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7
8 UNITED STATES BANKRUPTCY COURT
9 CENTRAL DISTRICT OF CALIFORNIA, LOS ANGELES DIVISION
10

11 In re) Chapter 11
12)
13 J.T. THORPE, INC., a California) Case Nos. LA-02-14216-BB &
corporation; J.T. THORPE, INC., a dissolved) LA-04-35876-BB
California corporation;)
14 Debtors.) (Jointly Administered Under Case No. LA-02-
15) 14216-BB)
16) **TENTH ANNUAL REPORT AND**
17) **ACCOUNTING, AUDITED FINANCIAL**
18) **STATEMENTS, AND CLAIM REPORT**

19) **Hearing:**
20)

21) Date: June 8, 2016
22) Time: 2:00 p.m.
23) Place: Courtroom 1475
24) 255 East Temple Street
25) Los Angeles, CA 90012
26)
27)
28)

1 **TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE AND OTHER**
2 **PARTIES IN INTEREST:**

3 The Trustees of the J.T. Thorpe Settlement Trust by and through their counsel,
4 Levene, Neale, Bender, Yoo & Brill, hereby file the Tenth Annual Report and Accounting,
5 Audited Financial Statements, and Claim Report.

6 DATED: April 28, 2016

7 Respectfully submitted,

8 By: //s// Eve H. Karasik
9 EVE H. KARASIK
10 LEVENE, NEALE, BENDER,
11 YOO & BRILL L.L.P.
12 Email: EHK@lnbyb.com
13 Bankruptcy Counsel for the J.T. Thorpe
14 Settlement Trust
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1 Glossary of Terms for the Plan Documents. This Court has approved each Annual Report beginning
2 in 2007.

3 1. Effective Date: In compliance with Sections 4.1 and 7.2 of the Plan, and the
4 Glossary of Terms for the Plan Documents, the Effective Date of the Trust is June 29, 2006.

5 2. Appointment of Trustees: In its March 23, 2006 Order Granting Plan
6 Proponents' Motion for Approval of Appointment of Trustee for the J.T. Thorpe Settlement Trust,
7 this Court approved the appointment of Mr. Stephen M. Snyder as the sole Trustee of the Trust.

8 As initially described in the Trust's Fourth Annual Report, on April 19, 2007, the
9 number of Trustees was increased to three (3) by the Futures Representative and the Trust Advisory
10 Committee effective on the first anniversary of the Effective Date of the Trust.

11 Mr. Snyder was designated as the Managing Trustee on July 24, 2007, and has acted
12 in that capacity since that time. Dr. Sandra R. Hernandez and Mr. John F. Luikart have acted as
13 Trustees of the Trust since June 29, 2007.

14 3. Appointment of Trust Advisory Committee: In the Order Confirming the
15 Plan, this Court approved the appointment of Alan Brayton, Steven Kazan, and David Rosen as the
16 initial members of the TAC. Mr. Brayton has served as Chair of the TAC, and Messrs. Kazan and
17 Rosen continued to serve as members of the TAC since the Effective Date of the Trust; however, in
18 January of 2016, Mr. Rosen resigned. Pursuant to Section 6.4 of the Trust Agreement, Patrick A.
19 DeBlase has been nominated by the remaining members of the TAC to succeed Mr. Rosen as a
20 member of the TAC.

21 4. Appointment and Continuation of Futures Representative: The Honorable
22 Charles B. Renfrew, retired, was appointed as the Futures Representative in the J.T. Thorpe
23 Reorganization Cases on December 2, 2002, and his continued appointment as the Futures
24 Representative of the Trust was approved by this Court in the Confirmation Order. Judge Renfrew
25 has served as the Trusts' Future Representative since the Effective Date of the Trust.

26 5. Fiscal Year and Tax Obligations: The Trust is required by the Internal
27 Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis.
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1 Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports
2 attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement
3 requires the Trustees to file income tax and other returns and statements in a timely manner, and to
4 comply with all withholding obligations as legally required, including fulfilling requirements to
5 maintain its status as a Qualified Settlement Fund. The 2014 federal tax return was filed by its
6 extended due date of September 15, 2015 and the 2015 federal tax return will be filed by its
7 extended due date of September 15, 2016. The Trust resides in Nevada, and Nevada has no state
8 income tax. Although the Trust is not subject to tax in California, the Trustees file a tax return in
9 California each year, attaching a copy of the Trust's federal tax return, but showing no California
10 taxable income or state tax liability.

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

The Trustees shall cause to be prepared and filed with the Bankruptcy
13 Court . . . an annual report containing financial statements of the Trust
14 (including, without limitation, a statement of the net claimants' equity
15 of the Trust as of the end of such fiscal year and a statement of
16 changes in net claimants' equity for such fiscal year) audited by a firm
17 of independent certified public accountants selected by the Trustees
18 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 the following special-purpose accounting methods
which differ from accounting principles generally accepted in the
United States.

