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15 **UNITED STATES BANKRUPTCY COURT**
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

16 In re
17 THORPE INSULATION COMPANY,¹
18 Debtor.
19

Case No. LA 07-19271-BB
(Jointly Administered with Case No. 2:07-20016-BB)

**SECOND ANNUAL REPORT AND
ACCOUNTING, AUDITED FINANCIAL
STATEMENTS, AND CLAIM REPORT**

Date: June 27, 2012
Time: 10:00 a.m.
Place: Courtroom 1475
255 East Temple Street
Los Angeles, CA 90012
22

23 The Trustees of the Thorpe Insulation Settlement Trust by and through their counsel,
24 Stutman, Treister & Glatt, hereby file the Second Annual Report and Accounting, Audited Financial
25 Statements, and Claim Report.
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28 ¹ The Debtors are Thorpe Insulation Company, a California corporation, 5608 Bayshore Walk, Long Beach, CA 90803,
Fed. Tax I.D. No. 95-1559386 (Main Debtor) and Pacific Insulation Company, a California corporation, 2741 South
Yates Ave., Los Angeles, CA 90040, Fed. Tax I.D. No. 95-4812741.

1 Respectfully submitted this 27th day of April, 2012.

2 STUTMAN, TREISTER & GLATT

3 By: //s// Gabriel I. Glazer
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**SECOND ANNUAL REPORT AND ACCOUNTING
OF THORPE INSULATION SETTLEMENT TRUST**

The Trustees of the Thorpe Insulation Settlement Trust ("Trust") hereby submit this Second Annual Report and Accounting ("Annual Report") covering Trust activities occurring from January 1, 2011 to and including December 31, 2011 ("Accounting Period"), and certain activities of the Trust, specified below, that took place outside the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Central District of California, Los Angeles Division, *In re Thorpe Insulation Company, In re Pacific Insulation Company, Debtors*, Case Nos. 2:07-19271-BB and 2:07-20016-BB (jointly administered under Case No. 2:07-20016-BB) ("Bankruptcy Case") pursuant to the Fifth Amended Joint Plan of Reorganization of Thorpe Insulation Company and Pacific Insulation Company ("Plan"); Order Confirming Fifth Amended Joint Plan of Reorganization of Thorpe Insulation Company and Pacific Insulation Company dated February 1, 2010 ("Confirmation Order"); this Court's *Order Approving Continued Operation of the Thorpe Insulation Company Asbestos Settlement Trust in the Ordinary Course of Business Pending Further Instruction* entered on February 28, 2012 ("Continued Operations Order"); the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case Valuation Matrix, as amended from time to time, established pursuant to the Plan,² and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle Thorpe Insulation Settlement Trust's Second Annual Report and Accounting, Audited Financial Statements, and Claim Report as described in paragraphs 6, 7, and 8 *infra*. Capitalized terms not defined herein are as defined in Article 1 of the Plan.

² The Appendix includes the Plan; Order Confirming the Plan; Continued Operations Order; Sixth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Agreement ("Trust Agreement"); First Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement 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 1. Effective Date: Pursuant to Sections 1.57, 5.1.1 and 7.2 of the Plan, the Effective
2 Date of the Trust was set forth as October 22, 2010. On September 29, 2009, certain of Thorpe's
3 non-settling insurers filed appeals from the Confirmation Order. Following the denial of requests to
4 stay the Confirmation Order by each of the United States District Court for the Central District of
5 California (the "District Court"), the United States Court of Appeals for the Ninth Circuit (the "Ninth
6 Circuit"), and Supreme Court Justice Anthony M. Kennedy, the Plan became effective and the Trust
7 was established. On January 24, 2012, the Ninth Circuit issued an Opinion in the Plan Appeal (as
8 amended following the petition for rehearing described below, the "Opinion"). The Opinion: (a)
9 affirmed this Court's rulings on a number of issues, (b) concluded that, "Although the plan has
10 proceeded to a point where it may be inequitable to toss it out entirely, we also conclude that there are
11 likely viable remedies available to Appellants, short of entirely tossing the plan out, within the broad
12 remedial discretion of the bankruptcy court, if it determines that Appellants' claims (discussed in
13 footnote one) have merit."; and (c) "reverse[d] the judgment of the district court, and remand[ed] [the
14 matter] to the district court with instructions that it remand to the bankruptcy court to permit
15 Appellants to submit their proof on all issues they previously preserved." A copy of the Opinion is
16 included in the Appendix filed herewith.

17 On February 7, 2012, Thorpe, the Official Committee of Unsecured Creditors
18 appointed in Thorpe's bankruptcy case and the Future's Representative filed a petition for rehearing in
19 the Plan Appeal. That petition was denied on April 3, 2012, and the Ninth Circuit issued its mandate
20 to the District Court on April 12, 2012, with instructions that it remand to this Court. On April 16,
21 2012, the District Court remanded the matter to this Court. At present, and absent further contrary
22 order of this Court, the Trust is operating pursuant to the terms of the Trust and the Plan, and the
23 Continued Operations Order. Absent a petition to the United States Supreme Court, the Opinion will
24 become final on July 2, 2012.

