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

Attorneys for the Trustees of the
J.T. Thorpe Settlement Trust

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: J.T. THORPE, INC., a California corporation, J.T. THORPE, INC., a dissolved California corporation; Debtors.	Case Nos. LA-02-14216-BB &LA-04-35876-BB ***Jointly Administered under Case No. LA-02-14216-BB*** Chapter 11 **FIFTH ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT** Date: June 29, 2011 Time: 10:00 a.m. Place: Courtroom 1475 255 East Temple Street Los Angeles, CA 90012

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

Respectfully submitted this 27th day of April, 2011.

JONES VARGAS, CHARTERED

By: __//s// John P. Sande, III__________
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California State Bar No. 64942
100 West Liberty Street, 12th Floor
P.O. Box 281
Reno, Nevada 89504-0281
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Attorneys for the Trustees of the
J.T. Thorpe Settlement Trust

FIFTH ANNUAL REPORT AND ACCOUNTING OF J.T. THORPE SETTLEMENT TRUST

The Trustees of the J.T. Thorpe Settlement Trust ("Trust") hereby submit this Fifth Annual Report and Accounting ("Annual Report") covering Trust activities that occurred during the period from January 1, 2010 to and including December 31, 2010 ("Accounting Period"), and certain activities of the Trust that took place outside of the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Central District of California, Los Angeles Division, *In re J.T. THORPE, INC. a California corporation; J.T. THORPE, a dissolved California corporation; THORPE HOLDING COMPANY, a California corporation; and THORPE TECHNOLOGIES, INC., a California corporation,* Case Nos. LA02-14216-BB; LA04-35876-BB; LA04-35877-BB; LA04-35847-BB, Jointly Administered Under Case No. LA02-14216-BB, in accordance with the First Amended Joint Plan of Reorganization ("Plan"); Order Confirming First Amended Joint Plan of Reorganization Dated August 5, 2005, and Granting Related Relief ("Order Confirming the Plan"); Fifth Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Agreement ("Trust Agreement"); Second Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Bylaws ("Trust Bylaws"); First Amendment to and Complete Restatement of J.T. Thorpe Case Valuation Matrix ("Matrix"); First Amendment to and Complete Restatement of Trust Distribution Procedures ("TDP"); and other controlling documents approved by this Court[1] and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle J.T. Thorpe Settlement Trust's Fifth Annual Report and Accounting, Audited Financial Statements, and Claim Report as described in paragraphs 6, 7, and 8, *infra*. Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan Documents. This Court has approved each Annual Report beginning in 2007.

1. Effective Date: In compliance with Sections 4.1 and 7.2 of the Plan, and the

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

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
Section 1.03 Reno, Nevada 89504-0281
Section 1.04 Tel: (775) 786-5000 Fax: (775) 786-1177

Glossary of Terms for the Plan Documents, the Effective Date of the Trust is June 29, 2006.

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

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

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

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

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

5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement requires the Trustees to file income tax and other returns and statements in a timely manner, and to comply with all withholding obligations as legally required, including fulfilling requirements to maintain its status as a Qualified Settlement Fund. The Trust has complied with its tax obligations on a quarterly basis since June 29, 2006, based upon the advice of Sitkoff/O'Neil Accountancy Corporation, the certified public accountants retained by the Trust to

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
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prepare its annual tax returns. The federal tax return for 2010 will be filed on or before September 15, 2011. The Trust resides in Nevada and Nevada has no state income tax. Although the Trust is not subject to tax in California, the Trustees file a tax return in California each year, attaching a copy of the Trust's federal tax return, but showing no California taxable income or state tax liability.

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

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

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

7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton LLP, the independent certified public accountants retained by the Trust to perform the annual audit of its financial statements. The Trust's audited financial statements ("Audited Financial Statements") are attached hereto as Exhibit "A". These include a Statement of Net Claimants' Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis of accounting adopted by the Trust. These Audited Financial Statements show, among other things, that as of December 31, 2010, total Trust assets were $161,577,321,

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
Section 1.03 Reno, Nevada 89504-0281
Section 1.04 Tel: (775) 786-5000 Fax: (775) 786-1177

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total liabilities were $2,551,684, and Net Claimants' Equity was $159,025,637.

