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Thorpe Insulation Settlement Trust
7

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

10 In re
11 THORPE INSULATION COMPANY,¹
12 Debtor.

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

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

Date: June 29, 2011
Time: 10:00 a.m.
Place: Courtroom 1475
255 East Temple Street
Los Angeles, CA 90012

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17 The Trustees of the Thorpe Insulation Settlement Trust by and through their counsel, John
18 P. Sande, III, Esq., of Jones Vargas, herewith file the First Annual Report and Accounting,
19 Audited Financial Statements, and Claim Report

20 Respectfully submitted this 27th day of April, 2011.

JONES VARGAS, CHARTERED

21 By: //s// John P. Sande, III
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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.

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FIRST ANNUAL REPORT AND ACCOUNTING OF THORPE INSULATION SETTLEMENT TRUST

The Trustees of the Thorpe Insulation Settlement Trust (“Trust”) hereby submit this First Annual Report and Accounting (“Annual Report”) covering Trust activities that occurred during the period from the commencement of the Trust on October 22, 2010, to and including December 31, 2010 (“Accounting Period”) and also covers certain activities of the Trust that took place outside of the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Central District of California, Los Angeles Division, *In re 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) in accordance with 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 (“Order Confirming the Plan”); Fourth 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”); Second Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Personal Injury Settlement Trust Distribution Procedures (“TDP”); and other controlling documents approved by this Court² 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 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, Trust Agreement, Trust Bylaws, Matrix, TDP, and other documents as indicated.

1 1. Effective Date: In compliance with Sections 1.57, 5.1.1 and 7.2 of the Plan, the
2 Effective Date of the Trust is October 22, 2010.

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

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

12 3. Appointment of Trust Advisory Committee (“TAC”): Pursuant to Section 6.1 of
13 the Trust Agreement, Alan R. Brayton, Ron C. Eddins, David McClain, Jerry Neil Paul, and David
14 A. Rosen are the initial members of the TAC. Mr. Brayton was elected Chair of the TAC by its
15 members on October 25, 2010, and has served in that capacity since that time. Messrs. Eddins,
16 McClain, Paul and Rosen have continued to serve as members of the TAC since the Effective Date
17 of the Trust.

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

22 5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue
23 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
25 requires the Trustees to file income tax and other returns and statements in a timely manner, and
26 comply with all withholding obligations as legally required, including fulfilling requirements to
27 maintain the Trust’s status as a Qualified Settlement Fund. The Trust has complied with its tax
28 obligations on a quarterly basis since October 22, 2010, based upon the advice Sitkoff/O’Neil

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1 Accountancy Corporation, the certified public accountants retained by the Trust to prepare its
2 annual tax returns. The federal tax return for 2010 will be filed on or before September 15, 2011.
3 The Trust resides in Nevada and Nevada has no state income tax. Although the Trust is not
4 subject to tax in California, the Trustees will also file a tax return in California, attaching a copy
5 of the Trust's federal tax return but showing no California taxable income or state tax liability.

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

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

20 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the
21 Trust Agreement, the Trust has caused its accounts to be audited by independent certified public
22 accountants, Grant Thornton, LLP. The Trust's audited financial statements ("Audited Financial
23 Statements") are attached hereto as Exhibit "A". These include a Statement of Net Claimants'
24 Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and
25 explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a
26 corporate balance sheet, reflects total assets of the Trust at market value and on the other
27 comprehensive basis of accounting utilized by the Trust. These Audited Financial Statements
28 show, among other things, that as of December 31, 2010, total Trust assets were \$101,456,642,
total liabilities were \$16,458,042, and Net Claimants' Equity was \$84,998,600.

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

1 financial statements. The Thorpe Insulation Settlement Trust Claim Report As Of December 31,
2 2010 (“Claim Report”), is attached hereto as Exhibit “B”. The Claim Report shows that by
3 December 31, 2010, four hundred thirty (430) unliquidated Trust Claims had been received, seven
4 (7) unliquidated Trust Claims were paid and closed, and settlement offers were made on thirty
5 (30) unliquidated Trust Claims. Prior to the Trust’s Effective Date, a “Voluntary Claims
6 Submission Program” was approved to be implemented on September 28, 2010, as described in
7 paragraph 17 *infra*. Of the total number of unliquidated Trust Claims received, one hundred
8 thirty-five (135) were received pursuant to the Voluntary Claims Submission Program, which
9 ended on October 22, 2010. All claims submitted in accordance with the Voluntary Claims
10 Submission Program were transferred to the Trust on October 22, 2010 and have continued to be
11 processed. To date, five hundred thirty-nine (539) unliquidated Trust Claims have been received,
12 forty-one (41) unliquidated Trust Claims have been paid, and five (5) unliquidated Trust Claims
13 have been withdrawn by the representative law firms.