25 The Continued Operations Order, in part, authorized the Trust to expend up to
26 \$5,000,000 after January 24, 2012 to pay approved asbestos claims. At its February 16, 2012
27 meeting, the Trust implemented a program to make partial payments to as many claimants as
28 possible while, conserving Trust resources consistent with the Continued Operations Order. At this

1 time the Trust is making claim payments for approved claims of one half of the current Funds
2 Received Ratio of 17.5%. From January 24, 2012 to and including April 20, 2012, the Trust has
3 paid claims in the total amount of \$1,461,329.53 from the approved \$5,000,000 in authority. Those
4 claims have a Total Liquidated Value of \$9,858,524.42. As of April 20, 2012, there are offers
5 outstanding with a Total Liquidated Value of \$28,030,846.49, representing, if all offers are accepted,
6 a potential for \$2,574,107.68 in additional payments under the current reduced payment program.
7 To date of this Annual Report, operating expenses, net of extraordinary legal fees in 2012, total
8 \$431,645.00 for an average monthly run rate of \$130,000.00.

9 2. Appointment of Trustees: In the Order Confirming the Plan, this Court approved the
10 appointment of Mr. John F. Luikart and Dr. Sandra R. Hernandez as the Trustees of the Trust, who
11 have acted in that capacity since the Effective Date of the Trust.

12 As described in the Trust's First Annual Report and Accounting, pursuant to Section
13 4.1 of the Trust Agreement, the number of Trustees was increased to three (3) on January 11, 2011,
14 and on February 17, 2011, Mr. Stephen M. Snyder was appointed to serve as the third Trustee. Mr.
15 Snyder has acted as a Trustee of the Trust since February 17, 2011. Further, on April 21, 2011, in
16 accordance with Section 4.1 of the Trust Agreement, Mr. Snyder was designated by the other two
17 Trustees as Managing Trustee, with the consent of the Trust Advisory Committee and Futures
18 Representative.

19 3. Appointment of Trust Advisory Committee ("TAC"): Pursuant to Section 6.1 of the
20 Trust Agreement, Alan R. Brayton, Ron C. Eddins, David McClain, Jerry Neil Paul, and David A.
21 Rosen were designated as the initial members of the TAC. Mr. Brayton was elected Chair of the
22 TAC by its members on October 25, 2010, and has served in that capacity since that time. Messrs.
23 Eddins, McClain, Paul and Rosen continued to serve as members of the TAC during the Accounting
24 Period; however, in early January 2012, Mr. Eddins passed away. Pursuant to Section 6.4 of the
25 Trust Agreement, Peter A. Kraus has been selected by a majority vote of the Trustees to succeed the
26 late Mr. Eddins as a member of the TAC.

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

4 5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code
5 to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, the
6 Trust's fiscal year is the calendar year. Section 2.2(b) of the Trust Agreement requires the Trustees
7 to file income tax and other returns and statements in a timely manner, and comply with all
8 withholding obligations as legally required, including fulfilling requirements to maintain the Trust's
9 status as a Qualified Settlement Fund. The Trust has complied with its tax obligations on a quarterly
10 basis based upon the advice Sitkoff/O'Neil Accountancy Corporation, the certified public
11 accountants retained by the Trust to prepare its annual tax returns. The federal tax return for 2011
12 will be filed on or before September 17, 2012. The Trust resides in Nevada, and Nevada has no state
13 income tax. Although the Trust is not subject to tax in California, the Trustees file a tax return in
14 California, attaching a copy of the Trust's federal tax return but showing no California taxable
15 income or state tax liability.

16 6. Annual Report: Section 2.2(c)(i) of the Trust Agreement provides in pertinent part:
17 The Trustees shall cause to be prepared and filed with the Bankruptcy Court . . . an
18 annual report containing financial statements of the Trust (including, without
19 limitation, a statement of the net claimants' equity of the Trust as of the end of such
20 fiscal year and a statement of changes in net claimants' equity for such fiscal year)
21 audited by a firm of independent certified public accountants selected by the Trustees
22 and accompanied by an opinion of such firm as to the fairness of the financial
23 statements' presentation of the equity presently available to current and future
24 claimants and as to the conformity of the financial statements with accounting
25 principals generally accepted in the United States, except for the special-purpose
26 accounting methods...

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

1 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the
2 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'

Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis of accounting utilized by the Trust. These Audited Financial Statements show, among other things, that as of December 31, 2011, total Trust assets were \$157,111,703, total liabilities were \$5,025,837, and Net Claimants' Equity was \$152,085,866.

8. 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 summary regarding the number and type of claims disposed of during the period covered by the financial statements. The Thorpe Insulation Settlement Trust Claim Report As Of December 31, 2011 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 644 claims, paid 199 claims, and made settlement offers on 353 claims. Since the Trust received its first Trust Claim,³ the Trust has received 1,762 Trust Claims, paid 261 Trust Claims, and 72 Trust Claims have been withdrawn.⁴

Section 5.4 of the TDP provides that, "As soon as practicable after the Effective Date, the Trust shall pay all Trust Claims that were liquidated by (i) a settlement agreement entered into prior to the Petition Date for the particular claim, or (ii) a judgment of any kind entered on or before October 15, 2007 (collectively, "Pre-Petition Liquidated Claims")." As described in the Trust's First Annual Report and Accounting, all 326 Pre-Petition Liquidated Claims were paid by the end of January 2011 in trust to the representative law firms for disbursement to the claimants upon the Trust's receipt and approval of a properly executed release.

9. Public Inspection: In compliance with Section 2.2(c)(iii) of the Trust Agreement, the Annual Report, including the Audited Financial Statements and Claim Report, has been provided to the TAC and Futures Representative, filed with the Office of the United States Trustee with

³ "Trust Claims" are any claims submitted to the Trust after the Effective Date.

⁴ "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 responsibility for the Central District of California, Los Angeles Division, and made available for
2 inspection by the public.

3 10. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
4 Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close as
5 practicable on a quarterly basis. The Trustees held five (5) meetings during the Accounting Period
6 (January 11, 2011, February 17, 2011, April 21, 2011, September 15-16, 2011, and November 17-
7 18, 2011). All meetings were held in Reno, Nevada.

