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Bankruptcy Counsel for the J.T. Thorpe Settlement Trust

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

11  
12 In re ) Chapter 11  
13 J.T. THORPE, INC., a California )  
14 corporation; J.T. THORPE, INC., a dissolved ) Case Nos. LA-02-14216-BB &  
15 California corporation; ) LA-04-35876-BB  
16 Debtors. ) (Jointly Administered Under Case No. LA-02-  
17 ) 14216-BB)

18 )  
19 ) **SEVENTH ANNUAL REPORT AND**  
20 ) **ACCOUNTING, AUDITED FINANCIAL**  
21 ) **STATEMENTS, AND CLAIM REPORT**

22 )  
23 ) **Hearing:**

24 ) Date: June 5, 2013  
25 ) Time: 10:00 a.m.  
26 ) Place: Courtroom 1475  
27 ) 255 East Temple Street  
28 ) Los Angeles, CA 90012



1 **SEVENTH ANNUAL REPORT AND ACCOUNTING**  
2 **OF J.T. THORPE SETTLEMENT TRUST**

3 The Trustees of the J.T. Thorpe Settlement Trust ("Trust") hereby submit this Seventh  
4 Annual Report and Accounting ("Annual Report") covering Trust activities that occurred during the  
5 period from January 1, 2012 to and including December 31, 2012 ("Accounting Period"), and certain  
6 activities of the Trust that took place outside of the Accounting Period. This Annual Report is  
7 submitted to the U.S. Bankruptcy Court for the Central District of California, Los Angeles Division,  
8 *In re J.T. THORPE, INC., a California corporation; J.T. THORPE, a dissolved California*  
9 *corporation; THORPE HOLDING COMPANY, a California corporation; and THORPE*  
10 *TECHNOLOGIES, INC., a California corporation, Case Nos. LA 02-14216-BB; LA 04-35876-BB;*  
11 *LA 04-35877-BB; LA 04-35847-BB, Jointly Administered Under Case No. LA 02-14216-BB, in*  
12 *accordance with the First Amended Joint Plan of Reorganization (the "Plan"); Order Confirming*  
13 *First Amended Joint Plan of Reorganization Dated August 5, 2005, and Granting Related Relief*  
14 *("Confirmation Order"); and the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case*  
15 *Valuation Matrix, as amended from time to time, established pursuant to the Plan<sup>1</sup>, and pursuant to*  
16 *the laws of the state of Nevada, where the Trust is organized and where it resides. The factual*  
17 *statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive*  
18 *Director, in Support of Motion to Approve and Settle J.T. Thorpe Settlement Trust's Seventh Annual*  
19 *Report and Accounting, Audited Financial Statements, and Claim Report as described in paragraphs*  
20 *6, 7, and 8, infra. Capitalized terms not defined herein are defined in the Glossary of Terms for the*  
21 *Plan Documents. This Court has approved each Annual Report beginning in 2007.*

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

24 \_\_\_\_\_  
25 <sup>1</sup> The Appendix includes the Plan; Order Confirming the Plan; Seventh Amendment to and  
26 Complete Restatement of J.T. Thorpe Settlement Trust Agreement (the "Trust Agreement");  
27 Second Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Bylaws  
28 ("Trust Bylaws"); First Amendment to and Complete Restatement of J.T. Thorpe Case Valuation  
Matrix (the "Matrix"); First Amendment to and Complete Restatement of Trust Distribution  
Procedures ("TDP"); other controlling documents approved by this Court; and other documents  
as indicated.

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

4                   As initially described in the Trust's Fourth Annual Report and Accounting, on April  
5 19, 2007, the number of Trustees was increased to three (3) by the Futures Representative and the  
6 Trust Advisory Committee effective on the first anniversary of the Effective Date of the Trust.

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

10                  3.     Appointment of Trust Advisory Committee: In the Order Confirming the  
11 Plan, this Court approved the appointment of Alan Brayton, Steven Kazan, and David Rosen as the  
12 initial members of the TAC. Mr. Brayton has served as Chair of the TAC, and Messrs. Kazan and  
13 Rosen have continued to serve as members of the TAC since the Effective Date of the Trust.

14                  4.     Appointment and Continuation of Futures Representative: The Honorable  
15 Charles B. Renfrew was appointed as the Futures Representative in the J.T. Thorpe Reorganization  
16 Cases on December 2, 2002, and his continued appointment as the Futures Representative of the  
17 Trust was approved by this Court in the Order Confirming the Plan. Judge Renfrew has served as  
18 the Trusts' Future Representative since the Effective Date of the Trust.

