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7 Bankruptcy Counsel for the Thorpe Insulation
Company Asbestos Settlement Trust

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

10 In re) Case No. 02:07-bk-20016-BB
)
11 PACIFIC INSULATION COMPANY,) Chapter 11
) (Jointly Administered with Case No. 2:07-bk-
12 Debtor.) 19271-BB)

13 In re) Case No. 2:07-bk-19271-BB
) (Case Closed)
14 THORPE INSULATION COMPANY,)
) **FOURTH ANNUAL REPORT AND**
15 Debtor.) **ACCOUNTING, AUDITED FINANCIAL**
) **STATEMENTS, AND CLAIM REPORT**

16)
17) **Hearing:**

18) Hearing Date: June 4, 2014
19) Hearing Time: 2:00 p.m.
20) Place: Courtroom 1475
21) 255 E. Temple St., 14th Floor
22) Los Angeles, CA 90012
23)
24)
25)
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27)
28)

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, Stutman, Treister & Glatt, hereby file the Fourth Annual Report and
5 Accounting, Audited Financial Statements, and Claim Report.
6

7 DATED: April 29, 2014

8 Respectfully submitted,

9
10 /s/ Gabriel I. Glazer
11 EVE H. KARASIK, and
12 GABRIEL I. GLAZER, Members of
13 STUTMAN, TREISTER & GLATT
14 PROFESSIONAL CORPORATION

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Bankruptcy Counsel for the Thorpe Insulation
Company Asbestos Settlement Trust

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2 **FOURTH ANNUAL REPORT AND ACCOUNTING OF THORPE INSULATION**
3 **COMPANY ASBESTOS SETTLEMENT TRUST**

4 The Trustees of the Thorpe Insulation Company Asbestos Settlement Trust ("Trust")
5 hereby submit this Fourth Annual Report and Accounting (the "Annual Report") covering Trust
6 activities that occurred during the period from January 1, 2013 to and including December 31, 2013
7 (the "Accounting Period") and cover certain activities of the Trust that took place outside the
8 Accounting Period. This Annual Report is submitted to the United States Bankruptcy Court for the
9 Central District of California, Los Angeles Division, *In re Thorpe Insulation Company, In re Pacific*
10 *Insulation Company, Debtors*, Case Nos. 2:07-19271-BB and 2:07-20016-BB (jointly administered
11 under Case No. 2:07-20016-BB) in accordance with the *Sixth Amended Joint Plan of Reorganization*
12 *of Thorpe Insulation Company and Pacific Insulation Company* (the "Plan"); *Order Confirming*
13 *Sixth Amended Joint Plan of Reorganization of Thorpe Insulation Company and Pacific Insulation*
14 *Company(Following Remand)*("2013 Confirmation Order") dated May 8, 2013; the *Order Affirming*
15 *Bankruptcy Court's Order Confirming Sixth Amended Joint Plan of Reorganization of Thorpe*
16 *Insulation Company and Pacific Insulation Company (Following Remand)* in case 2:10-cv-01493-
17 DSF [District Court Docket No. 137]; the Trust Agreement, Bylaws, Trust Distribution Procedures,
18 and Case Valuation Matrix, as amended from time to time, established pursuant to the Plan,¹ and
19 pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The
20 Trust Agreement states in Section 7.9 that the Trust is governed by Nevada law. Section 164.015 of
21 the Nevada Revised Statutes allows the Trust to render an accounting and seek approval for its past
22 actions. The factual statements in this Annual Report are supported by the Declaration of Sara Beth
23 Brown, Executive Director, in Support of Motion to Approve and Settle Thorpe Insulation
24 Settlement Trust's Fourth Annual Report and Accounting, Audited Financial Statements, and Claim

25 ¹ The Appendix includes the Plan; 2013 Confirmation Order; Continued Operations Order; Seventh Amendment to
26 and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Agreement ("Trust
27 Agreement"); First Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement
28 Trust Bylaws ("Trust Bylaws"); Second Amendment to and Complete Restatement of Thorpe Insulation Company
Asbestos Settlement Trust Case Valuation Matrix ("Matrix"); Third 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 Report as described in paragraphs 6, 7, and 8 *infra*. The factual statements contained in paragraph
2 23(e), *infra* are supported by the Declaration of Benjamin P. Smith in Support of Motion to Approve
3 and Settle Thorpe Insulation Settlement Trust's Fourth Annual Report and Accounting, Audited
4 Financial Statements, and Claim Report. Capitalized terms not defined herein are as defined in
5 Article 1 of the Plan.

6 1. Effective Date: On February 1, 2010, this Court entered the "Order
7 Confirming Fifth Amended Joint Plan of Reorganization" (the "2010 Confirmation Order"). On
8 February 16, 2010, certain of Thorpe's non-settling insurers filed appeals from the 2010
9 Confirmation Order. Following the denial of requests to stay the 2010 Confirmation Order by each
10 of the United States District Court for the Central District of California (the "District Court"), the
11 United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"), and Supreme Court
12 Justice Anthony M. Kennedy, the Plan became effective and the Trust was established. On January
13 24, 2012, the Ninth Circuit issued an Opinion in the Plan Appeal (as amended following the petition
14 for rehearing described below, the "Opinion"). The Opinion: (a) affirmed this Court's rulings on a
15 number of issues, (b) concluded that, "[a]lthough the plan has proceeded to a point where it may be
16 inequitable to toss it out entirely, we also conclude that there are likely viable remedies available to
17 Appellants, short of entirely tossing the plan out, within the broad remedial discretion of the
18 bankruptcy court, if it determines that Appellants' claims (discussed in footnote one) have merit;"
19 and (c) "reverse[d] the judgment of the district court, and remand[ed] [the matter] to the district court
20 with instructions that it remand to the bankruptcy court to permit Appellants to submit their proof on
21 all issues they previously preserved."