14 Section 5.4 of the TDP provides that, “As soon as practicable after the Effective
15 Date, the Trust shall pay all Trust Claims that were liquidated by (i) a settlement agreement
16 entered into prior to the Petition Date for the particular claim, or (ii) a judgment of any kind
17 entered on or before October 15, 2007 (collectively, “Pre-Petition Liquidated Claims”).” As of
18 December 31, 2010, the Trust reviewed and processed 326 Pre-Petition Liquidated Claims and
19 paid 299 Pre-Petition Liquidated Claims in the total amount of \$8,495,544.64 in trust to the
20 representative law firms for disbursement to the claimants upon the Trust’s receipt and approval of
21 a properly executed release. The remaining 27 Pre-Petition Liquidated Claims were paid in
22 January of 2011 in the total amount of \$1,105,402.72. That amount was paid in trust to the
23 representative law firms for disbursement to the claimants upon the Trust’s receipt and approval of
24 a properly executed release, and included the inflation adjustment of 1.7% as described in
25 paragraph 15, *infra*. In addition, the Trust reviewed, processed and paid an additional Pre-Petition
26 Liquidated Claim in January of 2011 in the amount of \$221,542.14, which also included the
27 inflation adjustment of 1.7% as described in paragraph 15, *infra*. That amount was paid upon the
28 Trust’s receipt and approval of a properly executed release.

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

6 10. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
7 Trustees shall meet in Nevada, or a state other than California, at least once per quarter as soon as
8 practicable after the Effective Date, and on or about the anniversary of the Effective Date. The
9 Trustees held two (2) meetings during the Accounting Period (October 27, 2010 and November
10 17-18, 2010). The meetings were held in Reno, Nevada.

11 11. Claims Processing Procedures: Section 5.3(b) of the TDP provides that within six
12 months after the establishment of the Trust (on or before April 22, 2011), the Trustees, with the
13 consent of the TAC and Futures Representative, shall adopt procedures for reviewing and
14 liquidating all unliquidated Trust Claims. An official claim form, claim form instructions,
15 policies, and other forms for submitting and processing unliquidated Trust Claims were approved
16 by the Trustees, with the consent of the Approving Entities on October 27, 2010. As a result of
17 the preparatory work done to develop a claims processing system pursuant to the implementation
18 of the Voluntary Claims Submission Program as described in paragraph 17 *infra*, the Trust began
19 processing unliquidated Trust Claims immediately upon the approval of the claim materials.

20 12. Funds Received Ratio: Section 2.3 of the TDP provides in pertinent part:

21 The Debtor, through the Trust and this TDP, is liable to pay to [sic] full amount of
22 the liquidated value of all Trust Claims. The Trust will pay as much of the
23 liquidated value of each Trust Claim as possible, as described in more detail in
24 section 4.2 below, taking into consideration the net funds received by the Trust to
25 date from all sources ("Funds Received"), including payments by those insurers of
Debtors that have settled Coverage Litigation and paid their share of Debtors'
liability, the anticipated present value of future Trust Claims, income taxes,
inflation, the anticipated cost of Trust administration and the anticipated return on
Trust investments..."

26 Section 4.1 of the TDP further provides:

27 As discussed above, there is inherent uncertainty regarding Thorpe's total Asbestos
28 Claim liabilities, as well as the total value of the Funds Received available to pay
such claims. Consequently, there is inherent uncertainty when or if the Trust will
be able to pay the full amount of the liquidated amount of Trust Claims. To seek to

1 ensure substantially equivalent treatment of all present and future claims, the
2 Trustees must determine from time to time the Funds Received Ratio of the full
3 liquidated value that holders of Trust Claims will be likely to receive absent receipt
of additional payments on behalf of Debtors for Debtors' liability to pay the full
liquidated value, as described in Section 2.3 above and Section 4.2 below.

4 Sections 2.3 and 4.2 of the TDP provide that the Initial Funds Received Ratio will be set by the
5 Trust, with the consent of the TAC and Futures Representative, once the Trust has collected
6 sufficient assets to make the expense and burden on claimants of a distribution worthwhile.
7 Section 4.2 of the TDP also provides for the Trustees to reconsider the Funds Received Ratio on
8 the first day of January after the Plan has been confirmed. On November 17, 2010, the Trust, with
9 the consent of the TAC and Futures Representative, set the Initial Funds Received Ratio at 17.5%,
10 based upon the analysis and advice of the Trust's expert economist. It was also decided at that
11 time that the parties did not yet have sufficient additional data, based on the short duration of the
12 Trust's operation, to review the Funds Received Ratio on January 1, 2011.