19                  5.     Fiscal Year and Tax Obligations: The Trust is required by the Internal  
20 Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis.  
21 Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports  
22 attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement  
23 requires the Trustees to file income tax and other returns and statements in a timely manner, and to  
24 comply with all withholding obligations as legally required, including fulfilling requirements to  
25 maintain its status as a Qualified Settlement Fund. The federal tax return for 2012 will be filed by  
26 September 16, 2013. The Trust resides in Nevada, and Nevada has no state income tax. Although  
27 the Trust is not subject to tax in California, the Trustees file a tax return in California each year,  
28

1 attaching a copy of the Trust's federal tax return, but showing no California taxable income or state  
2 tax liability.

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

5 The Trustees shall cause to be prepared and filed with the Bankruptcy  
6 Court . . . an annual report containing financial statements of the Trust  
7 (including, without limitation, a statement of the net claimants' equity  
8 of the Trust as of the end of such fiscal year and a statement of  
9 changes in net claimants' equity for such fiscal year) audited by a firm  
10 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 the following special-purpose accounting methods  
which differ from accounting principles generally accepted in the  
United States.

11 The special-purpose accounting methods were adopted by Mr. Snyder as sole Trustee of the Trust  
12 with the approval of the TAC and the Future Representatives in the Second Amendment to and  
13 Complete Restatement of J.T. Thorpe Settlement Trust Agreement, dated February 22, 2007. The  
14 Trust's financial statements are prepared using special-purpose accounting methods that depart from  
15 Generally Accepted Accounting Principles (GAAP) in certain instances in order to better disclose  
16 the amount and changes in net claimants' equity.

17 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of  
18 the Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton  
19 LLP, the independent certified public accountants retained by the Trust to perform the annual audit  
20 of its financial statements. The Trust's audited financial statements ("Audited Financial Statements")  
21 are attached hereto as Exhibit "A". These include a Statement of Net Claimants' Equity, a Statement  
22 of Changes in Net Claimants' Equity, a Statement of Cash Flows and explanatory Notes. The  
23 Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects  
24 total assets of the Trust at market value and on the other comprehensive basis of accounting adopted  
25 by the Trust. These Audited Financial Statements show, among other things, that as of December 31  
26 2012, total Trust assets were \$157,798,569 total liabilities were \$8,352,017 and Net Claimants'  
27 Equity was \$149,446,552.

1           8.     Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along  
2 with the Audited Financial Statements, the Trust shall file with the Court a report containing a  
3 summary regarding the number and type of claims disposed of during the period covered by the  
4 financial statements. The J.T. Thorpe Settlement Trust Claim Report As of December 31, 2012  
5 ("Claim Report") is attached hereto as Exhibit "B". During the Accounting Period, the Trust  
6 received 714 claims, paid 554 claims, and made settlement offers on 622 claims. Since the Trust  
7 received its first Trust Claim<sup>2</sup> on October 24, 2006, the Trust has received 6,052 Trust Claims, paid  
8 3,185 Trust Claims, and 1,610 Trust Claims have been withdrawn.<sup>3</sup>

9           Section 5.4 of the TDP provides that "as soon as practicable after the Effective Date,  
10 the Trust shall pay all Trust Claims that were liquidated by (i) a written settlement agreement entered  
11 into prior to the Petition Date for the particular claim, or (ii) the pre-confirmation claims liquidation  
12 process." The vast majority of the 1,474 Trust claims identified in this Court's January 27, 2006,  
13 Order Liquidating Asbestos Related Claims (hereafter "PCLP Claims") were paid in 2006. To date,  
14 six (6) PCLP Claims have been withdrawn by their respective law firms. During the Accounting  
15 Period, no PCLP Claims were paid. The Trust has not yet received proper release documents for  
16 twenty-seven (27) remaining unpaid PCLP Claims in the amount of \$83,641.26.

17           9.     Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement,  
18 the Annual Report, including the Audited Financial Statements and Claim Report, has been sent to  
19 the Futures Representative, the TAC, the Debtors, and the Office of the United States Trustee with  
20 responsibility for the Central District of California, and has been made available for inspection by  
21 the public in accordance with procedures established by the Court.