22 After issuance of the Opinion, this Court entered its *Order Approving Continued*
23 *Operation of the Thorpe Insulation Company Asbestos Settlement Trust in the Ordinary Course of*
24 *Business Pending Further Instruction* on February 28, 2012 (the "First Continued Operations
25 Order") and *Order Approving Post-Remand Report, Recommendation and Petition for Instructions*
26 *Regarding the Thorpe Insulation Company Asbestos Settlement Trust* on July 11, 2012 (the "Second
27 Continued Operations Order" and collectively, the "Post-Remand Operation Orders"), which
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1 authorized the Trust to continue paying claims during the post-remand period. The First Continued
2 Operations Order provided that the Trust could pay up to \$5,000,000 in claims. The Trust
3 implemented a program to make partial payments to as many claimants as possible while conserving
4 Trust resources consistent with the Continued Operations Order. The Second Continued Operations
5 Order removed the \$5,000,000 cap on claims payments during the post-remand period, subject to
6 future order of this Court.

7 On December 14, 2012, Thorpe and certain related entities entered in to a global
8 settlement with Century Indemnity Company, Century National Insurance Company of Omaha, and
9 Motor Vehicle Casualty Company (collectively, the "Century Insurers"). Soon after, on February
10 13, 2013, Thorpe and certain related entities entered into global settlement agreements with the two
11 remaining non-settling insurers: (i) The Continental Insurance Company and National Fire
12 Insurance of Hartford ("CNA"), and (ii) Middlesex Insurance Company ("Middlesex").

13 Having reached these settlements, Thorpe commenced the process to confirm its Plan,
14 which would also effectuate the settlements. On May 8, 2013, this Court entered the 2013
15 Confirmation Order [Docket No. 3429] and the *Findings of Fact and Conclusions of Law in Support*
16 *of Confirmation of Sixth Amended Joint Plan of Reorganization of Thorpe Insulation Company and*
17 *Pacific Insulation Company (Following Remand)* (the "Second Findings of Fact") [Docket No.
18 3428]. On June 6, 2013, the United States District Court for the Central District of California
19 entered the *Order Affirming Bankruptcy Court's Order Confirming Sixth Amended Joint Plan of*
20 *Reorganization of Thorpe Insulation Company and Pacific Insulation Company (Following Remand)*
21 in case 2:10-cv-01493-DSF [District Court Docket No. 137]. The Plan became effective on July 9,
22 2013. The Bankruptcy Court entered a final decree on October 2, 2013.

23 2. Final Decree and Closing of Thorpe Insulation Company Bankruptcy Case:

24 Pursuant to the Plan and 2013 Confirmation Order, the bankruptcy case of Thorpe Insulation
25 Company (Case No. LA 07-19271-BB) was closed and the Bankruptcy Court entered its Final
26 Decree [Docket No. 3447]. The Plan and 2013 Confirmation Order further provided that the Pacific
27 Insulation Company case (Case Number LA 07-20016-BB) would remain open for purposes of
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1 administering the Trust.

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

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

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

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

22 6. Fiscal Year and Tax Obligations: The Trust is required by the Internal
23 Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis.
24 Therefore, the Trust's fiscal year is the calendar year. Section 2.2(b) of the Trust Agreement requires
25 the Trustees to file income tax and other returns and statements in a timely manner, and comply with
26 all withholding obligations as legally required, including fulfilling requirements to maintain the
27 Trust's status as a Qualified Settlement Fund. The federal tax return for 2013 will be filed by its
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1 extended due date of September 15, 2014. The Trust resides in Nevada, and Nevada has no state
2 income tax. Although the Trust is not subject to tax in California, the Trustees file a tax return in
3 California, attaching a copy of the Trust's federal tax return but showing no California taxable
4 income or state tax liability.

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

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8 The Trustees shall cause to be prepared and filed with the Bankruptcy
9 Court . . . an annual report containing financial statements of the Trust
10 (including, without limitation, a statement of the net claimants' equity
11 of the Trust as of the end of such fiscal year and a statement of
12 changes in net claimants' equity for such fiscal year) audited by a firm
13 of independent certified public accountants selected by the Trustees
14 and accompanied by an opinion of such firm as to the fairness of the
15 financial statements' presentation of the equity presently available to
16 current and future claimants and as to the conformity of the financial
17 statements with accounting principals generally accepted in the United
18 States, except for the special-purpose accounting methods

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

22 8. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of
23 the Trust Agreement, the Trust has caused its accounts to be audited by independent certified public
24 accountants, Grant Thornton, LLP. The Trust's audited financial statements ("Audited Financial
25 Statements") are attached hereto as Exhibit "A". These include a Statement of Net Claimants'
26 Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and
27 explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate
28 balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis
of accounting utilized by the Trust. These Audited Financial Statements show, among other things,
that as of December 31, 2013, total Trust assets were \$545,650,429, total liabilities were
\$10,728,232, and Net Claimants' Equity was \$534,922,197.

9. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along
with the Audited Financial Statements, the Trustees shall file with the Court a report containing a

1 summary regarding the number and type of claims disposed of during the period covered by the
2 financial statements. The Thorpe Insulation Settlement Trust Claim Report As Of December 31,
3 2013 ("Claim Report") is attached hereto as Exhibit "B". During the Accounting Period, the Trust
4 received 413 claims, paid 676 claims, and made settlement offers on 800 claims. Since the Trust
5 received its first Trust Claim,² the Trust has received 2,922 Trust Claims, paid 1,385 Trust Claims,
6 and 210 Trust Claims have been withdrawn.³

7 Section 5.4 of the TDP provides that, "As soon as practicable after the Effective Date,
8 the Trust shall pay all Trust Claims that were liquidated by (i) a settlement agreement entered into
9 prior to the Petition Date for the particular claim, or (ii) a judgment of any kind entered on or before
10 October 15, 2007 (collectively, the "Pre-Petition Liquidated Claims"). As described in the Trust's
11 First Annual Report and Accounting, Audited Financial Statements, and Claim Report, all Pre-
12 Petition Liquidated Claims were paid by the end of January 2011 in trust to the representative law
13 firms for disbursement to the claimants upon the Trust's receipt and approval of a properly executed
14 release.

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

21 11. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
22 Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close as
23 practicable on a quarterly basis. The Trustees held four meetings during the Accounting Period
24 (February 7-8, 2013, April 15, 2013, September 11, 2013, and November 21, 2013). All meetings
25 were held in Nevada.

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

28 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.

