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

11
12 In re) Chapter 11
13 J.T. THORPE, INC., a California)
14 corporation; J.T. THORPE, INC., a dissolved) Case Nos. LA-02-14216-BB &
15 California corporation;) LA-04-35876-BB
16 Debtors.) (Jointly Administered Under Case No. LA-02-
17) 14216-BB)

18)
19) **EIGHTH ANNUAL REPORT AND**
20) **ACCOUNTING, AUDITED FINANCIAL**
21) **STATEMENTS, AND CLAIM REPORT**

22)
23) **Hearing:**

24) Date: June 4, 2014
25) Time: 2:00 p.m.
26) Place: Courtroom 1475
27) 255 East Temple Street
28) Los Angeles, CA 90012

1 **TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE AND OTHER**
2 **PARTIES IN INTEREST:**

3 The Trustees of the J.T. Thorpe Settlement Trust by and through their counsel,
4 Stutman, Treister&Glatt, hereby file the Eighth Annual Report and Accounting, Audited Financial
5 Statements, and Claim Report.

6 DATED: April 29, 2014

7 Respectfully submitted,

8 /s/ Gabriel I. Glazer

9 EVE H. KARASIK, and
10 GABRIEL I. GLAZER, Members of
11 STUTMAN, TREISTER & GLATT
12 PROFESSIONAL CORPORATION
13 Bankruptcy Counsel for the J.T. Thorpe Settlement
14 Trust
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**EIGHTH ANNUAL REPORT AND ACCOUNTING
OF J.T. THORPE SETTLEMENT TRUST**

The Trustees of the J.T. Thorpe Settlement Trust ("Trust") hereby submit this Eighth Annual Report and Accounting ("Annual Report") covering Trust activities that occurred during the period from January 1, 2013 to and including December 31, 2013 ("Accounting Period"), and certain activities of the Trust that took place outside of the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Central District of California, Los Angeles Division, *In re J.T. Thorpe, Inc., a California corporation; J.T. Thorpe, a dissolved California corporation; Thorpe Holding Company, a California corporation; and Thorpe Technologies, Inc., a California corporation*, Case Nos. LA02-14216-BB; LA04-35876-BB; LA04-35877-BB; LA04-35847-BB, Jointly Administered Under Case No. LA 02-14216-BB, in accordance with the *First Amended Joint Plan of Reorganization*[Docket No. 472](the "Plan"); *Order Confirming First Amended Joint Plan of Reorganization Dated August 5, 2005, and Granting Related Relief* [Docket No. 1455] ("Confirmation Order"); and the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case Valuation Matrix, as amended from time to time, established pursuant to the Plan¹, and pursuant to the laws of the state of Nevada, where the Trust is organized and where it resides. The Trust Agreement states in Section 7.11 that the Trust is governed by Nevada law. Section 164.015 of the Nevada Revised Statutes allows the Trust to render an accounting and seek approval for its past actions. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle J.T. Thorpe Settlement Trust's Eighth Annual Report and Accounting, Audited Financial Statements, and Claim Report as described in paragraphs 6, 7, and 8, *infra*. The factual statements contained in paragraph 20, *infra* are supported by the Declaration of Benjamin P. Smith in Support of Motion to Approve and Settle

¹ The Appendix includes the Plan; Order Confirming the Plan; Seventh Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Agreement (the "Trust Agreement"); Second Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Bylaws ("Trust Bylaws"); First Amendment to and Complete Restatement of J.T. Thorpe Case Valuation Matrix (the "Matrix"); First Amendment to and Complete Restatement of Trust Distribution Procedures ("TDP"); other controlling documents approved by this Court; and other documents as indicated.

1 J.T. Thorpe Settlement Trust's Eighth Annual Report and Accounting, Audited Financial
2 Statements, and Claim Report. Capitalized terms not defined herein are defined in the Glossary of
3 Terms for the Plan Documents. This Court has approved each Annual Report beginning in 2007.

4 1. Effective Date: In compliance with Sections 4.1 and 7.2 of the Plan, and the
5 Glossary of Terms for the Plan Documents, the Effective Date of the Trust is June 29, 2006.

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

9 As initially described in the Trust's Fourth Annual Report and Accounting, on April
10 19, 2007, the number of Trustees was increased to three (3) by the Futures Representative and the
11 Trust Advisory Committee effective on the first anniversary of the Effective Date of the Trust.

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

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

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

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

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

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

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

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

1 2013, total Trust assets were \$158,299,739 total liabilities were \$12,790,311 and Net Claimants'
2 Equity was \$145,509,428.