13 13. Disease Category Claims Payment Ratio: Section 2.5 of the TDP provides that the
14 Trust, with the consent of the TAC and Futures Representative, will set the Disease Category
15 Claims Payment Ratio for claims that were unliquidated as of the Petition Date. On November 17,
16 2010, the Disease Category Claims Payment Ratio for "Category A" claims (malignant claims)
17 was set at 84% and the Disease Category Claims Payment Ratio for "Category B" claims (non-
18 malignant claims) was set at 16% by the Trustees, in consultation with, and based upon the advice
19 of, the Trust' expert economist and with the consent of the TAC and Futures Representative.

20 14. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
21 calculate an annual payment for claims based upon a model of the amount of cash flow anticipated
22 to be necessary over the entire life of the Trust to ensure that funds will be available to treat all
23 present and future claimants as similarly as possible. On November 18, 2010, the Maximum
24 Annual Payment for 2010-2011 was set at \$74,100,000 and on January 11, 2011, the Maximum
25 Annual Payment was reduced by \$10,000,000, for a total Maximum Annual Payment amount of
26 \$64,100,000 for 2010-2011.

27 15. Inflation Adjustment: Section 5.3(d) of the TDP requires that all claims payments
28 be adjusted for inflation annually beginning with the calendar year after the Effective Date of the

1 Trust. Therefore, beginning in 2011, all claims payments made during a calendar year will
2 include a cost of living adjustment based upon the Federal Bureau of Labor Statistics' *Consumer*
3 *Price Index for Urban Wage Earners and Clerical Workers* (CPI-W) announced in January each
4 year. The CPI-W of 1.7% was issued on January 14, 2011. All claims payments made during the
5 2011 calendar year will have an additional 1.7% added to the payment amount.

6 16. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires
7 the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal
8 year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
9 2011 budget and the required four-year budget and cash flow projections on January 11, 2011.
10 Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for
11 operating expenses in 2011 is \$1,922,000.³

12 17. Trust Facilities and Services Sharing Agreement with Western Asbestos Settlement
13 Trust and Voluntary Claims Submission Program: Section 2.4 of the Trust Agreement provides:

14 In order to employ the resources of an organization whose capabilities are uniquely
15 suited to the claims processing and administrative work of the Trust, and to realize
16 cost savings through similar trusts sharing overhead, the Trustees are expressly
17 authorized to enter into a Trust Facilities and Services Sharing Agreement with the
18 Western Asbestos Settlement Trust for the purpose of allowing the Trust to utilize
19 the Western Asbestos Settlement Trust employees to administer the Trust and the
20 processing of Asbestos Related Claims pursuant to the TDP. Notwithstanding
21 anything to the contrary in this Trust Agreement, and in express acknowledgment
22 that the Trustees also serve as trustees of the Western Asbestos Settlement Trust,
23 the Trustees, the Futures Representative and the TAC are expressly relieved of any
24 fiduciary obligation to act solely in the best interest of the beneficiaries of the Trust
25 only with regard to such transaction with the Western Asbestos Settlement Trust.

26 The Western Asbestos Settlement Trust ("Western Trust") approved a resolution proposed by the
27 Plan Proponents in February of 2010 to begin preparatory work in anticipation of entering into a
28 contract to share its resources to administer and process the Trust when and if it was established.
Further to that resolution, the Western Trust implemented a "Voluntary Claims Submission
Program" until the formation of the Trust on October 22, 2010 pursuant to the Order Authorizing
Implementation of Voluntary Claims Submission Program and Preparatory Work for Trust
Implementation entered on September 28, 2010, a copy of which is included in the Appendix filed

³ This figure is net of claimant payments which are budgeted for \$63,837,644, net of court-ordered legal fees which are budgeted for \$14,521,010, and net of income tax payments which are budgeted for \$7,500,000.

1 herewith.

2 The Western Trust had implemented the Voluntary Claims Submission Program
3 and began preparatory work prior to the Effective Date of the Trust, therefore the Trustees, TAC,
4 and Futures Representative determined that sharing resources with the Western Trust would result
5 in a more efficient and economical operation for the benefit of both the current and future
6 claimants of each of the Trusts. The Trust Facilities and Services Sharing Agreement was entered
7 into as of October 22, 2010 and amendments were approved on April 21, 2011, with the consent
8 of the Futures Representative and TAC, for presentation at the next quarterly Trustees' meeting.
9 The agreement provides: i) for the Trust to pay to the Western Trust, for all processing costs and
10 its share of fixed costs, the amount of \$35,000 each month for the first eight months, and \$27,000
11 each month beginning on July 1, 2011 through the end of the Initial Term for the sharing of the
12 Western Trust employees; and ii) for an accounting through the end of 2011 and each year
13 thereafter to identify and adjust actual costs as shared to insure that each trust is paying its
14 proportionate share of the expenses.

