JOHN P. SANDE, III, ESQ.
California State Bar No. 64942
JONES VARGAS, CHARTERED
100 West Liberty Street, 12th Floor
P.O. Box 281
Reno, Nevada 89504-0281
Telephone: 775-786-5000
Fax: 775-786-1177
Email: jps@jonesvargas.com

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-RLE
WESTERN ASBESTOS COMPANY,	Chapter 11
Debtor.	**SEVENTH ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT**
	Date: May 24, 2011 Time: 1:30 p.m. Place: 1300 Clay Street, Room 201 Oakland, CA 94604

The Trustees of the Western Asbestos Settlement Trust by and through their counsel, John P. Sande, III, Esq. of Jones Vargas, herewith file the Seventh Annual Report and Accounting, Audited Financial Statements, and Claim Report.

Respectfully submitted this 28th day of April, 2011.

JONES VARGAS, CHARTERED

By: //s// John P. Sande, III
JOHN P. SANDE, III, ESQ.
California State Bar No. 64942
100 West Liberty Street, 12th Floor
P.O. Box 281
Reno, Nevada 89504-0281
Telephone: 775-786-5000
Fax: 775-786-1177
Email: jps@jonesvargas.com

Attorneys for the Trustees of the
Western Asbestos Settlement Trust

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, 2010 annual report
ACL Doc 14542 · Page 1 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/1

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

SEVENTH ANNUAL REPORT AND ACCOUNTING OF WESTERN ASBESTOS SETTLEMENT TRUST

The Trustees of the Western Asbestos Settlement Trust ("Trust") hereby submit this Seventh Annual Report and Accounting ("Annual Report") covering Trust activities occurring from January 1, 2010 to and including December 31, 2010 ("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-RLE, 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"); Eighth 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"); First Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix ("Matrix"); First Amendment to and Complete Restatement of the Western Asbestos Company/Western Mac Arthur Co./Mac Arthur Co. Asbestos Personal Injury Settlement Trust Distribution Procedures ("TDP"); other controlling documents approved by this Court[1] and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle Western Asbestos Settlement Trust's Seventh Annual Report, the Audited Financial Statements, and the Claim Report, as described in paragraphs 6, 7, and 8, *infra*. Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan Documents. This Court has approved each Annual Report beginning in 2005.

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.

[1] The Appendix includes the Plan, Order Confirming the Plan, Trust Agreement, Trust Bylaws, Matrix, TDP, and other documents as indicated.

Western Asbestos Asbestos Trust Annual Reports, 2010 annual report
ACL Doc 14542 · Page 2 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/2

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. 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 the Accounting Period.

3. Appointment of Trust Advisory Committee ("TAC"): In the Order Confirming the Plan, this Court approved the appointment of Alan Brayton, Jack Clapper, David M. McClain, Phil Harley, and Michael Sieben as the initial members of the TAC. Mr. Brayton has served as the Chair of TAC since the Effective Date of the Trust. Messrs. Clapper, McClain and Sieben have continued to serve as members of the TAC since the Effective Date of the Trust. As described in the Trust's Fifth Annual Report and Accounting, Jerry Neil Paul was appointed to replace Phil Harley as a member of the TAC in April of 2008 and has served in that capacity since that time. Further, Mr. Paul's appointment was approved by this Court in the June 24, 2009 Order to Approve and Settle Western Asbestos Settlement Trust's Fifth Annual Report and Accounting, Audited Financial Statements, and Claim Report; and Order Confirming the Appointment of Jerry N. Paul to Replace Philip A. Harley as a Member of the TAC.

4. Appointment and Continuation of Futures Representative: The Honorable Charles B. Renfrew was appointed as the Futures Representative in the Western Reorganization Cases on November 25, 2002, and his continued appointment as the Futures Representative of the Trust was approved by this Court in the Order Confirming the Plan. Judge Renfrew has served as the Trust's Futures Representative since the Effective Date of the Trust.

5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. 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

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, 2010 annual report
ACL Doc 14542 · Page 3 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/3

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 2010 federal tax return must be filed on or before September 15, 2011. The Trust resides in Nevada and Nevada has no state income tax. Although the Trust is not subject to tax in California, the Trustees file a tax return in California each year, attaching a copy of the Trust's federal tax return, but showing no California taxable income or state tax liability.

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

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

7. 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

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, 2010 annual report
ACL Doc 14542 · Page 4 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/4

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, 2010, total Trust assets were $823,513,187, total liabilities were $16,465,008, and Net Claimants' Equity was $807,048,179.