22           10.    Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the  
23 Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close as  
24 practicable on a quarterly basis. Four (4) meetings were held during the Accounting Period

25 \_\_\_\_\_  
26 <sup>2</sup> "Trust Claims" are any claims submitted to the Trust after the Effective Date.

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

1 (February 16, 2012, April 19-20, 2012, September 20-21, 2012, and November 28, 2012). All  
2 meetings were held in Reno, Nevada.

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

5 12. Payment Percentage: Section 4.2 of the TDP provides that, commencing on  
6 the first day of January, after the Plan has been consummated and no less frequently than once every  
7 three years thereafter or at any time if requested to do so by the TAC or Futures Representative, the  
8 Trustees shall reconsider the Payment Percentage to assure that it is based on accurate current  
9 information and may, after such reconsideration, change the Payment Percentage if necessary with  
10 the consent of the TAC and Futures Representative. As initially described in the Trust's Fourth  
11 Annual Report and Accounting, the Payment Percentage was temporarily decreased from 50% to  
12 40% effective December 1, 2008 pursuant to the guidelines of Sections 2.3 and 4.2 of the TDP. As  
13 described in the Trust's Fifth Annual Report and Accounting, at the November 18, 2010 meeting, the  
14 Payment Percentage was reviewed and adjusted to 45%. No adjustments were made during the  
15 Accounting Period. On February 7, 2013, the Payment Percentage was again reviewed and remains  
16 at 45%.

17 13. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust  
18 calculate an annual payment limit for claims ("Maximum Annual Payment") based upon a model of  
19 the amount of cash flow anticipated to be necessary over the entire life of the Trust to ensure that  
20 funds will be available to treat all present and future claimants as similarly as possible. At the  
21 November 28, 2012 meeting, the Maximum Annual Payment for 2013 was set at \$10,000,000, plus  
22 the amount of \$40,011,099.26 of excess funds carried over from prior years, which Section 2.5 of  
23 the TDP requires to be rolled over and remain dedicated to the respective Disease Category to which  
24 they were originally allocated.

25 14. Inflation Adjustment: The original Payment Percentage approved by this  
26 Court was based upon projections of future claims payments adjusted annually for inflation.  
27 Beginning in 2008, all claims payments made during a calendar year include a cost of living  
28 adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban*

1 *Wage Earners and Clerical Workers (CPI-W)* announced in January each year. Thus, as of January  
2 1, 2012, all claims payments made during the calendar year were increased by 12.62% to account for  
3 inflation.

4 At the November 28, 2012 meeting, the CPI-W to be published in January 2013, was  
5 approved for use by the Trust in making the 2013 cost of living adjustment for claims payments.  
6 The CPI-W of 1.7% was issued on January 16, 2013. Consequently, all claims payments made  
7 during the 2013 calendar year will have a compounded inflation rate of 14.54% added to the  
8 payment amount.

9 15. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement  
10 requires the Trust to prepare a budget and cash flow projections prior to the commencement of each  
11 fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the  
12 2013 budget and the required four-year budget and cash flow projections on November 28, 2012.  
13 Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for  
14 operating expenses in 2012 totals \$1,192,000.<sup>4</sup>

15 16. Trust Facilities and Services Sharing Agreement with Western Asbestos  
16 Settlement Trust: As initially described in the Trust's First Annual Report and Accounting, the Trust  
17 and Western Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services  
18 Sharing Agreement. The Trust agreed to pay a negotiated monthly amount. Such arrangement was  
19 approved by this Court in the order approving the Trust's First Annual Report. Pursuant to the  
20 annual reconciliation of fees presented at the February 16, 2012 meeting, the Advance Payments  
21 were set at \$27,000 for 2012. The annual reconciliation presented on February 7, 2013 set the  
22 Advance Payments at \$26,000 per month for 2013.

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

25  
26  
27 <sup>4</sup> This figure is net of claimant payments which are budgeted for \$10,000,000, net of extraordinary  
28 legal fees that are budgeted for \$430,000, and net of income tax payments that are budgeted for  
\$225,000.

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

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

9           In 2006, the Trust established an indemnity fund in the amount of \$5,000,000, as  
10 described in the Trust's Annual Reports. All interest earned by the fund is returned to the Trust  
11 quarterly. During the Accounting Period, no claims were made against the fund and no money was  
12 paid from the fund.