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

10 12. Funds Received Ratio: Section 4.2 of the TDP provides for the Trustees to reconsider
11 the Funds Received Ratio on the first day of January after the Plan has been confirmed. As
12 described in the Trust's First Annual Report and Accounting, on November 17, 2010, based upon the
13 analysis and advice of the Trust's expert economist, the Trust, with the consent of the TAC and
14 Futures Representative, set the Initial Funds Received Ratio at 17.5%. Based on the short duration
15 of the Trust's operation, from October 22, 2010 through December 31, 2010, the Trustees concluded
16 that they did not yet have sufficient data to warrant further review or change of the Funds Received
17 Ratio as of January 1, 2011. Accordingly, the Initial Funds Received Ratio has not changed as of
18 January 1, 2011.

19 13. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust calculate
20 a maximum annual payment for claims based upon a model of the amount of cash flow anticipated
21 to be necessary over the entire life of the Trust to ensure that funds will be available to treat all
22 present and future claimants as similarly as possible. At the November 17, 2011 meeting, the
23 Maximum Annual Payment for 2012 was set at \$7,900,000, plus the amount of \$53,093,882 of
24 excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled over
25 and remain dedicated to the respective Disease Category in the Jurisdiction to which they were
26 originally allocated.

14. Inflation Adjustment: Section 5.3(d) of the TDP requires that all claims payments be adjusted for inflation annually beginning with the calendar year after the Effective Date of the Trust. Beginning in 2011, all claims payments made during a calendar year include a cost of living adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W) announced in January each year. Thus, as of January 1, 2011, all claims payments made during the calendar year were increased by 1.7% to account for inflation.

At the November 17, 2011 meeting, the CPI-W to be published in January 2012 was approved for use by the Trust in making the 2012 cost of living adjustment for claims payments. The CPI-W of 3.2% was issued on January 19, 2012. Consequently, all claims payments made during the 2012 calendar year will have a compounded inflation rate of 4.95% added to the payment amount.

15. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the 2012 budget and the required four-year budget and cash flow projections on November 17, 2011. Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for operating expenses in 2012 totals \$1,633,000.⁵

16. Trust Facilities and Services Sharing Agreement with Western Asbestos Settlement Trust: As described in the Trust's First Annual Report and Accounting, the Trust and Western Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services Sharing Agreement in 2010 and amendments to that agreement were approved on April 21, 2011, with the consent of the Futures Representative and TAC. The agreement provided: (i) for the Trust to pay to the Western Trust, for all processing costs and its share of fixed costs, the amount of \$35,000 each month for the first eight months, and \$27,000 each month beginning on July 1, 2011 through the end

⁵ This figure is net of claimant payments which are budgeted for \$7,900,000, net of extraordinary legal fees which are budgeted for \$2,700,000, net of court-ordered legal fees which are budgeted for \$1,000,000, and net of income tax payments which are budgeted for \$0.

1 of the Initial Term for the sharing of the Western Trust employees; and (ii) for an accounting
2 through the end of 2011 and each year thereafter to identify and adjust actual costs as shared to
3 insure that each trust is paying its proportionate share of the expenses. Such arrangement was
4 approved by this Court in the order approving the Trust's First Annual Report. The annual
5 reconciliation presented on February 16, 2012 set the Advance Payments at \$35,000 per month for
6 2012. As described in paragraph 1, *supra*, the Opinion may affect the confirmation of the Plan
7 pursuant to which the Trust was created and commenced operations, however, notwithstanding the
8 Opinion, the Continued Operations Order confirmed, until further order, the Trust's power to
9 continue to perform under its agreement with the Western Trust, pending resolution or other
10 outcomes affecting the Opinion.

11 17. 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 18. Settlement Fund: The Settlement Fund was established at Wells Fargo Bank, N.A. to
14 pay valid claims.

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

17 20. 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.

22 In November of 2010, the Trust established an indemnity fund at Wells Fargo Bank,
23 N.A., in the amount of \$5,000,000, as described in the Trust's First Annual Report and Accounting.
24 All interest earned by the fund is returned to the Trust quarterly. During the Accounting Period, no
25 claims were made against the fund and no money was paid from the fund.

26 21. Legal Disputes:

27 a. *Thorpe Insulation Co. v. Argonaut Insurance Co., et al.*, Superior Court of the
28 State of California, County of Los Angeles (the "Superior Court") Case No. CGC 05-46682: This

1 insurance coverage action against Thorpe's five remaining insurers, who elected not to resolve their
2 coverage obligations during the course of the Bankruptcy Case, was filed on November 14, 2005.
3 The action seeks relief with respect to various insurance policies issued to Thorpe, including a
4 primary policy, several umbrella policies and an excess policy. The Superior Court has ordered that
5 the issues in this action be tried in phases. The Phase I trial, on policy interpretation issues, is
6 currently scheduled to commence on August 11, 2012. The other insurers originally sued in this
7 action have entered into settlements with the Debtors, all of which have been approved by this Court.
8 In accordance with the Plan, the Trustees retained Morgan, Lewis & Bockius LLP, who represented
9 Thorpe in this litigation before Thorpe filed for bankruptcy, to represent Thorpe and the Trust in the
10 litigation pursuant to a success fee agreement. The Trust has continued the prosecution of this
11 litigation pursuant to Section 5.6.2 of the Plan.

