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Attorneys for the Trustees of the
Western Asbestos Settlement Trust

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

OAKLAND DIVISION

In re:	Case No. 02-46284-T
WESTERN ASBESTOS COMPANY,	Chapter 11
Debtor.	**SIXTH ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT**
	Date: June 15, 2010 Time: 2:00 p.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 Sixth Annual Report and Accounting, Audited Financial Statements, and Claim Report.

Respectfully submitted this 30th day of April, 2010.

JONES VARGAS

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

The Trustees of the Western Asbestos Settlement Trust ("Trust") hereby submit this Sixth Annual Report and Accounting ("Annual Report") covering Trust activities occurring from January 1, 2009, to and including December 31, 2009 ("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 Sixth 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., John F.

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

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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 2009.

3. 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 2009 federal tax return must be filed on or before September 15, 2010. 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.

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.

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

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Accepted Accounting Principles (GAAP) in certain instances in order to better disclose the amount and changes in net claimants' equity.

5. 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, 2009, total Trust assets were $971,442,790, total liabilities were $16,054,785, and Net Claimants' Equity was $955,388,005.

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, 2009 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 790 claims, paid 694 claims, and made settlement offers on an additional 725 claims. Since the Trust received its first Trust Claim[2] on August 27, 2004, the Trust has received 7,561 Trust Claims, paid 5,116 Trust Claims, and 1,084 Trust 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

[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.

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$18,519. That amount was paid in trust to the representative law firms after the appropriate releases from the claimants were received by the Trust. The Trust has not yet received proper release documents for thirty-two (32) remaining unpaid Pre-Petition Liquidated Claims in the total amount of $669,922.

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 four times per year, as close as practicable on a quarterly basis. The Trustees held four (4) meetings during the Accounting Period (February 19, 2009, April 23, 2009, September 10, 2009, and November 19, 2009). All meetings were held 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, 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.

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 2010 budget and the required four-year budget and cash flow projections on November 19, 2009. Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for operating expenses in 2010 totals $2,756,000.[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 19, 2009, meeting, the Maximum Annual Payment for 2010 was set at $61,061,655, plus the amount of $331,266,511 of excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled

[4] This figure is net of claimant payments which are budgeted for $61,061,665, net of extraordinary legal fees which are budgeted for $2,750,000, and net of income tax payments which are budgeted for $4,000,000.

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over and remain dedicated to the respective Disease Category in the Jurisdiction to which they were originally allocated.

11. First Priority Lien Fund: The First Priority Lien Fund was established at Wells Fargo Bank, N.A., to pay anticipated operating expenses of the Trust, as described in the Trust's First Annual Report and Accounting. During the Accounting Period, $5,500,000 was transferred into the fund from the Settlement Fund.

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 Fifth 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 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 the Act is overturned, the Trust will be able to begin paying claims with minimal interruption and expense. All interest earned by the Special Budget Fund is returned to the Trust quarterly. At the

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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*, approved at the April 23, 2009 meeting, is included in the Appendix filed herewith.

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

16. 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 Fifth Annual Report and Accounting. The Payment Percentage remained at forty percent (40%) during the Accounting Period. At the February 18, 2010, meeting the Payment Percentage was reviewed and increased to 44%.

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17. 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 Fifth Annual Report and Accounting. Consequently, as of January 1, 2009, all claims payments made during the calendar year were increased by 10.10% to account for inflation. At the November 19, 2009, meeting, the CPI-W to be published in January 2010, was approved for use by the Trust in making the 2010 cost of living adjustment for claims payments. The CPI-W of 3.4% was issued on January 15, 2010. Thus, all claims payments made during the 2010 calendar year will have an additional 13.84% added to the payment amount.

18. Compliance Audit: As described in the Trust's Fifth Annual Report and Accounting, Financial Investigative Services, Inc. (FIS) was retained by the Trust to conduct the remaining two phases of the audit which included: (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 was completed and the findings were reported at the February 19, 2009, Trustees' meeting with some issues requiring follow up by the Trust. Those issues were satisfactorily addressed and the final report was presented at the November 19, 2009, Trustees' meeting.

19. 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

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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 was Employers Reinsurance Corporation ("ERC"). After extensive discovery, 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.