8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with the Audited Financial Statements, the Trust shall file with the Court a report containing a summary regarding the number and type of claims disposed of during the period covered by the financial statements. The Western Asbestos Settlement Trust Claim Report As Of December 31, 2010 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 969 claims, paid 748 claims, and made settlement offers on 743 claims. Since the Trust received its first Trust Claim[2] on August 27, 2004, the Trust has received 8,799 Trust Claims, paid 6,041 Trust Claims, and 1,297 Trust Claims have been withdrawn.[3]

Section 5.4 of the TDP provides that the Trust shall pay Pre-Petition Default, Settlement, and Matrix Claims (hereafter "Pre-Petition Liquidated Claims")[4] "[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 $10,929.48. 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-one (31) remaining unpaid Pre-Petition Liquidated Claims in the total amount of $681,338.

9. 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 Futures Representative, the TAC, 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

[2] "Trust Claims" are any claims submitted to the Trust after the Effective Date.

[3] "Withdrawn Claims" include claims which are not qualified and/or claims with deficiencies that have not been cured beyond a certain time period, and/or claims that have remained on hold beyond a certain time period.

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

Western Asbestos Asbestos Trust Annual Reports, 2010 annual report
ACL Doc 14542 · Page 5 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/5

by the public in accordance with procedures established by this Court.

10. 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 18, 2010, April 21, 2010, September 16, 2010, and November 18, 2010). All meetings were held in Reno, Nevada.

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

12. Bi-annual Review of Claims: 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 18, 2010 meeting. A copy of the report is included in the Appendix filed herewith.

13. 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 and approved in the Trust's Sixth Annual Report and Accounting, the Payment Percentage was reviewed and increased to 44% at the February 18, 2010 meeting.

14. 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 18, 2010 meeting, the Maximum Annual Payment for 2011 was set at $66,000,000, plus the amount of $316,328,152 of excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled

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, 2010 annual report
ACL Doc 14542 · Page 6 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/6

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

15. 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. Thus, as of January 1, 2010, all claims payments made during the calendar year were increased by 13.84% to account for inflation.

At the November 18, 2010 meeting, the CPI-W to be published in January 2011 was approved for use by the Trust in making the 2011 cost of living adjustment for claims payments. The CPI-W of 1.7% was issued on January 14, 2011. Consequently, all claims payments made during the 2011 calendar year will have a compounded inflation rate of 15.78% added to the payment amount.

16. 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 2011 budget and the required four-year budget and cash flow projections on November 18, 2010. Pursuant to the Trust Agreement, these were provided to the Futures Representative and TAC. The budget for operating expenses in 2011 totals $1,917,000.[5]

17. J.T. Thorpe Settlement Trust Administration: As initially described in the Trust's Third Annual Report and Accounting, the Trust and J.T. Thorpe Settlement Trust ("J.T. Thorpe Trust") entered into a Trust Facilities and Services Sharing Agreement. The J.T. Thorpe Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by this Court in the order approving the Trust's Third Annual Report. As described in the Trust's Sixth Annual Report and Accounting, it was decided that the Advance Payments should remain at $27,000 per

[5] This figure is net of claimant payments which are budgeted for $66,193,795, net of extraordinary legal fees which are budgeted for $1,590,000, and net of income tax payments which are budgeted for $2,000,000.

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

Western Asbestos Asbestos Trust Annual Reports, 2010 annual report
ACL Doc 14542 · Page 7 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/7

month for 2009. Pursuant to the annual reconciliation of fees presented at the February 18, 2010 meeting, the Advance Payments remained at $27,000 per month for 2010.

18. Audit of Trust Facilities and Services Sharing Agreement with J.T. Thorpe Settlement Trust: As described in the Trust's Sixth Annual Report and Accounting, the Trust retained 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. The report found that the current method of allocation is fair and efficient.

19. Thorpe Insulation Company Asbestos Settlement Trust Administration: The Trust was approached in February of 2010 to begin preparatory work in anticipation of entering into a contract to share its resources to administer and process the Thorpe Insulation Company Asbestos Settlement Trust ("Thorpe Insulation Trust") when and if it was established. During the February 18, 2010 Trustees' meeting, a *Resolution Regarding Thorpe Insulation Company Matters* was approved with the caveat that the Trust advance no more than $100,000 in preparation for the Thorpe Insulation Trust and with the understanding that those costs would be reimbursed by the Thorpe Insulation Trust if and when it was established and entered into an agreement with the Trust. A copy of the resolution is included in the Appendix filed herewith.

Further to that resolution, the Trust implemented a "Voluntary Claims Submission Program" until the formation of the Thorpe Insulation Trust on October 22, 2010 pursuant to an Order Authorizing Implementation of Voluntary Claims Submission Program and Preparatory Work for Trust Implementation entered on September 28, 2010 in the U.S. Bankruptcy Court for the Central District of California, Los Angles Division, *In re Thorpe Insulation Company, In re Pacific Insulation Company, Debtors*, Case Nos. 2:07-19271-BB and 2:07-20016-BB (jointly administered under Case No. 2:07-20016-BB). A copy of the Order is included in the Appendix filed herewith. All funds advanced in connection with such preparatory work and the Voluntary Claims Submission Program have been reimbursed to the Trust.