1 12. Arbitrations: During the accounting period, two (2) Pro Bono Evaluations by
2 Document were requested pursuant to Section 5.9 of the Trust Distribution Procedures. One (1)
3 request had been withdrawn by the firm and the other claim had been assigned to a pro-bono
4 evaluator and was proceeding according to the rules but currently awaits transfer to new counsel
5 pursuant to the terms of the trial-court approved stipulation that concluded the Mandelbrot
6 Adversary Proceeding (more fully described in paragraph 23(e), *infra*).

7 13. Term Sheet Settlements: This court entered its Order Approving Term Sheet
8 For Settlement Of Pre-Petition Assignment Claim [Docket No. 2998] (“Term Sheet Settlement”)
9 which settlement authorized those claimants to assert their claims for 250% of the face value of their
10 settlements under Section 5.4 of the Trust Distribution Procedures and as against specified insurers
11 that were not yet included as Settled Asbestos Insurers as of May 2010. [Docket No. 2905]. The
12 Trust subsequently settled with all known insurers. In order to facilitate those settlements, at the
13 Trustees’ meeting on February 7, 2013, the Trustees authorized placing 250% of the face value of
14 the Term Sheet Settlement claims or \$22,000,000 in reserves out of those subsequent settlements to
15 preserve the status quo with respect to the pre-petition claimants’ rights under the Term Sheet
16 Settlement. This was memorialized in an agreement between the Trust and Term Sheet Settlement
17 claimants on February 13, 2013. During the Trustees’ meeting on April 17, 2014, the Trustees
18 approved the resolution of the Term Sheet Settlement claims as follows: (1) the 164 Term Sheet
19 Settlement claimants would forgo any rights to additional payments from the Trust with respect to
20 their claims (e.g. such as increases in the Funds Received Ratio); (2) these claimants will be paid an
21 additional collective lump sum payment of \$4,635,221.02 which when paid, will result in these
22 claimants having been paid the current Funds Received Ratio of 250% of the face value of their
23 settlements including payments for inflation through 2013; and (3) the Trust is authorized to release
24 the remaining funds from the above described reserve.

25 14. Funds Received Ratio: Section 4.2 of the TDP provides for the Trustees to
26 reconsider the Funds Received Ratio on the first day of each January after the Plan has been
27 confirmed. As described in the Trust's First Annual Report and Accounting, on November 17, 2010,
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1 based upon the analysis and advice of the Trust's expert economist, the Trust, with the consent of the
2 TAC and Futures Representative, set the Initial Funds Received Ratio at 17.5%. On September 11,
3 2013, the Trustees approved an increase in the Funds Received Ratio to 30.5%.

4 15. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
5 calculate a maximum annual payment for claims (the "Maximum Annual Payment") based upon a
6 model of the amount of cash flow anticipated to be necessary over the entire life of the Trust to
7 ensure that funds will be available to treat all present and future claimants as similarly as possible.
8 At the November 21, 2013 meeting, the Maximum Annual Payment for 2014 was set at
9 \$35,200,000, plus the amount of \$26,489,830 of excess funds carried over from 2013, which Section
10 2.5 of the TDP requires to be rolled over and remain dedicated to the respective "Disease Category"
11 in the "Jurisdiction" (as such terms are described in the TDP) to which they were originally located.

12 16. Inflation Adjustment: Section 5.3(d) of the TDP requires that all claims
13 payments be adjusted for inflation annually beginning with the calendar year after the Effective Date
14 of the Trust. Beginning in 2011, all claims payments made during a calendar year include a cost of
15 living adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for*
16 *Urban Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the
17 November 21, 2013 meeting, the CPI-W to be published in January 2014 was approved for use by
18 the Trust in making the 2014 cost of living adjustment for claims payments. The CPI-W of 1.5%
19 was issued on January 16, 2014. Consequently, all claims payments made during the 2014 calendar
20 year will have a compounded inflation rate of 8.34% added to the payment amount.

21 17. Budget and Cash Flow Projection: Section 2.2(d) of the Trust Agreement
22 requires the Trust to prepare a budget and cash flow projections prior to the commencement of each
23 fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
24 2014 budget and the required four-year budget and cash flow projections on November 21, 2013.
25 Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for
26 operating expenses in 2013 totals \$1,686,000.⁴

27 _____
28 ⁴ This figure is net of claimant payments which are budgeted for \$35,200,000 and net of extraordinary legal fees that
are budgeted for \$1,100,000.

1 18. Trust Facilities and Services Sharing Agreement with Western Asbestos

2 Settlement Trust: As initially described in the Trust's First Annual Report and Accounting, the Trust
3 and Western Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services
4 Sharing Agreement. The Trust agreed to pay a negotiated monthly amount. Such arrangement was
5 approved by this Court in the order approving the Trust's First Annual Report and Accounting.
6 Pursuant to the annual reconciliation of fees presented at the February 7, 2013 meeting, the Advance
7 Payments were set at \$29,000 per month for 2013. Additionally, at the February 7, 2013 meeting,
8 the Trustees approved the Second Amendment to and Complete Restatement of Facilities and
9 Services Sharing Agreement between the Trust and Western Trust. The annual reconciliation
10 presented on February 20, 2014 set the advance payments at \$32,000 per month for 2014 and the
11 total amount paid by the Trust to the Western Trust, after accounts were reconciled for 2013, was
12 \$416,955.

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

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

17 21. Operating Fund: The Operating Fund was established at Wells Fargo Bank,
18 N.A., to pay anticipated operating expenses of the Trust.

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

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

2 Additionally, at the September 11, 2013 meeting, an increase in the amount of the
3 fund to \$25,000,000 was approved. A copy of the Indemnity Agreement is included in the Appendix
4 filed herewith.

5 23. Legal Disputes:

6 a. *Continental Insurance Company v. Thorpe Insulation Company (In re Thorpe*
7 *Insulation Company)*, United States Court of Appeals for the Ninth Circuit, Case No. 10-55744: On
8 July 21, 2009, this Court entered an order disallowing a claim filed in the Bankruptcy Case by
9 Continental Insurance Company ("Continental") and denying a motion by Continental that sought to
10 compel Thorpe to arbitrate the dispute over the validity of that claim. Those orders were appealed to
11 the District Court, which affirmed this Court's orders by order entered May 4, 2010, and to the Ninth
12 Circuit. On January 30, 2012, the Ninth Circuit issued its opinion affirming the disallowance of
13 Continental's claim and this Court's denial of Continental's motion to compel arbitration. That
14 matter became final on April 30, 2012. Continental timely filed a Petition for Certiorari in the
15 United States Supreme Court, but the petition was denied on October 1, 2012.

