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Company Asbestos Settlement Trust  
6

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

9 In re ) Case No. 02:07-bk-20016-BB  
)  
10 PACIFIC INSULATION COMPANY, ) Chapter 11  
) (Jointly Administered with Case No. LA 2:07-  
11 Debtor. ) bk-19271-BB  
)  
12 \_\_\_\_\_ ) Case No. 2:07-bk-19271-BB  
13 In re ) (Case Closed)  
)  
14 THORPE INSULATION COMPANY, ) **SIXTH ANNUAL REPORT AND**  
) **ACCOUNTING, AUDITED FINANCIAL**  
15 Debtor. ) **STATEMENTS, AND CLAIM REPORT**  
)  
16 )  
) **Hearing:**  
17 )  
) Hearing Date: June 8, 2016  
18 ) Hearing Time: 2:00 p.m.  
) Place: Courtroom 1475  
19 ) 255 E. Temple St., 14th Floor  
\_\_\_\_\_) Los Angeles, CA 90012  
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1 **TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE AND OTHER**  
2 **PARTIES IN INTEREST:**

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

6  
7 DATED: April 28, 2016

8 Respectfully submitted,

9 By: //s// Eve H. Karasik  
10 EVE H. KARASIK  
11 LEVENE, NEALE, BENDER,  
12 YOO & BRILL L.L.P.  
13 Email: EHK@lnbyb.com

14 Bankruptcy Counsel for the Thorpe Insulation  
15 Company Asbestos Settlement Trust  
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1                                   **SIXTH ANNUAL REPORT AND ACCOUNTING OF THORPE INSULATION**  
2                                   **COMPANY ASBESTOS SETTLEMENT TRUST**

3                                   The Trustees of the Thorpe Insulation Company Asbestos Settlement Trust ("Trust")  
4 hereby submit this Sixth Annual Report and Accounting (the "Annual Report") covering Trust  
5 activities that occurred during the period from January 1, 2015 to and including December 31, 2015  
6 (the "Accounting Period"), and certain activities of the Trust that took place outside the Accounting  
7 Period. This Annual Report is submitted to the United States Bankruptcy Court for the Central  
8 District of California, Los Angeles Division, *In re Thorpe Insulation Company, In re Pacific*  
9 *Insulation Company, Debtors*, Case Nos. 2:07-19271-BB and 2:07-20016-BB (jointly administered  
10 under Case No. 2:07-20016-BB) in accordance with the *Sixth Amended Joint Plan of Reorganization*  
11 *of Thorpe Insulation Company and Pacific Insulation Company* [Docket No. 3418] (the "Plan");  
12 *Order Confirming Sixth Amended Joint Plan of Reorganization of Thorpe Insulation Company and*  
13 *Pacific Insulation Company (Following Remand)* [Docket No. 3429] ("2013 Confirmation Order")  
14 dated May 8, 2013; 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 Trust  
17 Agreement states in Section 7.9 that the Trust is governed by Nevada law. Section 164.015 of the  
18 Nevada Revised Statutes allows the Trust to render an accounting and seek approval for its past  
19 actions. The factual statements in this Annual Report are supported by the Declaration of Sara Beth  
20 Brown, Executive Director, in Support of Motion to Approve and Settle Thorpe Insulation  
21 Settlement Trust's Sixth Annual Report and Accounting, Audited Financial Statements, and Claim  
22 Report as described in paragraphs 7, 8, and 9 *infra*. Capitalized terms not defined herein are as  
23 defined in Article 1 of the Plan. This Court has approved each Annual Report beginning in 2010.

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25 <sup>1</sup> The Appendix includes the Plan; 2013 Confirmation Order; Eighth Amendment to and Complete Restatement of  
26 Thorpe Insulation Company Asbestos Settlement Trust Agreement ("Trust Agreement"); Second Amendment to and  
27 Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Bylaws ("Trust Bylaws"); Third  
28 Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation  
Matrix ("Matrix"); Fourth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos  
Personal Injury Settlement Trust Distribution Procedures ("TDP"); other controlling documents approved by this  
Court; and other documents as indicated.

1           1.     Effective Date: On February 1, 2010, this Court entered the "Order  
2 Confirming Fifth Amended Joint Plan of Reorganization" (the "2010 Confirmation Order").  
3 Following remand of certain issues upheld on appeal as described in the Trust's Fourth Annual  
4 Report, this Court entered the 2013 Confirmation Order on May 8, 2013. The Plan became effective  
5 on July 9, 2013.

6           2.     Final Decree and Closing of Thorpe Insulation Company Bankruptcy Case:  
7 As described in the Trust's Fourth Annual Report, pursuant to the Plan and 2013 Confirmation  
8 Order, the bankruptcy case of Thorpe Insulation Company (Case No. LA 07-19271-BB) was closed  
9 and the Bankruptcy Court entered its Final Decree [Docket No. 3447]. The Plan and 2013  
10 Confirmation Order further provided that the Pacific Insulation Company case (Case Number LA  
11 07-20016-BB) would remain open for purposes of administering the Trust.

