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UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

OAKLAND DIVISION

In re: WESTERN ASBESTOS COMPANY, Debtor.	Case No. 02-46284-RLE Chapter 11 **NINTH ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT** Date: June 19, 2013 Time: 2:00 p.m. Place: 1300 Clay Street, Room 201 Oakland, CA 94604

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

Respectfully submitted this 30th day of April, 2013.

By: /s/ Gabriel I. Glazer
EVE H. KARASIK, and
GABRIEL I. GLAZER, Members of
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Bankruptcy Counsel for the Western Asbestos Settlement Trust

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NINTH ANNUAL REPORT AND ACCOUNTING OF WESTERN ASBESTOS SETTLEMENT TRUST

The Trustees of the Western Asbestos Settlement Trust ("Trust") hereby submit this Ninth Annual Report and Accounting ("Annual Report") covering Trust activities occurring from January 1, 2012 to and including December 31, 2012 ("Accounting Period"), and certain activities of the Trust, specified below, that took place outside the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Northern District of California, 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" ("Confirmation Order"); and the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case Valuation Matrix, as amended from time to time, established pursuant to the Plan,[1] and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle Western Asbestos Settlement Trust's Ninth 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.

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

[1] The Appendix includes the Plan; Confirmation Order; Tenth 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; and other documents as indicated.

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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 Confirmation Order, 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. Jerry Neil Paul's appointment to replace Phil Harley as a member of the TAC was approved by this Court in June 2009.

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 Confirmation Order. Judge Renfrew has served as the Trust's Futures Representative since the Effective Date of the Trust.

5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. 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 the Trust's status as a Qualified Settlement Fund. The 2012 federal tax return must be filed on or before September 16, 2013. The Trust resides in Nevada, and Nevada has no state income tax. Although the Trust is not subject to tax in California, the Trustees 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...

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 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, 2012, total Trust assets were $834,990,048, total liabilities were $51,992,699, and Net Claimants' Equity was $782,997,349.

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, 2012 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 1,100 claims, paid 680 claims, and made settlement offers on 796 claims. Since the Trust

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received its first Trust Claim[2] on August 27, 2004, the Trust has received 10,701 Trust Claims, paid 7,531 Trust Claims, and 1,919 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, eight (8) were paid in the amount of $285,688.82. Also, an additional six (6) Pre-Petition Liquidated Claims have been withdrawn. The Trust has not yet received proper release documents for eighteen (18) remaining unpaid Pre-Petition Liquidated Claims in the total amount of $173,997.42.

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 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 16, 2012, April 19-20, 2012, September 20-21, 2012, and November 28, 2012). 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. 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

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[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.

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, to 40% on July 24, 2007, and to 44% on February 18, 2010. The Payment Percentage remained at 44% during the Accounting Period. On February 7, 2013, the Payment Percentage was again reviewed and remains at 44%. The review is conducted by the Trust utilizing an actuarial expert in the field. His evaluation takes into account many factors, including but not limited to, Trust assets, the anticipated return on investments, inflation as well as expenditures both current and future, and claims experience, both current and future. If they disagree, the Futures Representative and the Trust Advisory Committee may each hire their own expert. This year there was agreement amongst all parties that the Payment Percentage should remain at 44% based upon the expert's recommendation.

On March 25, 2013, the Trust received a letter dated March 21, 2013 from a Trust beneficiary, Michael J. McDermott addressed to this Court, expressing dissatisfaction with the Payment Percentage remaining at 44% and complaints about the percentage that claimant counsel is entitled to, as well as raising again issues that the Trust addressed previously. See Docket No. 1743. A copy of Mr. McDermott's letter is included in the Appendix filed herewith. The Plan was approved by a 75% vote of claimants who approved a 25% maximum fee to counsel. There are no plans to change the 25% maximum at this time, and the Trust is not aware of any other trusts (other than this Trust and the other three Nevada based trusts) that place a cap on attorney's fees.