16 Thorpe filed a motion in the Ninth Circuit Court of Appeals for its prevailing
17 attorneys' fees relating to the appeals of the arbitration denials and claim disallowance. Continental
18 opposed that motion. On July 3, 2012, the Ninth Circuit granted in part and denied in part Thorpe's
19 motion, and referred the determination of an appropriate amount of attorneys' fees on appeal to the
20 court's special master.

21 As stated above (see paragraph 1, *supra*), the Trust and Continental reached a global
22 settlement. As a result, on August 21, 2013, the Ninth Circuit entered an order approving the
23 "Stipulation to Withdraw Application for Attorneys Fees" filed by Continental and the Trust.

24 b. *Non-Settling Insurers' Appeals of Orders Related to First and Second Annual*
25 *Report and Second Continued Operations Orders (Case Nos. CV 12-6098 DSF; CV 12-6184DSF;*
26 *CV 12-6441 DSF; and CV 12-6442 DSF):*In June 2012, this Court entered its orders approving the
27 Trust's 2011 annual report and the order approving the Trust's 2010 annual report, as that order had
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1 never been entered. The non-settling insurers appealed the orders approving the Trust's 2010 and
2 2011 annual reports (as well as the Bankruptcy Court's order denying reconsideration of its order
3 approving the Trust's 2010 report) primarily on the grounds that given the Ninth Circuit's reversal of
4 the confirmation order and remand of the case, this Court no longer had jurisdiction to enter such
5 orders.

6 In addition, post-remand, this Court entered the Post-Remand Operations Orders
7 granting, for the most part, the relief requested by the Trust in the two petitions for instructions
8 governing Trust operations during the post-remand period. The non-settling insurers appealed the
9 Second Continued Operations Order.

10 All of these appeals have been resolved in connection with the global settlements
11 with the three remaining non-settling insurers described in paragraph 21.c, *infra*. The appeals were
12 dismissed in October 2013.

13 c. *Settlement Motions Filed in Bankruptcy Court With Respect to the Remaining*
14 *Non-Settling Insurers*: On January 9, 2013, Thorpe filed its *Motion for Order Approving: (I)*
15 *Settlement with Century Insurers; (II) Sale of Insurance Policies Free and Clear of Claims and*
16 *Interests; and (III) Modification of Fifth Amended Joint Plan of Reorganization; Post-Remand*
17 *Petition for Instructions Regarding the Thorpe Insulation Company Asbestos Settlement Trust*
18 [Docket No. 3368] (the "Century Settlement Motion"). In the Century Settlement Motion, Thorpe
19 sought approval of a Settlement Agreement that provided for (i) payment to the Trust of \$36 million;
20 (ii) mutual releases and covenants between Thorpe and related entities and Century Insurers; and (iii)
21 the purchase by the Century Insurers of certain Insurance Rights (as such term is defined in the Plan)
22 free and clear of all rights, liens, claims, and interests. Additionally, Thorpe requested approval to
23 modify the Plan to designate the Century Insurers as "Settling Asbestos Insurers" and to effectuate
24 the terms of the Settlement Agreement. On February 6, 2013, this Court entered its order approving
25 the Century Settlement Motion.

26 On February 13, 2013, Thorpe filed its *Motion for Order Approving: (I) Settlement*
27 *with Continental Insurers; (II) Sale of Insurance Policies Free and Clear of Claims and Interests;*
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1 and (III) *Modification of Fifth Amended Joint Plan of Reorganization; Post-Remand Petition for*
2 *Instructions Regarding the Thorpe Insulation Company Asbestos Settlement Trust* [Docket No.
3 3368] (the "Continental Settlement Motion"). In the Continental Settlement Motion, Thorpe sought
4 approval of a Settlement Agreement that provided for (i) payment to the Trust of \$45 million; (ii)
5 mutual releases and covenants between Thorpe and related entities, and CNA; and (iii) the purchase
6 by CNA of certain Insurance Rights (as such term is defined in the Plan) free and clear of all rights,
7 liens, claims, and interests. Additionally, Thorpe requested approval to modify the Plan to designate
8 CNA as "Settling Asbestos Insurers" and to effectuate the terms of the Settlement Agreement. On
9 March 12, 2013, this Court entered its order approving the Continental Settlement Motion.

10 Additionally, on February 13, 2013, Thorpe filed its *Motion of Reorganized Debtor*
11 *and Thorpe Insulation Company Asbestos Settlement Trust for Order Approving: (I) Settlement with*
12 *Middlesex/Sentry; (II) Sale of Insurance Policies Free and Clear of Claims and Interests; and (III)*
13 *Modification of Fifth Amended Joint Plan of Reorganization; Post-Remand Petition for Instructions*
14 *Regarding the Thorpe Insulation Company Asbestos Settlement Trust* [Docket No. 3368] seeking
15 similar relief with respect to Middlesex Insurance Company (the "Middlesex Settlement Motion").
16 In the Middlesex Settlement Motion, Thorpe sought approval of a settlement agreement (the
17 "Middlesex Settlement Agreement") providing for (i) payment to the Trust of \$12 million; (ii)
18 mutual releases and covenants between Thorpe and related entities and Middlesex, and (iii) the
19 purchase by Middlesex of certain Insurance Rights (as such term is defined in the Plan) free and
20 clear of all rights, liens, claims, and interests. In addition, Thorpe requested approval to modify the
21 Plan to designate Middlesex as a "Settling Asbestos Insurer" and to effectuate the terms of the
22 Middlesex Settlement Agreement. On March 12, 2013, this Court entered its order approving the
23 Middlesex Settlement Motion.