12           3.     Appointment of Trustees: In the 2010 Confirmation Order, this Court  
13 approved the appointment of Mr. John F. Luikart and Dr. Sandra R. Hernandez as the Trustees of the  
14 Trust, who have acted in that capacity since the Effective Date of the Trust.

15           Pursuant to Section 4.1 of the Trust Agreement, the number of Trustees was increased  
16 to three (3) on January 11, 2011, and on February 17, 2011, Mr. Stephen M. Snyder was appointed  
17 to serve as the third Trustee. Mr. Snyder has acted as a Trustee of the Trust since February 17, 2011.  
18 Further, on April 21, 2011, in accordance with Section 4.1 of the Trust Agreement, Mr. Snyder was  
19 designated by the other two Trustees as Managing Trustee, with the consent of the Trust Advisory  
20 Committee and Futures Representative. Mr. Snyder continues to serve as Managing Trustee.

21           4.     Appointment of Trust Advisory Committee ("TAC"): Pursuant to Section 6.1  
22 of the Trust Agreement, Alan R. Brayton, Ron C. Eddins, David McClain, Jerry Neil Paul, and  
23 David A. Rosen were designated as the initial members of the TAC. Mr. Brayton was elected Chair  
24 of the TAC by its members on October 25, 2010, and has served in that capacity since that time. As  
25 described in the Trust's Fourth Annual Report, the selection of Peter A. Kraus to succeed the late  
26 Mr. Eddins as a member of the TAC was approved by this Court on July 11, 2012. Messrs. Kraus,  
27 McClain, Paul and Rosen continued to serve as members of the TAC during the Accounting Period;

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1 however, in January of 2016, Mr. Rosen resigned. Pursuant to Section 6.4 of the Trust Agreement,  
2 Patrick A. DeBlase has been nominated by the remaining members of the TAC to succeed Mr.  
3 Rosen as a member of the TAC.

4 5. Appointment and Continuation of Futures Representative: The Honorable  
5 Charles B. Renfrew, retired, was appointed as the Futures Representative in the Bankruptcy Case on  
6 December 20, 2007 and has continued to act in that capacity since the Effective Date of the Trust.

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

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

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

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

1           8.     Financial Report: In accordance with the requirements of Section 2.2(c)(i) of  
2 the Trust Agreement, the Trust has caused its accounts to be audited by independent certified public  
3 accountants, Grant Thornton, LLP. The Trust's audited financial statements ("Audited Financial  
4 Statements") are attached hereto as Exhibit "A". These include a Statement of Net Claimants'  
5 Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and  
6 explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate  
7 balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis  
8 of accounting utilized by the Trust. These Audited Financial Statements show, among other things,  
9 that as of December 31, 2015, total Trust assets were \$523,266,140, total liabilities were \$2,957,290,  
10 and Net Claimants' Equity was \$520,308,850.

11           9.     Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along  
12 with the Audited Financial Statements, the Trustees shall file with the Court a report containing a  
13 summary regarding the number and type of claims disposed of during the period covered by the  
14 financial statements. The Thorpe Insulation Settlement Trust Claim Report As Of December 31,  
15 2015 ("Claim Report") is attached hereto as Exhibit "B". During the Accounting Period, the Trust  
16 received 473 claims, paid 300 claims, and made settlement offers on 270 claims. Since the Trust  
17 received its first Trust Claim,<sup>2</sup> the Trust has received 3,774 Trust Claims, paid 2,005 Trust Claims,  
18 and 1,110 Trust Claims have been withdrawn.<sup>3</sup>

19           Section 5.4 of the TDP provides that, "As soon as practicable after the Effective Date,  
20 the Trust shall pay all Trust Claims that were liquidated by (i) a settlement agreement entered into  
21 prior to the Petition Date for the particular claim, or (ii) a judgment of any kind entered on or before  
22 October 15, 2007 (collectively, the "Pre-Petition Liquidated Claims"). As described in the Trust's  
23 First Annual Report, all Pre-Petition Liquidated Claims were paid by the end of January 2011 in  
24 trust to the representative law firms for disbursement to the claimants upon the Trust's receipt and  
25 approval of a properly executed release.

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 have not been cured  
28 beyond a certain time period, and/or claims that have remained on hold beyond a certain time period.

1           10.    Public Inspection: In compliance with Section 2.2(c)(iii) of the Trust  
2 Agreement, the Annual Report, including the Audited Financial Statements and Claim Report, has  
3 been provided to the TAC and Futures Representative, filed with the United States Bankruptcy Court  
4 for the Central District of California, Los Angeles Division, served on the Office of the United States  
5 Trustee with responsibility for the Central District of California, Los Angeles Division, and made  
6 available for inspection by the public.

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

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

15           13.    Funds Received Ratio: Section 4.2 of the TDP provides for the Trustees to  
16 reconsider the Funds Received Ratio on the first day of each January after the Plan has been  
17 confirmed. As described in the Trust's First Annual Report, on November 17, 2010, based upon the  
18 analysis and advice of the Trust's expert economist, the Trust, with the consent of the TAC and  
19 Futures Representative, set the Initial Funds Received Ratio at 17.5%. On September 11, 2013, the  
20 Funds Received Ratio was increased to 30.5%. The Funds Received Ratio remained at 30.5%  
21 during the Accounting Period, however it was reviewed on February 19, 2016 and increased to  
22 43.6%.