In addition, the Trust has been engaged in settlement negotiations with The Home Insurance Company in Liquidation in connection with its Proof of Claim submitted on June 11, 2004.

b. As described in the Trust's Fifth 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. This court issued 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* 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*. On September 10, 2009, the District Court affirmed this Court's ruling. A copy of the District Court's *Order Re: Consolidated Appeals* is included in the Appendix filed herewith. On October 13, 2009, Hartford filed a Notice of Appeal in the United States Court of Appeals for the Ninth Circuit. This matter has been fully briefed.

c. 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

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("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 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.

The Trust's Third Party Disclosure Policies set forth the process by which the Trust responds to an enforceable subpoena for individual claim information. The following are the steps taken by the Trust when served with an enforceable subpoena.

The Trust identifies whether or not a claim exists. If no claim exists, the Trust produces an *Affidavit of No Records*. If a claim exists, the Trust notifies the claimant or claimant's law firm of the subpoena and requests a response within a specified time period as to whether or not an objection or motion to quash will be filed. In the event the Trust receives no response from the claimant or claimant's law firm within the time period given or if the Trust is advised that no

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objection or motion to quash is forthcoming, the Trust will produce the claim file (without confidential settlement and payment information). The Trust rarely receives subpoenas (only four were received in 2009, and the Trust did not have a claim for two of those), however the majority of subpoenas received by the Trust are limited to requests for non-privileged and non-confidential information related to the claim. The Trust redacts certain portions of medical records that contain medical information not required to substantiate a claim filed with the Trust. In the event an objection or motion to quash is filed, the Trust awaits the outcome of that proceeding.

The subpoena in this case sought information about more than 122,000 persons, and listed just the persons' names with no other identifying information. Therefore, the Trust was unable to follow its normal procedures, above. Rather, in this case, the Trust offered to conduct a cross reference of its databases with a list from FSIC/TCFIC that included social security numbers, so long as FSIC/TCFIC paid the costs associated with conducting the search. Once matches were confirmed, the Trust would notify the claimant(s) of the subpoena to allow the claimant(s) the opportunity to object. If no objection was asserted by the claimant(s), the Trust would require FSIC/TCFIC to provide evidence that the claimant(s) filed a claim in the Congoleum action and to enter into a confidentiality agreement/protective order that limits the use and dissemination of the information it receives prior to the Trust's release of the information.

On June 22, 2009, FSIC and TCFIC filed a motion to compel production of documents in the Nevada Court. The Trust opposed the motion and a *Recommendation for Order* was issued by the Discovery Commissioner on November 9, 2009. On November 30, 2009, the Trust filed an objection to certain of the Discovery Commissioner's recommendations and FSIC and TCFIC filed a response thereto on January 5, 2010. This matter has been stayed by agreement of the parties pending the outcome of a proposed settlement in the underlying action between Congoleum Corporation and FSIC and TCFIC.

20. 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 approved ship and site list modifications (as updated and posted on

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March 12, 2009 and November 24, 2009);

b. Notice of the inflation adjustment for claims payments (posted on April 20, 2009);

c. Notice of the hearing on the Trust's Fifth Annual Report and Accounting (posted on April 29, 2009);

d. Notice of the Trust's Hold Claims Policy (posted on September 14, 2009), involves the notice of deadlines for enforcement of the TDP policy to deem withdrawn any claim that has been placed on hold status for six months without any activity on part of the claimant. An additional six months may be added for good cause, but after the extended period, if there is still no activity, the Trust will deem the claim withdrawn. The enforcement of this TDP policy commenced as of October 1, 2009; and

e. Notice Regarding Medicare Reporting (posted on October 20, 2009), which pursuant to a 2007 law, requires reporting to Centers for Medicare and Medicaid Services of payments, after January 1, 2010, to Medicare recipients. At the November 19, 2009, Trustees' meeting, it was announced that pursuant to official interpretation by the Secretary of Health and Human Services, asbestos trusts are not considered responsible reporting entities under this law and thus no information will be reported.

21. 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 $171,484 and $5,395 was the total amount of expenses incurred by all Trustees.

22. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at the September 10, 2009, meeting and there were no recommended changes to the current amount during the Accounting Period.

23. J.T. Thorpe Settlement Trust Administration: As described in the Trust's Fifth 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.

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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 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.