24 d. *Fees for Substantial Contribution.* As described in the Trust's Second Annual
25 Report and Accounting, this Court approved the substantial contribution claim of Kazan, McClain,
26 Lyons, Greenwood & Harley, PLC, and Brayton Purcell, LLP ("Substantial Contributors") on April
27 11, 2011, in accordance with a mediated resolution. During the Accounting Period, the Trust
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1 retained \$3,192,428.00 (a portion of the substantial contribution fees and contingency fees owed),
2 pending recalculation of the insurance recovery counsel, Morgan Lewis & Bockius' ("MLB"), and
3 Substantial Contributors' fees in light of a clerical error made by MLB in valuing a bond portfolio at
4 the time of the original mediated resolution. In addition, MLB and the Substantial Contributors
5 agreed to a reduction in their fees associated with expenses related to one bond portfolio that had
6 been paid out of the cash portion of the settlement with that insurer. The Trust, MLB and the
7 Substantial Contributors agreed that the appropriate method to rectify the original clerical error
8 would be to allocate the remaining \$3,192,428.00 as follows: Substantial Contributors:
9 \$1,333,827.50 and MLB: \$1,724,895.50. As a result the Trust retained an additional \$133,705.00
10 such that the Trust paid slightly less in total fees (MLB contingent fees plus Substantial Contributor
11 fees) than originally contemplated under the court approved mediated result.

12 e. *Thorpe Insulation Company Asbestos Settlement Trust v. Michael J.*

13 *Mandelbrot and Mandelbrot Law Firm*, Case No. 12-02183-BB. As discussed in the Third Annual
14 Report, on September 19, 2012, the Trust filed its *Complaint for Declaratory Judgment*[Docket No.
15 1]and on October 24, 2012, its *First Amended Complaint for (I) Declaratory Judgment and (II)*
16 *Equitable Relief*[Docket No. 18](the "Amended Complaint") in the Bankruptcy Court (Adversary
17 Case No. 2:12-ap-02182-BB) (the "Adversary Proceeding") against Michael J. Mandelbrot and the
18 Mandelbrot Law Firm (collectively, "Mandelbrot"). The Amended Complaint (i) requested a
19 declaratory judgment from the Bankruptcy Court "confirming that the Investigation to determine
20 whether the Defendants have engaged in a pattern or practice of submitting unreliable evidence to
21 the J.T. Thorpe Trust is authorized and appropriate under the circumstances," and (ii) sought related
22 equitable relief.

23 The Adversary Proceeding was procedurally consolidated with a similar adversary
24 proceeding brought by the J.T. Thorpe Settlement Trust (and collectively with the Thorpe Insulation
25 Company Asbestos Settlement Trust, the "Trusts") in the Bankruptcy Court. The docket for the
26 consolidated actions was maintained in the J.T. Thorpe Settlement Trust adversary proceeding , case
27 number 2:12-ap-02182-BB. In addition, the Western Trust commenced a similar adversary
28

1 proceeding against Mandelbrot in its bankruptcy case pending in the United States Bankruptcy Court
2 for the Northern District of California. All three trusts are supervised by the same Trustees and the
3 same Futures Representative, and all three trusts evaluate and process claims through the same
4 facility and processing staff.⁵

5 On February 1, 2013, Mandelbrot filed its answer to the Amended Complaint.
6 During 2013, the Bankruptcy Court granted two substantive motions filed by the Futures
7 Representative and the Trusts, respectively, in the Adversary Proceeding. See 2:12-ap-02182-BB
8 (*Order Granting the Futures Representative's Motion to Intervene*) [Docket No. 96]; and(*Order*
9 *Granting Plaintiffs' Motion to Strike Jury Demand*) [Docket No. 126]. The Bankruptcy Court held
10 status conferences on April 30, 2013 and August 27, 2013. On October 2, 2013, the Bankruptcy
11 Court entered its *Order Setting Trial Date and Establishing Procedures for Conduct of Court Trial*
12 [Docket No. 140], which set a January 21, 2014 trial date on the Amended Complaint.

13 On May 24, 2013, the Western Trust together with the Thorpe Trust sent a letter that
14 set forth determinations and decisions based on the information obtained as of that date.

15 Conclusions and decisions stated in the May 24, 2013 letter included:

16 Those conclusions and decisions are:

- 17 1. Mandelbrot (i.e., the firm and its principal) each are unreliable under the
18 "person" or "entity" requirement of section 5.7(a).
- 19 2. Mandelbrot has submitted unreliable evidence to each of the Trusts and,
20 with regard to the J.T. Thorpe and Thorpe Insulation Trusts specifically, has done so in a pattern
21 revealed by the practices that have been the focus of this investigation. The pattern revealed by
22 the investigation has been exacerbated by a lack of cooperation with the Trusts' audit efforts.
- 23 3. While the trustees do not make such a determination at this time, there is
24 substantial information to support a conclusion that some of the unreliable evidence submitted to
25 the Trusts was fabricated or manipulated intentionally or with conscious disregard for its accuracy
26

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

1 and thus was fraudulent.

2 The Trusts filed an initial Motion for Instruction with respect to their audit of
3 Mandelbrot in August 2013. By order dated October 2, 2013, the Court set both the adversary
4 proceeding and the motion for instructions for evidentiary hearing or trial to begin on January 21,
5 2014. The Trusts presented the testimony of their witnesses through declaration and submitted other
6 evidence. Trial commenced on January 21 and continued through January 22.

7 On the morning of trial on January 23, 2014, Mandelbrot, the Trusts, as well as the
8 Western Trust and the Plant Insulation Settlement Trust, entered into an agreement that resolved the
9 Adversary Proceeding. The terms of the agreement and settlement were read in to the record and
10 agreed to by all parties, including Mandelbrot. The Trusts prepared an Order, Findings of Fact and
11 Conclusions of Law and a Judgment that set forth the terms and effect of the agreement. Several
12 days later, but before the Trusts were able to lodge any of these draft documents, Mandelbrot's
13 attorney withdrew as counsel, Mandelbrot substituted himself as counsel into the Adversary
14 Proceedings and then attempted to repudiate the agreement laid on the record on January 23, 2014.
15 The Trusts provided copies of the Order, Findings of Fact and Conclusions of Law and Judgment to
16 Mandelbrot and filed them, along with a Notice of Dispute [Docket No. 197] on February 11, 2013.
17 Mandelbrot filed written objections to the agreement on or about February 12, 2014.