13. 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 28, 2011 meeting, the Maximum Annual Payment for 2013 was set at $63,482,356.59, plus the amount of $360,767,369.29 of excess funds carried over from prior years, which Section 2.5 of the TDP

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

14. 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, 2012, all claims payments made during the calendar year were increased by 19.48% to account for inflation.

At the November 28, 2012 meeting, the CPI-W to be published in January 2013 was approved for use by the Trust in making the 2013 cost of living adjustment for claims payments. The CPI-W of 1.7% was issued on January 16, 2013. Consequently, all claims payments made during the 2013 calendar year will have a compounded inflation rate of 21.51% added to the payment amount.

15. 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 2013 budget and the required four-year budget and cash flow projections on November 28, 2012. Pursuant to the Trust Agreement, these were provided to the Futures Representative and TAC. The budget for operating expenses in 2013 totals $2,826,000.[5]

16. J.T. Thorpe Settlement Trust and Thorpe Insulation Company Asbestos 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

[5] This figure is net of facilities sharing payments which are budgeted for $990,000, net of claimant payments which are budgeted for $63,482,357, net of extraordinary legal fees which are budgeted for $1,525,000, and net of income tax payments which are budgeted for $2,300,000.

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Third Annual Report. Pursuant to the annual reconciliation of fees presented at the February 16, 2012 meeting, the Advance Payments were set at $27,000 per month for 2012. The annual reconciliation presented on February 7, 2013 set the Advance Payments at $26,000 per month for 2013.

As described in the Trust's Seventh Annual Report and Accounting, the Trust and Thorpe Insulation Company Asbestos Settlement Trust ("Thorpe Insulation Trust") entered into a Trust Facilities and Services Sharing Agreement in 2010 and amendments were approved on April 21, 2011, with the consent of the Futures Representative and TAC. The Thorpe Insulation Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by this Court in the order approving the Trust's Seventh Annual Report. Pursuant to the annual reconciliation of fees presented at the February 16, 2012 meeting, the Advance Payments were set at $35,000 per month for 2012. The annual reconciliation presented on February 7, 2013 set the Advance Payments at $29,000 per month for 2013.

17. Operating Fund: The Operating Fund was established at Wells Fargo Bank, N.A. as described in all the Trust's Annual Reports. During the Accounting Period, transfers were made from the Settlement Fund to the Operating Fund to pay anticipated operating expenses of the Trust.

18. 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, no claims were made against and nothing was paid from this fund.

19. 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 indemnity fund and nothing was paid from the indemnity fund.

20. 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." There has been no change in this fund during the Accounting.

21. 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.

22. 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 Zurich Insurance Company and several Zurich-related subsidiaries ("Zurich") seeking recovery for asbestos bodily injury liabilities under primary level insurance policies issued by the Home Insurance Company ("Home") for the period 1976 to 1983. This action seeks to hold Zurich responsible for the insuring obligations of Home, which is now in liquidation and unable to pay its policy obligations in full. The action asserts various claims, including alter ego and fraudulent transfer against Zurich. 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 2011-2012, a Phase I bench trial was held on the fraudulent transfer claims. The Court has the matter under advisement, with no decision

rendered in this Phase I proceeding. This case remains pending and the outcome of the Phase I trial uncertain.

In addition, as described in the Trust's Seventh Annual Report and Accounting, the Trust entered into a Settlement with The Home Insurance Company in Liquidation on February 11, 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 (the "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 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 were resolved. The order approving the settlement agreement was entered on May 2, 2011. A motion by the Home Liquidator for approval of an interim distribution to claimants with allowed class II claims was filed in the Liquidation Court Proceeding and was granted on March 13, 2012 and a copy of that order is included in the Appendix for the Eighth Annual Report and Accounting, Audited Financial Statements, and Claim Report.