As described in the Trust's Fifth Annual Report and Accounting, an interim reconciliation was presented during the meeting on November 13, 2008, and at that time, it was determined 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. As approved at the April 23, 2009 meeting, 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.

24. Audit of Trust Facilities and Services Sharing Agreement: On September 10, 2009, it was agreed to retain Mr. David Maxam to perform an independent accounting audit of the Trust Facilities and Services Sharing Agreement between the Trust and J.T. Thorpe Settlement Trust. Mr. Maxam's report was presented at the February 18, 2010, meeting and found that the current method of allocation is fair and efficient. A copy of the report is included in the Appendix filed herewith.

25. 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

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claims, provide program updates and improvements to the claims processing system and provide 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 Office: 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 19, *supra*;

h. Standish Mellon Asset Management Company: One of five investment managers for the Trust; and

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

26. 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. On April 21, 2010, the Investment Policy Statement was amended. A copy of the Investment Policy

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Statement, as amended, is included in the Appendix filed herewith.

27. Extension of Arbitration Procedures: At the April 23, 2009, meeting, the Western Asbestos Settlement Trust Arbitration Procedures that were approved on November 15, 2007, were extended to April 22, 2011.

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

29. Record Retention and Destruction Policy: On April 21, 2010, the Trustees adopted a record retention and destruction policy. A copy of the approved Record Retention and Destruction Policy is included in the Appendix filed herewith.

30. Amendment to the Trust Agreement: On April 21, 2010, paragraph 3.2(d) was revised to be consistent with the changes made to the Trust's Investment Policy Statement. A copy of the *Seventh Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement* incorporating those revisions is included in the Appendix filed herewith.

31. Study by the RAND Institute for Civil Justice: On April 16, 2010, the Trust received a preliminary draft report approximately 200 pages in length of a study being conducted by the RAND Institute for Civil Justice under cover of RAND's April 15, 2010, letter sent to Trust counsel. The letter requests the Trust to review the information relating to the Trust in the draft report for accuracy, and respond by May 7, 2010. The Trust is in the process of evaluating the draft report and the letter and will provide any response to the Court with next year's annual report or earlier.

***

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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EXHIBIT "A"



Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Western Asbestos Settlement Trust

December 31, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note A8, the Trust adopted new accounting guidance on January 1, 2009, related to the accounting for uncertainty in income tax reporting.

Grant Thornton LLP

Reno, Nevada
April 12, 2010

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Western Asbestos Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2009	2008
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	$ 40,000,000	$ 40,000,000
Unrestricted	921,102,169	814,234,892
Total cash, cash equivalents and investments	961,102,169	854,234,892
Accrued interest and dividend receivables	8,315,587	8,729,812
Prepaid federal income tax	923,074	163,231
Deferred tax asset	1,101,960	27,394,908
Total assets	$ 971,442,790	$ 890,522,843
LIABILITIES		
Accrued expenses	$ 832,876	$ 781,897
Claim processing deposits	376,500	387,000
Unpaid claims (Note D)		
Outstanding offers	14,228,901	9,472,390
Pre-petition liquidated claims	616,508	621,624
Total liabilities	$ 16,054,785	$ 11,262,911
NET CLAIMANTS' EQUITY	$ 955,388,005	$ 879,259,932

The accompanying notes are an integral part of these statements.

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Western Asbestos Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	2009	2008
Net claimants' equity, beginning of year	$ 879,259,932	$ 980,270,462
Additions to net claimants' equity		
Initial funding	42,000,000	-
Investment income	29,584,078	32,910,244
J. T. Thorpe Trust facility and staff sharing income received	323,063	353,096
Provision for income taxes	-	37,842,164
Net realized and unrealized gains on available-for-sale securities	73,257,420	-
Total additions	145,164,561	71,105,504
Deductions from net claimants' equity		
Operating expenses	5,413,302	6,454,391
Provision for income taxes	27,638,071	-
Claims settled	31,228,604	47,635,162
Net realized and unrealized losses on available-for-sale securities	-	117,791,033
Net increase in outstanding claim offers	4,756,511	75,044
Net increase in reimbursement obligation	-	160,404
Total deductions	69,036,488	172,116,034
Net claimants' equity, end of year	$ 955,388,005	$ 879,259,932

The accompanying notes are an integral part of these statements.