The Trust Facilities and Services Sharing Agreement was entered into during the Accounting Period and amendments were approved on April 21, 2011, with the consent of the

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

Futures Representative and TAC, for presentation at the next quarterly Trustees' meeting. The agreement provides: (i) for the Thorpe Insulation Trust to pay to the Trust, for all processing costs and its share of fixed costs, the amount of $35,000 each month for the first eight months, and $27,000 each month beginning on July 1, 2011 through the end of the Initial Term for the sharing of the Trust employees; and (ii) for an accounting through the end of 2011 and each year thereafter to identify and adjust actual costs as shared to insure that each trust is paying its proportionate share of the expenses.

20. Operating Fund: The Operating Fund was established at Wells Fargo Bank, N.A., to pay anticipated operating expenses of the Trust, as described in all the Trust's Annual Reports. During the Accounting Period, $3,500,000 was transferred into the fund from the Settlement Fund.

21. Set Aside Funds: The Trust continues to maintain separate funds for the defense and indemnification of Ordway and Milwaukee, Van Packer, Mac Arthur and Western Mac Arthur, and ERC as required by the Trust Documents and/or settlement agreements. These accounts hold the legally required amounts in cash and securities for certain indemnification obligations. During the Accounting Period, the Trust received a claim from Van Packer Company. Trust counsel is researching the Trust's indemnification obligations, if any.

22. Indemnity Fund (Self-Insured Retention): 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 all the Trust's Annual Reports. 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.

23. 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

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, 2010 annual report
Published by AsbestosClaims.Law
ACL Doc 14542 · Page 9 of 38
asbestosclaims.law/library/14542/9

Regarding the FAIR Act. All interest earned by the Special Budget Fund is returned to the Trust quarterly. As described in the Trust's Sixth Annual Report and Accounting, the Special Budget Fund was decreased 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 and 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.

24. 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. The Trust entered into five separate Control Agreements in 2005 as described in detail in the Trust's Second Annual Report and Accounting. There has been no change in these Control Agreements during the Accounting Period.

25. Legal Disputes:

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.

In addition, the Trust entered into a Settlement Agreement with The Home Insurance Company in Liquidation on February 18, 2011 in connection with its Proof of Claim submitted on June 11, 2004. Pursuant to the terms of the settlement agreement, the Home Liquidator filed a motion for approval of the settlement in the State of New Hampshire, Merrimack County Superior Court, *In the Matter of the Liquidation of The Home Insurance Company*, Docket No. 03-E-0106 ("Liquidation Court Proceeding"). A joint motion by the Home Liquidator and the Trust to stay the disputed claim proceeding was also filed in the Liquidation

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, 2010 annual report
ACL Doc 14542 · Page 10 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/10

Court Proceeding, which joint motion was granted on March 15, 2011. The settlement was approved in the Liquidation Court Proceeding subject to resolution of certain objections, which have now been resolved. Issuance of an order approving the settlement is currently pending.

b. As described in the Trust's Sixth 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. On October 13, 2009, Hartford filed a Notice of Appeal in the United States Court of Appeals for the Ninth Circuit ("Court of Appeals"). On December 20, 2010, the Court of Appeals affirmed this Court's ruling. A copy of the *Memorandum* issued by the Court of Appeals is included in the Appendix filed herewith.

c. As described in the Trust's Sixth Annual Report and Accounting, the Trust was served with a Subpoena Duces Tecum in *Congoleum Corporation v. Ace American Insurance Co., et al.* issued by the Second Judicial District Court of the State of Nevada ("Nevada Court") on January 23, 2009 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. 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.

d. Subpoena in *National Union Fire Insurance Company of Pittsburgh, PA., et al. v. Porter Hayden Company*: On October 7, 2010, the Trust was served with a Subpoena to Testify at a Deposition in a Civil Action issued by the United States District Court for the District of Nevada. The subpoena was issued on behalf of National Union Fire Insurance Company of

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

Pittsburgh, PA ("National Union") and sought production of claims information in connection with claims filed with the J.T. Thorpe Settlement Trust (later dropped from the subpoena) and Western Asbestos Settlement Trust. However, no response to the subpoena was required until certain conditions were met by both parties. Pursuant to an objection with respect to the service of the subpoena raised by Porter Hayden Company in the underlying action, National Union reissued the subpoena, which was served on the Trust on October 26, 2010. The Trust corresponded with counsel for National Union concerning the conditions precedent to any response required of the Trust, as well as the Trust's objections to the subpoena. On January 7, 2011, National Union filed a motion to compel production of documents. The Trust filed its Opposition to Motion to Compel and a related Motion to Strike the Affidavit of Marc C. Scarcella on February 8, 2011. National Union responded to the Trust's Motion to Strike the Affidavit of Marc C. Scarcella on February 25, 2011 and the matter was set for oral argument to be held on March 22. 2011. On March 18, 2011, National Union contacted the Trust's counsel to enter into a negotiated resolution and to postpone the hearing. The Trust and National Union reached a tentative resolution and the hearing was continued to June 28, 2011.