13           20.    Legal Dispute: During the Accounting Period, the Trust (along with Western  
14 Asbestos Settlement Trust (the "Western Trust") and the Thorpe Insulation Company Asbestos  
15 Settlement Trust (the "Thorpe Insulation Trust"), collectively, the ("Trusts")) continued their audit  
16 and investigation (the "Investigation") into matters concerning evidentiary support for certain claims  
17 submitted by Michael Mandelbrot and the Mandelbrot Law firm ("Mandelbrot") with the Trusts.  
18 The Trusts were concerned that Mandelbrot had engaged in a pattern of submitting unreliable  
19 evidence in support of claims provided to the Trust as set forth in section 5.7(a) of the Trust  
20 Distribution Procedures. The Bankruptcy Court entered an order on March 14, 2012 granting the  
21 Trust's Application for Examination Pursuant to Bankruptcy Rule 2004, pursuant to which the Trust  
22 sought authority to conduct the examinations of eight (8) claimants in furtherance of the  
23 Investigation. Mandelbrot appealed the order, which appeal was later dismissed by the parties, and  
24 has largely refused to voluntarily cooperate with the Trusts in the Investigation. To date, the Trusts  
25 have taken only one claimant examination.

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

1 Notwithstanding the Bankruptcy Court's orders, Mandelbrot demanded the  
2 Investigation cease and threatened to directly sue the Trusts, the Trusts' fiduciaries and Trusts'  
3 representatives on the grounds that the Investigation was improper or frivolous. Accordingly, on  
4 September 19, 2012, the Trust filed its "Complaint for Declaratory Judgment" and on October 24,  
5 2012, its "First Amended Complaint for (I) Declaratory Judgment and (II) Equitable Relief" (the  
6 "Amended Complaint") in the Bankruptcy Court (Adversary Case No. 2:12-ap-02182-BB) against  
7 Mandelbrot (the "Adversary Proceeding"). The Amended Complaint (i) requests a declaratory  
8 judgment from the Bankruptcy Court "confirming that the Investigation to determine whether the  
9 Defendants have engaged in a pattern or practice of submitting unreliable information to the J.T.  
10 Thorpe Trust is authorized and appropriate under the circumstances," and (ii) seeks related equitable  
11 relief.

12 The Adversary Proceeding has been procedurally consolidated with a nearly identical  
13 adversary proceeding brought by the Thorpe Insulation Trust in the Bankruptcy Court. In addition,  
14 the Western Trust commenced a similar adversary proceeding against Mandelbrot in its bankruptcy  
15 case pending in the United States Bankruptcy Court for the Northern District of California. The  
16 Trusts are supervised by the same Trustees and the same Futures Representative, and all three trusts  
17 evaluate and process claims through the same facility and processing staff.

18 The Bankruptcy Court has ruled on three substantive motions filed by the parties in  
19 the Adversary Proceeding. See 2:12-ap-02182-BB Docket Nos. 65 (*Order Granting in Part Motions*  
20 *for Approval of Continued Claim Payment by the Thorpe Trusts in Accordance with Additional*  
21 *Evaluation Criteria*); 67 (*Order Denying Defendants' Motion to Transfer Venue of Adversary*  
22 *Proceedings*); and 73 (*Order Denying Defendants' Motion to Dismiss Second Claim for Relief*). The  
23 Bankruptcy Court has held two status conferences in the Adversary Proceeding and the next status  
24 conference is set for April 30, 2013. The Bankruptcy Court has set an August 31, 2013 discovery  
25 deadline. The parties are presently engaged in discovery efforts.

26 On March 19, 2013, the Futures Representative filed a motion to intervene in the  
27 adversary proceedings. See Docket No. 83 (*The Futures Representative's Notice of Motion and*  
28 *Motion to Intervene; Memorandum of Points and Authorities*). Defendants opposed the motion and

1 a hearing was held on April 9, 2013. On April 10, 2013, the Bankruptcy Court entered its order  
2 approving the Honorable Charles B. Renfrew's motion to intervene. See Docket No. 96 (*Order*  
3 *Granting the Futures Representative's Motion to Intervene*). The Futures Representative then filed  
4 his *Complaint in Intervention* (Docket No. 97) on April 10, 2013.

5 21. Amendments to the Trust Documents: During the Reporting Period, there  
6 were no amendments to the Trust Documents.