b. In February 2013, the Trust filed a lawsuit against the California Insurance Guarantee Association ("CIGA") in the Alameda Superior Court, captioned *Stephen M. Snyder, et al. v. California Insurance Guarantee Association*, Civil Case no. RG13666656. This action seeks recovery from CIGA for asbestos bodily injury liabilities that would otherwise be covered by the Home Insurance Company, which is now in liquidation. CIGA is a state-regulated organization that provides insurance coverage, under certain circumstances, for insurance companies that have become insolvent and unable to pay their claims. This action has been designated "complex," and assigned to the complex court for Alameda County. A first status conference is scheduled for April 16, 2013. The case remains pending and the outcome uncertain.

c. *Western Asbestos Settlement Trust v. Michael J. Mandelbrot and Mandelbrot Law Firm*, Adversary Proceeding No. 12-04190-RLE, United States Bankruptcy Court for the Northern District of California. During the Accounting Period, the Trust (along with the J.T. Thorpe

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Settlement Trust (the "J.T. Thorpe Trust") and the Thorpe Insulation Company Asbestos Settlement Trust (the "Thorpe Insulation Trust"), collectively, the ("Trusts")) continued their audit and investigation (the "Investigation") into matters concerning evidentiary support for certain claims submitted by Michael Mandelbrot and the Mandelbrot Law firm ("Mandelbrot") with the Trusts. The Trusts were concerned that Mandelbrot had engaged in a pattern of submitting unreliable evidence in support of claims provided to the Trusts as set forth in section 5.7(a) of the Trust Distribution Procedures. In the J.T. Thorpe Trust case, the Bankruptcy Court entered an order on March 14, 2012 granting the J. T Thorpe Trust's Application for Examination Pursuant to Bankruptcy Rule 2004, pursuant to which the J.T. Thorpe Trust sought authority to conduct the examinations of eight (8) claimants in furtherance of the Investigation. Mandelbrot appealed the order, which appeal was later dismissed by the parties, and has largely refused to voluntarily cooperate with the Trusts in the Investigation. To date, the Trusts have taken only one claimant examination.

Thereafter, pursuant to Bankruptcy Court order granted over the objection of Mandelbrot, the Trusts conducted the examination of John Lynch, a former employee of the Trust, and Mandelbrot.

Notwithstanding the Bankruptcy Court's orders, Mandelbrot demanded the Investigation cease and threatened to directly sue the Trusts, the Trusts' fiduciaries and Trusts' representatives on the grounds that the Investigation was improper or frivolous. On September 19, 2012, the Trust filed its "Complaint for Declaratory Judgment" and on October 24, 2012, its "First Amended Complaint for (I) Declaratory Judgment and (II) Equitable Relief" (the "Amended Complaint") in the Bankruptcy Court against the Defendants (the "Adversary Proceeding"). The Amended Complaint (i) requests a declaratory judgment from the Bankruptcy Court "confirming that the Investigation to determine whether the Defendants have engaged in a pattern or practice of submitting unreliable information to the Western Trust is authorized and appropriate under the circumstances," and (ii) seeks related equitable relief.

The J.T. Thorpe Trust and the Thorpe Insulation Trust (collectively, the “Thorpe Trusts”), commenced similar adversary proceedings against the Defendants in their bankruptcy cases

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pending in the United States Bankruptcy Court for the Central District of California. The Trusts are supervised by the same Trustees and the same Futures Representative, and all three Trusts evaluate and process claims through the same facility and processing staff.

The Bankruptcy Court has ruled on a substantive motion filed by the Trust in the Adversary Proceeding. See Docket No. 40-1 (*Order Granting in Part Plaintiff's Motion for Approval of Continued Claim Payment in Accordance with Additional Evaluation Criteria*). The Bankruptcy Court has not yet held a status conference in the Adversary Proceeding as it is waiting to evaluate the developments in the Thorpe Trusts' consolidated adversary proceedings; however, a status conference is currently scheduled for June 4, 2013. The parties filed a Joint Discovery Plan on December 13, 2012 and exchanged their initial disclosures. The parties filed updated case management statements on February 22, 2013. The parties are presently engaged in discovery efforts.