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

23 The Order After Trial ordered, among other things, that Mandelbrot: (1) "effective
24 immediately" shall file no new claims with the Trusts; (2) "effective immediately, Mandelbrot shall
25 cease all activity with respect to claims ("Pending Claims") for the Trusts and shall transfer each
26 Pending Claim and all past claims made against the Trusts to an attorney who will take
27 responsibility; and (3) that if the Trusts do not receive a notice of transfer for the Pending Claims
28

1 and past claims by July 23, 2014, then those claims shall be deemed withdrawn and Mandelbrot
2 agreed that all such claims with respect to this Trust may be deemed withdrawn. All of this was
3 reduced to a Judgment, entered on April 7, 2014, resolving the adversary proceedings. [Docket No.
4 234]. This Court issued its Findings of Fact and Conclusions of Law supporting its Order after Trial
5 [Docket No. 235] on April 9, 2014. The Trust has implemented the stipulated agreement found to be
6 enforceable by this Court. Following entry of Judgment, Mandelbrot has filed a notice of appeal,
7 and likewise filed a motion to stay enforcement of the Judgment pending appeal, which is currently
8 set for hearing on May 27, 2014.

9 24. Amendments to the Trust Documents: During the Accounting Period, the
10 Thorpe Insulation Settlement Trust's Trust Agreement was amended. A copy of the Seventh
11 Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust
12 Agreement dated February 7, 2013, is included in the Appendix filed herewith.

13 In addition, the Bylaws were amended on February 20, 2014, and the Trust
14 Distribution Procedures and Matrix were amended on March 25, 2014. Copies of the Second
15 Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust
16 Bylaws, Fourth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos
17 Personal Injury Settlement Trust Distribution Procedures, and Third Amendment to and Complete
18 Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation Matrix are
19 included in the Appendix filed herewith.

20 25. Notifications to Beneficiaries: During the Accounting Period and,
21 additionally, from January 1, 2014 to and including April 17, 2014, the following notifications were
22 placed on the Trust's Web site:

- 23 a. Notice regarding hearing on Trust's Third Annual Report and
24 Accounting (posted May 1, 2013);
- 25 b. Notice of increase in Funds Received Ratio (posted September 30,
26 2013);
- 27 c. Notice of Suspension of Pro Bono Evaluation Procedures (posted
28

1 January 14, 2014);

2 d. Notice of settlement of Mandelbrot adversary proceeding (posted
3 January 31, 2014);

4 e. Notice of claims processing FTP server maintenance (posted February
5 18, 2014);

6 f. Notice of computer system incursion (posted February 21, 2014);

7 g. Notice/update regarding computer system incursion (posted March 6,
8 2014);

9 h. Notice regarding submission of claims in paper form (posted March
10 14, 2014); and

11 i. Notice/update regarding settlement of Mandelbrot adversary
12 proceeding (posted April 16, 2014).

13 26. Attempt to Place False Claim in the Western Trust Database: The Trust
14 discovered on February 18, 2014, that an attempt had been made to place a fictitious claim within
15 the Western Trust database on or about February 15, 2014. All Trusts' systems were taken off-line
16 on February 18, 2014, and a cyber-security firm was hired to conduct a forensic investigation. The
17 Trusts also hired a law firm that specializes in the legal requirements, if any, related to the false
18 claim placement. The investigation is ongoing. Claims are being submitted in paper or digital form
19 until such time as the systems can be safely placed back on line.

20 27. System Development: The Trust has been working to develop an updated
21 system and anticipates that it will contract with an outside vendor and move to a new platform
22 within 2014.

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

26 29. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the
27 Trust to report the amounts paid to the Trustees for compensation and expenses. During the
28

1 Accounting Period, the Trustees each received per annum compensation in the amount of \$40,000
2 paid in quarterly installments. The total paid to all Trustees for hourly compensation was \$209,056
3 and \$5,556 was the total amount of expenses incurred by all Trustees.

4 30. Significant Vendors:

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

- 7 a. Analysis Research Planning Corporation (“ARPC”): Provides monthly
8 maintenance of the Trust’s current claims processing system. Dr. Vasquez of ARPC acts as the
9 expert professional with whom the Trustees consult;
- 10 b. Clark & Trevithick: Counsel to the Reorganized Debtor;
- 11 c. Eagle Capital Management: One of eight investment managers for the Trust
12 described in paragraph 31, *infra*;
- 13 d. Fergus, a Law Office: Counsel to the Honorable Charles Renfrew, Futures
14 Representative;
- 15 e. Harding Loevner, LP: One of eight investment managers for the Trust
16 described in paragraph 31, *infra*;
- 17 f. Klee, Tuchin, Bogdanoff & Stern LLP: Counsel to the Debtors and now
18 counsel to the Trust in the appeals as described in paragraph 23, *supra*;
- 19 g. Molland Law: Co-counsel for the Mandelbrot litigation described in
20 paragraph 23(e), *supra*;
- 21 h. Morgan Lewis & Bockius LLP: Counsel to Debtors and now counsel to the
22 Trust in the litigation, as described in paragraph 23, *supra*;
- 23 i. Pacific Insulation Company: Reorganized Debtor;
- 24 j. Stutman, Treister & Glatt P.C.: Bankruptcy counsel to the Trust;
- 25 k. Western Asbestos Settlement Trust for shared services pursuant to the Trust
26 Facilities and Services Sharing Agreement, as described in paragraph 18, *supra*; and
- 27 l. Westwood Management Corporation: One of eight investment managers for
28

1 the Trust described in paragraph 31, *infra*.

2 31. Trust Investment Management: Article 3 of the Trust Agreement authorizes
3 the Trust to administer the investment of funds in the manner in which individuals of ordinary
4 prudence, discretion and judgment would act in the management of their own affairs, subject to
5 certain limitations. The Trust closely monitors any market volatility with its investment advisors
6 and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc.
7 continued to assist the Trust during the Accounting Period as its investment consultant. BlackRock
8 Financial Management, Inc., Eagle Capital Management, LLC, Harding Loevner, LP, Segall Bryant
9 & Hamill, State Street Global Advisors, and Westwood Management Corporation have continued to
10 act as investment managers to the Trust. On September 11, 2013, the Trustees approved the
11 engagement of Silvercrest Asset Management Group and Standish Mellon Asset Management
12 Company, LLC as additional investment managers.

13 Additionally, the Trust's Investment Policy Statement was amended on September
14 11, 2013, a copy of which is included in the Appendix filed herewith.