7 22. Notification to Beneficiaries: During the Accounting Period and, additionally,  
8 from January 1, 2013 to and including April 15, 2013, the following notifications were placed on the  
9 Trust's website:

- 10 a. Notice of the hearing on Trust's Sixth Annual Report and Accounting  
11 (posted April 27, 2012);
- 12 b. Notice of approved ship list and site list modifications (posted May 11,  
13 2012);
- 14 c. Notice of modification to JTTS land site list (posted October 17,  
15 2012); and
- 16 d. Notice of no modification to J.T. Thorpe Payment Percentage (posted  
17 February 20, 2013).

18 23. Filing Fee: Pursuant to Section 6.5 of the TDP at the September 20, 2012  
19 meeting, the filing fee was reviewed and there were no recommended changes to the existing \$250  
20 fee during the Accounting Period or as of the date hereof.

21 24. Trustee's Compensation: Section 4.5(c) of the Trust Agreement requires the  
22 Trust to report the amounts paid to the Trustees for compensation and expenses. During the  
23 Accounting Period, the Trustees each received per annum compensation in the amount of \$20,000  
24 paid in quarterly installments. The total paid to all Trustees for hourly compensation was \$162,061  
25 and \$4,994 was the total amount of expenses incurred by all Trustees.

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

1 a. Eagle Capital Management, LLC: One of six investment managers for the  
2 Trust described in paragraph 26, *infra*.

3 b. Morgan Lewis & Bockius: counsel to the Trust in the Mandelbrot  
4 investigation and the Adversary Proceeding described in paragraph 20, *supra*.

5  
6 c. Standish Mellon Asset Management Company: One of six investment  
7 managers for the Trust described in paragraph 26, *infra*.

8 d. Stutman, Treister & Glatt Professional Corporation, Bankruptcy counsel to the  
9 Trust.

10 e. Western Asbestos Settlement Trust for shared services pursuant to the Trust  
11 Facilities Services Sharing Agreement, as described in paragraph 16, *supra*.

12 26. Trust Investment Management: Article 3 of the Trust Agreement authorizes  
13 the Trust to administer the investment of funds in the manner in which individuals of ordinary  
14 prudence, discretion and judgment would act in the management of their own affairs, subject to  
15 certain limitations. The Trust closely monitors any market volatility with its investment advisors  
16 and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc.  
17 continued to assist the Trust during the Accounting Period as its manager of investment managers.  
18 Eagle Capital Management, Harding Loevner, LP, Standish Mellon Asset Management, and State  
19 Street Global Advisors have continued to act as the Trust's investment managers. On February 16,  
20 2012, it was determined that Westwood Management Corporation could be engaged as an additional  
21 investment manager for the Trust and on September 1, 2012, Segall Bryant & Hammill replaced  
22 Dwight Asset Management Company as the Trust's taxable fixed income manager.

23 The Trust's Investment Policy Statement was amended on February 16, 2012, a copy  
24 of which is included in the Appendix filed herewith.

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

28 \*\*\*

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

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**EXHIBIT A**



**Grant Thornton**

Financial Statements and Report of Independent  
Certified Public Accountants

**J. T. Thorpe Settlement Trust**

December 31, 2012 and 2011

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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, 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.



#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of J.T. Thorpe 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 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.