23           14.    Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust  
24 calculate a maximum annual payment for claims (the "Maximum Annual Payment") based upon a  
25 model of the amount of cash flow anticipated to be necessary over the entire life of the Trust to  
26 ensure that funds will be available to treat all present and future claimants as similarly as possible.  
27 At the November 20, 2015 meeting, the Maximum Annual Payment for 2016 was set at  
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1 \$34,200,000, plus the amount of excess funds carried over from prior years, which Section 2.5 of the  
2 TDP requires to be rolled over and remain dedicated to the respective Disease Category (as such  
3 term is described in the TDP) to which they were originally located. Based upon the updated  
4 forecast adopted at the February 19, 2016 meeting, the amount of excess funds carried over from  
5 prior years was set to zero and the 2016 MAP was reset to \$84,900,000 on March 18, 2016.

6 15. Inflation Adjustment: Section 5.3(d) of the TDP requires that all claims  
7 payments be adjusted for inflation annually beginning with the calendar year after the Effective Date  
8 of the Trust. Beginning in 2011, all claims payments made during a calendar year include a cost of  
9 living adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for*  
10 *Urban Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the  
11 November 20, 2015 meeting, the CPI-W to be published in January 2016 was approved for use by  
12 the Trust in making the 2016 cost of living adjustment for claims payments. The CPI-W of 0.4%  
13 was issued on January 20, 2016 and all inflation adjustments are cumulative. Consequently, all  
14 claims payments made during the 2016 calendar year will have a cumulative inflation rate of 9.1%  
15 added to the payment amount.

16 16. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement  
17 requires the Trust to prepare a budget and cash flow projections prior to the commencement of each  
18 fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the  
19 2016 budget and the required four-year budget and cash flow projections on November 20, 2015.  
20 Pursuant to the Trust Agreement, these were provided to the TAC and Futures Representative. The  
21 budget for operating expenses, including investment fees, in 2016 totals \$3,279,343.<sup>4</sup>

22 17. Trust Facilities and Services Sharing Agreement with Western Asbestos  
23 Settlement Trust: As initially described in the Trust's First Annual Report, the Trust and Western  
24 Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services Sharing  
25 Agreement. The Trust agreed to pay a negotiated monthly amount. Such arrangement was approved  
26 by this Court in the order approving the Trust's First Annual Report. As described in the Trust's

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28 <sup>4</sup> This figure excludes claimant payments budgeted for \$34,200,000 and extraordinary legal fees budgeted for \$175,000.



1 Fifth Annual Report, pursuant to the annual reconciliation of fees presented on February 27, 2015,  
2 the Trust and the Western Trust set the advance payments at \$37,000 per month for 2015. Pursuant  
3 to the annual reconciliation of fees presented on February 18, 2016, the Trust and the Western Trust  
4 agreed that the advance payments shall be \$39,000 per month for 2016. The total amount paid by  
5 the Trust to the Western Trust, after accounts were reconciled for 2015, was \$419,081.

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

11 18. Custodial Accounts: The Trust established a custody relationship and opened  
12 accounts with Wells Fargo Bank, N.A. to act as custodian for the Trust.

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

15 20. Operating Fund: The Operating Fund was established at Wells Fargo Bank,  
16 N.A., to pay anticipated operating expenses of the Trust.

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

23 In addition to the first priority lien on all the Trust's assets, in November of 2010, the  
24 Trust established an indemnity fund in the amount of \$5,000,000, as described in the Trust's First  
25 Annual Report. All interest earned by the fund is returned to the Trust quarterly. During the  
26 Accounting Period, no claims were made against the fund and nothing was paid from the fund.

1           Additionally, as described in the Trust's Fifth Annual Report, at the September 11,  
2 2013 meeting, an increase in the amount of the fund to \$25,000,000 was approved.

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

13           The Adversary Proceeding was procedurally consolidated with a similar adversary  
14 proceeding brought by the J.T. Thorpe Settlement Trust (collectively with the Thorpe Insulation  
15 Company Asbestos Settlement Trust, the "Trusts") in the Bankruptcy Court. The docket for the  
16 consolidated actions was maintained in the J.T. Thorpe Settlement Trust adversary proceeding, case  
17 number 2:12-ap-02182-BB. In addition, the Western Trust commenced a similar adversary  
18 proceeding against Mandelbrot in its bankruptcy case pending in the United States Bankruptcy Court  
19 for the Northern District of California. All three trusts are supervised by the same Trustees and the  
20 same Futures Representative, and all three trusts evaluate and process claims through the same  
21 facility and processing staff.<sup>5</sup>