15 ***

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



Financial Statements and Report of Independent
Certified Public Accountants

Thorpe Insulation Settlement Trust

December 31, 2013 and 2012

Contents

	Page
Report of Independent Certified Public Accountants	3
Statements of Net Claimants' Equity	5
Statements of Changes in Net Claimants' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplemental Information	
Schedule of Operating Expenses	19



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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, 2013 and 2012, and the related statements changes in net claimants’ equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of Thorpe Insulation Settlement Trust as of December 31, 2013 and 2012, 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, 2013 and 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on use

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

Grant Thornton LLP

Reno, Nevada

April 17, 2014

Thorpe Insulation Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents and investments available-for-sale		
Restricted	\$ 25,000,000	\$ 5,000,000
Unrestricted	<u>499,136,708</u>	<u>134,353,197</u>
Total cash and cash equivalents and investments	524,136,708	139,353,197
Accrued interest and dividend receivables	2,091,722	727,108
Deferred tax asset	<u>19,422,000</u>	<u>11,002,000</u>
Total assets	<u><u>\$ 545,650,430</u></u>	<u><u>\$ 151,082,305</u></u>
LIABILITIES		
Accrued expenses	\$ 3,197,598	\$ 935,185
Claim processing deposits	383,500	465,250
Unpaid claims (Note D)		
Outstanding offers	6,763,135	4,636,633
Facility and staff sharing agreement payable	<u>384,000</u>	<u>348,000</u>
Total liabilities	<u><u>\$ 10,728,233</u></u>	<u><u>\$ 6,385,068</u></u>
NET CLAIMANTS' EQUITY	<u><u>\$ 534,922,197</u></u>	<u><u>\$ 144,697,237</u></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>2013</u>	<u>2012</u>
Net claimants' equity, beginning of year	<u>\$ 144,697,237</u>	<u>\$ 152,085,866</u>
Additions to net claimants' equity		
Initial funding	456,743,296	4,500,000
Investment income	8,210,939	1,739,384
Provision for income taxes, deferred	8,420,000	964,000
Net decrease in facilities and staff sharing agreement	-	72,000
Net realized/unrealized gains on available-for sale securities	<u>11,082,174</u>	<u>4,902,521</u>
Total additions	<u>484,456,409</u>	<u>12,177,905</u>
Deductions from net claimants' equity		
Operating expenses	39,776,862	4,924,672
Court ordered bankruptcy fees	1,910,997	-
Claims settled	50,381,088	13,460,356
Net increase in outstanding claim offers	2,126,502	1,181,506
Net increase in facility and staff sharing agreement	<u>36,000</u>	<u>-</u>
Total deductions	<u>94,231,449</u>	<u>19,566,534</u>
Net claimants' equity, end of year	<u><u>\$ 534,922,197</u></u>	<u><u>\$ 144,697,237</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>2013</u>	<u>2012</u>
Cash inflows:		
Initial funding	\$ 456,743,296	\$ 4,500,000
Investment income receipts	6,692,884	1,026,247
Increase in claim processing deposits	-	231,250
Net realized gains on available-for-sale securities	<u>153,441</u>	<u>32,551</u>
Total cash inflows	<u>463,589,621</u>	<u>5,790,048</u>
Cash outflows:		
Claim payments made	50,381,088	13,460,356
Disbursements for Trust operating expenses	37,638,532	4,822,947
Disbursements for Court ordered bankruptcy fees	<u>1,868,664</u>	<u>83,250</u>
Total cash outflows	<u>89,888,284</u>	<u>18,366,553</u>
Net cash outflows	373,701,337	(12,576,505)
Non-cash changes:		
Net unrealized gains on available-for-sale securities	<u>11,082,174</u>	<u>4,869,970</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	384,783,511	(7,706,535)
Cash, cash equivalents, and investments available-for-sale, beginning of year	<u>139,353,197</u>	<u>147,059,732</u>
Cash, cash equivalents, and investments available-for-sale, end of year	<u><u>\$ 524,136,708</u></u>	<u><u>\$ 139,353,197</u></u>

The accompanying notes are an integral part of these statements.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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”) Fifth Amended Joint Plan of Reorganization, dated December 17, 2009. 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 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, 2013 and 2012

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.
- All interest income is recorded net of investment expenses on the statement of changes in net claimants' equity.
- 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 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, 2013 and 2012

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, 2013, 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.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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, 2013	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 10,347,157	\$ 10,347,157
U.S. Government obligations	6,702,708	6,554,521
Municipal bonds	239,137	230,883
Asset backed securities	624,502	621,131
Corporate and other debt	7,349,653	7,246,308
	<u>\$ 25,263,157</u>	<u>\$ 25,000,000</u>
<u>Unrestricted</u>		
Cash demand deposits	\$ 266,832	\$ 266,832
Cash equivalents	223,213,185	223,213,185
Equity securities	86,503,564	104,481,334
U.S. Government obligations	10,274,652	9,927,841
Municipal bonds	80,667,597	80,418,689
Asset backed securities	990,431	979,684
Corporate and other debt	81,018,569	79,849,143
	<u>\$ 482,934,830</u>	<u>\$ 499,136,708</u>
December 31, 2012		
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 94,431	\$ 94,431
U.S. Government obligations	2,270,323	2,270,707
Municipal bonds	139,249	138,360
Asset backed securities	79,183	79,656
Corporate and other debt	2,429,483	2,416,846
	<u>\$ 5,012,669</u>	<u>\$ 5,000,000</u>
<u>Unrestricted</u>		
Cash demand deposits	\$ 732,606	\$ 732,606
Cash equivalents	17,942,286	17,942,286
Equity securities	46,420,660	50,912,336
U.S. Government obligations	10,307,038	10,319,952
Municipal bonds	43,136,147	43,524,190
Asset backed securities	296,897	298,696
Corporate and other debt	10,634,925	10,623,131
	<u>\$ 129,470,559</u>	<u>\$ 134,353,197</u>