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

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

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

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

26 In November of 2010, the Trust established an indemnity fund at Wells Fargo
27 Bank, N.A., in the amount of \$5,000,000 to provide liability coverage for the Trustees, the
28 Futures Representative and the TAC, and their agents to pay the expenses, costs and fees

1 (including attorneys' fees and costs) associated with defending any judicial, administrative, or
2 arbitrate action, suit or proceeding.

3 22. Legal Disputes:

4 a. *Thorpe Insulation Co. v. Argonaut Insurance Co., et al.*, Case No. CGC 05-
5 46682, complaint filed November 14, 2005: This is an insurance coverage action against five
6 remaining insurers for recovery under various insurance policies, including a primary policy,
7 several umbrella policies and an excess policy issued to Debtors. The Court ordered that the
8 issues in the action be tried in phases and the Phase I trial has been set in the action for March 5,
9 2012 on policy interpretation issues. The other insurers originally sued in this action have entered
10 settlements with Debtor. The Trustees retained Morgan, Lewis & Bockius LLP, who represented
11 Debtor in this litigation before Debtor filed for bankruptcy, to represent Debtor and the Trust in
12 the litigation pursuant to a success fee agreement. The Trust has continued the prosecution of this
13 litigation pursuant to Section 5.6.2 of the Plan.

14 In addition, on April 13, 2011, the Court ordered that the claims in the litigation
15 between Debtor and one of the remaining insurers in the litigation, Cal Union, are subject to the
16 alternative dispute resolution provisions set forth in the Wellington Agreement, which was
17 executed by Debtor in 1985. Based on the Court's ruling, the Court ordered those claims to
18 arbitration pursuant to the terms of the Wellington Agreement. The Court further ordered that the
19 litigation and the Wellington alternative dispute resolution proceeding will proceed
20 simultaneously. No date has been set for the alternative dispute resolution proceeding for
21 Debtor's claims against Cal Union.

22 b. On October 22, 2010, after certain non-settling insurers' ("Appellants") requests
23 for a stay pending appeal had been denied by the District Court, the Ninth Circuit, and Supreme
24 Court Justice Anthony M. Kennedy, the Plan became effective and the Trust was established.
25 Appeals of the Confirmation Order and Confirmation Affirmance (the "Confirmation Appeals") are
26 still pending. The Debtors moved to dismiss these appeals as moot. Briefing on both the merits and
27 the motion to dismiss is now complete. No date has been set for oral argument.

28 c. Appellants are also pursuing an appeal to the Ninth Circuit of an order of the

1 District Court that affirmed the Bankruptcy Court's issuance of a preliminary injunction (the
2 "Preliminary Injunction") of state-court coverage litigation involving the Debtors, the Trust and the
3 non-settling insurers. The motion to dismiss has been fully briefed, but has not yet been ruled on.

4 d. One of the Appellants, Continental Insurance Company ("Continental"), is also
5 pursuing a Ninth Circuit appeal (the "Wellington Appeal") relating to the disallowance and
6 arbitration of the claims of Continental under a 2003 "Settlement Agreement and Release" (the
7 "Wellington Claim"). The Bankruptcy Court denied Continental's motions to arbitrate and for
8 relief from the automatic stay, and disallowed the Wellington Claim. Following appeals to the
9 District Court and proceedings on remand, Continental appealed to the Ninth Circuit. The
10 Wellington Appeal has been fully briefed, but no date for oral argument has been set.

11 e. In addition to the foregoing Ninth Circuit appeals, certain of the Appellants (the
12 "ACE Appellants") appealed to the District Court two orders of the Bankruptcy Court approving
13 settlements and insurance policy buybacks with (i) Westport Insurance Corporation, Swiss Re
14 Companies and their affiliates (collectively, "ERC"), and (ii) Fireman's Fund Insurance Company,
15 Chicago Insurance Company, and their affiliates (collectively, "FFIC"). The ACE Appellants seek
16 reversal of the Bankruptcy Court orders approving the respective settlements/insurance policy
17 buybacks (respectively, the "ERC Settlement Appeal" and the "FFIC Settlement Appeal"). On
18 April 11, 2011, the District Court dismissed the ERC Settlement Appeal as moot. The FFIC
19 Settlement Appeal is not yet fully briefed.