22           On the morning of trial on January 23, 2014, Mandelbrot, the Trusts, as well as the  
23 Western Trust and the Plant Insulation Settlement Trust, entered into an agreement that resolved the  
24 Adversary Proceeding. The terms of the agreement and settlement were read in to the record and  
25 agreed to by all parties, including Mandelbrot. The Trusts prepared an Order, Findings of Fact and  
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27 <sup>5</sup> The Western Trust adversary proceeding against Mandelbrot was dismissed without prejudice on October 30, 2013.  
28 [Docket No. 109]

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

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

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

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

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

21           23. Claim with Manville Personal Injury Trust: The Trust is pursuing a potential  
22 claim with the Manville Personal Injury Trust ("Manville Trust"). The Trust alleges it has the right  
23 to pursue Thorpe Distributor Indemnity claims against the Manville Trust for asbestos related losses  
24 it sustained in a case which has been finally resolved by settlement, judgment or otherwise. As  
25 described in the Trust's Fifth Annual Report, the Trust filed a claim in November of 2014. During  
26 the Accounting Period, the Trust has been in negotiations with the Manville Trust.

1           24.    Amendments to the Trust Documents: The Trust Documents were not  
2 amended during the Accounting Period.

3           25.    Notifications to Beneficiaries: During the Accounting Period and,  
4 additionally, from January 1, 2016 to and including April 15, 2016, the following notifications were  
5 placed on the Trust's Web site:

6           a.     Notice regarding compliance with court order in settlement of Mandelbrot  
7 adversary proceeding (posted March 6, 2015);

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

10          c.     Notice of hearing on the Trust's Fifth Annual Report and Accounting (posted  
11 April 30, 2015);

12          d.     Notice regarding modifications to ships repaired list (posted May 6, 2015);

13          e.     Notice regarding new Web based claims processing system (posted May 13,  
14 2015);

15          f.     Notice/update regarding new Web based claims processing system (posted  
16 July 22, 2015);

17          g.     Notice of increase in Funds Received Ratio (posted March 4, 2016); and

18          h.     Notice of timing of requests for consideration at Trustees' meetings (posted  
19 March 4, 2016).

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

24          27.    Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at  
25 the September 15, 2015 meeting and there were no recommended changes to the existing \$250.00  
26 fee during the Accounting Period or as of the date hereof.

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1           28.    Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the  
2 Trust to report the amounts paid to the Trustees for compensation and expenses. During the  
3 Accounting Period, the Trustees each received per annum compensation in the amount of \$40,120  
4 paid in quarterly installments. The total paid to all Trustees for hourly compensation and for  
5 reimbursement of expenses was \$96,885 and \$3,140, respectively.

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

8           a.       BlackRock Financial Management: One of eight investment managers for the  
9 Trust described in paragraph 30, *infra*;

10           b.       Eagle Capital Management: One of eight investment managers for the Trust  
11 described in paragraph 30, *infra*;

12           c.       Harding Loevner, LP: One of eight investment managers for the Trust  
13 described in paragraph 30, *infra*;

14           d.       Silvercrest Asset Management Group LLC: One of eight investment  
15 managers for the Trust described in paragraph 30, *infra*;

16           e.       Snyder Miller & Orton LLP: Counsel to the Trust in an advisory capacity for  
17 various legal issues that arise from time to time;

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

20           g.       Westwood Management Corporation: One of eight investment managers for  
21 the Trust described in paragraph 30, *infra*.

22           30.    Trust Investment Management: Article 3 of the Trust Agreement authorizes  
23 the Trust to administer the investment of funds in the manner in which individuals of ordinary  
24 prudence, discretion and judgment would act in the management of their own affairs, subject to  
25 certain limitations. The Trust closely monitors any market volatility with its investment advisors  
26 and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc.  
27 continued to assist the Trust during the Accounting Period as its investment consultant. BlackRock  
28

1 Financial Management, Inc., Eagle Capital Management, LLC, Harding Loevner, LP, Segall Bryant  
2 & Hamill, Silvercrest Asset Management Group, Standish Mellon Asset Management Company,  
3 LLC, State Street Global Advisors, and Westwood Management Corporation have continued to act  
4 as investment managers to the Trust.

5 Additionally, the Trust's Investment Policy Statement was amended on February 27,  
6 2015 and February 18, 2016, copies of which are included in the Appendix filed herewith.

7 \*\*\*

8 The Trustees submit that the Annual Report and attached exhibits demonstrate that  
9 the Trust acted prudently and expeditiously in executing its legal obligations during the Accounting  
10 Period and up to and including the date hereof. The Trust conscientiously worked to execute  
11 equitable claims procedures and process Trust Claims with due diligence during the Accounting  
12 Period and up to and including the date hereof. Moreover, the Trust worked with its accountants and  
13 financial advisors to preserve and grow Trust assets in order to fulfill the purpose of the Trust--  
14 paying valid asbestos claims. In so doing, the Trust carefully complied with all Plan Documents and  
15 the mandates of this Court.

# **EXHIBIT A**





Financial Statements and Report of Independent  
Certified Public Accountants

**Thorpe Insulation Settlement Trust**

December 31, 2015 and 2014

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## Report of Independent Certified Public Accountants

Trustees  
Thorpe Insulation Settlement Trust

We have audited the accompanying financial statements of Thorpe Insulation Settlement Trust (“the Trust”), organized in the State of Nevada, which comprise the statements of net claimants’ equity as of December 31, 2015 and 2014, and the related statements changes in net claimants’ equity and cash flows for the years then ended, and the related notes to the financial statements.