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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, 2013		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 266,832	\$ -	\$ -
Cash equivalents	233,560,342	-	-
Equity securities	104,481,334	-	-
U.S. Government obligations	8,167,816	8,314,548	-
Municipal bonds	-	80,649,572	-
Asset-backed securities	-	1,600,815	-
Corporate and other debt	87,095,451	-	-
	<u>\$ 433,571,773</u>	<u>\$ 90,564,935</u>	<u>\$ -</u>
	December 31, 2012		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 732,606	\$ -	\$ -
Cash equivalents	18,036,717	-	-
Equity securities	50,912,336	-	-
U.S. Government obligations	1,732,597	10,858,062	-
Municipal bonds	-	43,662,550	-
Asset-backed securities	-	378,352	-
Corporate and other debt	13,039,977	-	-
	<u>\$ 84,454,233</u>	<u>\$ 54,898,964</u>	<u>\$ -</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, 2012 and December 31, 2013, no securities were transferred between Level 1 and Level 2.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2013:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ 1,084,675	\$ 2,704,369	\$ 4,911,334	\$ 7,781,984
Municipal bonds	1,185,795	43,862,886	31,984,815	3,616,076
Asset backed securities	-	934,528	666,287	-
Corporate and other debt	69,084,063	11,209,954	6,219,221	508,563
	<u>\$ 71,354,533</u>	<u>\$ 58,711,737</u>	<u>\$ 43,781,657</u>	<u>\$ 11,906,623</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, include:

Acquisition of computer equipment	\$ 9,859
Acquisition of computer software	<u>44,629</u>
	<u>\$ 54,488</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, 2013 and 2012 was \$0 and \$1,382, respectively. Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$15,456 and \$17,270 for the years ended December 31, 2013 and 2012, respectively.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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, 2013 and 2012, 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, 2012 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 8.34% and 6.74% are included in outstanding claims liabilities as of December 31, 2013 and 2012, respectively.

The Trust processed and approved approximately \$17,670,611 and \$14,641,661 of Trust Claims during the years ended December 31, 2013 and 2012, respectively.

NOTE E - LEGAL FEES - COVERAGE LITIGATION

For the years ended December 31, 2013 and 2012, the Trust incurred a total of \$28,608,270 and \$-0-, respectively, of contingent and hourly fees for coverage litigation. As of December 31, 2013 and 2012, \$2,579,351 and \$337,500 were reported in accrued expenses on the accompanying Statement of Net Claimants' Equity.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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 agreement automatically renews 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, 2013, the equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Western Trust. The reconciliation is performed and recorded in the period subsequent to the reconciliation period. The reconciliation performed for the year ended December 31, 2013 resulted in an additional payment to the Western Trust of approximately \$68,955. The reconciliation performed for the year ended December 31, 2012 resulted in an additional payment to the Western Trust of approximately \$50,000. The next reconciliation period will be the twelve-month period ending December 31, 2014. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The future payments under this agreement have been recorded as a liability on the accompanying statement of net claimants' equity.

NOTE 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.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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, 2013 and 2012, cash, cash equivalents and investments of \$25,000,000 and \$5,000,000, respectively, were restricted for these purposes.

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, 2013 and 35% for the year ended December 31, 2012.

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 \$19 million reflecting the benefit of approximately \$65 million in loss carryforwards, which expire in varying amounts between 2030 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Federal income tax – current	\$ -	\$ -
Deferred income tax expense	<u>8,420,000</u>	<u>964,000</u>
	<u>\$ 8,420,000</u>	<u>\$ 964,000</u>

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE I - INCOME TAXES - Continued

The components of the deferred income tax asset, as presented in the statements of net claimants' equity consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<u>Deferred tax asset (liability)</u>		
Depreciation and amortization	\$ 33,000	\$ 41,000
Unrealized appreciation	(6,317,000)	(1,928,000)
Loss carryforward	25,706,000	12,887,000
Other	-	2,000
	<u>\$ 19,422,000</u>	<u>\$ 11,002,000</u>

NOTE J - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 17, 2014, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure, except that discussed below.

SUPPLEMENTAL INFORMATION

Thorpe Insulation Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	<u>2013</u>	<u>2012</u>
Accounting	\$ 52,969	\$ 33,837
Claims processing/claims system development	95,827	60,294
Computer equipment	-	1,382
Futures representative	767,777	567,751
Information technology support	34,796	12,311
Legal fees	2,797,474	3,249,421
Contingency legal fees	35,137,490	-
Trust Advisory Committee	62,243	142,275
Trust facility and staff sharing expense	398,274	440,610
Trustee fees	334,612	416,791
Trustees professional	95,400	-
	<u>\$ 39,776,862</u>	<u>\$ 4,924,672</u>

**Thorpe Insulation Settlement Trust
Claim Report
As of December 31, 2013**

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

The Funds Received Ratio was reviewed and increased to 30.5% on September 11, 2013. During the Accounting Period, all Pre-Petition Liquidated Claims that had received a payment under the prior Funds Received Ratio were paid an additional 13% of the total liquidated value, as well as the inflation adjustment of 6.74% for claims payments made in 2013.

Unliquidated Trust Claims

Unliquidated Trust Claims reviewed by the Trust from January 1, 2013, through December 31, 2013, in accordance with the Second Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation Matrix ("Matrix") and Third 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 jurisdiction and tort related individual characteristics including, but not limited to: age, marital status, dependents, medical specials, economic loss, and whether living at the time of commencement of litigation or filing the claim with the Trust. Each valid claim is awarded a total liquidated value. As of December 31, 2013, all unliquidated Trust Claims were paid at the approved Funds Received Ratio at the time of payment. Payments made on Trust Claims in 2013 included the additional 6.74% to account for inflation based upon the CPI-W.

During the Accounting Period, nearly all Trust Claims that had received a payment under the prior Funds Received Ratio were paid an additional 13% of the total liquidated value, and those payments included the inflation adjustment.

During the Accounting Period, 413 unliquidated Trust Claims were received, 676 unliquidated Trust Claims were paid, and 800 unliquidated Trust Claims received offers.

Below is a summary of the number and type of claims disposed of (paid) in 2013.

Compensable Disease	Number of Claims
Grade II Non-Malignant	193
Grade I Non-Malignant	91
Grade I Non-Malignant Enhanced Asbestosis	30
Grade I Non-Malignant Serious Asbestosis	23
Colo-Rectal	16
Esophageal	3
Kidney	2
Laryngeal	1
Non-Hodgkin's Lymphoma	0
Chronic Lymphocytic Leukemia	0
Other Cancer	3
Lung Cancer	132
Mesothelioma	182
Total	676