On March 19, 2013, the Futures Representative filed a motion to intervene in the adversary proceedings. See Docket No. 49 (*The Futures Representative's Notice of Motion and Motion to Intervene; Memorandum of Points and Authorities*). Defendants opposed the motion on March 29, 2013. See Docket No. 55 (*Defendant's Opposition to Motion to Intervene by Futures Representative*), and on April 12, 2013, Defendants filed their *Withdrawal of Opposition to Motion to Intervene and Statement of Non-Opposition*. See Docket No. 59. On April 18, 2013, the Bankruptcy Court entered its order granting the Honorable Charles B. Renfrew's motion to intervene. See Docket No. 60 (*Order Granting the Futures Representative's Motion to Intervene*). The Futures Representative then filed his *Complaint in Intervention* (Docket No. 61) on April 19, 2013.

23. Amendments to the Trust Documents: During the Accounting Period, there were no amendments to the Trust Documents.

24. Notifications to Beneficiaries: During the Accounting Period and, additionally, from January 1, 2013 to and including April 15, 2013, the following notifications were placed on the Trust's Web site:

a. Notice of hearing on the Trust's Eighth Annual Report and Accounting

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(posted on April 27, 2012).

b. Notice of modifications to the California Land Site List – (i) the listing for the Hawthorne Army Base was modified to reflect that it is located in Nevada; and (ii) the listing for the Camp Parks was modified to reflect that it is located in Dublin (posted on May 11, 2012).

c. Notice of modification to the Western Ship Lists – (i) Ships removed from Western Built List – Monterey, Oregon Mail, and Hamer; (ii) Ship removed from the Western Repaired List – Point Defiance; and (iii) Ships added to the Western Built List – Bush (start date 5/10/1943), Hazelwood (start date 1/18/1943), Oyster Point (start date 7/1/1959), Point Orient (start date 1/1/1960), Point Bonita (start date 1/1/1960), Valdez (start date 1/1/1966), McKinley (start date July 1, 1964), and Shasta a/k/a Centennial Queen (start date 6/28/1946) (posted on October 17, 2012).

d. Notice of no modification to Western Asbestos Payment Percentage (posted February 20, 2013).

25. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at the September 20, 2012 meeting and there were no recommended changes to the existing $250.00 fee during the Accounting Period or as of the date hereof.

26. 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 of $70,000 paid in quarterly installments. The total paid to all Trustees for hourly compensation was $143,820 and $12,217 was the total amount of expenses incurred by all Trustees.

27. 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. Anthem Blue Cross Blue Shield: Trust employee health insurance plan carrier.

b. BlackRock Financial Management: One of eight investment managers for the Trust described at paragraph 28, *infra*.

c. Callan Associates, Inc.: One of eight investment managers for the Trust described at paragraph 28, *infra*.

d. Dwight Asset Management Company: One of eight investment managers for the Trust described at paragraph 28, *infra*.

e. Eagle Capital Management, One of eight investment managers for the Trust described at paragraph 28, *infra*.LLC:

f. Harding Loevner, LP: One of eight investment managers for the Trust described at paragraph 28, *infra*.

g. Morgan Lewis Bockius LLP: Counsel to Debtors and counsel to the Trust in the Zurich, CIGA, Mandelbrot investigation, and Adversary Proceeding described in paragraph 22, *supra*.

h. Silvercrest Asset Management Group: One of eight investment managers for the Trust described at paragraph 28, *infra*.

i. Standish Mellon Asset Management Company: One of eight investment managers for the Trust described at paragraph 28, *infra*.

j. State Street Global Advisors: One of eight investment managers for the Trust described at paragraph 28, *infra*.

k. Westwood Holdings Group, Inc.: One of eight investment managers for the Trust described at paragraph 28, *infra*.