### Management’s responsibility for the financial statements

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

### Auditor’s responsibility

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

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

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



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net claimants' equity of Thorpe Insulation Settlement Trust as of December 31, 2015 and 2014, and the changes in net claimants' equity and cash flows for the years then ended in accordance with the Trust's other basis of accounting.

**Basis of accounting**

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

**Supplementary information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expense for the years ended December 31, 2015 and 2014 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Restriction on use**

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

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

Reno, Nevada  
April 14, 2016

**Thorpe Insulation Settlement Trust**

**STATEMENTS OF NET CLAIMANTS' EQUITY**

**December 31,**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents and investments available-for-sale		
Restricted	\$ 25,000,000	\$ 25,000,000
Unrestricted	486,542,679	495,317,949
Total cash and cash equivalents and investments	511,542,679	520,317,949
Accrued interest and dividend receivables	1,343,461	2,021,361
Deferred tax asset	10,380,000	11,682,000
Total assets	<u>\$ 523,266,140</u>	<u>\$ 534,021,310</u>
<b>LIABILITIES</b>		
Accrued expenses	\$ 316,060	\$ 461,490
Claim processing deposits	181,000	194,250
Unpaid claims (Note D)		
Outstanding offers	1,992,230	4,479,416
Facility and staff sharing agreement payable	468,000	408,000
Total liabilities	<u>\$ 2,957,290</u>	<u>\$ 5,543,156</u>
<b>NET CLAIMANTS' EQUITY</b>	<u>\$ 520,308,850</u>	<u>\$ 528,478,154</u>

The accompanying notes are an integral part of these statements.

**Thorpe Insulation Settlement Trust**

**STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY**

For the years ended December 31,

	<u>2015</u>	<u>2014</u>
<b>Net claimants' equity, beginning of year</b>	<u>\$ 528,478,154</u>	<u>\$ 534,922,197</u>
<b>Additions to net claimants' equity</b>		
Initial funding	185,000	1,400,000
Investment income	9,246,715	8,665,533
Filing fee income	47,000	183,500
Net decrease in outstanding claim offers	2,487,186	2,283,719
Net realized/unrealized gains on available-for sale securities	-	16,917,998
Total additions	<u>11,965,901</u>	<u>29,450,750</u>
<b>Deductions from net claimants' equity</b>		
Operating expenses	3,062,209	4,422,922
Claims settled	12,211,336	23,707,871
Provision for income taxes, deferred	1,302,000	7,740,000
Net increase in facility and staff sharing agreement	60,000	24,000
Net realized/unrealized losses on available-for sale securities	3,499,660	-
Total deductions	<u>20,135,205</u>	<u>35,894,793</u>
<b>Net claimants' equity, end of year</b>	<u><u>\$ 520,308,850</u></u>	<u><u>\$ 528,478,154</u></u>

The accompanying notes are an integral part of these statements.

**Thorpe Insulation Settlement Trust**

**STATEMENTS OF CASH FLOWS**

**For the years ended December 31,**

	<u>2015</u>	<u>2014</u>
<b>Cash inflows:</b>		
Initial funding	\$ 185,000	\$ 1,400,000
Investment income receipts	9,971,615	8,919,394
Net realized gains on available-for-sale securities	9,180,362	1,532,481
Total cash inflows	<u>19,336,977</u>	<u>11,851,875</u>
<b>Cash outflows:</b>		
Claim payments made	12,211,336	23,707,871
Decrease in claim processing deposits	13,250	189,250
Disbursements for Trust operating expenses	3,207,639	7,159,030
Total cash outflows	<u>15,432,225</u>	<u>31,056,151</u>
Net cash inflows (outflows)	3,904,752	(19,204,276)
<b>Non-cash changes:</b>		
Net unrealized (losses) gains on available-for-sale securities	<u>(12,680,022)</u>	<u>15,385,517</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(8,775,270)	(3,818,759)
<b>Cash, cash equivalents, and investments available-for-sale, beginning of year</b>	<u>520,317,949</u>	<u>524,136,708</u>
<b>Cash, cash equivalents, and investments available-for-sale, end of year</b>	<u><u>\$ 511,542,679</u></u>	<u><u>\$ 520,317,949</u></u>

The accompanying notes are an integral part of these statements.

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

**1. Description of Trust**

The Thorpe Insulation 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 Pacific Insulation Company and Thorpe Insulation Company (collectively the “Debtors”) Sixth Amended Joint Plan of Reorganization (the “Plan,” following Remand), dated May 1, 2013. 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 have legal responsibility; 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 the effective date of the Plan, the Trust assumed liability for existing and future asbestos-related claims against the Debtors. The Trust became effective on October 22, 2010. The Trust’s Confirmation Remand Effective Date occurred on July 9, 2013.