19 The Trust's financial statements are prepared using special-purpose accounting methods that depart
20 from Generally Accepted Accounting Principles (GAAP) in certain respects in order to better
21 disclose the amount and changes in net claimants' equity.

22 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of
23 the Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton
24 LLP, the independent certified public accountants retained by the Trust to perform the annual audit
25 of its financial statements. The Trust's audited financial statements ("Audited Financial Statements")
26 are attached hereto as Exhibit "A". These include a Statement of Net Claimants' Equity, a Statement
27 of Changes in Net Claimants' Equity, a Statement of Cash Flows and explanatory Notes. The
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1 Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects
2 total assets of the Trust at market value and on the other comprehensive basis of accounting adopted
3 by the Trust. These Audited Financial Statements show, among other things, that as of December 31
4 2015, total Trust assets were \$146,722,101, total liabilities were \$7,686,176 and Net Claimants'
5 Equity was \$139,035,925.

6 8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along
7 with the Audited Financial Statements, the Trust shall file with the Court a report containing a
8 summary regarding the number and type of claims disposed of during the period covered by the
9 financial statements. The J.T. Thorpe Settlement Trust Claim Report As of December 31, 2015
10 ("Claim Report") is attached hereto as Exhibit "B". During the Accounting Period, the Trust
11 received 503 claims, paid 319 claims, and made settlement offers on 311 claims. Since the Trust
12 received its first Trust Claim² on October 24, 2006, the Trust has received 7,516 Trust Claims, paid
13 4,238 Trust Claims, and 2,431 Trust Claims have been withdrawn.³

14 Section 5.4 of the TDP provides that "as soon as practicable after the Effective Date,
15 the Trust shall pay all Trust Claims that were liquidated by (i) a written settlement agreement entered
16 into prior to the Petition Date for the particular claim, or (ii) the pre-confirmation claims liquidation
17 process." The vast majority of the 1,474 Trust claims identified in this Court's January 27, 2006,
18 Order Liquidating Asbestos Related Claims (hereafter "PCLP Claims") were paid in 2006. To date,
19 eleven (11) PCLP Claims have been withdrawn by their respective law firms. During the
20 Accounting Period, no PCLP Claims were paid, however one (1) PCLP Claim was paid in January
21 of 2016 in the total amount of \$615.95. The Trust has not yet received proper release documents for
22 twenty-one (21) remaining unpaid PCLP Claims in the amount of \$75,452.01.

23 9. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement,
24 the Annual Report, including the Audited Financial Statements and Claim Report, has been sent to

25 _____
26 ² "Trust Claims" are any claims submitted to the Trust after the Effective Date.

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

1 the Futures Representative, the TAC, the Debtors, and the Office of the United States Trustee with
2 responsibility for the Central District of California, and has been filed with the United States
3 Bankruptcy Court for the Central District of California. Accordingly, the Annual Report and all
4 attached and related documents have been made available for inspection by the public in accordance
5 with procedures established by the Court.

6 10. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
7 Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close as
8 practicable on a quarterly basis. The Trustees held five (5) meetings during the Accounting Period
9 (February 26-27, 2015, March 24, 2015, April 16, 2015, September 15, 2015, and November 19-20,
10 2015). The February, April, September and November meetings were held in Nevada, and the
11 March meeting was held in Arizona.

12 11. Arbitrations: During the Accounting Period, no arbitrations were held
13 pursuant to Section 5.9 of the Trust Distribution Procedures.

14 12. Payment Percentage: Section 4.2 of the TDP provides that, commencing on
15 the first day of January, after the Plan has been consummated and no less frequently than once every
16 three years thereafter or at any time if requested to do so by the TAC or Futures Representative, the
17 Trustees shall reconsider the Payment Percentage to assure that it is based on accurate current
18 information and may, after such reconsideration, change the Payment Percentage if necessary with
19 the consent of the TAC and Futures Representative. As initially described in the Trust's Fourth
20 Annual Report, the Payment Percentage was temporarily decreased from 50% to 40% effective
21 December 1, 2008 pursuant to the guidelines of Sections 2.3 and 4.2 of the TDP. As described in the
22 Trust's Fifth Annual Report, at the November 18, 2010 meeting, the Payment Percentage was
23 reviewed and adjusted to 45%. As described in the Trust's Eighth Annual Report, the Payment
24 Percentage was reviewed on February 7, 2013 and remained at 45%. As described in the Trust's
25 Ninth Annual Report, the Payment Percentage was again reviewed on September 23, 2014 and
26 remains at 45%. On March 18, 2016 and April 14, 2016, the updated forecast was reviewed and at
27 the April 14, 2016 meeting, it was decided that the Payment Percentage should remain at 45%.

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1 13. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
2 calculate an annual payment limit for claims ("Maximum Annual Payment") based upon a model of
3 the amount of cash flow anticipated to be necessary over the entire life of the Trust to ensure that
4 funds will be available to treat all present and future claimants as similarly as possible. At the
5 November 20, 2015 meeting, the Maximum Annual Payment for 2016 was set at \$8,300,000, plus
6 the amount of excess funds carried over from prior years, which Section 2.5 of the TDP requires to
7 be rolled over and remain dedicated to the respective "Disease Category" (as such term is defined in
8 the TDP) to which they were originally allocated. Based upon the updated forecast adopted at the
9 April 14, 2016 meeting, the amount of excess funds carried over from prior years was set to zero and
10 the 2016 MAP was reset to \$15,300,000.