12 On April 13, 2011, the Superior Court ordered that the claims in the coverage
13 litigation between Thorpe and the Trust, on the one hand, and California Union Insurance Company
14 ("Cal Union"), on the other hand, were subject to the alternative dispute resolution provisions set
15 forth in the Wellington Agreement, which was executed by Thorpe in 1985. As a result, the
16 Superior Court ordered those claims to be arbitrated pursuant to the terms of the Wellington
17 Agreement. The Superior Court further ordered that the litigation with Thorpe's non-settling
18 insurers other than Cal Union and the Wellington arbitration with Cal Union will proceed
19 simultaneously.

20 b. *Continental Insurance Company v. Thorpe Insulation Company (In re Thorpe*
21 *Insulation Company)*, United States Court of Appeals for the Ninth Circuit, Case No. 10-55744:
22 During the course of Thorpe's bankruptcy case, this Court issued a series of injunctions enjoining the
23 prosecution of the coverage litigation described at paragraph 21(a), above, during the pendency of the
24 Bankruptcy Case. The most recent of those injunctions was entered by this Court on February 10,
25 2010. That injunction was appealed by certain of Thorpe's insurers to the District Court, which
26 affirmed this Court's injunction by order dated June 17, 2010, and to the Ninth Circuit. Prior to the
27 time that the Ninth Circuit considered that appeal on the merits, the appealed from injunction expired.
28 As a result, by order entered May 9, 2011, the Ninth Circuit dismissed the appeal as moot. That order

1 has now become final.

2 c. *Continental Insurance Company v. Thorpe Insulation Company (In re Thorpe*
3 *Insulation Company)*, United States Court of Appeals for the Ninth Circuit, Case No. 10-55744: On
4 July 21, 2009, this Court entered orders disallowing a claim filed in the Bankruptcy Case by
5 Continental Insurance Company ("Continental") and denying a motion by Continental seeking to
6 compel Thorpe to arbitrate the dispute over the validity of that claim. Those orders were appealed to
7 the District Court, which affirmed this Court's orders by order entered May 4, 2010, and to the Ninth
8 Circuit. On January 30, 2012, the Ninth Circuit issued its opinion affirming the disallowance of
9 Continental's claim and this Court's denial of Continental's motion to compel arbitration. That matter
10 will become final April 30, 2012 unless Continental seeks further review in the United States Supreme
11 Court. In addition, Thorpe filed a motion in the Ninth Circuit Court of Appeals for its prevailing
12 parties' attorneys' fees relating to the appeals of the arbitration denials and claim disallowance.
13 Continental opposed that motion and the matter is pending in the Ninth Circuit.

14 d. *In re Thorpe Insulation*, United States District Court for the Central District of
15 California, Case No. CV 11-668 DSF: On December 20, 2010, this Court entered an order approving
16 a settlement between Thorpe and certain insurers of Thorpe now known as Westport Insurance
17 Company and the Swiss Re Companies. That order was appealed to the District Court by certain of
18 Thorpe's non-settling insurers, which dismissed the appeal as moot by order entered April 11, 2011.
19 That order has now become final.

20 e. *In re Thorpe Insulation*, United States District Court for the Central District of
21 California Case No. CV 11-604 DSF: On December 20, 2010, this Court entered an order approving a
22 settlement between Thorpe, on the one hand, and Fireman's Fund Insurance Company and Chicago
23 Insurance Company, on the other hand. That order was appealed to the District Court, by certain of
24 Thorpe's non-settling insurers, which dismissed the appeal as moot by order entered June 8, 2011.
25 That order has now become final.

26 f. Publication of Site Lists: The Case Valuation Matrix approved by this Court
27 pursuant to the Confirmation Order required the Trust to compile a "Site List:"

28 The Trust, in consultation with the TAC will compile a list of the
ships, facilities and other locations where Thorpe asbestos-containing

1 materials were present including relevant dates when available. The
2 Trust may use this list to establish and to characterize exposure and to
3 create a list of sites where exposure is accepted. The Trust with
4 consent of the TAC and Futures Representative may modify the list in
5 light of additional evidence or experience with claims processing. Any
6 Injured Person may submit additional evidence to establish Thorpe
7 presence at a site, or in support of a higher exposure categorization in a
8 particular case.

9 Case Valuation Matrix at Section VII(b). As required by the Case Valuation Matrix, the Trustees
10 consulted with the Trust Advisory Committee and established an initial list of the ships, facilities and
11 other locations where Thorpe asbestos containing materials were present, or at which Thorpe
12 conducted operations, including the relevant dates, to the extent that such information was available
13 (the "Site List"). In order to facilitate the gathering of additional information to enable the Trust to
14 modify the Site List, and to discourage the filing of claims predicated upon asbestos exposures at
15 sites where Thorpe did not conduct operations or provide asbestos containing products, on April 21,
16 2011, the Trustees, with the Consent of the Futures Representative and the Trust Advisory
17 Committee, determined to publish the Site List on the Trust's Web site. As a result, the Site List was
18 posted on the Trust's Web site on April 21, 2011.

19 At the Trustees' meetings held on September 15 and 16, 2011, the Trustees, with the
20 consent of the Futures Representative and the Trust Advisory Committee, approved certain
21 modifications to the land and ship sites included on the Site List and determined to publish those
22 modifications on the Trust's Web site. The approved modifications were posted on the Trust's Web
23 site on September 26, 2011.

24 By letter dated November 16, 2011, certain of Thorpe's non-settling insurers
25 complained to the Trust about the Trust's publication of the Site List. A copy of that letter is
26 included in the Appendix filed herewith. Among other things, that letter asserts that publication of
27 site lists by the Trust violates insurance policy cooperation clauses, violates implied policy
28 covenants of good faith and fair dealing and is and will be highly prejudicial to the insurance
carriers.