20 f. A California law firm representing asbestos claimants has alleged that at
21 various times the Trustees of the Trust, the Trust staff, the Futures Representative and members of
22 the Trust Advisory Committee have acted in bad faith, fraudulently, in breach of fiduciary duty
23 and are conspiring to harm the firm and the claimants it represents. The allegations made by this
24 law firm have not been raised by any other claimant or claimant representative. The allegations
25 relate specifically to the complaining firm's objection to: (i) published requirements that
26 declarations offered in support of claims against the Trust meet certain legal requirements (see
27 paragraph 24(g), *infra*); (ii) the lack of a public site list (as of the date of the subject law firm's
28 allegations); (iii) site classification for claims valuation purposes; and (iv) the internal processing

1 procedures for submitted claims. The Trust is alarmed by these serious allegations and has
2 devoted Trust resources to address them. Trust staff has had numerous discussions with the
3 subject law firm regarding the foregoing issues in an effort to understand and, if appropriate,
4 resolve them. However, communications with the principal of the subject law firm have been
5 increasingly difficult due to the contentious nature and, in the judgment of the Trust, abusive
6 content of communications with Trust staff. Given these circumstances, and particularly in
7 response to the escalation of repeated verbal and written complaints, the Trust has retained
8 counsel for further investigation. Outside counsel has requested a meeting with the firm to discuss
9 the allegations, but the firm has declined to meet and discuss the matter with counsel. Although
10 based on the available information, outside counsel has determined that the allegations lack merit,
11 the Trust is considering whether and what additional steps may be appropriate to address them.
12 Due to the significant additional expense that may be involved, the Trust is considering whether to
13 petition this court for instructions about whether further investigation is necessary and appropriate.
14 Notwithstanding the foregoing, the Trust has invested additional time and resources to insure that
15 claimants represented by the subject law firm are not prejudiced, that their claims continue to be
16 processed in the normal course of business, and that questions concerning specific Trust claims
17 are dealt with as they arise.

18 23. Amendments to the Trust Documents:

19 a. On October 27, 2010, amendments to the Trust Agreement were approved as
20 set forth herein. Section 1.1 was amended to reflect that the Trustees may transact business and
21 affairs of the Trust as “Thorpe Insulation Settlement Trust”. Section 2.2(d) was amended to
22 remove the requirement that the budgets be sent to the Debtors. Section 2.4 was added to
23 empower the Trustees to enter into a claim processing and administrative sharing agreement with
24 the Western Asbestos Settlement Trust and to further recognize that the Trustees are relieved of
25 any fiduciary obligation to act solely in the best interest of the Trust beneficiaries only in regard to
26 the transaction with the Western Asbestos Settlement Trust. (See paragraph 17 *supra*). Section
27 3.2(d)(iv) was amended to allow for the Trust to invest in international equities and to invest up to
28 35% of its assets in stock or convertible securities managed in diversified portfolios of equities.

1 Section 3.2(d)(v) was amended to be consistent with Section 3.2(d)(i). Section 4.1 was amended
2 to allow for the designation of a Managing Trustee. The heading of Section 4.4 was amended to
3 be consistent with the content thereof. Section 4.5 was amended to increase the per annum
4 compensation payable to the Trustees to \$40,000. Section 4.6 was removed and inserted as
5 Section 6.6 as it relates to the TAC, not the Trustees. This change caused numbering changes in
6 the rest of Sections 4 and 6. Section 6.1 was amended to name the initial TAC members, and the
7 designation of the Chair of the TAC. The term of office for TAC members was amended in
8 Section 6.3(a) and Section 6.4 was amended to be consistent with Section 6.3(a). Section 6.8 was
9 amended to reflect that no notice to TAC counsel would be required absent a request from the
10 TAC. Contact information was removed, added and/or corrected in Section 7.5 for persons to
11 receive notices required under the Trust Agreement.

12 b. On October 27, 2010, Section 4 of the Trust Bylaws was amended to provide
13 for meetings to be held at least four times per year as close as practicable on a quarterly basis.

14 c. On October 27, 2010, amendments were made to the age adjustment factors
15 throughout the Matrix, based upon the advice of the Trust's experts.

16 d. On October 27, 2010, Section 5.3(a)(2) of the TDP was amended to extend the
17 statute of limitations tolling period from the Petition Date to one year after the Effective Date.

18 e. On February 17, 2011, the Trust Agreement was amended to correspond with
19 the addition of a third trustee as described in paragraph 2, *supra*.