28. Trust Investment Management: Article 3 of the Trust Agreement authorizes the Trust to administer the investment of funds in the manner in which individuals of ordinary prudence, discretion and judgment would act in the management of their own affairs, subject to certain limitations. The Trust closely monitors any market volatility with its investment advisors and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc. continued to assist the Trust during the Accounting Period as its investment consultant. BlackRock Financial Management, Inc., Eagle Capital Management, LLC, Harding Loevner, LP, Standish Mellon Asset Management Company, LLC, and State Street Global Advisors have continued to act as investment managers to the Trust. On February 16, 2012, it was determined that Silvercrest Asset Management Group LLC and Westwood Management Corporation could be engaged as additional

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investment managers for the Trust and on September 1, 2012, Segall Bryant & Hammill replaced Dwight Asset Management Company as the Trust's taxable fixed income manager.

The Trust's Investment Policy Statement was amended on February 16, 2012 and November 28, 2012, and copies of those amendments are included in the Appendix filed herewith.

In addition, pursuant to the Trust's Investment Policy Statement at page 3, a formal asset allocation study was prepared by Callan Associates and presented to the Trustees and Executive Director on March 25, 2013.

***

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

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EXHIBIT A

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Financial Statements and Report of Independent Certified Public Accountants

Western Asbestos Settlement Trust

December 31, 2012 and 2011

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Audit • Tax • Advisory

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Report of Independent Certified Public Accountants

Trustees
Western Asbestos Settlement Trust

We have audited the accompanying financial statements of Western Asbestos Settlement Trust ("the Trust"), organized in the State of Nevada, which comprise the statements of net claimants' equity as of December 31, 2012 and 2011, and the related statements changes in net claimants' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Trust's other basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Grant Thornton

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of Western Asbestos Settlement Trust as of December 31, 2012 and 2011, and the changes in net claimants' equity and cash flows for the years then ended in accordance with the Trust's other basis of accounting.

Basis of accounting

We draw attention to Note A.2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the Trust's other basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expense for the years ended December 31, 2012 and 2011 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on use

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

Grant Thornton LLP

Reno, Nevada
April 15, 2013

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Western Asbestos Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2012	2011
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	$ 40,000,000	$ 40,000,000
Unrestricted	789,730,449	774,379,365
Total cash, cash equivalents and investments	829,730,449	814,379,365
Accrued interest and dividend receivables	5,259,599	5,899,788
Prepaid federal income tax	-	119,483
Total assets	$ 834,990,048	$ 820,398,636
LIABILITIES		
Accrued expenses	$ 1,320,638	$ 1,017,063
Claim processing deposits	386,250	398,000
Unpaid claims (Note D)		
Outstanding offers	15,304,951	9,979,795
Pre-petition liquidated claims	424,515	703,112
Income tax payable	600,345	-
Deferred tax liability	33,931,000	15,777,000
Total liabilities	$ 51,967,699	$ 27,874,970
NET CLAIMANTS' EQUITY	$ 783,022,349	$ 792,523,666

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,

	2012	2011
Net claimants' equity, beginning of year	$ 792,523,666	$ 807,048,179
Additions to net claimants' equity		
Investment income	19,891,316	21,003,149
Trust facility and staff sharing income received	818,680	628,644
Net decrease in deferred rent	65,120	-
Net realized and unrealized gains on available-for-sale securities	46,893,676	20,516,305
Total additions	67,668,792	42,148,098
Deductions from net claimants' equity		
Operating expenses	3,100,450	3,200,551
Provision for income taxes, current	4,450,519	1,500,016
Provision for income taxes, deferred	18,154,000	7,184,000
Claims settled	46,139,984	40,449,697
Net increase in deferred rent	-	427,563
Net increase in outstanding claim offers	5,325,156	3,910,784
Total deductions	77,170,109	56,672,611
Net claimants' equity, end of year	$ 783,022,349	$ 792,523,666