11 14. Inflation Adjustment: The original Payment Percentage approved by this
12 Court was based upon projections of future claims payments adjusted annually for inflation.
13 Beginning in 2008, all claims payments made during a calendar year include a cost of living
14 adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban*
15 *Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the November
16 20, 2015 meeting, the CPI-W to be published in January 2016 was approved for use by the Trust in
17 making the 2016 cost of living adjustment for claims payments. The CPI-W of 0.4% was issued on
18 January 20, 2016 and all inflation adjustments are cumulative. Consequently, all claims payments
19 made during the 2016 calendar year will have a cumulative inflation rate of 17.07% added to the
20 payment amount.

21 15. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement
22 requires the Trust to prepare a budget and cash flow projections prior to the commencement of each
23 fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
24 2016 budget and the required four-year budget and cash flow projections on November 20, 2015.
25 Pursuant to the Trust Agreement, these were provided to the TAC and Futures Representative. The
26 budget for operating expenses, including investment fees, in 2016 totals \$2,020,063.⁴

27 _____
28 ⁴ This figure excludes claimant payments budgeted for \$8,300,000, extraordinary legal fees budgeted for \$130,000, and

1 16. Trust Facilities and Services Sharing Agreement with Western Asbestos
2 Settlement Trust: As initially described in the Trust's First Annual Report, the Trust and Western
3 Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services Sharing
4 Agreement. The Trust agreed to pay a negotiated monthly amount. Such arrangement was approved
5 by this Court in the order approving the Trust's First Annual Report. As described in the Trust's
6 Ninth Annual Report, pursuant to the annual reconciliation of fees presented on February 27, 2015,
7 the Trust and the Western Trust set the advance payments at \$35,000 per month for 2015. Pursuant
8 to the annual reconciliation of fees presented on February 18, 2016, the Trust and the Western Trust
9 agreed that the advance payments shall be \$37,000 per month for 2016. The total amount paid by
10 the Trust to the Western Trust, after accounts were reconciled for 2015, was \$403,086.

11 As described in the Trust's Ninth Annual Report, during the Accounting Period, the
12 Trusts each consulted with outside counsel concerning the continued viability and fairness of the
13 Trust Facilities and Services Sharing Agreements by and between Western Trust and this Trust, and
14 based on advice of counsel, the Trust and the Western Trust determined that the formula and
15 methodology being used should continue and was fair to this Trust and the Western Trust.

16 17. Settlement Fund: The Settlement Fund was established at Wells Fargo Bank,
17 N.A., to pay valid claims.

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

21 19. Indemnity Fund (Self-Insured Retention): Section 4.6 of the Trust Agreement
22 provides that the Trust shall indemnify the Trustees, the Trust's officers and employees, the Futures
23 Representative, the TAC and each of their respective agents. The Trustees, the Futures
24 Representative, the TAC and their respective agents have a first priority lien upon the Trust's assets
25 to secure the payment of any amounts payable to them pursuant to Section 4.6.

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27 income tax payments budgeted for \$1,750,000.

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1 In addition to the first priority lien on all the Trust's assets, in 2006, the Trust
2 established an indemnity fund in the amount of \$5,000,000, as described in the Trust's Annual
3 Reports. All interest earned by the fund is returned to the Trust quarterly. During the Accounting
4 Period, no claims were made against the fund and no money was paid from the fund.

5 20. Legal Dispute: As initially described in the Seventh Annual Report, on
6 September 19, 2012, the Trust filed its *Complaint for Declaratory Judgment* [Docket No. 1] and on
7 October 24, 2012, its *First Amended Complaint for (I) Declaratory Judgment and (II) Equitable*
8 *Relief* [Docket No. 18] (the "Amended Complaint") in the Bankruptcy Court (Adversary Case No.
9 2:12-ap-02182-BB) (the "Adversary Proceeding") against Michael J. Mandelbrot and the Mandelbrot
10 Law Firm (collectively, "Mandelbrot"). The Amended Complaint (i) requested a declaratory
11 judgment from the Bankruptcy Court "confirming that the Investigation to determine whether the
12 Defendants have engaged in a pattern or practice of submitting unreliable evidence to the J.T.
13 Thorpe Trust is authorized and appropriate under the circumstances," and (ii) sought related
14 equitable relief.