*Grant Thornton LLP*

Reno, Nevada  
April 15, 2013

J. T. Thorpe Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 5,000,000	\$ 5,000,000
Unrestricted	151,389,759	152,026,654
Total cash, cash equivalents and investments	156,389,759	157,026,654
Accrued interest and dividend receivables	1,061,954	1,301,138
Prepaid federal income tax	346,856	560,383
Total assets	<u>\$ 157,798,569</u>	<u>\$ 158,888,175</u>
<b>LIABILITIES</b>		
Accrued expenses	\$ 355,364	\$ 178,419
Claim processing deposits	387,750	434,750
Unpaid claims (Note D)		
Outstanding offers	2,603,261	1,836,227
Pre-confirmation liquidated claims	83,642	82,239
Deferred tax liability	4,610,000	1,386,000
Facility and staff sharing agreement payable	312,000	324,000
Total liabilities	<u>\$ 8,352,017</u>	<u>\$ 4,241,635</u>
<b>NET CLAIMANTS' EQUITY</b>	<u>\$ 149,446,552</u>	<u>\$ 154,646,540</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>2012</u>	<u>2011</u>
<b>Net claimants' equity, beginning of year</b>	<u>\$ 154,646,540</u>	<u>\$ 159,025,637</u>
<b>Additions to net claimants' equity</b>		
Investment income	3,897,669	4,132,858
Net decrease in facility sharing payable	12,000	-
Net realized and unrealized gains on available-for-sale securities	<u>8,733,866</u>	<u>3,553,323</u>
Total additions	<u>12,643,535</u>	<u>7,686,181</u>
<b>Deductions from net claimants' equity</b>		
Operating expenses	1,817,506	907,724
Provision for income taxes, current	260,588	126,762
Provision for income taxes, deferred	3,224,000	1,359,000
Claims settled	11,774,395	9,231,802
Net increase in outstanding claim offers	<u>767,034</u>	<u>439,990</u>
Total deductions	<u>17,843,523</u>	<u>12,065,278</u>
<b>Net claimants' equity, end of year</b>	<u><u>\$ 149,446,552</u></u>	<u><u>\$ 154,646,540</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>2012</u>	<u>2011</u>
<b>Cash inflows:</b>		
Investment income receipts	\$ 4,136,853	\$ 4,125,060
Net realized gain on available-for-sale securities	<u>2,288,342</u>	<u>-</u>
Total cash inflows	<u>6,425,195</u>	<u>4,125,060</u>
<b>Cash outflows:</b>		
Claim payments made	11,772,992	9,275,651
Net realized loss on available-for-sale securities	-	445,405
Decrease in claim processing deposits	47,000	38,000
Disbursements for Trust operating expenses	1,640,561	934,914
Disbursements for Trust income taxes	<u>47,061</u>	<u>299,458</u>
Total cash outflows	<u>13,507,614</u>	<u>10,993,428</u>
Net cash outflows	(7,082,419)	(6,868,368)
<b>Non-cash changes:</b>		
Net unrealized gains on available-for-sale securities	<u>6,445,524</u>	<u>3,998,728</u>
<b>NET DECREASE IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE</b>	<b>(636,895)</b>	<b>(2,869,640)</b>
<b>Cash, cash equivalents and investments available-for-sale, beginning of year</b>	<u>157,026,654</u>	<u>159,896,294</u>
<b>Cash, cash equivalents and investments available-for-sale, end of year</b>	<u><u>\$ 156,389,759</u></u>	<u><u>\$ 157,026,654</u></u>

The accompanying notes are an integral part of these statements.

**J. T. Thorpe Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012 and 2011**

**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, 2012 and 2011**

**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.

**J. T. Thorpe Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2012 and 2011**

**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.

**J. T. Thorpe Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2012 and 2011**

**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
<u>Restricted</u>		
Cash equivalents	\$ 123,520	\$ 123,520
U.S. Government obligations	2,241,115	2,241,617
Municipal bonds	139,249	138,360
Mortgage backed securities	79,184	79,657
Corporate and other debt	2,429,467	2,416,846
	\$ 5,012,535	\$ 5,000,000
 <u>Unrestricted</u>		
Cash demand deposits	\$ 986,856	\$ 986,856
Cash equivalents	11,772,246	11,772,246
Equity securities	52,706,510	59,335,209
U.S. Government obligations	6,911,985	6,979,896
Municipal bonds	59,819,475	64,752,050
Asset-backed securities	493,605	505,793
Corporate and other debt	7,040,979	7,057,709
	\$139,731,656	\$151,389,759
	December 31, 2011	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 5,000,000	\$ 5,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 868,437	\$ 868,437
Cash equivalents	13,701,722	13,701,722
Equity securities	49,693,494	48,267,079
U.S. Government obligations	9,996,335	10,085,050
Municipal bonds	66,268,472	72,740,525
Asset-backed securities	3,389,695	3,399,299
Corporate and other debt	2,908,453	2,964,542
	\$146,826,608	\$152,026,654

**J. T. Thorpe Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2012 and 2011**

**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
<u>Assets</u>			
Cash demand deposits	\$ 986,856	\$ -	\$ -
Cash equivalents	11,895,766	-	-
Equity securities	59,335,209	-	-
U.S. Government obligations	1,202,816	8,018,697	-
Municipal bonds	-	64,890,410	-
Asset-backed securities	-	585,450	-
Corporate debt	9,474,555	-	-
	<u>\$82,895,202</u>	<u>\$73,494,557</u>	<u>\$ -0-</u>
	December 31, 2011		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 868,437	\$ -	\$ -
Cash equivalents	18,701,722	-	-
Equity securities	48,267,079	-	-
U.S. Government obligations	3,863,204	6,221,846	-
Municipal bonds	-	72,740,525	-
Asset-backed securities	-	3,399,299	-
Corporate debt	2,964,542	-	-
	<u>\$74,664,984</u>	<u>\$82,361,670</u>	<u>\$ -0-</u>