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,

	2012	2011
Cash inflows:		
Investment income receipts	$ 20,531,505	$ 20,966,697
Trust facility and staff sharing income received	818,680	628,644
Increase in claim processing deposits	-	31,750
Net realized gains on		
Available-for-sale securities	7,415,696	-
Total cash inflows	28,765,881	21,627,091
Cash outflows:		
Claim payments made	46,418,581	40,436,670
Net realized losses on		
Available-for-sale securities	-	656,099
Decrease in claim processing deposits	11,750	-
Disbursements for Trust operating expenses	2,731,755	3,357,713
Disbursements for Trust income taxes	3,730,691	737,429
Total cash outflows	52,892,777	45,187,911
Net cash outflows	(24,126,896)	(23,560,820)
Non-cash changes:		
Net unrealized gains on available-for-sale securities	39,477,980	21,172,404
NET INCREASE (DECREASE) IN CASH CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	15,351,084	(2,388,416)
Cash, cash equivalents and investments available-for sale, beginning of year	814,379,365	816,767,781
Cash, cash equivalents and investments available-for-sale, end of year	$ 829,730,449	$ 814,379,365

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 18, 2003. 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 for which the Debtors' are legally responsible; liquidate, resolve, pay and satisfy all valid asbestos-related claims in accordance with the Plan; preserve, hold, manage and maximize the Trust assets for use in paying and satisfying allowed asbestos-related claims; prosecute, settle and manage the disposition of the asbestos in-place insurance coverage; and prosecute, settle and manage asbestos insurance coverage actions. Upon 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 and restated, (Matrix) and Trust Distribution Procedures, as amended and restated, (TDP) (collectively, the Trust Documents).

2. Special-Purpose Accounting Methods

The Trust's financial statements are prepared using special-purpose accounting methods that differ from accounting principles generally accepted in the United States. The special-purpose accounting methods were adopted in order to present the amount of equity available for payment of current and future claims. These special-purpose accounting methods are as follows:

- The financial statements are prepared using the accrual basis of accounting, as modified below.
- The funding received from Western Asbestos, Western Mac Arthur, and 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.
- 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.

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NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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

- 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.
- 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.
- 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.
- 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.

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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 the Trust 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. 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

The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2012, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the 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. Although the Trust owes no tax to the State of California, it files an annual tax return in California reporting no taxable income or tax owed. The Trust is no longer subject to United States federal tax examinations for years before 2009.

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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, 2012	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 453,308	$ 453,308
U.S. Government obligations	17,302,843	17,448,916
Municipal bonds	1,366,912	1,378,540
Asset-backed debt	1,603,505	1,603,289
Corporate debt	19,197,161	19,115,947
	$ 39,923,729	$ 40,000,000
Unrestricted		
Cash demand deposits	$ 890,244	$ 890,244
Cash equivalents	35,853,679	35,853,902
Equity securities	272,685,676	335,097,394
U.S. Government obligations	28,324,043	28,541,743
Municipal bonds	334,188,694	357,208,352
Asset-backed debt	2,278,173	2,272,920
Corporate debt	29,893,920	29,865,894
	$704,114,429	$789,730,449

	December 31, 2011	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 923,269	$ 923,269
Equity securities	1,152,194	62,170
U.S. Government obligations	22,983,010	23,122,738
Municipal bonds	857,774	996,981
Asset-backed debt	9,221,491	9,081,127
Corporate debt	5,736,261	5,813,715
	$ 40,873,999	$ 40,000,000
Unrestricted		
Cash demand deposits	$ 820,831	$ 820,831
Cash equivalents	49,786,293	49,786,293
Equity securities	232,747,823	250,540,646
U.S. Government obligations	31,661,341	31,848,924
Municipal bonds	391,104,751	420,217,070
Asset-backed debt	12,891,720	12,769,436
Corporate debt	8,279,071	8,396,165
	$727,291,830	$774,379,365

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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, 2012		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 890,244	$ -	$ -
Cash equivalents	36,307,210	-	-
Equity securities	335,097,394	-	-
U.S. Government obligations	5,276,747	40,713,912	-
Municipal bonds	-	358,586,892	-
Asset-backed debt	-	3,387,134	489,075
Corporate debt	48,981,841	-	-
	$426,553,436	$402,687,938	$ 489,075

	December 31, 2011		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 820,831	$ -	$ -
Cash equivalents	50,709,562	-	-
Equity securities	250,602,816	-	-
U.S. Government obligations	22,762,505	32,209,157	-
Municipal bonds	-	421,214,051	-
Asset-backed debt	-	21,032,861	817,702
Corporate debt	14,209,880	-	-
	$339,105,594	$474,456,069	$ 817,702