15 The Adversary Proceeding was procedurally consolidated with a similar adversary
16 proceeding brought by the Thorpe Insulation Company Asbestos Settlement Trust (and collectively
17 with the J.T. Thorpe Settlement Trust, the "Trusts") in the Bankruptcy Court. The docket for the
18 consolidated actions was maintained in the J.T. Thorpe Settlement Trust adversary proceeding (Case
19 No. 2:02-bk-14216-BB). In addition, the Western Trust commenced a similar adversary proceeding
20 against Mandelbrot in its bankruptcy case pending in the United States Bankruptcy Court for the
21 Northern District of California. All three trusts are supervised by the same Trustees and the same
22 Futures Representative, and all three trusts evaluate and process claims through the same facility and
23 processing staff.⁵

24 On the morning of trial on January 23, 2014, Mandelbrot, the Trusts, as well as the
25 Western Trust and the Plant Insulation Settlement Trust, entered into an agreement that resolved the

26 _____
27 ⁵ The Western Trust adversary proceeding against Mandelbrot was dismissed without prejudice on October 30, 2013.
28 [Docket No. 109]

1 Adversary Proceeding. The terms of the agreement and settlement were read in to the record and
2 agreed to by all parties, including Mandelbrot. The Trusts prepared an Order, Findings of Fact and
3 Conclusions of Law and a Judgment that set forth the terms and effect of the agreement. Several
4 days later, but before the Trusts were able to lodge any of these draft documents, Mandelbrot's
5 attorney withdrew as counsel, Mandelbrot substituted himself as counsel into the Adversary
6 Proceedings and then attempted to repudiate the agreement laid on the record on January 23, 2014.
7 The Trusts provided copies of the Order, Findings of Fact and Conclusions of Law and Judgment to
8 Mandelbrot and filed them, along with a Notice of Dispute [Docket No. 197] on February 11, 2013.
9 Mandelbrot filed written objections to the agreement on or about February 12, 2014.

10 At the Trusts' request, this Court set a hearing and briefing schedule for enforcement
11 of the stipulated agreement. The hearing was held on March 27, 2014 and this Court ruled that the
12 agreement was enforceable. The Order Granting Motion To Enforce January 23, 2014 Stipulated
13 Agreement [Docket No. 232] ("Enforcement Order") and Order Following Trial On Adversary
14 Complaints And Motion For Instructions [Docket No. 233] ("Order After Trial") were entered.

15 The Order After Trial ordered, among other things, that Mandelbrot: (1) "effective immediately"
16 shall file no new claims with the Trusts; (2) "effective immediately, Mandelbrot shall cease all
17 activity with respect to claims ("Pending Claims") for the Trusts and shall transfer each Pending
18 Claim and all past claims made against the Trusts to an attorney who will take responsibility; and (3)
19 that if the Trusts do not receive a notice of transfer for the Pending Claims and past claims by July
20 23, 2014, then those claims shall be deemed withdrawn and Mandelbrot agreed that all such claims
21 with respect to this Trust may be deemed withdrawn. All of this was reduced to a Judgment, entered
22 on April 7, 2014, resolving the adversary proceedings. [Docket No. 234]. This Court issued its
23 Findings of Fact and Conclusions of Law supporting its Order after Trial [Docket No. 235] on April
24 9, 2014. The Trust has implemented the stipulated agreement found to be enforceable by this Court.
25 Following entry of Judgment, Mandelbrot filed a notice of appeal, and likewise filed a motion to stay
26 enforcement of the Judgment pending appeal. On May 27, 2014, this Court heard and denied
27 Mandelbrot's motion to stay enforcement judgment and order following trial. Thereafter, in early
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1 June 2014, Mandelbrot filed a motion to stay enforcement of the judgment and order pending appeal
2 before the Honorable Virginia A. Phillips of the United States District Court for the Central District
3 of California, who has been assigned to hear Mandelbrot's appeal of the judgment and order. Prior
4 to the hearing on the motion, which was scheduled for July 7, 2014, Judge Phillips denied
5 Mandelbrot's motion on the grounds that Mandelbrot had failed to meet the burden of establishing
6 an abuse of discretion by the Bankruptcy Court in denying the requested stay.

7 Thereafter, on June 18, 2014, and pursuant to a briefing schedule established by the
8 United States District Court, Mandelbrot filed a District Court brief. Briefing on Mandelbrot's
9 appeal was completed on July 15, 2014, and on September 3, 2015, Judge Phillips affirmed the
10 Bankruptcy Court's Judgment and Order. On September 17, 2015, Mandelbrot filed a notice of
11 appeal with the United States Court of Appeals for the Ninth Circuit. Mandelbrot filed an opening
12 brief in late January 2016 and the Trusts filed their responsive brief on February 26, 2016.
13 Mandelbrot filed a reply brief on April 7, 2016. It is anticipated that oral argument will occur
14 sometime in the first quarter of 2017.

15 As a result of the stipulation, and consistent with its terms, the Trust is not accepting
16 claims from Mandelbrot and all claims previously submitted by Mandelbrot have been transferred to
17 new counsel. The Trust believes it is obligated to advise claims filers that Mandelbrot is not
18 permitted to file claims with the Trust and on March 6, 2015, posted such a notification on its Web
19 site. However, the Trust has been informed that Mandelbrot's Web site has continued to publish
20 allegations of Trust fiduciary misconduct similar in tone to those adjudicated before this Court and
21 to include the Trust in lists of asbestos trusts with which Mandelbrot files claims despite the
22 Judgment and Order precluding Mandelbrot from filing claims with the Trust.