e. A California law firm representing asbestos claimants has alleged that at various times the Trustees of the Trust, the Trust staff, the Futures Representative and members of the Trust Advisory Committee have acted in bad faith, fraudulently, in breach of fiduciary duty and are conspiring to harm the firm and the claimants it represents. The allegations made by this law firm have not been raised by any other claimant or claimant representative. The current allegations relate specifically to the complaining firm's objection to published requirements that declarations offered in support of claims against the Trust meet certain legal requirements (see paragraph 27(i), *infra*) and the internal processing procedures for submitted claims. In the many previous instances on issues which the subject law firm has disagreed with the position of the Trust, the law firm has made similar claims and threatened action against the Trustees of the Trust, as well as other parties involved with the administration of the Trust. Despite the numerous threats and allegations which the firm has historically made, no action has ever been taken by the subject law firm against the Trust or other parties involved with the administration of the Trust.

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

Although no action has been taken, the allegations made by the subject law firm against the Trustees, the Trust staff, the Futures Representative and the Trust Advisory Committee force the Trust to divert Trust time and resources from claimants to responding to the allegations. Notwithstanding the history of the subject law firm and its dealings with the Trust, the Trust staff has had numerous discussions with the subject law firm regarding the foregoing issues in an effort to understand and, if appropriate, resolve them. However, communications with the principal of the subject law firm have been increasingly difficult due to the contentious nature and, in the judgment of the Trust, abusive content of communications with Trust staff. Given these circumstances, and particularly in response to the escalation of repeated verbal and written complaints, the Trust has retained counsel for further investigation. Outside counsel has requested a meeting with the firm to discuss the allegations, but the firm has declined to meet and discuss the matter with counsel. Although based on the available information, outside counsel has determined that the allegations lack merit, the Trust is considering whether and what additional steps may be appropriate to address them. Due to the significant additional expense that may be involved, the Trust is considering whether to petition this court for instructions about whether further investigation is necessary and appropriate. Notwithstanding the foregoing, the Trust has invested additional time and resources to insure that claimants represented by the subject law firm are not prejudiced, that their claims continue to be processed in the normal course of business, and that questions concerning specific Trust claims are dealt with as they arise.

26. Amendments to the Trust Documents:

a. As described in the Trust's Sixth Annual Report and Accounting, paragraph 3.2(d) of the Trust Agreement was revised on April 21, 2010 to be consistent with the changes made to the Trust's Investment Policy Statement.

b. On November 18, 2010, paragraphs 4.5(a) and 6.5(b) of the Trust Agreement were amended to be consistent with the changes made to the Trustees' and TAC's compensation during the September 16, 2010 meeting as described in paragraphs 30 and 31, *infra*.

c. On February 17, 2011, Section IV(b)(vii) of the Matrix was amended to allow for a pathological diagnosis of occupational levels of asbestos bodies or asbestos fibers in lung

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

tissue to be considered when determining medical causation.

d. On April 21, 2011, Section 2.2(g) of the Trust Agreement was amended to acknowledge that consents by the TAC and Futures Representative whether by signature or as reflected in all approved Trustees' meeting minutes shall constitute the required form and substance of consent. A copy of the *Ninth Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement* is included in the Appendix filed herewith.

27. Notifications to Beneficiaries: During the Accounting Period and from January 1, 2011 to and including April 21, 2011, the following notifications were placed on the Trust's Web site and forwarded to all interested parties via electronic mail on or about the date of the Web site posting:

a. Notice of increase in Payment Percentage (posted on February 25, 2010).

b. Reminder Concerning Hold Claims Policy (posted on March 1, 2010).

c. Notice of Consumption Guidelines for Wrongful Death Claims (posted on April 28, 2010) involves wrongful death claim requests for economic loss in excess of $200,000 and the Trust's requirement that the economist take into consideration the lack of consumption by the deceased when determining the amount of economic loss.

d. Notice of the hearing on the Trust's Sixth Annual Report and Accounting (posted on May 7, 2010).

e. Updated Notice Regarding Medicare Reporting (posted on November 1, 2010) indicating that the Trust is not a "responsible reporting entity" under the 2007 Medicare, Medicaid, and SCHIP Extension Act and that the Trust cancelled its registration as a reporting entity (a copy of the opinion letter from Kathleen Sebelius dated November 2, 2009 is included in the Appendix filed herewith).

f. Notice of Deficient Claims Policy (posted on November 22, 2010) involves the notice of deadlines for enforcement of the TDP policy to deem withdrawn any claim that has been in deficient status for six months without any activity on the part of the claimant. An extension of an additional six months may be granted 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

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

commenced as of December 1, 2010.

g. Notice of amendment to the Matrix (posted on March 3, 2011) as described in paragraph 26(c), *supra*.

h. Notice of approved modifications to site and ship lists (posted on Mach 3, 2011).

i. Notice of the Trust's policy concerning declarations (posted on April 5, 2011) submitted in support of site, asbestos exposure, and/or dates of exposure, or any other facts relevant to claims.