8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with the Audited Financial Statements, the Trust shall file with the Court a report containing a summary regarding the number and type of claims disposed of during the period covered by the financial statements. The J.T. Thorpe Settlement Trust Claim Report As Of December 31, 2010 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 749 claims, paid 718 claims, and made settlement offers on 699 claims. Since the Trust received its first Trust Claim[2] on October 24, 2006, the Trust has received 4,699 Trust Claims, paid 2,121 Trust Claims, and 693 Trust Claims have been withdrawn.[3]

Section 5.4 of the TDP provides that "…as soon as practicable after the Effective Date, the Trust shall pay all Trust Claims that were liquidated by (i) a written settlement agreement entered into prior to the Petition Date for the particular claim, or (ii) the pre-confirmation claims liquidation process…" The vast majority of the 1,474 Trust claims identified in this Court's January 27, 2006, Order Liquidating Asbestos Related Claims (hereafter "PCLP Claims"), were paid in 2006. To date, four (4) PCLP Claims have been withdrawn by their respective law firms. During the Accounting Period, the Trust paid two (2) PCLP Claims in the total amount of $44,270. That amount was paid in trust to the representative law firms after appropriate releases from the respective claimants were received by the Trust. Seventeen (17) PCLP Claims that had been paid at 40% in 2009 received an additional 5% of the total liquidated value. The total paid on those PCLP Claims was $40,137, which includes the inflation adjustment of 7.31%. The Trust has not yet received proper release documents for twenty-nine (29) remaining unpaid PCLP Claims in the amount of $125,461.

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

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

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

the public in accordance with procedures established by this Court.

10. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close as practicable on a quarterly basis. Four (4) meetings were held during the Accounting Period (February 18, 2010, April 21, 2010, September 16, 2010, and November 18, 2010). All meetings were held in Reno, Nevada.

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

12. Bi-annual Review of Claims: Section 5.7(b) of the TDP requires the Trust to provide a report reviewing filed claims, paid claims, average payments and disallowed claims by Compensable Disease every two (2) years. This report was presented at the November 18, 2010 meeting. A copy of the report is included in the Appendix filed herewith.

13. Payment Percentage: Section 4.2 of the TDP provides that, commencing on the first day of January, after the Plan has been consummated and no less frequently that once every three years thereafter or at any time if requested to do so by the TAC or the Futures Representative, the Trustees shall reconsider the Payment Percentage to assure that it is based on accurate current information and may, after such reconsideration, change the Payment Percentage if necessary with the consent of the TAC and the Futures Representative. As described in the Trust's Fourth Annual Report and Accounting, the Payment Percentage was decreased from 50% to 40% effective December 1, 2008 pursuant to the guidelines of Sections 2.3 and 4.2 of the TDP. At the November 18, 2010 meeting, the Payment Percentage was reviewed and adjusted to 45%.

14. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust calculate an annual payment limit for claims based upon a model of the amount of cash flow anticipated to be necessary over the entire life of the Trust to ensure that funds will be available to treat all present and future claimants as similarly as possible. At the November 18, 2010 meeting, the Maximum Annual Payment for 2011 was set at $9,180,000, plus the amount of $46,055,238 of excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled over and remain dedicated to the respective Disease Category to which they were originally

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
Section 1.03 Reno, Nevada 89504-0281
Section 1.04 Tel: (775) 786-5000 Fax: (775) 786-1177

allocated.

15. Inflation Adjustment: The original Payment Percentage approved by this Court was based upon projections of future claims payments adjusted annually for inflation. Beginning in 2008, all claims payments made during a calendar year include a cost of living adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W) announced in January each year. Thus, as of January 1, 2010, all claims payments made during the calendar year were increased by 7.31% to account for inflation.

At the November 18, 2010 meeting, the CPI-W to be published in January 2011, was approved for use by the Trust in making the 2011 cost of living adjustment for claims payments. The CPI-W of 1.7% was issued on January 14, 2011. Consequently, all claims payments made during the 2011 calendar year will have a compounded inflation rate of 9.13% added to the payment amount.

16. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the 2011 budget and the required four-year budget and cash flow projections on November 18, 2010. Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for operating expenses in 2011 totals $969,500.[4]

17. Trust Facilities and Services Sharing Agreement with Western Asbestos Settlement Trust: As initially described in the Trust's First Annual Report and Accounting, the Trust and Western Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services Sharing Agreement. The Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by this Court in the order approving the Trust's First Annual Report. As described in the Trust's Fourth Annual Report and Accounting, it was decided that the Advance Payments should remain at $27,000 for 2009. Pursuant to the annual reconciliation of fees presented at the February 18, 2010 meeting, the Advance Payments also remained at $27,000 for 2010.