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Western Asbestos Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2009	2008
Cash inflows:		
Initial funding	$ 42,000,000	$ -
Investment income receipts	29,945,885	33,008,152
J. T. Thorpe Trust facility and staff sharing income received	323,063	353,096
Total cash inflows	72,268,948	33,361,248
Cash outflows:		
Claim payments made	31,233,720	47,659,302
Total cash claim payments	31,233,720	47,659,302
Net realized losses on Available-for-sale securities	6,655,262	6,084,231
Decrease in claim processing deposits	10,500	111,500
Decrease in reimbursement obligation	-	27,594,650
Disbursements for Trust operating expenses	5,309,905	6,549,602
Disbursements for Trust income taxes	2,104,966	2,002,221
Total cash outflows	45,314,353	90,001,506
Net cash inflows (outflows)	26,954,595	(56,640,258)
Non-cash changes:		
Net unrealized gains (losses) on available-for-sale securities	79,912,682	(111,706,802)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	106,867,277	(168,347,060)
Cash, cash equivalents and investments available-for sale, beginning of year	854,234,892	1,022,581,952
Cash, cash equivalents and investments available-for-sale, end of year	$ 961,102,169	$ 854,234,892

The accompanying notes are an integral part of these statements.

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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 commitments outstanding at period end for non-cancelable obligations have been recorded as deductions from net claimants' equity.

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NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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

   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 records investments at estimated fair value. 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.

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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 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. Income Taxes

Effective January 1, 2009, the Trust adopted new accounting guidance related to accounting for uncertainty in income taxes which requires the recognition of uncertain tax positions taken or expected to be taken in a tax return, when it is "more likely than not" to be sustained upon examination. This assessment further presumes that tax authorities evaluate the technical merits of transactions individually with full knowledge of all facts and circumstances surrounding the issue.

A recognized tax position is recorded in the financial statements at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Changes in judgment resulting in subsequent recognition, de-recognition, or adjusted measurement of a tax position taken in a prior annual period, including any related interest and penalties, are recognized as discrete items during the period in which the change occurs.

As the result of implementation of the new accounting guidance related to accounting for uncertainty in income taxes, the Trust recognized no change in the liability for unrecognized tax benefits related to tax positions taken in prior periods. All positions taken on the income tax returns were deemed highly certain. The adoption of the new accounting guidance related to accounting for uncertainty in income taxes did not have an impact on the financial statements.

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NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

8. Income Taxes - Continued

The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2009, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did the Trust record any interest or penalties expense for year ended December 31, 2009.

The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months.

The Trust files income tax returns in the United States and no state jurisdiction. The Trust is no longer subject to United States federal income tax examinations for years before 2006.

9. Subsequent Events

In May 2009, the FASB issued general standards for the accounting and reporting of subsequent events that occur between the balance sheet date and issuance of financial statements. Issuers will be required to recognize the effects, if material, of subsequent events in the financial statements if the subsequent event provides additional evidence about conditions that existed as of the balance sheet date. The issuer must also disclose the date through which subsequent events have been evaluated and the nature of any nonrecognized subsequent events. Nonrecognized subsequent events include events that provide evidence about conditions that did not exist as of the balance sheet date, but which are of such a nature that they must be disclosed to keep the financial statements from being misleading. These new standards became effective for financial reporting periods ending after June 15, 2009. The adoption of them has had no material effect on the Trust's financial statements.

The Trust evaluated subsequent events through April 12, 2010, the date these financial statements were issued.

At the February 18, 2010 Trustees' meeting, the Trustees, with the consent of the TAC and Futures Representative, approved an increase in the Payment Percentage from 40% to 44% of the liquidated value of each claim. The increase is retroactive for claims approved since inception. The estimated effect of the increase on claims paid prior to December 31, 2009 is $144,430,000, on Trust-processed outstanding offers at December 31, 2009 is $1,423,000, and on Pre-petition liquidated claims outstanding at December 31, 2009 is $64,000. These amounts include a cumulative inflation adjustment of 13.84%.

10. Reclassifications

Certain reclassifications have been made to the December 31, 2008 financial statements to conform to the December 31, 2009 presentation. The reclassifications have no effect on net claimants' equity.