The Trust responded to that letter by letter dated January 19, 2012. A copy of that
letter is included in the Appendix filed herewith. The complaining insurers responded to the Trust's

1 letter by letter dated February 27, 2012. A copy of that letter is included in the Appendix filed
2 herewith.

3 The Trust believes that the complaining insurers' complaints about the Trust's
4 publication of the Site List, and the amendments thereto referred to above, are without merit. The
5 Trust Distribution Procedures require that the Trust compile a Site List "to establish and to
6 characterize exposure and to create a list of sites where exposure is accepted." Publication of the
7 initial Site List and the amendments thereto were reasonably calculated to fulfill that mandate by
8 soliciting information from all interested parties regarding the sites at which Thorpe engaged in
9 asbestos related activities or to which Thorpe shipped asbestos containing materials. The Plan thus
10 requires the Trust to work with and obtain approvals from claimants' representatives to create and
11 publish site lists and alterations to those site lists. These lists are largely the product of evidence
12 adduced in the tort system and resulting claims and settlements, all of which involve claimants and
13 their attorneys. Publication of these lists, a normal practice of several Section 524(g) settlement
14 trusts, levels the playing field between claimants, some of whom are represented by counsel and
15 some of whom are not, and assists the Trust in fulfilling its objective of screening claims and
16 compensating claimants fairly, efficiently and economically. The Trustees do not believe that the
17 Trust, as objecting insurers intimate, should show and share site list information with some
18 claimants' lawyers (those serving on the Trust Advisory Committee, for example) but not others.

19 Creating and publishing site lists as required by the Plan cannot violate policy
20 provisions as a matter of law in this case.⁶ And in fact:

21 1. contrary to the complaining insurers' apparent contentions, the locations at
22 which Thorpe distributed, installed or handled asbestos containing products is well known to the
23 asbestos bar and would be required to be disclosed during the initial stages of discovery in any
24 asbestos litigation filed against Thorpe. See, for example, San Francisco County Superior Court
25

26
27 ⁶ See, for example, *In Matter of Thorpe Insulation*, 12 WL 1089503 (9th Cir. 2012) (insurer cannot claim forfeiture of all
28 insurance based upon provisions of approved bankruptcy plan necessary to achieve the goals of Section 524(g). *Id.* at
*15) and *In Matter of Thorpe Insulation*, 671 F.3d 1011 (9th Cir. 2012) (debtor seeking to confirm a plan of
reorganization under Section 524(g) by negotiating with asbestos claimants for their approval of a plan which preserves
and maximizes both asbestos claims and insurance assets cannot be liable to the insurers for doing so. *Id.* at 1027).

1 General Order 129, Ex. I, Interrogatories 30-31 (regarding distribution and sale of asbestos
2 containing products) and 33 (requiring disclosure of all ships and locations at which contractor
3 defendants performed services, directly or through one or more subcontractors). Copies of General
4 Order 129 and Exhibit I thereto are included in the Appendix filed herewith.

5 2. contrary to the complaining insurers' intimation that the site list relieves
6 claimants of their responsibility to establish that they were exposed, in its announcement posting the
7 Site List, the Trust made clear that "The claimant continues to be responsible to present information
8 describing the circumstances of adequate exposure at a site indentified on the list . . ." See, Trust's
9 announcement of the posting of the Site List, a copy of which is included in the Appendix filed
10 herewith. See also, Complaining insurers' November 16, 2011 letter at Exhibit 5 ("The claimant
11 may still be required to establish exposure to Thorpe's asbestos-containing products and the Trust
12 may require additional information concerning the claimed exposure.").

13 3. contrary to the complaining insurers' contention, publication of the Site List
14 and its amendments will not increase the "Insurers' potential exposure." If anything, publication of
15 the Site List and its amendments will discourage the wasteful filing of claims predicated upon
16 exposures at sites to which Thorpe did not supply asbestos and at which Thorpe did not render
17 services, thereby saving the Trust substantial costs that would have been incurred investigating and,
18 ultimately, denying such claims and preserving the funds that would otherwise have been spent
19 administering such claims for payment of valid claims.

20 22. Amendments to the Trust Documents:

21 a. As described in the Trust's First Annual Report and Accounting, on February 17,
22 2011, the Trust Agreement was amended to correspond with the addition of a third trustee as
23 described in paragraph 2, *supra*.

24 b. As described in the Trust's First Annual Report and Accounting, on February 17,
25 2011, Section IV(b)(vii) of the Matrix was amended to allow for a pathological diagnosis of
26 occupational levels of asbestos bodies or asbestos fibers in lung tissue to be considered when
27 determining medical causation.

28 c. As described in the Trust's First Annual Report and Accounting, on April 21,

2011, Section 2.2(g) of the Trust Agreement was amended to acknowledge that consents by the TAC and Futures Representative whether by signature or as reflected in all approved Trustees' meeting minutes shall constitute the required form and substance of consent. Sections 4.1 and 4.5 of the Trust Agreement were also amended to correspond with the designation of the Managing Trustee as described in paragraph 2, *supra*. A copy of the *Fifth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Agreement* is included in the Appendix filed herewith.

d. On September 15, 2011, Section 5.3(a)(2) of the TDP was amended to further extend the post bankruptcy time period when the statute of limitations had been tolled to and including April 20, 2012. A copy of the *Third Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Personal Injury Settlement Trust Distribution Procedures* is included in the Appendix filed herewith.

e. On September 16, 2011, Section 4.1 of the Trust Facilities and Services Sharing Agreement with the Western Asbestos Settlement Trust was amended to allow for the agreed upon amounts of monthly fees advanced to be reflected in the minutes of Trustees meetings.

f. On November 18, 2011, Section 3.2 of the Trust Agreement was amended concerning the investment of the Trust's funds. A copy of the *Sixth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Agreement* was posted on the Trust's Web site and is included in the Appendix filed herewith.