23 21. Amendments to the Trust Documents: The Trust Documents were not
24 amended during the Accounting Period.

25 22. Notifications to Beneficiaries: During the Accounting Period and,
26 additionally, from January 1, 2016 to and including April 15, 2016, the following notifications were
27 placed on the Trust's Web site:
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1 a. Notice regarding compliance with court order in settlement of
2 Mandelbrot adversary proceeding (posted March 6, 2015);

3 b. Notice of timing of requests for consideration at September 2015
4 meeting (posted April 17, 2015);

5 c. Notice of hearing on the Trust's Ninth Annual Report and Accounting
6 (posted April 30, 2015);

7 d. Notice regarding new Web based claims processing system (posted
8 May 13, 2015);

9 e. Notice/update regarding new Web based claims processing system
10 (posted July 22, 2015); and

11 f. Notice of timing of requests for consideration at Trustees' meetings
12 (posted March 4, 2016).

13 23. Claims Processing System Development: As described in the Trust's Ninth
14 Annual Report, in 2014, the Trust entered into a contract with an outside vendor to develop an
15 updated claims processing system and move to a new platform. In July of 2015, development of the
16 system was sufficient for the Trust to begin processing claims utilizing the new Web based platform.

17 24. Filing Fee: Pursuant to Section 6.5 of the TDP at the September 15, 2015
18 meeting, the filing fee was reviewed and there were no recommended changes to the existing \$250
19 fee during the Accounting Period or as of the date hereof.

20 25. Trustee's Compensation: Section 4.5(c) of the Trust Agreement requires the
21 Trust to report the amounts paid to the Trustees for compensation and expenses. During the
22 Accounting Period, the Trustees each received per annum compensation in the amount of \$20,060
23 paid in quarterly installments. The total paid to all Trustees for hourly compensation and for
24 reimbursement of expenses was \$93,086 and \$3,140, respectively.

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

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1 a. Eagle Capital Management, LLC: One of six investment managers for the
2 Trust described in paragraph 27, *infra*;

3 b. Western Asbestos Settlement Trust for shared services pursuant to the Trust
4 Facilities Services Sharing Agreement, as described in paragraph 16, *supra*; and

5 c. Westwood Management Corporation: One of six investment managers for the
6 Trust described in paragraph 27, *infra*.

7 27. Trust Investment Management: Article 3 of the Trust Agreement authorizes
8 the Trust to administer the investment of funds in the manner in which individuals of ordinary
9 prudence, discretion and judgment would act in the management of their own affairs, subject to
10 certain limitations. The Trust closely monitors any market volatility with its investment advisors
11 and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc.
12 continued to assist the Trust during the Accounting Period as its manager of investment managers.
13 Eagle Capital Management, Harding Loevner, LP, Segall Bryant & Hamill, Standish Mellon Asset
14 Management, State Street Global Advisors, and Westwood Management Corporation have continued
15 to act as the Trust's investment managers.

16 Additionally, the Trust's Investment Policy Statement was amended on February 27,
17 2015 and February 18, 2016, copies of which are included in the Appendix filed herewith.

18 ***

19 The Trustees submit that the Annual Report and attached exhibits demonstrate the
20 Trust acted prudently and expeditiously in executing its legal obligations during the Accounting
21 Period and up to and including the date hereof. The Trust conscientiously worked to execute
22 equitable claims procedures and process Trust Claims with due diligence during the Accounting
23 Period and up to and including the date hereof. Moreover, the Trust worked with its accountants and
24 financial advisors to preserve and grow Trust assets in order to fulfill the purpose of the Trust –
25 paying valid asbestos claims. In doing so, the Trust carefully complied with all Plan documents and
26 the mandates of this Court.

EXHIBIT A



Financial Statements and Report of Independent
Certified Public Accountants

J. T. Thorpe Settlement Trust

December 31, 2015 and 2014

Contents

	Page
Report of Independent Certified Public Accountants	3
Statements of Net Claimants' Equity	5
Statements of Changes in Net Claimants' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplemental Information	17
Schedule of Operating Expenses	18



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Report of Independent Certified Public Accountants

Trustees
J.T. Thorpe Settlement Trust

We have audited the accompanying financial statements of J.T. Thorpe Settlement Trust (“the Trust”), organized in the State of Nevada, which comprise the statements of net claimants’ equity as of December 31, 2015 and 2014, 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net claimants' equity of J.T. Thorpe Settlement Trust as of December 31, 2015 and 2014, 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, 2015 and 2014 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 Central District of California, Los Angeles Division and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Reno, Nevada