The Trust was initially funded with cash, notes receivable and insurance settlement proceeds. The Trust’s funding is dedicated solely to the settlement of asbestos-related claims and the related costs thereto, as defined in the Plan.

The Trust processes and pays all asbestos-related claims in accordance with the Thorpe Insulation 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 Thorpe Insulation Company, Pacific Insulation Company, Farwest Insulation Contracting and their liability insurers is recorded directly to net claimants’ equity. These funds do not represent income of the Trust. Offers for asbestos-related 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.
- 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.



Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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

- The liability for unpaid claims reflected in the statement of net claimants' equity represents settled but unpaid claims and outstanding offers. A claims liability is recorded once an offer is made to the claimant at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.
- Available-for-sale securities are recorded at fair value. All interest and dividend income on available-for-sale securities is included in investment income on the statements of changes in net claimants' equity. Realized and unrealized gains and losses on available-for-sale securities are recorded as separate components on the statements of changes in net claimants' equity
- Realized gains/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/losses are reversed and recorded net, as a component of other unrealized gains/losses in the 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.

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued**

**6. Use of Estimates**

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

**7. Concentration of Risk**

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

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

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

**8. Income Taxes**

The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2015, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States. Although the Trust owes no tax to the State of California, it files an annual tax return in California reporting no taxable income or tax owed. The Trust is no longer subject to United States federal tax examinations for years before 2012 and state examinations before 2011.

**9. Reclassifications**

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

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

	December 31, 2015	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 442,060	\$ 442,060
U.S. Government obligations	12,219,715	12,227,538
Municipal bonds	242,965	232,634
Asset backed securities	1,260,423	1,247,371
Corporate and other debt	10,993,161	10,850,397
	<u>\$ 25,158,324</u>	<u>\$ 25,000,000</u>
<u>Unrestricted</u>		
Cash demand deposits	\$ 292,489	\$ 292,489
Cash equivalents	127,125,446	127,125,446
Equity securities	126,362,855	147,847,419
U.S. Government obligations	96,648,659	95,742,017
Municipal bonds	4,597,961	4,575,099
Asset backed securities	37,187,102	36,586,400
Corporate and other debt	75,393,531	74,373,809
	<u>\$ 467,608,043</u>	<u>\$ 486,542,679</u>
December 31, 2014		
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 1,096,357	\$ 1,096,357
U.S. Government obligations	13,490,377	13,560,687
Municipal bonds	258,891	252,174
Asset backed securities	1,026,623	1,012,413
Corporate and other debt	9,104,752	9,078,369
	<u>\$ 24,977,000</u>	<u>\$ 25,000,000</u>
<u>Unrestricted</u>		
Cash demand deposits	\$ 240,903	\$ 240,903
Cash equivalents	137,824,849	137,824,849
Equity securities	183,804,520	213,671,342
U.S. Government obligations	12,349,264	12,355,639
Municipal bonds	116,586,342	118,081,761
Asset backed securities	1,154,650	1,132,196
Corporate and other debt	12,094,887	12,011,259
	<u>\$ 464,055,415</u>	<u>\$ 495,317,949</u>

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued**

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

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

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

Level 3 - Valuations based on models where significant inputs are not observable, and for which the determination of fair value requires significant management judgment or estimation. The Trust does not hold any Level 3 investments as of December 31, 2015 and 2014.

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

	December 31, 2015	
	Level 1	Level 2
<u>Assets</u>		
Cash demand deposits	\$ 292,489	\$ -
Cash equivalents	127,567,506	-
Equity securities	147,847,419	-
U.S. Government obligations	40,128,060	67,841,496
Municipal bonds	-	4,807,733
Asset-backed securities	-	37,833,771
Corporate and other debt	85,224,201	-
	<u>\$ 401,059,675</u>	<u>\$ 110,483,000</u>
	December 31, 2014	
	Level 1	Level 2
<u>Assets</u>		
Cash demand deposits	\$ 240,903	\$ -
Cash equivalents	138,921,206	-
Equity securities	213,671,342	-
U.S. Government obligations	5,593,277	20,323,049
Municipal bonds	-	118,333,935
Asset-backed securities	-	2,144,609
Corporate and other debt	21,089,628	-
	<u>\$ 379,516,356</u>	<u>\$ 140,801,593</u>

The Trust's policy is to recognize transfers in and out of levels within the fair value hierarchy at the actual date the event or change in circumstance caused the transfer. Between the measurement dates of December 31, 2014 and December 31, 2015, no securities were transferred between Level 1 and Level 2.

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued**

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

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ 152,466	\$ 33,266,238	\$ 18,385,466	\$ 56,165,386
Municipal bonds	-	2,869,031	1,326,889	611,813
Asset backed securities	-	10,701,307	5,803,537	21,328,927
Corporate	1,438,248	43,891,825	32,621,864	2,544,609
	<u>\$ 1,590,714</u>	<u>\$ 90,728,401</u>	<u>\$ 58,137,756</u>	<u>\$ 80,650,735</u>

**NOTE C - FIXED ASSETS**

The cost of non-income producing assets that will be exhausted during the life of the Trust and are not available for satisfying claims are expensed as incurred. Since inception, the cost of fixed assets expensed, net of disposals, includes:

Acquisition of computer equipment	\$ 7,027
Acquisition of computer software	174,259
	<u>\$ 181,286</u>

These items have not been recorded as assets, but rather as operating expenses and direct deductions from net claimants' equity in the accompanying financial statements. The cost of fixed assets that were expensed during the years ended December 31, 2015 and 2014 was \$117,802 and \$63,484, respectively. Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$8,000 and \$9,500 for the years ended December 31, 2015 and 2014, respectively.