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

23 g. On April 21, 2011, Section 2.2(g) of the Trust Agreement was amended to
24 acknowledge that consents by the TAC and Futures Representative whether by signature or as
25 reflected in all approved Trustees' meeting minutes shall constitute the required form and
26 substance of consent. Sections 4.1 and 4.5 of the Trust Agreement were also amended to
27 correspond with the designation of the Managing Trustee as described in paragraph 2, *supra*. A
28 copy of the *Fifth Amendment to and Complete Restatement of Thorpe Insulation Company*

1 *Asbestos Settlement Trust Agreement* is included in the Appendix filed herewith.

2 24. Notifications to Beneficiaries: During the Accounting Period and from January 1,
3 2011 to and including April 21, 2011, the following notifications were placed on the Trust's Web
4 site and forwarded to all interested parties via electronic mail on or about the date of the Web site
5 posting:

6 a. Notice of Consumption Guidelines for Wrongful Death Claims (posted on
7 November 22, 2010) involves wrongful death claim requests for economic loss in excess of
8 \$200,000 and the Trust's requirement that the economist take into consideration the lack of
9 consumption by the deceased when determining the amount of economic loss.

10 b. Notice of the Hold Claims Policy (posted on November 22, 2010) that the Trust
11 can deem withdrawn any claim that has been placed in hold status for six months without any
12 activity on part of the claimant. An additional six months may be added upon written request and
13 for good cause, but after the extended period, if there is still no activity, the Trust will deem the
14 claim withdrawn.

15 c. Notice Regarding Court Authorized Option for Claimants (posted February 22,
16 2011) that the Trust is in the process of developing the "alternative claims handling procedures"
17 pursuant to Section 5.11 of the TDP.

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

20 e. Notice of amendment to the Matrix (posted on March 3, 2011) as described in
21 paragraph 23(f), *supra*.

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

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

28 25. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the Trust

1 to report the amounts paid to the Trustees for compensation and expenses. During the Accounting
2 Period, the two initial Trustees each received per annum compensation in the amount \$40,000.
3 The total paid to both Trustees for hourly compensation was \$53,231 and \$969 was the total
4 amount of expenses incurred by both Trustees.

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

7 a. Fergus, a Law Office: Counsel to the Honorable Charles Renfrew, Futures
8 Representative.

9 b. Jones Day: Co-counsel to the TAC.

10 c. Klee, Tuchin, Bogdanoff & Stern LLP: Counsel to the Debtors and now
11 counsel to the Trust in the pending appeals as described in paragraph 22, *supra*.

12 d. Morgan Lewis & Bockius LLP: Counsel to Debtors and now counsel to the
13 Trust in the pending insurance coverage litigation as described in paragraph 22, *supra*.

14 e. Pacific Insulation Company: Reorganized Debtor.

15 f. Snyder Miller & Orton, LLP: Counsel to the Debtors and former counsel to the
16 Trust in the pending insurance coverage litigation as described in paragraph 22, *supra*. Please also
17 see paragraph 28, *infra*.

18 g. Western Asbestos Settlement Trust for start up costs and shared services
19 pursuant to the Trust Facilities and Services Sharing Agreement, as described in paragraph 17,
20 *supra*.

21 27. Trust Investment Management: Article 3 of the Trust Agreement authorizes the
22 Trust to administer the investment of funds in the manner in which individuals of ordinary
23 prudence, discretion and judgment would act in the management of their own affairs, subject to
24 certain limitations. Callan & Associates was engaged in February of 2011 as its investment
25 consultant. Dwight Asset Management, Eagle Capital Management, Harding Loevner, LP,
26 Standish Mellon Asset Management, and State Street Global Advisors were engaged in February
27 of 2011 to act as the Trust's investment managers. The Trust approved its Investment Policy
28 Statement on February 17, 2011. A copy of the Investment Policy Statement is included in the

1 Appendix filed herewith.

2 28. Disengagement of Snyder, Miller & Orton, LLP: In December of 2010, Snyder,
3 Miller & Orton approached the Trust with a proposal to disengage from further representation as
4 coverage counsel. A disengagement agreement was presented at the January 11, 2011 meeting,
5 during which the Trustees approved the disengagement of Snyder, Miller & Orton, with no
6 objections by the Futures Representative and TAC. The disengagement equates to a potential cost
7 savings to the Trust of approximately \$1,800,000.