April 14, 2016

J. T. Thorpe Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 5,000,000	\$ 5,000,000
Unrestricted	139,073,224	147,955,819
Total cash, cash equivalents and investments	144,073,224	152,955,819
Accrued interest and dividend receivables	961,575	1,043,211
Prepaid federal income tax	1,687,302	317,430
Total assets	<u>\$ 146,722,101</u>	<u>\$ 154,316,460</u>
LIABILITIES		
Accrued expenses	\$ 184,447	\$ 159,250
Claim processing deposits	223,000	265,000
Unpaid claims (Note D)		
Outstanding offers	1,133,661	1,946,235
Pre-confirmation liquidated claims	76,068	75,763
Deferred tax liability	5,625,000	9,247,000
Facility and staff sharing agreement payable	444,000	396,000
Total liabilities	<u>\$ 7,686,176</u>	<u>\$ 12,089,248</u>
NET CLAIMANTS' EQUITY	<u>\$ 139,035,925</u>	<u>\$ 142,227,212</u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	<u>2015</u>	<u>2014</u>
Net claimants' equity, beginning of year	<u>\$ 142,227,212</u>	<u>\$ 145,509,428</u>
Additions to net claimants' equity		
Investment income	3,282,814	3,748,618
Filing fee income	74,250	125,500
Net decrease in outstanding claim offers	812,269	1,270,737
Net realized and unrealized gains on available-for-sale securities	-	5,906,042
Benefit for income taxes, deferred	3,622,000	-
Federal tax reductions	-	101,824
Total additions	<u>7,791,333</u>	<u>11,152,721</u>
Deductions from net claimants' equity		
Operating expenses	1,828,177	2,755,715
Provision for income taxes, current	3,530,128	1,099,341
Provision for income taxes, deferred	-	992,000
Net increase in facility sharing	48,000	48,000
Claims settled	5,368,081	9,539,881
Net realized and unrealized losses on available-for-sale securities	208,234	-
Total deductions	<u>10,982,620</u>	<u>14,434,937</u>
Net claimants' equity, end of year	<u><u>\$ 139,035,925</u></u>	<u><u>\$ 142,227,212</u></u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2015</u>	<u>2014</u>
Cash inflows:		
Investment income receipts	\$ 3,438,700	\$ 3,905,561
Net realized gain on available-for-sale securities	8,829,577	4,001,203
Federal tax reductions	-	101,824
Total cash inflows	<u>12,268,277</u>	<u>8,008,588</u>
Cash outflows:		
Claim payments made	5,368,081	9,539,881
Decrease in claim processing deposits	42,000	84,000
Disbursements for Trust operating expenses	1,802,980	3,142,041
Disbursements for Trust income taxes	4,900,000	1,171,739
Total cash outflows	<u>12,113,061</u>	<u>13,937,661</u>
Net cash inflows (outflows)	155,216	(5,929,073)
Non-cash changes:		
Net unrealized gains (losses) on available-for-sale securities	<u>(9,037,811)</u>	<u>1,904,841</u>
NET DECREASE IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	(8,882,595)	(4,024,232)
Cash, cash equivalents and investments available-for-sale, beginning of year	<u>152,955,819</u>	<u>156,980,051</u>
Cash, cash equivalents and investments available-for-sale, end of year	<u><u>\$ 144,073,224</u></u>	<u><u>\$ 152,955,819</u></u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. Description of Trust

The J. T. Thorpe 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 J. T. Thorpe, Inc. (J. T. Thorpe), Dissolved J. T. Thorpe, Inc. (Dissolved Thorpe), Thorpe Technologies, Inc., and Thorpe Holding Company, Inc., (collectively the Debtors), First Amended Joint Plan of Reorganization (the Plan), dated August 5, 2005. 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 June 29, 2006.

The Trust was initially funded with insurance settlement proceeds, Dissolved Thorpe securities, cash and a note receivable. Since the Trust's creation, the note receivable has 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 J. T. Thorpe 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 J. T. Thorpe, Dissolved Thorpe, Thorpe Technologies, Inc., Thorpe Holding Company, Inc. and their 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 and software development.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

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 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.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

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, 2015, 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 2012 and state examinations before 2011.

9. Reclassifications

Certain prior year amounts have been reclassified to current year presentation. These reclasses had no impact on net claimants' equity.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

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, 2015	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 21,362	\$ 21,362
U.S. Government obligations	2,347,248	2,339,248
Municipal bonds	158,615	149,146
Asset backed securities	256,170	251,878
Corporate debt	2,281,327	2,238,366
	<u>\$ 5,064,722</u>	<u>\$ 5,000,000</u>
<u>Unrestricted</u>		
Cash demand deposits	\$ 363,608	\$ 363,608
Cash equivalents	24,436,995	24,436,984
Equity securities	27,952,992	40,266,457
U.S. Government obligations	6,259,624	6,239,602
Municipal bonds	58,115,618	60,356,084
Asset-backed securities	689,750	687,904
Corporate debt	6,803,080	6,722,585
	<u>\$ 124,621,667</u>	<u>\$ 139,073,224</u>
December 31, 2014		
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 50,866	\$ 50,886
U.S. Government obligations	2,535,124	2,536,863
Municipal bonds	166,578	159,592
Asset backed securities	302,547	296,733
Corporate debt	1,978,284	1,955,926
	<u>\$ 5,033,399</u>	<u>\$ 5,000,000</u>
<u>Unrestricted</u>		
Cash demand deposits	\$ 300,434	\$ 300,434
Cash equivalents	8,984,212	8,984,213
Equity securities	40,685,784	61,349,586
U.S. Government obligations	7,047,478	7,091,331
Municipal bonds	60,040,566	62,830,136
Asset-backed securities	895,223	892,289
Corporate debt	6,556,954	6,507,830
	<u>\$ 124,510,651</u>	<u>\$ 147,955,819</u>

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

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. The Trust does not hold any Level 3 investments as of December 31, 2015 and 2014.