JONES VARGAS
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[4] This figure is net of claimant payments which are budgeted for $9,180,000, net of extraordinary legal fees which are budgeted for $30,000, and net of income tax payments which are budgeted for $500,000.

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18. Audit of Trust Facilities and Services Sharing Agreement: As described in the Trust's Fourth Annual Report and Accounting, the Trust agreed to the retention of Mr. David Maxam to perform an independent accounting audit of the Trust Facilities and Services Sharing Agreement between the Trust and Western Asbestos Settlement Trust. Mr. Maxam's report was presented at the February 18, 2010 meeting. The report found that the current method of allocation is fair and efficient.

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

20. Operating Fund: The Operating Fund was established at Wells Fargo Bank, N.A., to pay anticipated operating expenses of the Trust, as described in all the Trust's Annual Reports. During the Accounting Period, $600,000 was transferred into the fund from the Settlement Fund.

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

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

22. Legal Disputes:

a. As described in the Trust's Fourth Annual Report and Accounting, the Trust was served with a Subpoena Duces Tecum in *Congoleum Corporation v. Ace American Insurance Co., et al.* issued by the Second Judicial District Court of the State of Nevada ("Nevada Court") on January 23, 2009 pursuant to an Order for Commissions from the Superior Court of New Jersey obtained by First State Insurance Company ("FSIC") and Twin City Fire Insurance Company ("TCFIC"). The Trust timely filed an objection to the subpoena in the Nevada Court. The Trust also filed a petition for instructions in this Bankruptcy Court proceeding. This matter has been stayed by agreement of the parties pending the outcome of a proposed settlement in the underlying action between Congoleum Corporation and FSIC and TCFIC.

b. A California law firm representing asbestos claimants has alleged that at various times the Trustees of the Trust, the Trust staff, the Futures Representative and members of the Trust Advisory Committee have acted in bad faith, fraudulently, in breach of fiduciary duty and are conspiring to harm the firm and the claimants it represents. The allegations made by this law firm have not been raised by any other claimant or claimant representative. The current allegations relate specifically to the complaining firm's objection to published requirements that declarations offered in support of claims against the Trust meet certain legal requirements (see paragraph 24(j), *infra*) and the internal processing procedures for submitted claims. In the many previous instances on issues which the subject law firm has disagreed with the position of the Trust, the law firm has made similar claims and threatened action against the Trustees of the Trust, as well as other parties involved with the administration of the Trust. Despite the numerous threats and allegations which the firm has historically made, no action has ever been taken by the subject law firm against the Trust or other parties involved with the administration of the Trust. Although no action has been taken, the allegations made by the subject law firm against the Trustees, the Trust staff, the Futures Representative and the Trust Advisory Committee force the Trust to divert Trust time and resources from claimants to responding to the allegations. Notwithstanding the history of the subject law firm and its dealings with the Trust, the Trust staff has had numerous discussions with the subject law firm regarding the foregoing issues in an effort to understand and, if appropriate, resolve them. However, communications with the principal of the subject law firm have been increasingly difficult due to the contentious nature and, in the judgment of the Trust, abusive content of communications with Trust staff. Given these circumstances, and particularly in response to the escalation of repeated verbal and written complaints, the Trust has retained counsel for further investigation. Outside counsel has requested a meeting with the firm to discuss the allegations, but the firm has declined to meet and discuss the matter with counsel. Although based on the available information, outside counsel has determined that the allegations lack merit, the Trust is considering whether and what additional

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
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steps may be appropriate to address them. Due to the significant additional expense that may be involved, the Trust is considering whether to petition this court for instructions about whether further investigation is necessary and appropriate. Notwithstanding the foregoing, the Trust has invested additional time and resources to insure that claimants represented by the subject law firm are not prejudiced, that their claims continue to be processed in the normal course of business, and that questions concerning specific Trust claims are dealt with as they arise.

23. <u>Amendments to the Trust Documents</u>:

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

b. On November 18, 2010, paragraphs 4.5(a) and 6.6(b) of the Trust Agreement were amended to be consistent with the changes made to the Trustees' and TAC's compensation during the September 16, 2010 meeting as described in paragraphs 26 and 27, *infra*.