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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, 2011 and December 31, 2012, no securities were transferred between Level 1 to Level 2. Between the measurement dates of December 31, 2010 and December 31, 2011, approximately $15,901,000 of municipal bond securities transferred from Level 1 to Level 2 due to the unavailability of quoted prices in active markets for identical securities; and approximately $5,641,000 of corporate debt securities transferred from Level 2 to Level 1 due to the availability of quoted prices in active markets for identical securities.

Activity in Level 3 investments for the years ended December 31, 2012 and 2011 was:

	Mortgage Backed Securities	
	2012	2011
Balance at January 1	$ 817,702	$1,842,984
Transfers from/(to) Level 2	-	-
Purchases(sales)	(361,781)	(625,659)
Redemptions	(57,484)	(397,757)
Realized loss	(56,815)	(290,433)
Unrealized gain	147,453	288,567
Balance at December 31	$ 489,075	$ 817,702

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2012:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	$ 978,116	$ 8,391,795	$ 7,506,963	$ 29,113,785
Municipal bonds	2,215,510	107,053,154	180,708,967	68,609,261
Asset-backed debt	-	590,964	1,600,567	1,684,678
Corporate debt	7,269,800	16,470,928	24,438,019	803,094
	$10,463,426	$132,506,841	$214,254,516	$100,210,818

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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	$ 73,513
Acquisition of computer hardware and software	512,119
	$585,632

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, 2012 and 2011 were $69,008 and $19,366, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately $18,996 and $21,667 for the years ended December 31, 2012 and 2011, 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 Documents 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 court until the Plan was confirmed. 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 approved release is signed, received, and approved by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected, withdrawn 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, 2012 and 2011, 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 (see Note G).

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NOTE D - CLAIM LIABILITIES - Continued

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, 2012 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 21.51% and 19.48% are included in outstanding claims liabilities as of December 31, 2012 and 2011, respectively.

The Trust processed and approved approximately $51,458,049 and $44,339,000 of Trust Claims during the years ended December 31, 2012 and 2011, 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 August 31, 2016.

The Trust paid $91,142 and $76,987 in rental expense during the years ended December 31, 2012 and 2011, respectively. Future minimum rental commitments, excluding parking and utility expenses, under this operating lease are:

Years ending December 31,	
2013	$ 89,315
2014	91,937
2015	94,887
2016	64,569
	$340,708

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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), the Thorpe Insulation Settlement Trust (Thorpe Insulation Trust) and Plant Asbestos Settlement Trust (Plant Asbestos 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 agreement with J.T Thorpe Trust, the agreement automatically renews for additional one-year periods unless either party provides six months written notice. For the agreements with Thorpe Insulation Trust and Plant Asbestos Trust, the agreements automatically renew for additional one-year periods unless either party provides written notice. The amounts of advanced monthly payments are agreed upon between the trusts from time to time. As of December 31, 2012, the equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Trust.

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, 2012 resulted in an additional payment to the Trust of approximately $103,000. The reconciliation performed for the year ended December 31, 2011 resulted in an additional payment to the Trust of approximately $39,000. For the agreement with the Thorpe Insulation Trust, the reconciliation performed for the year ended December 31, 2012 resulted in an additional payment to the Trust of approximately $50,000. The reconciliation performed for the fourteen month period ended December 31, 2011 resulted in an additional payment to the Trust of approximately $21,000. The next reconciliation period for these two trusts will be the twelve-month period ending December 31, 2013. For the agreement with the Plant Insulation Trust, the first reconciliation period will be the fourteen-month period ending December 31, 2013. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest.

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 Documents.

Under the TDP, the Trust forecasts its anticipated annual sources and uses of cash until the last projected future claim has been paid. A pro rata 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.

