56,684,513	57,299,918
Municipal bonds	492,784,180	494,820,380
Mortgage backed securities	104,810,848	104,463,624
Corporate and other debt	22,664,477	22,199,379
	$924,843,312	$966,239,650

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/25

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2008:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	$ -	$ 11,736,336	$ 6,405,611	$ 30,927,551
Municipal bonds	-	147,018,776	159,445,404	187,155,258
Mortgage backed securities	-	7,773,632	191,928	50,813,309
Corporate and other debt	-	7,268,820	12,091,068	4,307,088
	$ -0-	$173,797,564	$178,134,011	$273,203,206

NOTE C - FIXED ASSETS

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

Acquisition of furniture and equipment	$ 60,100
Acquisition of computer hardware and software	432,625
	$492,725

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, 2008 and 2007 were $8,069 and $41,867, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately $58,810 and $127,995 for the years ended December 31, 2008 and 2007, respectively.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/26

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 Procedures 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 courts until the Plan was approved. 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 release is signed and received by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected or expires after six months. Offers may be extended an additional six months upon written request and good cause. As of the years ended December 31, 2008 and 2007, 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 claims' 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 and retroactively pay the increased percentage to all previously paid claimants.

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, 2009 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 10.10% and 10.65% are included in outstanding claims liabilities as of December 31, 2008 and 2007, respectively.

The Trust processed and approved approximately $45,400,000 and $28,700,000 of Trust Claims during the years ended December 31, 2008 and 2007, respectively.

Published by AsbestosClaims.Law

asbestosclaims.law/library/14544/27

NOTE E - REIMBURSEMENT OBLIGATIONS

Under the Plan, and as detailed in the Trust Agreement, certain parties were given reimbursement rights to the recovery of fees and expenses incurred in their efforts to obtain Plan approval, along with interest. Under the provisions of the Plan, the Trust also owes interest on this amount from the date of payment by the insurer until repayment by the Trust at the 30-day U.S. Treasury Bill ("T-Bill") rate. The Trust has estimated its liability under this provision based on court ordered fee applications; the dates services were provided; and the 30-day T Bill rate, reduced by an estimate of an amount due from the parties for over-distribution of tax payments while the initial settlements were held in escrow. During 2008, the Trust accrued $160,404 of interest related to this obligation. On October 6, 2008, the Trust distributed $27,594,650, which the Trust estimates to be a full reimbursement obligation.

NOTE F - 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 July 31, 2009.

During the year ended December 31, 2008, the Trust paid $96,509 in rental expense. Future minimum rental commitments under this operating lease are $52,418 in the year ending December 31, 2009.

This obligation has been recorded as a liability in the accompanying financial statements.

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 Procedures.

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

Based on research and testimony presented during the bankruptcy, the court approved an initial payment to claimants of 31.5% payment 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 Council ("TAC") and the Futures Representative, the power to periodically update its estimate of the pro rata payment percentage based on updated assumptions regarding its future assets and liabilities and, if appropriate, propose additional changes in the pro rata payment percentage. In February 2006 and July 2007, the Payment Percentage was increased to 34.2% and 40.0%, respectively, by the Trustees. These changes were made with the consent of the TAC and Futures Representative. The increases were retroactive for claims approved since inception.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/28

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 total employer contributions and expenses under the plan were approximately $27,000 and $24,200 for the years ended December 31, 2008 and 2007, respectively.

NOTE I - RESTRICTED CASH EQUIVALENTS

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 a condition of the Plan, the Trust was required to establish various indemnity and property damage defense funds for the benefit of certain Debtors, related parties and insurers. The total sum of $15,500,000 is required to be held to secure the payment of future claims. A portion of the investment earnings are also restricted for the benefit of the indemnity and property defense funds.

As of December 31, 2008 and 2007, cash equivalents of $56,432,880 and $56,342,302 were respectively restricted for these purposes.

NOTE J - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into a facilities and staff sharing agreement with the J. T. Thorpe Settlement Trust, (the J. T. Thorpe Trust). The two trusts are related through common Trustees. Under the agreement and in exchange for advance monthly payments, the Trust provides use of its facilities and services relating to administration and claims processing. The initial monthly payment of $21,000 was in place through June 30, 2008, and was raised to $27,000 effective July 1, 2008 and for all months thereafter. The agreement expires June 30, 2009 and will automatically renew for additional one-year periods unless either party provides six months written notice. The Trust is required annually 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 reconciliations performed for the years ended December 31, 2008 and 2007 resulted in additional payments to the Trust of approximately $64,000 and $46,000, respectively. The next reconciliation period will be the twelve-month period ending December 31, 2009.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/29

NOTE K - INCOME TAXES

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

The Trust accounts for income taxes in accordance with the Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities.