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

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 \$5,501,000 of municipal bond securities transferred from Level 1 to Level 2 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:

	Asset-backed Securities	
	2012	2011
Balance at January 1	\$ -	\$459,578
Transfers from Level 2	-	-
Sales	-	(476,979)
Redemptions	-	(12,432)
Realized loss	-	(10,246)
Unrealized gain	-	40,079
Balance at December 31	<u>\$ -0-</u>	<u>\$ -0-</u>

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	\$ 150,864	\$ 2,189,542	\$ 1,654,909	\$ 5,226,198
Municipal bonds	-	26,134,716	27,002,989	11,752,705
Asset-backed securities	-	105,819	260,091	219,540
Corporate and other debt	1,356,353	3,065,610	4,704,771	347,821
	<u>\$1,507,217</u>	<u>\$31,495,687</u>	<u>\$33,622,760</u>	<u>\$17,546,264</u>

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

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 computer hardware and software	<u>\$117,968</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, 2012 and 2011 were \$5,158 and \$695, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$2,063 and \$8,362 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 (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, 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 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, 2012 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 14.54% and 12.62% are included in outstanding claims liabilities as of December 31, 2012 and 2011, respectively.

The Trust processed and approved approximately \$12,540,026 and \$9,669,000 of Trust Claims during the years ended December 31, 2012 and 2011, respectively.

**J. T. Thorpe Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2012 and 2011**

**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 agreement automatically renews for additional one-year periods unless either party provides six months written notice. The amounts of advance 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 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, 2012 resulted in an additional payment to the Western Trust of approximately \$103,000. The reconciliation performed for the year ended December 31, 2011 resulted in an additional payment to the Western Trust of approximately \$39,000. The next reconciliation period will be the twelve-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. 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, 2012 and 2011

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, 2012 and 2011, 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 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 \$536,000.

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	\$ 260,588	\$ 126,762
Deferred income tax expense	3,224,000	1,359,000
	<u>\$3,484,588</u>	<u>\$1,485,762</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:

	2012	2011
<u>Deferred tax asset (liability)</u>		
Capital loss carryforwards	\$ -	\$ 434,000
Facility-sharing obligation	-	-
Other	2,000	-
Unrealized losses (appreciation)	(4,612,000)	(1,820,000)
	<u>(\$4,610,000)</u>	<u>(\$1,386,000)</u>

NOTE I - 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.

**SUPPLEMENTAL INFORMATION**

J. T. Thorpe Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	<u>2012</u>	<u>2011</u>
Accounting	\$ 44,058	\$ 51,229
Claims processing/claims system development	80,668	90,462
Futures representative	141,381	46,649
Information technology support	21,761	15,379
Legal fees	881,468	265,588
Trust advisory committee	18,909	15,336
Trust facility and staff sharing expense	363,071	256,644
Trustee fees	227,055	152,171
Trustees professional	39,135	14,266
	<u>\$ 1,817,506</u>	<u>\$ 907,724</u>

**EXHIBIT B**

## **EXHIBIT "B"**

### **J.T. Thorpe Settlement Trust Claim Report As of December 31, 2012**

This report is submitted pursuant to Section 2.2 (c)(ii) of the Seventh 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. The Trust has not yet received proper release documents for twenty-seven (27) remaining unpaid PCLP Claims in the total amount of \$83,641.26. That amount is based upon the current Payment Percentage of 45% and includes an inflation adjustment of 14.54% utilized for claims payments made in 2013, 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, 2012, through December 31, 2012, in accordance with the First 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 First 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, 2012, Trust Claims were paid at the approved Payment Percentage of 45%. Payments made on Trust Claims in 2012 included an additional 12.62% to account for inflation based upon the CPI-W.

During the Accounting Period, 714 claims were received, 554 claims were paid, and 622 claims received offers.

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

Compensable Disease	Number of Claims
Grade II Non-Malignant	156
Grade I Non-Malignant	58
Grade I Non-Malignant Enhanced Asbestosis	31
Grade I Non-Malignant Serious Asbestosis	21
Colo-Rectal	13
Esophageal	2
Laryngeal	4
Non-Hodgkin's Lymphoma	1
Other Cancer	0
Lung Cancer	135
Mesothelioma	133
Total	554