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NOTE G - NET CLAIMANTS' EQUITY - Continued

Based on research and testimony presented during the bankruptcy, the court approved an initial payment to claimants of 31.5% 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 Committee ("TAC") and the Futures Representative, the power to periodically update its estimate of the Payment Percentage based on updated assumptions regarding its future assets and liabilities and, if appropriate, propose additional changes in the 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 $46,347 and $54,394 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, cash, cash equivalents and investments of $40,000,000 were restricted for this purpose.

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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% for the years ending December 31, 2012 and 2011 and 39.6% for subsequent periods, which caused the deferred tax liability discussed below to increase by $3,944,000.

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, 2012 and 2011:

	2012	2011
Federal income tax – current	$ 4,450,519	$1,500,016
Deferred income tax expense	18,154,000	7,184,000
	$22,604,519	$8,684,016

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:

	2012	2011
Deferred tax asset (liability)		
Depreciation and amortization	$ -	$ -
Capital loss carryforwards	-	397,000
Unrealized appreciation	(33,934,000)	(16,175,000)
Other, net	3,000	1,000
	($33,931,000)	$(15,777,000)

NOTE K - SUBSEQUENT EVENTS

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

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SUPPLEMENTAL INFORMATION

Western Asbestos Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2012	2011
Accounting	$ 53,525	$ 57,348
Claims processing/claims system development	537,944	473,540
Computer equipment	54,255	10,310
Futures representative	117,444	101,724
Information technology support	35,254	24,434
Insurance	6,858	8,521
Legal fees	671,050	1,007,306
Office expense	46,877	29,260
Office furniture and equipment	14,753	9,057
Payroll and related taxes	962,560	876,958
Pension plan contribution and fees	46,347	54,394
Rent and utilities	110,845	118,701
Travel and meals	7,327	5,187
Trust advisory committee	32,441	19,930
Trustee fees	366,037	388,677
Trustees professional	36,933	15,204
	3,100,450	3,200,551
Less: Reimbursement pursuant to the shared services agreements to process and pay claims and provide operational and administrative support	(818,680)	(628,644)
	$ 2,281,770	$ 2,571,907

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EXHIBIT B

EXHIBIT "B"

Western Asbestos Settlement Trust
Claim Report
As of December 31, 2012

This report is submitted pursuant to Section 2.2 (c)(ii) of the Tenth 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").T his 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 eight (8) Pre-Petition Liquidated Claims during the Accounting Period in the amount of $285,688.82, at the approved Payment Percentage of 44%, which also included an additional 19.48% to account for inflation based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W"). As well, six (6) additional Pre-Petition Liquidated Claims have been withdrawn. The Trust has not yet received proper releases for eighteen (18) Pre-Petition Liquidated Claims in the total amount of $173,997.42. That amount is based upon the current Payment Percentage of 44% of the total liquidated value, and includes the inflation adjustment of 21.51% utilized for claims payments made in 2013.

Trust Claims

Claims received and disposed of from January 1, 2012, through December 31, 2012, in accordance with the First Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix ("Matrix") 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, 2012, Trust Claims were paid at the approved Payment Percentage of 44%. Payments made on Trust Claims included an additional 19.48% to account for inflation based upon the CPI-W.

During the Accounting Period, 1,100 claims were received, 680 claims were paid, and 796 claims received offers.

Below is a summary of the number and type of claims disposed of (paid) in 2012.

Compensable Disease	Number of California Claims	Number of Minnesota Claims	Number of North Dakota Claims	Totals
Grade II Non-Malignant	166	30	0	196
Grade I Non-Malignant	76	13	0	89
Grade I Non-Malignant Enhanced Asbestosis	35	4	0	39
Grade I Non-Malignant Serious Asbestosis	22	5	0	27
Colo-Rectal	11	3	0	14
Esophageal	4	2	0	6
Kidney	1	0	0	1
Laryngeal	1	1	0	2
Non-Hodgkin's Lymphoma	1	1	0	2
Other Organ Cancer	1	0	0	1
Lung Cancer	128	17	1	146
Mesothelioma	132	25	0	157
Totals	578	101	1	680

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