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**NOTE D - CLAIM LIABILITIES**

Pursuant to the Trust Documents, the Trust distinguishes between claims that were liquidated prior to the establishment of the Trust (Pre-Petition Liquidated Claims) and claims processed after the creation of the Trust (Trust Claims). The Pre-Petition Liquidated Claims are grouped into two categories: settlement and judgment claims.

The cases underlying the Pre-Petition Liquidated Claims were stayed by the court until the Plan became effective. The Trust reviewed, processed and paid each Pre-Petition Liquidated Claim at the approved Funds Received Ratio. The Pre-Petition Liquidated Claims were paid in trust to the representative law firms for disbursement to the claimants upon the Trust's receipt and approval of a properly executed release.

For all Trust claims, a liability for unpaid claims is recorded at the time the offer is extended. Funds are mailed after the approved release is signed, received, and approved by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected, withdrawn or expires after six months. Offers may be extended an additional six months upon written request and good cause. As of the years ended December 31, 2015 and 2014, there were no expired offers.

All claimants are entitled to the full liquidated value of their claim. Under the TDP, claimants receive an initial pro rata payment equal to the approved Funds Received Ratio 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 Funds Received Ratio is increased. In that instance, the Trust would be obligated to retroactively pay the increased percentage to all previously paid claimants (see Note G).

In the interest of treating all claimants equitably in accordance with the Plan and pursuant to the TDP, all payments made during each calendar year ended December 31, 2010 through December 31, 2015 and future years shall include a Cost of Living Adjustment for inflation based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W). Claims liabilities at year end are adjusted for any approved Inflation Adjustments. Inflation Adjustments are cumulative. Cumulative Inflation Adjustments of 9.10% and 8.66% are included in outstanding claims liabilities as of December 31, 2015 and 2014, respectively.

The Trust processed and approved approximately \$9,803,307 and \$16,788,931 of Trust Claims during the years ended December 31, 2015 and 2014, respectively.

**NOTE E - LEGAL FEES - COVERAGE LITIGATION**

For the years ended December 31, 2015 and 2014, the Trust incurred a total of \$12,950 and \$542,370, respectively, of contingent and hourly fees for coverage litigation. As of December 31, 2015 and 2014, no amounts were reported in accrued expenses on the accompanying Statement of Net Claimants' Equity.

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**NOTE F - FACILITY AND STAFF SHARING AGREEMENT**

The Trust has entered into a facilities and staff sharing agreement with the Western Asbestos Settlement Trust, (the Western Trust). The two trusts are related through common trustees. Under the agreement, and in exchange for advance monthly payments, the Western Trust provides use of its facilities and services relating to administration and claims processing. The monthly payment of \$37,000 and \$32,000 was in place for the years ended December 31, 2015 and 2014, respectively, and provisions allow for automatic renewals for additional one-year periods unless either party provides written notice. The amounts of advance monthly payments are agreed upon between the trusts from time to time. As of December 31, 2015, 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 reconciliations performed for the years ended December 31, 2015 and 2014 resulted in an additional payment to the Western Trust of \$81 and \$65,377, respectively. The monthly payment for 2016 was increased to \$39,000. The future payments under this agreement has been recorded as a liability on the accompanying statement of net claimants' equity.

**NOTE G - NET CLAIMANTS' EQUITY**

The Trust was created pursuant to the Plan confirmed 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 scheduled disease values, 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 Funds Received Ratio is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

The Trustees, with the consent of the Trust Advisory Committee ("TAC") and Futures Representative, set the Initial Funds Received Ratio at 17.5%, based upon the analysis and advice of the Trust's expert economist. The TDP requires the Trustees, with the consent of the TAC and the Futures Representative, to periodically review the Funds Received Ratio and, if appropriate, propose additional changes in the pro rata Funds Received Ratio based on updated assumptions regarding the Trust's future assets and liabilities and if appropriate, propose additional changes in the Funds Received Ratio. The Funds Received Ratio was increased by the Trustees to 30.50% in September 2013. This change was made with the consent of the TAC and Futures Representative. The increase was retroactive for claims approved since inception.

**NOTE H - 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. These funds are devoted exclusively to securing the obligations of the Trust to indemnify the current Trustees and officers, employees, agents and representatives of the Trust. The funds are held in a separate Trust bank account; and interest income accrues to the benefit of the Trust. As of December 31, 2015 and 2014, cash, cash equivalents and investments of \$25,000,000 were restricted for these purposes, respectively.