8 29. Fees for Substantial Contribution: Pursuant to this Court's February 18, 2011
9 Order re Motion of Non-Debtor Fults Entities for Allowance of "Substantial Contribution" Claim
10 Pursuant to 11 U.S.C. § 503(b), the Trust paid fees totaling \$223,506.03 to Farwest Insulation
11 Contracting. In addition, on April 11, 2011, this Court approved the substantial contribution claim
12 of Kazan, McClain, Lyons, Greenwood & Harley, PLC, and Brayton Purcell, LLP in accordance
13 with a mediated resolution. The Trust has not yet paid the Kazan and Brayton firms for their
14 substantial contribution claim because per the mediated result, the condition precedent to the
15 Trust's obligation to pay has not yet occurred.

16 30. Final Fee Applications: All Final Fee Applications were approved by this Court in
17 February and March of 2011 and the Trust has paid all amounts due and payable accordingly.

18 ***

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

27
28

EXHIBIT "A"



Financial Statements and Report of Independent
Certified Public Accountants

Thorpe Insulation Settlement Trust

December 31, 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, 2010 and the related statements of changes in net claimants' equity and cash flows for period from inception (October 22, 2010) through December 31, 2010. These special-purpose financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit 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 audit provides 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 period ended December 31, 2010, are fairly presented, in all material respects, on the basis of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The 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 20, 2011

Thorpe Insulation Settlement Trust

STATEMENT OF NET CLAIMANTS' EQUITY

December 31, 2010

ASSETS

Cash and cash equivalents	
Restricted	\$ 5,000,000
Unrestricted	87,697,964
	<hr/>
Total cash and cash equivalents	92,697,964
Accrued interest and dividend receivables	12,678
Deferred tax asset	8,746,000
	<hr/>
Total assets	<u><u>\$ 101,456,642</u></u>

LIABILITIES

Accrued expenses	\$ 13,145,884
Claim processing deposits	181,250
Unpaid claims (Note C)	
Outstanding offers	1,431,963
Pre-petition liquidated claims	1,326,945
Facility and staff sharing agreement payable	372,000
	<hr/>
Total liabilities	<u><u>\$ 16,458,042</u></u>

NET CLAIMANTS' EQUITY

\$ 84,998,600

The accompanying notes are an integral part of this statement.

Thorpe Insulation Settlement Trust

STATEMENT OF CHANGES IN NET CLAIMANTS' EQUITY

**For the period from inception (October 22, 2010)
through December 31, 2010**

Net claimants' equity, beginning of year	\$ -
Additions to net claimants' equity	
Initial funding	114,950,704
Investment income	14,693
Provision for income taxes, deferred	8,746,000
Total additions	<u>123,711,397</u>
Deductions from net claimants' equity	
Operating expenses	24,615,690
Court ordered bankruptcy fees	2,208,299
Claims settled	10,084,845
Net increase in outstanding claim offers	1,431,963
Net increase in facility and staff sharing agreement	372,000
Total deductions	<u>38,712,797</u>
Net claimants' equity, end of year	<u>\$ 84,998,600</u>

The accompanying notes are an integral part of this statement.

Thorpe Insulation Settlement Trust

STATEMENT OF CASH FLOWS

**For the period from inception (October 22, 2010)
through December 31, 2010**

Cash inflows:	
Initial funding	\$ 114,950,704
Investment income receipts	2,015
Increase in claim processing deposits	181,250
Total cash inflows	<u>115,133,969</u>
Cash outflows:	
Claim payments made	8,757,900
Disbursements for Trust operating expenses	12,766,824
Disbursements for Court ordered bankruptcy fees	911,281
Total cash outflows	<u>22,436,005</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	92,697,964
Cash and cash equivalents, beginning of period	<u>-</u>
Cash and cash equivalents, end of period	<u><u>\$ 92,697,964</u></u>

The accompanying notes are an integral part of this statement.

Thorpe Insulation Settlement Trust
NOTES TO FINANCIAL STATEMENTS

December 31, 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:

- a. The financial statements are prepared using the accrual basis of accounting, as modified below.
- b. 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.
- c. Costs of non-income producing assets, which will be exhausted during the life of the Trust and are not available for satisfying claims, are expensed when incurred. These costs include acquisition costs of computer hardware, software and software development.
- d. Future fixed liabilities and contractual obligations entered into by the Trust are recorded directly against net claimants’ equity. Accordingly, the future minimum commitments outstanding at period end for non-cancelable obligations have been recorded as deductions from net claimants’ equity.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. Special-Purpose Accounting Methods - Continued

- e. The liability for unpaid claims reflected in the statement of net claimants' equity represents settled but unpaid claims and outstanding offers. A claims liability is recorded once an offer is made to the claimant at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.
- f. Available-for-sale securities are recorded at fair value. All interest and dividend income on available-for-sale securities, net of investment expenses are included in investment income 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates.