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

d. On April 21, 2011, Section 2.2(g) of the Trust Agreement was amended to acknowledge that consents by the TAC and Futures Representative whether by signature or as reflected in all approved Trustees' meeting minutes shall constitute the required form and substance of consent. A copy of the *Sixth Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Agreement* is included in the Appendix filed herewith.

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

a. Notice of approved ship list modifications (posted on February 24, 2010).

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

c. Notice of Consumption Guidelines for Wrongful Death Claims (posted on April

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28, 2010) involves wrongful death claim requests for economic loss in excess of $200,000 and the Trust's requirement that the economist take into consideration the lack of consumption by the deceased when determining the amount of economic loss.

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

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

f. Notice of Deficient Claims Policy (posted on November 22, 2010) involves the notice of deadlines for enforcement of the TDP policy to deem withdrawn any claim that has been in deficient status for six months without any activity on the part of the claimant. An extension of an additional six months may be granted for good cause, but after the extended period, if there is still no activity, the Trust will deem the claim withdrawn. The enforcement of this TDP policy commenced as of December 1, 2010.

g. Notice of adjustment to Payment Percentage (posted on November 22, 2010).

h. Notice of approved ship list modifications (posted on Mach 3, 2011).

i. Notice of amendment to the Matrix (posted on March 3, 2011) as described in paragraph 23(c), *supra*.

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

25. <u>Filing Fee</u>: Pursuant to Section 6.5 of the TDP at the September 16, 2010 meeting, the filing fee was reviewed and there were no recommended changes to the existing $250.00 fee during the Accounting Period or as of the date hereof.

26. <u>Trustees' Compensation</u>: Section 4.5(c) of the Trust Agreement requires the Trust to report the amounts paid to the Trustees for compensation and expenses. During the Accounting

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Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
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Period, the Trustees each received per annum compensation in the amount $15,000. The total paid to all Trustees for hourly compensation was $75,260 and $3,512 was the total amount of expenses incurred by all Trustees. In addition, section 4.5(a) of the Trust Agreement provides "per annum compensation payable to the Trustees…shall be reviewed every three years and … adjusted with the consent of the Approving Entities.", and also provides for the annual review of the structure and amounts of compensation of Trustees. At the September 16, 2010 meeting, after extensive review and discussions, the TAC and Futures Representative resolved that effective January 1, 2011, the Trustees' per annum compensation would be increased from $15,000 to $20,000, the non-managing Trustees' hourly rate would be increased from $450 to $500, and the managing Trustee's hourly rate would be increased from $550 to $600.

27. TAC Compensation: Section 6.6(b) provides for the annual review of the structure and amounts of compensation for TAC members. At the September 16, 2010 meeting, the Trustees, with the consent of the Futures Representative, resolved that effective January 1, 2011, the hourly rate for TAC members will be increased from $450 to $500 for performance of TAC Trust Tasks.

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

a. Analysis Research Planning Corporation ("ARPC"): Consulting firm hired to help the Trust develop claims processing procedures, create a system to process claims, provide program updates and improvements to the claims processing system and provide monthly maintenance. Dr. Vasquez of ARPC also acts as the expert professional with whom the Trustees, Futures Representative and TAC consult.

b. Eagle Capital Management, LLC: One of five investment managers for the Trust described in paragraph 29, *infra*.

c. Standish Mellon Asset Management Company: One of five investment managers for the Trust described in paragraph 29, *infra*.

d. Western Asbestos Settlement Trust for shared services pursuant to the Trust Facilities and Services Sharing Agreement, as described in paragraph 17, *supra*.

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29. Trust Investment Management: Article 3 of the Trust Agreement authorizes the Trust to administer the investment of funds in the manner in which individuals of ordinary prudence, discretion and judgment would act in the management of their own affairs, subject to certain limitations. Callan & Associates continued to assist the Trust during the Accounting Period as its manager of investment managers. Dwight Asset Management, Eagle Capital Management, Standish Mellon Asset Management, and State Street Global Advisors have continued to act as the Trust's investment managers. On November 18, 2010, Harding Loevner, LP was engaged as the Trust's international investment manager. The Trust closely monitors any market volatility with its investment advisors and continues to be in compliance with its Investment Policy Statement. As described in the Trust's Fourth Annual Report and Accounting, the Investment Policy Statement was amended on April 21, 2010.