**Thorpe Insulation Settlement Trust**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2015 and 2014**

**NOTE I - INCOME TAXES**

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 39.6% for the year ended December 31, 2015 and 2014.

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

The Trust has recorded a deferred tax asset of approximately \$10 million reflecting the benefit of approximately \$45 million in loss carryforwards, which expire in varying amounts between 2031 and 2033. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, the Trust believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

The provision for income taxes consists of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Federal income tax – current	\$ -	\$ -
Deferred income tax expense	<u>(1,302,000)</u>	<u>(7,740,000)</u>
	<u>\$ (1,302,000)</u>	<u>\$ (7,740,000)</u>

The components of the deferred income tax asset, as presented in the statements of net claimants' equity consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<u>Deferred tax asset (liability)</u>		
Depreciation and amortization	\$ 95,000	\$ 54,000
Unrealized appreciation	(7,389,000)	(12,410,000)
Loss carryforward	<u>17,674,000</u>	<u>24,038,000</u>
	<u>\$ 10,380,000</u>	<u>\$ 11,682,000</u>

**NOTE J - SUBSEQUENT EVENTS**

At the February 19, 2016 meeting, the Funds Received Ratio was increased to 43.6%. This change was made by the Trustees, with consent of the TAC and Futures Representatives, based upon the analysis and advice of the Trust's expert economist. The increase is retroactive for approved claims since inception and will be disbursed by April 30, 2016.

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



**SUPPLEMENTAL INFORMATION**

**Thorpe Insulation Settlement Trust**

**SCHEDULE OF OPERATING EXPENSES**

**For the years ended December 31,**

	<u>2015</u>	<u>2014</u>
Accounting	\$ 46,050	\$ 51,740
Claims processing/claims system development	170,425	109,510
Computer equipment	-	7,027
Futures representative	122,536	270,838
Information technology support	20,509	23,528
Insurance	8,673	-
Investment expense	1,650,324	1,714,883
Legal fees	211,424	861,034
Contingency legal fees	12,950	542,370
System security	-	74,612
Trust Advisory Committee	23,991	34,837
Trust facility and staff sharing expense	484,455	443,955
Trustee fees	242,510	288,588
Trustees professional	68,362	-
	<u>\$ 3,062,209</u>	<u>\$ 4,422,922</u>

# **EXHIBIT B**

**Thorpe Insulation Settlement Trust  
Claim Report  
As of December 31, 2015**

This report is submitted pursuant to Section 2.2 (c)(ii) of the Eighth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Agreement, which requires the Trust to file with the Bankruptcy Court a summary of the number and type of claims disposed of during the time period covered by the financial statements ("Accounting Period"). This report summarizes the Trust's processing of claims liquidated by settlement agreement or judgment on or before October 15, 2007, the Petition Date, ("Pre-Petition Liquidated Claims") and unliquidated Trust Claims.

**Pre-Petition Liquidated Claims**

On October 27, 2010 and November 17, 2010, the Trust implemented procedures to pay the Pre-Petition Liquidated Claims in accordance with the Plan, the Confirmation Order and Section 5.4 of the Trust Distribution Procedures. The Trust was authorized to approve for payment all settlements and judgments listed on the Schedule F filed in the bankruptcy case, as well as settlements and judgments which the Trust was able to verify as unpaid.

By the end of January 2011, the Trust reviewed, processed and paid all 326 Pre-Petition Liquidated Claims in the total amount of \$9,822,489.50, which amount was paid in trust to the representative law firms for disbursement to the claimants upon the Trust's receipt and approval of a properly executed release. All Pre-Petition Liquidated Claims were paid at the approved Funds Received Ratio of 17.5% and the Pre-Petition Liquidated Claims that were paid in 2011, included 1.7% to account for inflation based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W"). As the Funds Received Ratio has been raised, the Pre-Petition Liquidated Claims, that were paid earlier, have received the additional amounts.

**Unliquidated Trust Claims**

Unliquidated Trust Claims reviewed by the Trust from January 1, 2015, through December 31, 2015, in accordance with the Third Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation Matrix ("Matrix") and Fourth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Personal Injury Settlement Trust Distribution Procedures ("TDP") are as set forth below.

The value of each compensable disease is determined by the Matrix and TDP. Claim compensation is adjusted for individual claimants based upon tort related individual characteristics including, but not limited to: age, marital status, dependents, medical specials, economic loss, and whether living at the time of commencement of

litigation or filing the claim with the Trust. Each valid claim is awarded a total liquidated value. As of December 31, 2015, all unliquidated Trust Claims were paid at the approved Funds Received Ratio of 30.5%. Payments made on Trust Claims in 2015 included the additional 8.66% to account for inflation based upon the CPI-W.

During the Accounting Period, 473 claims were received. In addition, offers were issued to 270 claimants. Further, 300 claims were paid

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

Compensable Disease	Number of Claims
Grade II Non-Malignant	71
Grade I Non-Malignant	44
Grade I Non-Malignant Enhanced Asbestosis	19
Grade I Non-Malignant Serious Asbestosis	19
Other Cancer	10
Lung Cancer	59
Mesothelioma	78
Total	300