23. Notifications to Beneficiaries: During the Accounting Period and, additionally, from January 1, 2012 to and including April 20, 2012, the following notifications were placed on the Trust's Web site:

a. Notice Regarding Court Authorized Option for Claimants (posted February 22, 2011) that the Trust is in the process of developing the "alternative claims handling procedures" pursuant to Section 5.11 of the TDP.

b. Update on identification of exposure sites (posted February 25, 2011) involves the Trust's continuing work on identifying exposure sites, dates and ratings.

c. Notice of amendment to the Matrix (posted on March 3, 2011) as described in

1 paragraph 22(b), *supra*.

2 d. Posting on March 25, 2011 of non-privileged source documents and information
3 in connection with the Trust's continuing work to identify exposure sites, dates and ratings.

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

7 f. Notice of the hearing on the Trust's First Annual Report and Accounting (posted
8 on April 27, 2011).

9 g. Notice of new site list (posted on April 29, 2011).

10 h. Notice of documents added to the Web site (posted on May 2, 2011).

11 i. Notice of new traditional occupations list (posted on September 26, 2011).

12 j. Notice of approved modifications to site list (posted on September 26, 2011).

13 k. Notice of new ships repaired list (posted on September 26, 2011).

14 l. Notice of further extension of statute of limitations tolling period and amendment
15 to the TDP (posted on October 5, 2011) as described in paragraph 22(d), *supra*.

16 m. Notice regarding comments to the Trust (posted on November 28, 2011).

17 n. Notice of timing of requests for consideration at February 2012 meeting (posted
18 on November 28, 2011).

19 o. Notice of actions by the Trust pursuant to the Opinion and the Continued
20 Operations Order as described in paragraph 1, *supra* (posted on February 28, 2012).

21 24. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at the
22 September 16, 2011 meeting and there were no recommended changes to the existing \$250.00 fee
23 during the Accounting Period or as of the date hereof.

24 25. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the Trust to
25 report the amounts paid to the Trustees for compensation and expenses. Research was conducted by
26 the Trust staff, at the request of the Trustees, concerning compensation received by similarly situated
27 fiduciaries, both within and outside of asbestos trusts. The research demonstrated that the Trustees'
28 compensation was well inside the norm for similarly situated fiduciaries. On November 17, 2011, it

1 was determined by the TAC and the Futures Representative that the compensation paid to the
2 Trustees was appropriate for the level of risk incurred and work performed by the Trustees. During
3 the Accounting Period, the Trustees each received per annum compensation in the amount of
4 \$40,000 paid in quarterly installments. The total paid to all Trustees for hourly compensation was
5 \$150,236 and \$6,440 was the total amount of expenses incurred by all Trustees.

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

- 8 a. Caplin Drysdale Chartered: Co-counsel to the TAC.
- 9 b. Clark & Trevithick: Counsel to the Reorganized Debtor.
- 10 c. Farwest Insulation Contracting: Non-Debtor entity the Trust was ordered to pay
11 fees for substantial contribution as described in paragraph 29, *infra*.
- 12 d. Fergus, a Law Office: Counsel to the Honorable Charles Renfrew, Futures
13 Representative.
- 14 e. Jones Day: Co-counsel to the TAC.
- 15 f. Jones Vargas: Law firm that acts as Nevada counsel responsible for the legal
16 administration of the Trust and certain bankruptcy matters.
- 17 g. Klee, Tuchin, Bogdanoff & Stern LLP: Counsel to the Debtors and now counsel
18 to the Trust in the pending appeals as described in paragraph 21, *supra*.
- 19 h. Morgan Lewis & Bockius LLP: Counsel to Debtors and now counsel to the Trust
20 in the pending insurance coverage litigation as described in paragraph 21, *supra*.
- 21 i. Pacific Insulation Company: Reorganized Debtor.
- 22 j. Snyder Miller & Orton, LLP: Counsel to the Debtors and former counsel to the
23 Trust in the pending insurance coverage litigation as described in paragraph 21, *supra*. Please also
24 see paragraph 28, *infra*.
- 25 k. Western Asbestos Settlement Trust for shared services pursuant to the Trust
26 Facilities and Services Sharing Agreement, as described in paragraph 16, *supra*.

27 27. Trust Investment Management: Article 3 of the Trust Agreement authorizes the Trust
28 to administer the investment of funds in the manner in which individuals of ordinary prudence,

1 discretion and judgment would act in the management of their own affairs, subject to certain
2 limitations. The Trust closely monitors any market volatility with its investment advisors and
3 continues to be in compliance with its Investment Policy Statement. As described in the Trust's
4 First Annual Report and Accounting, in February 2011, it was determined that the Trust would
5 engage Callan Associates, Inc. as its investment consultant, and Dwight Asset Management, Eagle
6 Capital Management, Harding Loevner, LP, Standish Mellon Asset Management, and State Street
7 Global Advisors could be used to act as the Trust's investment managers. The Trust approved its
8 Investment Policy Statement on February 17, 2011. During the Accounting Period, the Trust
9 engaged Eagle Capital Management, Harding Loevner, LP, and State Street Global Advisors.

10 On November 18, 2011, it was determined that the Trust would engage BlackRock
11 Financial Management, Inc. as an additional investment manager for the Trust. As well, on
12 February 16, 2012, it was determined that the Trust would engage Westwood Management
13 Corporation as an additional investment manager for the Trust. In addition, the Trust's Investment
14 Policy Statement was amended on February 16, 2012, a copy of which is included in the Appendix
15 filed herewith.