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, 2015	
	Level 1	Level 2
<u>Assets</u>		
Cash demand deposits	\$ 363,608	\$ -
Cash equivalents	24,458,346	-
Equity securities	40,266,457	-
U.S. Government obligations	1,815,928	6,762,922
Municipal bonds	-	60,505,230
Asset-backed securities	-	939,782
Corporate debt	8,960,951	-
	<u>\$ 75,865,290</u>	<u>\$ 68,207,934</u>
	December 31, 2014	
	Level 1	Level 2
<u>Assets</u>		
Cash demand deposits	\$ 300,434	\$ -
Cash equivalents	9,035,099	-
Equity securities	61,349,586	-
U.S. Government obligations	1,862,148	7,766,046
Municipal bonds	-	62,989,728
Asset-backed securities	-	1,189,022
Corporate debt	8,463,756	-
	<u>\$ 81,011,023</u>	<u>\$ 71,944,796</u>

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

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. During December 31, 2015 and December 31, 2014, no securities were transferred between Level 1 to Level 2.

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2015:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ -	\$ 1,653,808	\$ 2,309,768	\$ 4,615,274
Municipal bonds	2,066,005	28,571,254	26,664,661	3,203,310
Asset-backed securities	-	669,469	72,756	197,556
Corporate debt	98,110	5,274,498	2,747,348	840,995
	<u>\$ 2,164,115</u>	<u>\$ 36,169,029</u>	<u>\$ 31,794,533</u>	<u>\$ 8,857,135</u>

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, includes:

Acquisition of computer hardware and software	<u>\$ 181,236</u>
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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, 2015 and 2014 were \$117,802 and \$63,484, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$7,500 and \$10,500 for the years ended December 31, 2015 and 2014, respectively.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

NOTE D - CLAIM LIABILITIES

The Trust distinguishes between claims that were resolved prior to the establishment of the Trust (Pre-Confirmation Liquidated Claims) and claims received and processed using the Trust Procedures after the creation of the Trust (Trust Claims).

The cases underlying the Pre-Confirmation Liquidated Claims were stayed by the court until the Plan was approved. The Trust approved procedures and immediately arranged to pay, subject to receiving a claimant release, the approved Payment Percentage of the liquidated value of each Pre-Confirmation Liquidated Claim.

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. During the years ended December 31, 2015 and 2014, 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 F).

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, 2008 through December 31, 2015 include a cost of Living Adjustment for inflation based on 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 Adjustment. Inflation Adjustments are cumulative. Cumulative Inflation Adjustments of 17.07% and 16.60% are included in outstanding claims liabilities as of December 31, 2015 and 2014, respectively.

The Trust processed and approved approximately \$4,555,507 and \$8,277,605 of Trust Claims during the years ended December 31, 2015 and 2014, respectively.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

NOTE E - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into a facilities and staff sharing agreement with the Western Asbestos Settlement Trust, (the Western Trust). The two trusts are related through common trustees. Under the agreement, and in exchange for advance monthly payments, the Western Trust provides use of its facilities and services relating to administration and claims processing. The monthly payment of \$35,000 and \$26,000 was in place through December 31, 2014 and 2013, respectively. Provisions allow for automatic renewals for additional one-year periods unless either party provides written notice. The amounts of advance monthly payments are agreed upon between the trusts from time to time. The equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Western Trust. The reconciliation is performed and recorded in the period subsequent to the reconciliation period. The reconciliation performed for the year ended December 31, 2015 and 2014 resulted in an additional payment to the Western Trust of approximately \$3,000 and \$44,700, respectively. The monthly payment for 2016 was increased to \$37,000. The future payments under this agreement have been recorded as a liability on the accompanying statement of net claimants' equity.

NOTE F - NET CLAIMANTS' EQUITY

The Trust was created pursuant to the Plan approved by the United States Bankruptcy Court for the Central District of California, Los Angeles 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 compensable diseases, 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.