28. Independent Review of Individual Review Claims: The Trustees, with the agreement of the TAC and Futures Representative, contracted with Mr. David Maxam to conduct an independent review of paid Individual Review claims in May of 2010. Mr. Maxam's findings were reported at the September 16, 2010 meeting. Among other things, he found that each of 23 randomly selected claims had been processed and paid correctly according to Trust documents and policies. Mr. Maxam's final report is included in the Appendix filed herewith.

29. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at the September 16, 2010 meeting and there were no recommended changes to the existing $250.00 fee during the Accounting Period or as of the date hereof.

30. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the Trust to report the amounts paid to the Trustees for compensation and expenses. During the Accounting Period, the Trustees each received per annum compensation in the amount $65,000. The total paid to all Trustees for hourly compensation was $230,655 and $5,746 was the total amount of expenses incurred by all Trustees. In addition, section 4.5(a) of the Trust Agreement provides "per annum compensation payable to the Trustees…shall be reviewed every three years and … adjusted with the consent of the Approving Entities.", and also provides for the annual review of the structure and amounts of compensation of Trustees. At the September 16, 2010 meeting, after extensive review and discussions, the TAC and Futures Representative resolved that effective January 1, 2011, the Trustees' per annum compensation would be increased from $65,000 to $70,000, the non-managing Trustees' hourly rate would be increased from $450 to $500, and 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, 2010 annual report
ACL Doc 14542 · Page 15 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/15

managing Trustee's hourly rate would be increased from $550 to $600.

31. TAC Compensation: Section 6.5(d) provides for the annual review of the structure and amounts of compensation for TAC members. At the September 16, 2010 meeting, the Trustees, with the consent of the Futures Representative, resolved that effective January 1, 2011, the hourly rate for TAC members will be increased from $450 to $500 for performance of TAC Trust Tasks.

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

a. BlackRock Financial Management: One of six investment managers for the Trust described in paragraph 33, *infra*.

b. Callan Associates, Inc.: Investment consultant for the Trust described in paragraph 33, *infra*.

c. Dwight Asset Management Company: One of six investment managers for the Trust described in paragraph 33, *infra*.

d. Eagle Capital Management, LLC: One of six investment managers for the Trust described in paragraph 33, *infra*.

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, bankruptcy matters, and counsel to the Trust in the *Congoleum* and *National Union* matters as described in paragraph 25, *supra*.

g. Morgan Lewis & Bockius LLP: Counsel to Debtors and counsel to the Trust in the *Zurich* and *Hartford* matters described in paragraph 25, *supra*.

h. Standish Mellon Asset Management Company: One of six investment managers for the Trust described in paragraph 33, *infra*.

i. State Street Global Advisors: One of six investment managers for the Trust described in paragraph 33, *infra*.

33. Trust Investment Management: Article 3 of the Trust Agreement authorizes 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, 2010 annual report
ACL Doc 14542 · Page 16 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/16

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, Inc. continued to assist the Trust during the Accounting Period as its investment consultant. 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. On November 18, 2010, Harding Loevner, LP was engaged as the Trust's international investment manager. The Trust closely monitors any market volatility with its investment advisors and continues to be in compliance with its Investment Policy Statement. As described in the Trust's Sixth Annual Report and Accounting, the Investment Policy Statement was amended on April 21, 2010.

34. Record Retention and Destruction Policy: As described in the Trust's Sixth Annual Report and Accounting, the Trustees adopted a record retention and destruction policy on April 21, 2010.

35. Study by the RAND Institute for Civil Justice: As described in the Trust's Sixth Annual Report and Accounting, 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 ("RAND") under cover of RAND's April 15, 2010 letter sent to Trust counsel. The letter requested the Trust to review the information relating to the Trust in the draft report for accuracy, and respond by May 7, 2010. The Trust completed its evaluation of the draft report and the letter and provided a response to RAND on May 7, 2010. A copy of the Trust's response to RAND is included in the Appendix filed herewith. The RAND report was issued in August of 2010 with many items remaining incorrect.