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

31. Study by the RAND Institute for Civil Justice: The Trust received a preliminary draft report approximately 200 pages in length of a study being conducted by the RAND Institute for Civil Justice ("RAND") under cover of RAND's April 15, 2010 letter, which was received by the Trust on May 4, 2010. The letter requested the Trust to review the information relating to the Trust in the draft report for accuracy, and respond by May 7, 2010. The Trust completed its evaluation of the draft report and the letter and provided a response to RAND on May 21, 2010. A copy of the Trust's response to RAND is included in the Appendix filed herewith. The RAND report was issued in August of 2010 with many items remaining incorrect.

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The Trustees submit that the Annual Report and attached exhibits demonstrate the Trust acted prudently and expeditiously in executing its legal obligations during the Accounting Period and up to and including the date hereof. The Trust conscientiously worked to execute equitable claims procedures and process Trust Claims with due diligence during the Accounting Period and up to and including the date hereof. Moreover, the Trust worked with its accountants and

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

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Section 1.02 PO Box 281
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EXHIBIT "A"

Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

J. T. Thorpe Settlement Trust

December 31, 2010 and 2009

Contents

Audit • Tax • Advisory

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

Report of Independent Certified Public Accountants

To the Trustees of J. T. Thorpe Settlement Trust

We have audited the accompanying special-purpose statements of net claimants' equity of J. T. Thorpe Settlement Trust (the Trust), organized in the State of Nevada, for the years ended December 31, 2010 and 2009, and the related statements of changes in net claimants' equity and cash flows for the years then ended. These special-purpose financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note A, these special-purpose financial statements were prepared on a special-purpose basis of accounting and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States. The special-purpose basis of accounting has been used in order to present the amount of equity presently available to current and future claimants, and the changes in equity during the period.

In our opinion, the accompanying special-purpose financial statements of J. T. Thorpe Settlement Trust, as of and for the years ended December 31, 2010 and 2009, are fairly presented, in all material respects, on the basis of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The supplementary schedule is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. This information has been subjected to the auditing procedures applied in our audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Trust and Trustees, the beneficiaries of the Trust, the Futures Representative, the Futures Counsel, the members of the Trust Advisory Committee, and the United States Bankruptcy Court for the 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. This restriction is not intended to limit the distribution of this report which, upon filing with the United State Bankruptcy Court for the Central District of California, Los Angeles Division is a matter of public record.

Grant Thornton LLP

Reno, Nevada
April 5, 2011

J. T. Thorpe Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2010	2009
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	$ 5,000,000	$ 5,000,000
Unrestricted	154,896,294	162,321,436
Total cash, cash equivalents and investments	159,896,294	167,321,436
Accrued interest and dividend receivables	1,293,340	1,447,048
Prepaid federal income tax	387,687	663,895
Deferred tax asset	-	1,998,000
Total assets	$ 161,577,321	$ 171,430,379
LIABILITIES		
Accrued expenses	$ 205,609	$ 156,185
Claim processing deposits	472,750	626,750
Unpaid claims (Note D)		
Outstanding offers	1,396,237	3,148,595
Pre-confirmation liquidated claims	126,088	149,560
Deferred tax liability	27,000	-
Facility and staff sharing agreement payable	324,000	324,000
Total liabilities	$ 2,551,684	$ 4,405,090
NET CLAIMANTS' EQUITY	$ 159,025,637	$ 167,025,289

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,

	2010	2009
Net claimants' equity, beginning	$ 167,025,289	$ 164,784,594
Additions to net claimants' equity		
Investment income	5,061,539	5,958,416
Net decrease in outstanding claim offers	1,752,358	915,060
Provision for income taxes	-	-
Net realized and unrealized gains on available-for-sale securities	5,779,652	13,700,057
Total additions	12,593,549	20,573,533
Deductions from net claimants' equity		
Operating expenses	892,280	1,189,945
Provision for income taxes, current	388,432	592,904
Provision for income taxes, deferred	2,025,000	4,745,660
Claims settled	17,287,489	11,642,329
Net increase in facility and staff sharing agreement	-	162,000
Total deductions	20,593,201	18,332,838
Net claimants' equity, ending	$ 159,025,637	$ 167,025,289