16 28. Disengagement of Snyder, Miller & Orton, LLP: As described in the Trust's First
17 Annual Report and Accounting, in December of 2010, Snyder, Miller & Orton, LLP ("Snyder
18 Miller") approached the Trust with a proposal to withdraw as the Trust's coverage counsel. An
19 agreement providing for Snyder Miller's withdrawal as coverage counsel was presented at the
20 January 11, 2011 meeting, during which Trustees John Luikart and Sandra Hernández approved
21 Snyder Miller's withdrawal, with no objections by the Futures Representative or TAC.

22 29. Fees for Substantial Contribution: As described in the Trust's First Annual Report
23 and Accounting, pursuant to this Court's February 18, 2011 Order re Motion of Non-Debtor Fults
24 Entities for Allowance of "Substantial Contribution" Claim Pursuant to 11 U.S.C. § 503(b), the Trust
25 paid fees totaling \$223,506.03 to Farwest Insulation Contracting. In addition, on April 11, 2011, this
26 Court approved the substantial contribution claim of Kazan, McClain, Lyons, Greenwood & Harley,
27 PLC, and Brayton Purcell, LLP in accordance with a mediated resolution. The Trust has not yet paid
28 the Kazan and Brayton firms for their substantial contribution claim.

30. Final Fee Applications: As described in the Trust's First Annual Report and Accounting, all Final Fee Applications were approved by this Court in February and March of 2011 and the Trust has paid all amounts due and payable accordingly.

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

EXHIBIT A

EXHIBIT A



Grant Thornton

Financial Statements and Report of Independent
Certified Public Accountants

Thorpe Insulation Settlement Trust

December 31, 2011 and 2010

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Report of Independent Certified Public Accountants

To the Trustees of Thorpe Insulation Settlement Trust

We have audited the accompanying special-purpose statements of net claimants' equity of Thorpe Insulation Settlement Trust (the Trust), organized in the State of Nevada, as of December 31, 2011 and 2010 and the related statements of changes in net claimants' equity and cash flows for the years then ended. These special-purpose financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

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

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

In our opinion, the accompanying special-purpose financial statements of Thorpe Insulation Settlement Trust, as of and for the years ended December 31, 2011 and 2010, are fairly presented, in all material respects, on the basis of accounting described in Note A.

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

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

Grant Thornton LLP

Reno, Nevada
April 9, 2012

Thorpe Insulation Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2011	2010
ASSETS		
Cash and cash equivalents		
Restricted	\$ 5,000,000	\$ 5,000,000
Unrestricted	142,059,732	87,697,964
Total cash and cash equivalents	147,059,732	92,697,964
Accrued interest and dividend receivables	13,971	12,678
Deferred tax asset	10,038,000	8,746,000
Total assets	<u>\$ 157,111,703</u>	<u>\$ 101,456,642</u>
LIABILITIES		
Accrued expenses	\$ 916,710	\$ 13,145,884
Claim processing deposits	234,000	181,250
Unpaid claims (Note C)		
Outstanding offers	3,455,127	1,431,963
Pre-petition liquidated claims	-	1,326,945
Facility and staff sharing agreement payable	420,000	372,000
Total liabilities	<u>\$ 5,025,837</u>	<u>\$ 16,458,042</u>
NET CLAIMANTS' EQUITY	<u>\$ 152,085,866</u>	<u>\$ 84,998,600</u>

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,

	2011	2010
Net claimants' equity, beginning of year	\$ 84,998,600	\$ -
Additions to net claimants' equity		
Initial funding	83,000,000	114,950,704
Investment income	-	14,693
Provision for income taxes, deferred	1,292,000	8,746,000
Total additions	84,292,000	123,711,397
Deductions from net claimants' equity		
Operating expenses	4,003,183	24,615,690
Court ordered bankruptcy fees	383,756	2,208,299
Claims settled	10,744,411	10,084,845
Investment fees	2,220	-
Net increase in outstanding claim offers	2,023,164	1,431,963
Net increase in facility and staff sharing agreement	48,000	372,000
Total deductions	17,204,734	38,712,797
Net claimants' equity, end of year	\$ 152,085,866	\$ 84,998,600

accompanying notes are an integral part of these statements.

Thorpe Insulation Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2011	2010
Cash inflows:		
Initial funding	\$ 83,000,000	\$ 114,950,704
Investment income receipts	-	2,015
Increase in claim processing deposits	52,750	181,250
Total cash inflows	83,052,750	115,133,969
Cash outflows:		
Claim payments made	12,071,356	8,757,900
Investment fees	3,513	-
Disbursements for Trust operating expenses	15,101,839	12,766,824
Disbursements for Court ordered bankruptcy fees	1,514,274	911,281
Total cash outflows	28,690,982	22,436,005
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,361,768	92,697,964
Cash and cash equivalents, beginning of year	92,697,964	-
Cash and cash equivalents, end of year	<u>\$ 147,059,732</u>	<u>\$ 92,697,964</u>

accompanying notes are an integral part of these statements.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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, 2011 and 2010

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.

3. Cash and Cash Equivalents

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

4. Deposits

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

5. 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.

6. 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.

7. 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, 2011, 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, 2011 and 2010

NOTE B - 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, 2011 and 2010 was \$54,488 and \$54,314, respectively. Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$16,818 and \$2,100 for the years ended December 31, 2011 and 2010, respectively.