***

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 and up to and including the date hereof. The Trust conscientiously worked to execute equitable claims procedures and process Trust Claims with due diligence during the Accounting Period and

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, 2010 annual report
ACL Doc 14542 · Page 17 of 38
Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/17

up to and including the date hereof. Moreover, the Trust worked with its accountants and financial advisors to preserve and grow Trust assets in order to fulfill the purpose of the Trust--paying valid asbestos claims. In so doing, the Trust carefully complied with all Plan documents and the mandates of this Court.

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

EXHIBIT "A"



Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Western Asbestos Settlement Trust

December 31, 2010 and 2009

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/19

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 Information	
Schedule of Operating Expenses	18

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, 2010 and 2009, 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, 2010 and 2009, 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
April 5, 2011

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/21

Western Asbestos Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2010	2009
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	$ 40,000,000	$ 40,000,000
Unrestricted	776,767,781	921,102,169
Total cash, cash equivalents and investments	816,767,781	961,102,169
Accrued interest and dividend receivables	5,863,336	8,315,587
Prepaid federal income tax	882,070	923,034
Deferred tax asset	-	1,102,000
Total assets	$ 823,513,187	$ 971,442,790
LIABILITIES		
Accrued expenses	$ 746,662	$ 832,876
Claim processing deposits	366,250	376,500
Unpaid claims (Note D)		
Outstanding offers	6,069,011	14,228,901
Pre-petition liquidated claims	690,085	616,508
Deferred tax liability	8,593,000	-
Total liabilities	$ 16,465,008	$ 16,054,785
NET CLAIMANTS' EQUITY	$ 807,048,179	$ 955,388,005

The accompanying notes are an integral part of these statements.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/22

Western Asbestos Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	2010	2009
Net claimants' equity, beginning of year	$ 955,388,005	$ 879,259,932
Additions to net claimants' equity		
Initial funding	-	42,000,000
Investment income	24,746,623	29,584,078
Trust facility and staff sharing income received	527,398	323,063
Net decrease in outstanding claim offers	8,159,890	-
Net realized and unrealized gains on available-for-sale securities	27,696,719	73,257,420
Total additions	61,130,630	145,164,561
Deductions from net claimants' equity		
Operating expenses	3,893,260	5,413,302
Provision for income taxes, current	1,302,893	1,345,123
Provision for income taxes, deferred	9,695,000	26,292,948
Claims settled	194,579,303	31,228,604
Net increase in outstanding claim offers	-	4,756,511
Total deductions	209,470,456	69,036,488
Net claimants' equity, end of year	$ 807,048,179	$ 955,388,005

The accompanying notes are an integral part of these statements.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/23

Western Asbestos Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2010	2009
Cash inflows:		
Initial funding	$ -	$ 42,000,000
Investment income receipts	27,198,874	29,945,885
Trust facility and staff sharing income received	527,398	323,063
Net realized gains on		
Available-for-sale securities	12,257,807	-
Total cash inflows	39,984,079	72,268,948
Cash outflows:		
Claim payments made	194,505,726	31,233,720
Net realized losses on		
Available-for-sale securities	-	6,655,262
Decrease in claim processing deposits	10,250	10,500
Disbursements for Trust operating expenses	3,979,474	5,309,905
Disbursements for Trust income taxes	1,261,929	2,104,966
Total cash outflows	199,757,379	45,314,353
Net cash inflows (outflows)	(159,773,300)	26,954,595
Non-cash changes:		
Net unrealized gains on available-for-sale securities	15,438,912	79,912,682
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	(144,334,388)	106,867,277
Cash, cash equivalents and investments available-for sale, beginning of year	961,102,169	854,234,892
Cash, cash equivalents and investments available-for-sale, end of year	$ 816,767,781	$ 961,102,169

The accompanying notes are an integral part of these statements.

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.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/25

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. Special-Purpose Accounting Methods - Continued

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.

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

Fair value measurements are determined through the use of an independent, nationally recognized pricing service. For securities that have quoted prices in active markets, market quotations are provided. For securities that do not trade on a daily basis, the pricing service provides fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment spreads and measures of volatility. The Trust reviews on an ongoing basis the reasonableness of the methodologies used by the pricing service, as well as determines the aggregate portfolio price performance and reviews it against applicable indices.

5. Deposits

Claims processing deposits represent filing fees collected for each unliquidated claim which fees are refunded by the Trust if the claim is paid.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/26

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

On January 1, 2009, the Trust adopted new accounting guidance for recognizing, measuring, presenting, and disclosing uncertain tax positions taken or expected to be taken. As the result of implementation of the new accounting guidance, the Trust recognized no change in the liability for unrecognized tax benefits related to tax positions taken in prior periods. 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, 2010, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States and no state jurisdiction. The Trust is no longer subject to United States federal tax examinations for years before 2007.