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,

	2010	2009
Cash inflows:		
Investment income receipts	$ 5,215,248	$ 6,052,385
Net realized gain on available-for-sale securities	1,842,439	-
Total cash inflows	7,057,687	6,052,385
Cash outflows:		
Claim payments made	17,310,961	11,971,446
Net realized loss on available-for-sale securities	-	2,208,854
Decrease in claim processing deposits	154,000	1,750
Disbursements for Trust operating expenses	842,857	1,188,038
Disbursements for Trust income taxes	112,224	602,851
Total cash outflows	18,420,042	15,972,939
Net cash outflows	(11,362,355)	(9,920,554)
Non-cash changes:		
Net unrealized gains on available-for-sale securities	3,937,213	15,908,911
NET INCREASE (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	(7,425,142)	5,988,357
Cash, cash equivalents and investments available-for-sale, beginning	167,321,436	161,333,079
Cash, cash equivalents and investments available-for-sale, ending	$ 159,896,294	$ 167,321,436

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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; liquidate, resolve, pay and satisfy all current and future asbestos related claims in accordance with the Plan; preserve, hold, manage and maximize the Trust assets for use in paying and satisfying allowed asbestos related claims; prosecute, settle and manage the disposition of the asbestos in-place insurance coverage; and prosecute, settle and manage asbestos insurance coverage actions. Upon approval of the Plan, the Trust assumed liability for existing and future asbestos health claims against the Debtors. The Trust was created effective 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, (Matrix) and Trust Distribution Procedures, as amended and restated, (TDP) (collectively, the Trust Procedures).

2. **Special-Purpose Accounting Methods**

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

a. The financial statements are prepared using the accrual basis of accounting, as modified below.

b. The funding received from J. T. Thorpe, Inc., 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.

c. Costs of non-income producing assets, which will be exhausted during the life of the Trust and are not available for satisfying claims, are expensed when incurred. These costs include acquisition costs of computer hardware, software, software development and other prepaid expenses.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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

   d. Future fixed liabilities and contractual obligations entered into by the Trust are recorded directly against net claimants' equity. Accordingly, the future minimum commitments outstanding at period end for non-cancelable obligations have been recorded as deductions from net claimants' equity.

   e. The liability for unpaid claims reflected in the statement of net claimants' equity represents settled but unpaid claims and outstanding offers. A claims liability is recorded once an offer is made to the claimant at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.

   f. Available-for-sale securities are recorded at fair value. All interest and dividend income on available-for-sale securities, net of investment expenses is included in investment income on the statement of changes in net claimants' equity. Net realized and unrealized gains and losses on available-for-sale securities are recorded as a separate component on the statement of changes in net claimants' equity.

   g. Realized gains and losses on available-for-sale securities are recorded based on the security's amortized cost. At the time a security is sold, all previously recorded unrealized gains and losses are reversed and recorded net, as a component of other unrealized gains and losses in the accompanying statement of changes in net claimants' equity.

3. **Cash and Cash Equivalents**

Cash and cash equivalents include demand deposit accounts and cash invested in money market funds.

4. **Investments**

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

5. **Deposits**

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. Use of Estimates

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates.

7. Concentration of Risk

Financial instruments that potentially subject the Trust to concentrations of risk consist of cash, cash equivalents and investments. Cash equivalents consist of money market accounts and certificates of deposit. Cash equivalents and demand deposits are in excess of Federal Deposit Insurance Corporation limits.

The Trust utilizes risk controls to meet investment objectives authorized by its Trustees. Such risk controls include the use of outside investment advisors meeting predetermined criteria, and third-party quantitative and qualitative risk measurement evaluation tools. The Trust believes its risk control practices are appropriate to meet investment objectives.

Investment securities, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

8. Income Taxes

On January 1, 2009, the Trust adopted new accounting guidance for recognizing, measuring, presenting, and disclosing uncertain tax positions taken or expected to be taken. As the result of implementation of the new accounting guidance, the Trust recognized no change in the liability for unrecognized tax benefits related to tax positions taken in prior periods. The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2010, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States and no state jurisdiction. The Trust is no longer subject to United States federal tax examinations for years before 2007.