Based on research and testimony presented during the bankruptcy, the court approved an initial Payment Percentage to claimants to be applied to the liquidated value of then current and estimated future claims. The TDP provided that the committee and the Futures Representative may agree on a different Initial Payment Percentage prior to the Effective Date if another party became a Settling Asbestos Insurance Company. Pursuant to an agreement between the Committee and the Futures Representative dated June 29, 2006, the Initial Payment Percentage to be used was 50% of the total liquidated value. 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. In December 2008, the Payment Percentage was temporarily decreased from 50% to 40%. The decrease had no impact on previously paid claims. In November 2010, after evaluating assumptions regarding the Trust's future assets and liabilities, the Trustees approved an increase in the Payment Percentage from 40% to 45%. The increase was retroactive for all claims previously paid at the 40% Payment Percentage. These changes were made with the consent of the TAC and Futures Representative.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

NOTE G - 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 \$5 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 interest income accrues to the benefit of the Trust. As of December 31, 2015 and 2014, cash, cash equivalents and investments of \$5,000,000 were restricted for these purposes.

NOTE H - 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 39.6% for the years ended December 31, 2015 and 2014.

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 (benefit) for income taxes consists of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Income tax – current	\$ 3,530,128	\$ 1,099,341
Deferred income tax (benefit) expense	(3,622,000)	992,000
	<u>\$ (91,872)</u>	<u>\$ 2,091,341</u>

The components of the deferred income tax asset (liability), as presented in the statement of net claimants' equity consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
<u>Deferred tax asset (liability)</u>		
Other	\$ 67,000	\$ 24,000
Unrealized appreciation	(5,692,000)	(9,271,000)
	<u>\$ (5,625,000)</u>	<u>\$ (9,247,000)</u>

NOTE I - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 14, 2016, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure.

SUPPLEMENTAL INFORMATION

J. T. Thorpe Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	<u>2015</u>	<u>2014</u>
Accounting	\$ 33,215	\$ 50,310
Claims processing/claims system development	169,246	131,599
Futures representative	116,780	253,380
Information technology support	20,509	23,528
Insurance expense	5,766	-
Investment expense	576,859	730,866
Legal fees	192,320	770,520
System security	-	75,844
Trust advisory committee	27,167	30,295
Trust facility and staff sharing expense	444,714	404,360
Trustee fees	178,486	216,346
Trustees professional	63,115	68,667
	<u>\$ 1,828,177</u>	<u>\$ 2,755,715</u>

EXHIBIT B

**J.T. Thorpe Settlement Trust
Claim Report
As of December 31, 2015**

This report is submitted pursuant to Section 2.2 (c)(ii) of the Eighth Amendment to and Complete Restatement of J.T. Thorpe 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 period covered by the financial statements ("Accounting Period"). This report summarizes the Trust's processing of claims liquidated under supervision of the Bankruptcy Court ("Pre-Confirmation Liquidated Claims") and claims received since June 29, 2006, the Effective Date of the Trust ("Trust Claims").

Pre-Confirmation Liquidated Claims

In 2006, the Trust implemented a procedure to pay the Pre-Confirmation Liquidated Claims ("PCLP Claims") in accordance with the Plan, the Trust Distribution Procedures, the Confirmation Order, the January 27, 2006, Order Liquidating Asbestos Related Claims, and the Agreement Regarding Initial Payment Percentage entered into on June 29, 2006, by the Trust Advisory Committee and the Futures Representative. The Agreement Regarding Initial Payment Percentage provided that the Initial Payment Percentage was to be 50% of the total liquidated claim value. This remained in effect until December 1, 2008, when the Trustees, with the agreement of the Futures Representative and the TAC, adjusted the Payment Percentage to 40%. The Payment Percentage was reviewed and adjusted to 45% on November 18, 2010.

No PCLP Claims were paid during the Accounting Period, however one (1) PCLP Claim was paid in January of 2016 in the total amount of \$616. The Trust has not yet received proper release documents for twenty-one (21) remaining unpaid PCLP Claims in the total amount of \$75,452. That amount is based upon the current Payment Percentage of 45% and includes an inflation adjustment of 17.07% utilized for claims payments made in 2016, which is based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W").

Trust Claims

Claims received and disposed of from January 1, 2015, through December 31, 2015, in accordance with the Second Amendment to and Complete Restatement of J.T. Thorpe Case Valuation Matrix ("Matrix") and the J.T. Thorpe, Inc., a California corporation/J.T. Thorpe, Inc., a dissolved California corporation/Thorpe Holding Company, Inc., a California corporation/Thorpe Technologies, Inc., a California corporation Asbestos Personal Injury Settlement Second Amendment to and Complete Restatement of 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 tort related individual characteristics, including, but not limited to: age, marital status, dependents,

medical specials, economic loss, exposure location, 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, 2015, Trust Claims were paid at the approved Payment Percentage of 45%. Payments made on Trust Claims in 2015 included an additional 16.6% to account for inflation based upon the CPI-W.

During the Accounting Period, 503 claims were received. In addition, offers were issued to 311 claimants. Further, 319 claims were paid.

Below is a summary of the number and type of claims disposed of (paid) in 2015.

Compensable Disease	Number of Claims
Grade II Non-Malignant	88
Grade I Non-Malignant	86
Grade I Non-Malignant Enhanced Asbestosis	23
Grade I Non-Malignant Serious Asbestosis	14
Other Cancer	14
Lung Cancer	45
Mesothelioma	49
Total	319