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NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

The Trust has classified its investments as available for sale, and recorded the securities at estimated fair value, as follows:

	December 31, 2009	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 23,514,787	$ 23,514,787
U.S. Government obligations	16,535,042	16,485,213
	$ 40,049,829	$ 40,000,000
Unrestricted		
Cash demand deposits	$ 589,002	$ 589,002
Cash equivalents	78,301,733	78,301,733
Equity securities	183,653,873	177,135,856
U.S. Government obligations	79,444,487	80,667,505
Municipal bonds	505,659,026	522,988,792
Mortgage backed securities	35,210,266	31,775,283
Corporate and other debt	28,565,416	29,643,998
	$911,423,803	$921,102,169

	December 31, 2008	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 40,000,000	$ 40,000,000
Unrestricted		
Cash demand deposits	$ 702,396	$ 702,396
Cash equivalents	49,779,954	49,779,954
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
	$884,545,352	$814,234,892

The Trust accounts for investments according to a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Trust's assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

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NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities 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 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.

Assets and liabilities measured at fair value on a recurring basis, including financial instruments for which the Trust accounts, were as follows at:

	December 31, 2009		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 589,002	$ -	$ -
Cash equivalents	97,007,080	4,809,440	-
Equity securities	177,018,616	117,240	-
U.S. Government obligations	-	97,152,718	-
Municipal bonds	-	522,988,792	-
Mortgage backed securities	-	26,644,484	5,130,799
Corporate and other debt	14,132,322	15,511,676	-
	$288,747,020	$667,224,350	$5,130,799

	December 31, 2008		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 702,396	$ -	$ -
Cash equivalents	60,665,115	29,114,839	-
Equity securities	94,756,667	43,861,094	-
U.S. Government obligations	-	49,069,498	-
Municipal bonds	30,094,734	463,524,704	-
Mortgage backed securities	-	58,778,869	-
Corporate and other debt	9,697,042	13,969,934	-
	$195,915,954	$658,318,938	$ -0-

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NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Activity in Level 3 investments for the year ended December 31, 2009 was:

	Mortgage Backed Securities
Balance at January 1, 2009	$ -
Transfers from Level 2	5,897,713
Purchases	704,985
Redemptions	(2,025,442)
Amortization of premium	(3,360)
Unrealized gain	556,903
Balance at December 31, 2009	$5,130,799

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2009:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	$ 119,848	$ 23,683,069	$ 7,145,410	$ 66,204,391
Municipal bonds	2,713,375	170,699,397	140,289,183	209,286,837
Mortgage backed securities	201,891	7,892,989	87,946	23,592,457
Corporate and other debt	-	15,431,779	14,021,300	190,919
	$3,035,114	$217,707,234	$161,543,839	$299,274,604

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	$ 61,024
Acquisition of computer hardware and software	434,604
	$495,628

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NOTE C - FIXED ASSETS - Continued

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, 2009 and 2008 were $7,676 and $8,069, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately $27,123 and $58,810 for the years ended December 31, 2009 and 2008, respectively.

NOTE D - CLAIM LIABILITIES

The Trust distinguishes between claims that were resolved prior to the establishment of the Trust and claims received and processed using the Trust 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, 2009 and 2008, 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 13.84% and 10.10% are included in outstanding claims liabilities as of December 31, 2009 and 2008, respectively.

The Trust processed and approved approximately $35,781,000 and $45,400,000 of Trust Claims during the years ended December 31, 2009 and 2008, respectively.

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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, 2011.

The Trust paid $102,953 and $96,509 in rental expense during the years ended December 31, 2009 and 2008, respectively. Future minimum rental commitments under this operating lease are $83,712 and $48,832 in the years ending December 31, 2010 and 2011, respectively.

The Trust has specific contingent obligations for the benefit of the Debtors, related parties and insurers to pay asbestos-related claims that may arise in the future. The Trust believes it is very unlikely that any claim will ever be made, but has funds available in an abundance of caution.

NOTE G - 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 originally expired December 31, 2009, however provisions allow for automatic renewal 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 reconciliation is performed and recorded in the period subsequent to the reconciliation period. The reconciliation performed for the year ended December 31, 2008 resulted in an additional payment to the J.T. Thorpe Trust of approximately $1,000, and the reconciliation performed for the year ended December 31, 2007 resulted in an additional payment to the Trust of approximately $64,000. The next reconciliation period will be the twelve-month period ending December 31, 2009.