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, 2010, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States and no state jurisdiction.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 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>44,455</u>
	<u>\$54,314</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 period ended December 31, 2010 was \$54,314. Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$2,100 for the period ended December 31, 2010.

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, 2010.

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 1.7% are included in outstanding claims liabilities as of December 31, 2010.

The Trust processed and approved approximately \$1,694,000 of Trust Claims during the period ended December 31, 2010.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 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, 2010, the Trust incurred a total of \$22,710,789 of contingent and hourly fees for coverage litigation. Of this amount, \$11,523,416 was paid and \$11,187,373 is 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 initial monthly payment of \$35,000 will be in place through June 30, 2011, and will be lowered to \$27,000 effective July 1, 2011 and for all months thereafter. The agreement expires December 31, 2011; however, provisions allow for automatic renewal for additional one-year periods unless either party provides six months written notice. The Western Trust is required to provide a written calendar year reconciliation of the annual services costs compared to the advance payments. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The first reconciliation period will be the fourteen-month period ending December 31, 2011. 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, 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; interest income accrues to the benefit of the Trust. As of December 31, 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 provision for income taxes consists of the following for the period ended December 31, 2010:

Federal income tax – current	\$ -
Deferred income tax benefit	<u>8,746,000</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:

<u>Deferred tax asset</u>	
Depreciation and amortization	\$ 53,000
Facility-sharing obligation	130,000
Loss carryforward	<u>8,563,000</u>
	<u>\$8,746,000</u>

NOTE I - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 20, 2011, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure.

SUPPLEMENTAL INFORMATION

Thorpe Insulation Settlement Trust

SCHEDULE OF OPERATING EXPENSES

**For the period from inception (October 22, 2010)
through December 31, 2010**

Claims processing/claims system development	\$	171,183
Computer equipment		9,859
Information technology support		19,549
Futures representative		254,737
Legal fees		929,119
Legal fees - Court ordered		22,710,789
Trust facility and staff sharing expense		210,000
Trust Advisory Committee		152,803
Trustee fees		134,375
Trustees' professional		23,276
		<hr/>
	\$	24,615,690
		<hr/> <hr/>

EXHIBIT “B”

Thorpe Insulation Settlement Trust Claim Report As of December 31, 2010

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

The procedures were as follows: once the initial Funds Received Ratio was set and the forms of release were adopted in accordance with the Section 5.6.2 of the Plan, each claim’s details were listed on spreadsheets by firm and reviewed for accuracy and completeness. The claim details include the following: (1) name of injured party and social security number; (2) beneficiary, if any, and social security number, if known; (3) amount of settlement or judgment, less prior payments or credits, if any; (4) amount of interest, if any; and (5) payment amount. The spreadsheets were then forwarded to the firms for correctness. The total amount owed to each law firm for its Pre-Petition Liquidated Claims was disbursed to the law firms upon the Trust’s receipt of signed certifications that the Pre-Petition Liquidated Claims listed on the spreadsheets remain unpaid, and a signed declaration that no funds will be distributed to the claimants or beneficiaries until a properly executed release is received and approved by the Trust.

As of December 31, 2010, the Trust reviewed and processed 326 Pre-Petition Liquidated Claims and paid 299 Pre-Petition Liquidated Claims in the total amount of \$8,495,544.64. The remaining 27 Pre-Petition Liquidated Claims were paid in January of 2011 in the total amount of \$1,105,402.72. Those amounts 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. In January of 2011, the Trust reviewed, processed and paid an additional Pre-Petition Liquidated Claim in the amount of \$221,542.14 after receipt and approval of a properly executed release. All Pre-Petition Liquidated Claims were paid at the approved Funds Received Ratio of 17.5%. The amounts 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”).

Unliquidated Trust Claims

Unliquidated Trust Claims reviewed by the Trust from October 22, 2010, through December 31, 2010, in accordance with the First Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation Matrix ("Matrix") and 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%.

As of December 31, 2010, 430 unliquidated Trust Claims were received, 7 unliquidated Trust Claims were paid, and 30 unliquidated Trust Claims received offers.

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

Compensable Disease	Number of Claims
Grade II Non-Malignant	0
Grade I Non-Malignant	0
Grade I Non-Malignant Enhanced Asbestosis	0
Grade I Non-Malignant Serious Asbestosis	0
Colo-Rectal	0
Esophageal	0
Kidney	0
Laryngeal	0
Non-Hodgkin's Lymphoma	0
Other Cancer	0
Lung Cancer	0
Mesothelioma	7
Total	7