9. Reclassifications

Certain reclassifications have been made to the December 31, 2009 financial statements to conform to the December 31, 2010 presentation. The reclassifications have no effect on net claimants' equity.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/27

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, 2010	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 2,077,276	$ 2,077,276
Equity securities	1,152,193	27,199
U.S. Government obligations	23,810,142	23,828,692
Municipal bonds	1,365,016	1,339,211
Mortgage backed securities	6,817,073	6,610,164
Corporate and other debt	6,040,633	6,117,458
	$ 41,262,333	$ 40,000,000
Unrestricted		
Cash demand deposits	$ 1,231,721	$ 1,231,721
Cash equivalents	141,363,932	141,363,932
Equity securities	166,045,804	183,857,515
U.S. Government obligations	33,370,923	33,404,773
Municipal bonds	390,239,455	398,804,694
Mortgage backed securities	9,632,310	9,352,835
Corporate and other debt	8,580,170	8,752,311
	$750,464,315	$776,767,781

	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

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/28

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

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

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where significant inputs are observable or can be corroborated by observable market data.

Level 3 - Valuations based on models where significant inputs are not observable, and for which the determination of fair value requires significant management judgment or estimation.

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

	December 31, 2010		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 1,231,721	$ -	$ -
Cash equivalents	143,441,208	-	-
Equity securities	183,884,714	-	-
U.S. Government obligations	21,847,794	35,385,671	-
Municipal bonds	15,901,362	384,242,543	-
Mortgage backed securities	-	14,120,015	1,842,984
Corporate and other debt	6,477,994	8,391,775	-
	$372,784,793	$442,140,004	$1,842,984

	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

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/29

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The Trust experiences transfers in and out of levels within the fair value hierarchy primarily due to the market activity of the underlying security. The Trust's policy is to recognize transfers in and out at the actual date the event or change in circumstance caused the transfer. Between the measurement dates of December 31, 2009 and December 31, 2010, approximately $13,390,000 of municipal bond securities transferred from Level 2 to Level 1 due to the availability of quoted prices in active markets for identical securities. Between the measurement dates of December 31, 2009 and December 31, 2010, approximately $852,000 of mortgage backed securities transferred from Level 2 to Level 3 due to decreased market activity and a lack of observable inputs.

Activity in Level 3 investments for the years ended December 31, 2010 and 2009 was:

	Mortgage Backed Securities	
	2010	2009
Balance at January 1	$5,130,799	$ -
Transfers from Level 2	852,395	5,897,713
Purchases(sales)	(4,662,836)	704,985
Redemptions	(590,442)	(2,028,802)
Realized loss	(1,292,619)	-
Unrealized gain	2,405,687	556,903
Balance at December 31	$1,842,984	$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, 2010:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	$ -	$ 16,718,228	$ 7,836,556	$ 32,678,681
Municipal bonds	-	155,192,068	137,745,463	107,206,374
Mortgage backed securities	-	4,438,539	140,072	11,384,388
Corporate and other debt	228,347	7,150,868	7,490,554	-
	$228,347	$183,499,703	$153,212,645	$151,269,443

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	$102,862
Acquisition of computer hardware and software	414,859
	$517,721

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, 2010 and 2009 were $21,216 and $7,676, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately $22,656 and $27,123 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009, there were no expired offers.

All claimants are entitled to the full liquidated value of their claim. Under the TDP, claimants receive an initial pro rata payment equal to the approved Payment Percentage of the claim's liquidated value. The remaining obligation for the unpaid portion of the liquidated amount is not recorded and is not a liability of the Trust, unless the Payment Percentage is increased. In that instance, the Trust would be obligated to retroactively pay the increased percentage to all previously paid claimants.

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, 2010 include a Cost of Living Adjustment for inflation based upon the Federal Bureau of

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/31

NOTE D - CLAIM LIABILITIES - Continued

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 15.78% and 13.84% are included in outstanding claims liabilities as of December 31, 2010 and 2009, respectively.

The Trust processed and approved approximately $40,760,000 and $35,781,000 of Trust Claims during the years ended December 31, 2010 and 2009, respectively.

NOTE E - COMMITMENTS AND CONTINGENCIES

The Trust leases its offices in Reno, Nevada, under a non-cancelable operating lease. The lease contains escalation provisions, options to extend and expires July 31, 2011.

The Trust paid $96,323 and $102,953 in rental expense during the years ended December 31, 2010 and 2009, respectively. Future minimum rental commitments under this operating lease are $48,832 in the year ending December 31, 2011.

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 F - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into facilities and staff sharing agreements with the J. T. Thorpe Settlement Trust, (J. T. Thorpe Trust) and the Thorpe Insulation Company Asbestos Settlement Trust (Thorpe Insulation Trust). The three trusts are related through common Trustees. Under the agreements, and in exchange for advance monthly payments, the Trust provides use of its facilities and services relating to administration and claims processing. For the J.T. Thorpe Trust, 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. For the Thorpe Insulation Trust, the initial monthly payment of $35,000 will be in place through June 30, 2011, and will be reduced to $27,000 effective July 1, 2011 and for all months thereafter. The agreements are in effect through December 31, 2011, and 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. For the agreement with the J.T. Thorpe Trust, the reconciliation performed for the year ended December 31, 2009 resulted in an additional payment to the Trust of approximately $1,000, and 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. The next reconciliation period will be the twelve-month period ending December 31, 2010. For the agreement with the Thorpe Insulation Trust, the first reconciliation period will be the fourteen-month period ending December 31, 2011.