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NOTE H - 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.

NOTE I - 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 $29,000 and $27,000 for the years ended December 31, 2009 and 2008, respectively.

NOTE J – RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

To avoid the high costs of director and officer liability insurance, and pursuant to the Trust Agreement, the Trust has elected to be self insured and has established a segregated security fund of $40 million. These funds are devoted exclusively to securing the obligations of the Trust to indemnify the former and current Trustees and officers, employees, agents and representatives of the Trust. The funds are held in a separate Trust bank account, and the investment earnings on these funds accrue to the benefit of the Trust.

As of December 31, 2009 and 2008, cash, cash equivalents and investments of $40,000,000 were restricted for this purpose.

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

The provision for income taxes consists of the following for the years ended December 31, 2009 and 2008:

	2009	2008
Federal income tax – current	$ 1,345,123	$ 3,972,744
Deferred income tax expense (benefit)	26,292,948	(41,814,908)
	$27,638,071	$(37,842,164)

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:

	2009	2008
Deferred tax asset (liability)		
Depreciation and amortization	$ 1,418	$ 5,444
Capital loss carryforwards	4,457,293	2,129,481
Unrealized losses (appreciation)	(3,360,776)	24,608,662
Other, net	4,025	651,321
	$1,101,960	$27,394,908

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SUPPLEMENTAL INFORMATION

Western Asbestos Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2009	2008
Accounting	$ 91,705	$ 104,676
Claims processing/claims system development	450,117	486,512
Computer equipment	7,899	7,805
Information technology support	26,435	22,612
Futures representatives	150,612	470,933
Insurance	9,109	13,591
Legal fees	3,169,288	3,798,904
Office expense	23,144	21,356
Office furniture and equipment	654	265
Payroll and related taxes	833,425	807,615
Pension plan contribution and fees	31,791	34,797
Rent and utilities	122,187	116,407
Travel, meals and entertainment	6,169	6,021
Trust advisory committee	73,910	92,838
Trustee fees	416,857	470,059
	$ 5,413,302	$ 6,454,391

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EXHIBIT "B"

Western Asbestos Settlement Trust
Claim Report
As of December 31, 2009

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. As the Payment Percentage has been raised, the Pre-Petition Liquidated Claims, that were paid earlier, have received this additional compensation.

The Trust paid two (2) Pre-Petition Liquidated Claims during the Accounting Period in the amount of $18,519, at the approved Payment Percentage of 40%, which also included an additional 10.10% 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-two (32) Pre-Petition Liquidated Claims in the total amount of $669,922. That amount is based upon the current Payment Percentage of 44% of the total liquidated value, and includes the inflation adjustment of 13.84% utilized for claims payments made in 2010.

Trust Claims

Claims received and disposed of from January 1, 2009, through December 31, 2009, 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") are as set forth below.

The value of each compensable disease is determined by the Matrix and TDP. Claim compensation is adjusted for individual claimants based upon jurisdiction and tort related individual characteristics including, but not limited to: age, marital status, dependents, medical specials, economic loss, and whether living at the time of commencement of litigation or filing the claim with the Trust. Each valid claim is

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awarded a total liquidated value. As of December 31, 2009, Trust Claims were paid at the approved Payment Percentage of 40%. Payments made on Trust Claims included an additional 10.10% to account for inflation based upon the CPI-W.

During the Accounting Period, 790 claims were received, 2,027 claims were processed, 725 claims received offers, and 694 claims were paid.

Below is a summary of the number and type of claims disposed of (paid) in 2009.

Compensable Disease	Number of California Claims	Number of Minnesota Claims	Number of North Dakota Claims	Totals
Grade II Non-Malignant	193	56	1	250
Grade I Non-Malignant	89	18	0	107
Grade I Non-Malignant Enhanced Asbestosis	31	7	0	38
Grade I Non-Malignant Serious Asbestosis	19	7	0	26
Chronic Lymphocytic Leukemia	0	0	0	0
Colo-Rectal	14	4	0	18
Esophageal	2	0	0	2
Kidney	1	1	0	2
Laryngeal	0	0	0	0
Non-Hodgkin's Lymphoma	0	0	0	0
Other Organ Cancer	3	0	0	3
Lung Cancer	75	13	0	88
Mesothelioma	135	25	0	160
Totals	562	131	1	694

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