NOTE C - 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 or expires after six months. Offers may be extended an additional six months upon written request and good cause. There were no expired offers during the period ended December 31, 2011.

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.

In the interest of treating all claimants equitably in accordance with the Plan and pursuant to the TDP, all payments made during the year ended December 31, 2011 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. Inflation Adjustments of 4.95% are included in outstanding claims liabilities as of December 31, 2011.

The Trust processed and approved approximately \$12,766,926 and \$1,694,000 of Trust Claims during the years ended December 31, 2011 and 2010, respectively.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE D - LEGAL FEES - COURT ORDERED

The Trust is required to pay legal fees that were authorized by bankruptcy court order incurred through the effective date of the Plan. For the period from inception (October 22, 2010) through December 31, 2011 and 2010, the Trust incurred a total of \$840,275 and \$22,710,789, respectively, of contingent and hourly fees for coverage litigation. Of this amount, \$840,275 and \$11,523,416 were paid, and \$675,000 and \$11,187,373 are represented in accrued expenses on the accompanying Statement of Net Claimants' Equity.

NOTE E - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into a facilities and staff sharing agreement with the Western Asbestos Settlement Trust, (the Western Trust). The two trusts are related through common trustees. Under the agreement, and in exchange for advance monthly payments, the Western Trust provides use of its facilities and services relating to administration and claims processing. The agreement automatically renews for additional one-year periods unless either party provides six months written notice. The amounts of advance monthly payments are agreed upon between the trusts from time to time. As of December 31, 2011, 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 fourteen months ended December 31, 2011 resulted in an additional payment to the Western Trust of approximately \$21,000. The next reconciliation period will be the twelve-month period ending December 31, 2012. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The future payments under this agreement have been recorded as a liability on the accompanying statement of net claimants' equity.

NOTE F - NET CLAIMANTS' EQUITY

The Trust was created pursuant to the Plan 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.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE G - RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

To avoid the high costs of director and officer liability insurance, and pursuant to the Trust Agreement, the Trust has elected to be self insured and has established a segregated security fund of \$5,000,000. 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, 2011 and 2010, cash and cash equivalents of \$5,000,000 were restricted for these purposes.

NOTE H - INCOME TAXES

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 35%.

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

The Trust has recorded a deferred tax asset of approximately \$10 million reflecting the benefit of approximately \$29 million in loss carryforwards, which expire in varying amounts between 2030 and 2031. 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. An unforeseen or unexpected outcome related to the appeal process discussed in Note I could impact the Trust's ability to realize the deferred tax asset.

The provision for income taxes consists of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Federal income tax – current	\$ -	\$ -
Deferred income tax benefit	1,292,000	8,746,000
	<u>\$1,292,000</u>	<u>\$8,746,000</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, 2011 and 2010:

	2011	2010
<u>Deferred tax asset</u>		
Depreciation and amortization	\$ 44,000	\$ 53,000
Facility-sharing obligation	-	130,000
Loss carryforward	9,991,000	8,563,000
Other	3,000	-
	<u>\$10,038,000</u>	<u>\$8,746,000</u>

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE I - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 9, 2012, 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.

In 2010 several non-settling insurers ("Appellants") appealed the confirmation order from which the Trust was created, to the United States Court of Appeals for the Ninth Circuit ("Ninth Circuit"). On January 24, 2012, the Ninth Circuit issued an opinion which upheld several significant matters on appeal and reversed and remanded the plan confirmation in order to allow the Appellants to be fully and fairly heard on issues related to insurance neutrality. On February 28, 2012, the Trust received an order from the Bankruptcy Court which stated that it could continue the operation of the Trust in the ordinary course of business pending written instructions. The Trust does not believe that possible outcomes of the appeal will impact its ability to continue to earn taxable income in the future to offset the tax loss carryforwards.

SUPPLEMENTAL INFORMATION

Thorpe Insulation Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	<u>2011</u>	<u>2010</u>
Accounting	\$ 39,609	\$ -
Claims processing/claims system development	117,744	171,183
Computer equipment	174	9,859
Information technology support	11,632	19,549
Futures representative	366,704	254,737
Legal fees	1,863,831	929,119
Legal fees - Court ordered	840,275	22,710,789
Trust facility and staff sharing expense	372,000	210,000
Trust Advisory Committee	153,270	152,803
Trustee fees	236,966	134,375
Trustees professional	978	23,276
	<u>\$ 4,003,183</u>	<u>\$ 24,615,690</u>

EXHIBIT B

EXHIBIT B

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**Thorpe Insulation Settlement Trust
Claim Report
As of December 31, 2011**

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 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%. Of the total amount paid, \$1,326,944.86 was paid in 2011 and 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").

Unliquidated Trust Claims

Unliquidated Trust Claims reviewed by the Trust from January 1, 2011, through December 31, 2011, 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. All unliquidated Trust Claims were paid at the

approved Funds Received Ratio of 17.5%. Payments made on Trust Claims in 2011 included an additional 1.70% to account for inflation based upon the CPI-W.

As of December 31, 2011, 644 unliquidated Trust Claims were received, 199 unliquidated Trust Claims were paid, and 353 unliquidated Trust Claims received offers.

Below is a summary of the number and type of claims disposed of (paid) in 2011.

Compensable Disease	Number of Claims
Grade II Non-Malignant	29
Grade I Non-Malignant	13
Grade I Non-Malignant Enhanced Asbestosis	5
Grade I Non-Malignant Serious Asbestosis	11
Colo-Rectal	4
Esophageal	0
Kidney	0
Laryngeal	0
Non-Hodgkin's Lymphoma	0
Other Cancer	0
Lung Cancer	28
Mesothelioma	109
Total	199