The provision for income taxes consists of the following for the years ended December 31, 2008 and 2007:

	2008	2007
Federal income tax – current	$ 3,972,744	$ 5,236,672
Deferred income tax expense (benefit)	(41,814,908)	6,232,000
	$(37,842,164)	$11,468,672

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:

	2008	2007
Deferred tax asset (liability)		
Depreciation and amortization	$ 5,444	$ 21,000
Capital loss carryforwards	2,129,481	-
Unrealized losses (appreciation)	24,608,662	(14,489,000)
Other, net	651,321	48,000
	$27,394,908	($14,420,000)

Published by AsbestosClaims.Law
asbestosclaims.law/library/14544/30

SUPPLEMENTAL INFORMATION

Case: 02-46284, Doc# 1712-1, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 16 of 17

Western Asbestos Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2008	2007
Accounting	$ 104,676	$ 165,508
Claims processing/claims system development	486,512	444,848
Computer equipment	7,805	39,462
Information technology support	22,612	50,411
Futures representatives	470,933	231,412
Insurance	13,591	8,542
Legal fees	3,798,904	2,204,082
Legal retainer refunds	-	(2,100,000)
Office expense	21,356	26,438
Office furniture and equipment	265	2,405
Payroll and related taxes	807,615	651,108
Pension plan contribution and fees	34,797	27,631
Rent and utilities	116,407	108,542
Travel, meals and entertainment	6,021	3,574
Trust advisory committee	92,838	227,947
Trustee fees	470,059	563,184
	$ 6,454,391	$ 2,655,094

Case: 02-46284, Doc# 1712-1, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 17 of 17

EXHIBIT "B"

Western Asbestos Settlement Trust
Claim Report
As of December 31, 2008

This report is submitted pursuant to Section 2.2 (c) (ii) of the Sixth 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.

The Trust paid one (1) Pre-Petition Liquidated Claim during the Accounting Period in the amount of $21,105, which included an additional 10.65% 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 thirty-four (34) Pre-Petition Liquidated Claims in the total amount of $600,325. That amount is based upon the current Payment Percentage of 40% of the total liquidated value, and includes the inflation adjustment of 10.10% utilized for claims payments made in 2009.

Trust Claims

The following includes claims received and disposed of from January 1, 2007, through December 31, 2007 (The Accounting Period), in accordance with the Case Valuation Matrix ("Matrix"), Amendments to Matrix Sections VII c and VIII, and the First Amendment to and Complete Restatement of the Western Asbestos Company/Western Mac Arthur Co. /Mac Arthur Co. Asbestos Personal Injury Settlement Trust Distribution Procedures ("TDP").

The value of each compensable disease is determined by the Matrix and TDP. Claim compensation is adjusted for individual claimants based upon jurisdiction and tort related individual characteristics including, but not limited to: age, marital status, dependents, medical specials, economic loss, and whether living at the time of commencement of litigation or filing the claim with the Trust. Each valid claim is awarded a total liquidated value. As of December 31, 2008, Trust Claims were paid at the approved Payment Percentage of 40%. Payments made on Trust Claims included an additional 10.65% to account for inflation based upon the CPI-W.

During the Accounting Period, 864 claims were received and 2,083 claims were processed. During that same time period, 1,813 claims were determined to be valid and properly submitted under the Trust claim requirements. Of those 1,813 claims, 897 claims were paid in the total amount of $45,311,265 and settlement offers remained outstanding for 220 claims.

Based upon the 1,813 claims which were determined to be valid and properly submitted under the Trust claim requirements, the following chart identifies the average total liquidated values for each compensable disease under the Matrix for each jurisdiction, comparing the average total liquidated values in 2008, to the Matrix averages.

Compensable Disease	California Matrix Averages	2008 California Claim Averages	Minnesota Matrix Averages	2008 Minnesota Claim Averages
Grade II Non-Malignant	$21,816	$18,149	$30,150	$26,240
Grade I Non-Malignant	$51,557	$31,807	$57,200	$31,759
Grade I Non-Malignant Enhanced Asbestosis	$51,557	$52,245	$57,200	$45,570
Grade I Non-Malignant Serious Asbestosis	$199,195	$206,325	$137,050	$131,690
Colo-Rectal	$75,000	$35,872	$73,800	$31,708
Esophageal	$75,000	$50,861	$73,800	N/A
Kidney	$75,000	$26,264	$73,800	$48,069
Laryngeal	$75,000	$29,422	$73,800	$18,927
Non-Hodgkin's Lymphoma	$75,000	$300,000[1]	$73,800	N/A
Other Organ Cancer	$75,000	$11,535	$73,800	N/A
Lung Cancer	$199,195	$124,857	$137,050	$92,479
Mesothelioma	$524,025	$349,924	$316,250	$375,692

[1] 2008 California Claim Average for Non-Hodgkin's Lymphoma represents only one claim.

Case: 02-46284, Doc# 1712-2, Filed: 04/29/09, Entered: 04/29/09 13:34:41 Page 2 of 2