9. Reclassifications

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

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	December 31, 2010	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 5,000,000	$ 5,000,000
Unrestricted		
Cash demand deposits	$ 798,717	$ 798,717
Cash equivalents	28,943,478	28,943,478
Equity securities	38,317,728	36,696,854
U.S. Government obligations	10,033,981	10,106,162
Municipal bonds	67,815,964	70,487,622
Mortgage backed securities	3,855,996	3,869,933
Corporate and other debt	3,929,111	3,993,528
	$153,694,975	$154,896,294

	December 31, 2009	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 5,000,000	$ 5,000,000
Unrestricted		
Cash demand deposits	$ 667,626	$ 667,626
Cash equivalents	8,848,233	8,848,233
Equity securities	39,061,916	32,221,412
U.S. Government obligations	24,549,410	25,188,534
Municipal bonds	73,925,515	77,237,286
Mortgage backed securities	7,520,096	7,148,175
Corporate and other debt	10,413,457	11,010,170
	$164,986,253	$162,321,436

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

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

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

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

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

	December 31, 2010		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 798,717	$ -	$ -
Cash equivalents	33,943,478	-	-
Equity securities	36,696,854	-	-
U.S. Government obligations	3,164,168	6,941,994	-
Municipal bonds	5,501,353	64,986,269	-
Mortgage backed securities	-	3,410,355	459,578
Corporate and other debt	1,828,673	2,164,855	-
	$81,933,243	$77,503,473	$459,578

	December 31, 2009		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 667,626	$ -	$ -
Cash equivalents	13,848,233	-	-
Equity securities	32,221,412	-	-
U.S. Government obligations	-	25,188,534	-
Municipal bonds	-	77,237,286	-
Mortgage backed securities	-	6,417,988	730,187
Corporate and other debt	4,347,745	6,662,425	-
	$51,085,016	$115,506,233	$730,187

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The Trust experiences transfers in and out of levels within the fair value hierarchy primarily due to the market activity of the underlying security. The Trust's policy is to recognize transfers in and out at the actual date the event or change in circumstance caused the transfer. Between the measurement dates of December 31, 2009 and December 31, 2010, approximately $5,423,000 of municipal bond securities transferred from Level 2 to Level 1 due to the availability of quoted prices in active markets for identical securities. Between the measurement dates of December 31, 2009 and December 31, 2010, approximately $353,000 of mortgage backed securities transferred from Level 2 to Level 3 due to decreased market activity and a lack of observable inputs.

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

	Mortgage Backed Securities	
	2010	2009
Balance at January 1	$730,187	$ -
Transfers from Level 2	353,193	678,143
Purchases(Sales)	(673,130)	240,995
Redemptions	(141,587)	(120,467)
Realized loss	(75,625)	-
Unrealized gain(loss)	266,540	(68,484)
Balance at December 31	$459,578	$730,187

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2010:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	$ -	$ 2,357,869	$ 1,730,915	$ 6,017,378
Municipal bonds	611,574	21,699,552	27,843,236	20,333,260
Mortgage backed securities	-	1,266,510	59,878	2,543,545
Corporate and other debt	509,348	1,839,050	1,645,130	-
	$1,120,922	$27,162,981	$31,279,159	$28,894,183

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	$113,377

These items have not been recorded as assets, but rather as operating expenses and direct deductions from net claimants' equity in the accompanying financial statements. The cost of fixed assets that were expensed during the years ended December 31, 2010 and 2009 were $-0- and $1,146, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately $9,920 and $26,250 for the years ended December 31, 2010 and 2009, respectively.

NOTE D - CLAIM LIABILITIES

The Trust distinguishes between claims that were resolved prior to the establishment of the Trust (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 courts 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 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 release is signed and received by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected or expires after six months. Offers may be extended an additional six months upon written request and good cause. During the years ended December 31, 2010 and 2009, there were no expired offers.

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

In the interest of treating all claimants equitably in accordance with the Plan, the Trustees have recommended that all payments made during each calendar year ended December 31, 2008 through December 31, 2010 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 9.13% and 7.31% are included in outstanding claims liabilities as of December 31, 2010 and 2009, respectively.

The Trust processed and approved approximately $12,176,000 and $10,618,000 of Trust Claims during the years ended December 31, 2010 and 2009, respectively.