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. The Payment Percentage was increased by the Trustees to 34.2% in February 2006, 40.0% in July 2007, and 44% in February 2010. These changes were made with the consent of the TAC and Futures Representative. The increases were retroactive for claims approved since inception.

NOTE H - EMPLOYEE BENEFIT PLANS

The Trust has established a defined contribution retirement savings plan under Section 401(k) of the Internal Revenue Code for all eligible employees after completion of certain age and service requirements. Employees may voluntarily elect to defer their compensation or fund a Roth IRA and invest in various options for their retirement. The plan allows employees to defer a percentage of their salaries within limits set by the Internal Revenue Code with the Trust matching contributions by employees of up to 4% of their salaries. The Trust may also make discretionary contributions to employee accounts. The total Trust contribution and expenses under the plan were approximately $44,500 and $29,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE I - RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

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

As of December 31, 2010 and 2009, cash, cash equivalents and investments of $40,000,000 were restricted for this purpose.

NOTE J - INCOME TAXES

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 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, 2010 and 2009:

	2010	2009
Federal income tax – current	$ 1,302,893	$ 1,345,123
Deferred income tax expense	9,695,000	26,292,948
	$10,997,893	$27,638,071

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:

	2010	2009
Deferred tax asset (liability)		
Depreciation and amortization	$ 1,000	$ 2,000
Capital loss carryforwards	167,000	4,457,000
Unrealized appreciation	(8,765,000)	(3,361,000)
Other, net	4,000	4,000
	($8,593,000)	$1,102,000

NOTE K - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 5, 2011, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure.

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/34

SUPPLEMENTAL INFORMATION

Western Asbestos Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2010	2009
Accounting	$ 83,054	$ 91,705
Claims review	6,811	23,190
Claims processing/claims system development	459,267	408,928
Computer equipment	5,292	7,899
Information technology support	44,062	44,434
Futures representatives	258,094	150,612
Insurance	3,601	9,109
Legal fees	1,410,763	3,169,288
Office expense	11,705	23,144
Office furniture and equipment	15,924	654
Payroll and related taxes	875,096	833,425
Pension plan contribution and fees	48,125	31,791
Rent and utilities	114,740	122,187
Travel, meals and entertainment	6,375	6,169
Trust advisory committee	75,715	73,910
Trustee fees	42,138	43,331
Trustees professional	432,498	373,526
	$ 3,893,260	$ 5,413,302

Published by AsbestosClaims.Law
asbestosclaims.law/library/14542/36

EXHIBIT "B"

Western Asbestos Settlement Trust
Claim Report
As of December 31, 2010

This report is submitted pursuant to Section 2.2 (c)(ii) of the Eighth 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 one (1) Pre-Petition Liquidated Claim during the Accounting Period in the amount of $10,929, at the approved Payment Percentage of 44%, which also included an additional 13.84% 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-one (31) Pre-Petition Liquidated Claims in the total amount of $681,338. That amount is based upon the current Payment Percentage of 44% of the total liquidated value, and includes the inflation adjustment of 15.78% utilized for claims payments made in 2011.

Trust Claims

Claims received and disposed of from January 1, 2010, through December 31, 2010, 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

awarded a total liquidated value. As of December 31, 2010, Trust Claims were paid at the approved Payment Percentage of 44%. Payments made on Trust Claims included an additional 13.84% to account for inflation based upon the CPI-W.

During the Accounting Period, 969 claims were received, 748 claims were paid, and 743 claims received offers.

Below is a summary of the number and type of claims disposed of (paid) in 2010.

Compensable Disease	Number of California Claims	Number of Minnesota Claims	Number of North Dakota Claims	Totals
Grade II Non-Malignant	179	87	0	266
Grade I Non-Malignant	69	23	0	92
Grade I Non-Malignant Enhanced Asbestosis	31	6	0	37
Grade I Non-Malignant Serious Asbestosis	16	8	0	24
Chronic Lymphocytic Leukemia	0	0	0	0
Colo-Rectal	8	6	0	14
Esophageal	2	0	0	2
Kidney	0	0	0	0
Laryngeal	0	1	0	1
Non-Hodgkin's Lymphoma	0	1	0	1
Other Organ Cancer	2	1	0	3
Lung Cancer	88	27	0	115
Mesothelioma	166	27	0	193
Totals	561	187	0	748