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 initial monthly payment of $21,000 was in place through June 30, 2008, and was raised to $27,000 effective July 1, 2008 and for all months thereafter. The agreement originally expired December 31, 2009, however provisions allow for automatic renewal for additional one-year periods unless either party provides six months written notice. The Western Trust is required to provide a written calendar year reconciliation of the annual services costs compared to the advance payments. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The reconciliation is performed and recorded in the period subsequent to the reconciliation period. The reconciliation performed for the year ended December 31, 2009 resulted in an additional payment to the Western Trust of approximately $1,000 and the reconciliation performed for the year ended December 31, 2008 resulted in an additional payment to the Trust of approximately $1,000. The next reconciliation period will be the twelve-month period ending December 31, 2010. 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, jurisdictions, and individual factual information concerning each claimant as set forth in the Trust Procedures.

Under the TDP, the Trust forecasts its anticipated annual sources and uses of cash until the last projected future claim has been paid. A pro rata payment percentage is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

Based on research and testimony presented during the bankruptcy, the court approved an initial Payment 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 Council ("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.

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; interest income accrues to the benefit of the Trust. As of December 31, 2010 and 2009, 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%.

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

The provision for income taxes consists of the following for the years ended December 31, 2010 and 2009:

	2010	2009
Federal income tax – current	$ 388,432	$ 592,904
Deferred income tax expense	2,025,000	4,745,660
	$2,413,432	$5,338,564

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:

	2010	2009
Deferred tax asset (liability)		
Depreciation and amortization	$ -	$ 2,000
Capital loss carryforwards	278,000	922,000
Facility-sharing obligation	113,000	114,000
Other	2,000	2,000
Unrealized losses (appreciation)	(420,000)	958,000
	($27,000)	$1,998,000

Management expects to realize the deferred tax asset through the generation of future taxable income and, accordingly, has not established a valuation allowance.

NOTE I - SUBSEQUENT EVENTS

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

SUPPLEMENTAL INFORMATION

J. T. Thorpe Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2010	2009
Accounting	$ 81,032	$ 85,785
Claims review	-	32,095
Claims processing/claims system development	55,294	76,695
Computer equipment	-	1,146
Information technology support	29,478	26,291
Futures representatives	65,695	118,922
Legal fees	74,950	213,471
Trust advisory committee	19,510	25,316
Trust facility and staff sharing expense	325,075	323,063
Trustee fees	123,800	140,470
Trustees professional	117,446	146,691
	$ 892,280	$ 1,189,945

EXHIBIT "B"

J.T. Thorpe Settlement Trust
Claim Report
As of December 31, 2010

This report is submitted pursuant to Section 2.2 (c)(ii) of the Fifth 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.

The Trust paid two (2) PCLP Claims during the Accounting Period in the amount of $44,270, which included an additional 7.31% to account for inflation based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W"). Seventeen (17) PCLP Claims that had been paid at 40% in 2009 received an additional 5% of the total liquidated value. The total paid on those PCLP Claims was $40,137, which includes the inflation adjustment. The Trust has not yet received proper release documents for twenty-nine (29) remaining unpaid PCLP Claims in the total amount of $125,461. That amount is based upon the current Payment Percentage of 45% and includes the inflation adjustment of 9.13% utilized for claims payments made in 2011.

Trust Claims

Claims received and disposed of from January 1, 2010, through December 31, 2010, in accordance with the J.T. Thorpe Case Valuation Matrix, Order Approving Motion to Amend Plan to Modify Base Case Values Contained in Case Valuation Matrix and the Amendment to Section VII d "Minimum Exposure Criteria" of the 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, 2010, Trust Claims were paid at the approved Payment Percentage of 45%. Payments made on Trust Claims in 2010 included an additional 7.31% to account for inflation based upon the CPI-W.

During the Accounting Period, all Trust Claims that had received a payment at the 40% Payment Percentage received an additional 5% of the total liquidated value. The total paid in 2010 on those Trust Claims was $3,401,894, which includes the inflation adjustment.

During the Accounting Period, 749 claims were received, 718 claims were paid, and 699 claims received offers.

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

Compensable Disease	Number of Claims
Grade II Non-Malignant	210
Grade I Non-Malignant	60
Grade I Non-Malignant Enhanced Asbestosis	27
Grade I Non-Malignant Serious Asbestosis	20
Colo-Rectal	24
Esophageal	7
Kidney	0
Laryngeal	4
Non-Hodgkin's Lymphoma	0
Other Cancer	11
Lung Cancer	161
Mesothelioma	194
Total	718