3 8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along
4 with the Audited Financial Statements, the Trust shall file with the Court a report containing a
5 summary regarding the number and type of claims disposed of during the period covered by the
6 financial statements. The J.T. Thorpe Settlement Trust Claim Report As of December 31, 2013
7 ("Claim Report") is attached hereto as Exhibit "B". During the Accounting Period, the Trust
8 received 493 claims, paid 452 claims, and made settlement offers on 623 claims. Since the Trust
9 received its first Trust Claim² on October 24, 2006, the Trust has received 6,483 Trust Claims, paid
10 3,564 Trust Claims, and 1,641 Trust Claims have been withdrawn.³

11 Section 5.4 of the TDP provides that "as soon as practicable after the Effective Date,
12 the Trust shall pay all Trust Claims that were liquidated by (i) a written settlement agreement entered
13 into prior to the Petition Date for the particular claim, or (ii) the pre-confirmation claims liquidation
14 process." The vast majority of the 1,474 Trust claims identified in this Court's January 27, 2006,
15 Order Liquidating Asbestos Related Claims (hereafter "PCLP Claims") were paid in 2006. To date,
16 eight (8)PCLP Claims have been withdrawn by their respective law firms. During the Accounting
17 Period, no PCLP Claims were paid. The Trust has not yet received proper release documents for
18 twenty-two (22) remaining unpaid PCLP Claims in the amount of \$75,542.

19 9. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement,
20 the Annual Report, including the Audited Financial Statements and Claim Report, has been sent to
21 the Futures Representative, the TAC, the Debtors, and the Office of the United States Trustee with
22 responsibility for the Central District of California, and has been filed with the United States
23 Bankruptcy Court for the Central District of California. Accordingly, the Annual Report and all
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25
26 ² "Trust Claims" are any claims submitted to the Trust after the Effective Date.

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

1 attached and related documents have been made available for inspection by the public in accordance
2 with procedures established by the Court.

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. Four(4) meetings were held during the Accounting Period
6 (February 7-8, 2013, April 15, 2013, September 11, 2013, and November 21, 2013). All meetings
7 were held in Nevada.

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

10 12. Payment Percentage: Section 4.2 of the TDP provides that, commencing on
11 the first day of January, after the Plan has been consummated and no less frequently than once every
12 three years thereafter or at any time if requested to do so by the TAC or Futures Representative, the
13 Trustees shall reconsider the Payment Percentage to assure that it is based on accurate current
14 information and may, after such reconsideration, change the Payment Percentage if necessary with
15 the consent of the TAC and Futures Representative. As initially described in the Trust's Fourth
16 Annual Report and Accounting, the Payment Percentage was temporarily decreased from 50% to
17 40% effective December 1, 2008 pursuant to the guidelines of Sections 2.3 and 4.2 of the TDP. As
18 described in the Trust's Fifth Annual Report and Accounting, at the November 18, 2010 meeting, the
19 Payment Percentage was reviewed and adjusted to 45%. On February 7, 2013, the Payment
20 Percentage was again reviewed and remains at 45%.

21 13. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
22 calculate an annual payment limit for claims ("Maximum Annual Payment") based upon a model of
23 the amount of cash flow anticipated to be necessary over the entire life of the Trust to ensure that
24 funds will be available to treat all present and future claimants as similarly as possible. At the
25 November 21, 2013 meeting, the Maximum Annual Payment for 2013 was set at \$9,400,000, plus
26 the amount of \$39,239,860 of excess funds carried over from prior years, which Section 2.5 of the
27
28

1 TDP requires to be rolled over and remain dedicated to the respective "Disease Category" (as such
2 term is defined in the TDP) to which they were originally allocated.

3 14. Inflation Adjustment: The original Payment Percentage approved by this
4 Court was based upon projections of future claims payments adjusted annually for inflation.
5 Beginning in 2008, all claims payments made during a calendar year include a cost of living
6 adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban*
7 *Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the November
8 21, 2013 meeting, the CPI-W to be published in January 2014, was approved for use by the Trust in
9 making the 2014 cost of living adjustment for claims payments. The CPI-W of 1.5% was issued on
10 January 16, 2014. Consequently, all claims payments made during the 2014 calendar year will have
11 a compounded inflation rate of 16.26% added to the payment amount.

12 15. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement
13 requires the Trust to prepare a budget and cash flow projections prior to the commencement of each
14 fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
15 2014 budget and the required four-year budget and cash flow projections on November 21, 2013.
16 Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for
17 operating expenses in 2014 totals \$1,622,000.⁴

18 16. Trust Facilities and Services Sharing Agreement with Western Asbestos
19 Settlement Trust: As initially described in the Trust's First Annual Report and Accounting, the Trust
20 and Western Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services
21 Sharing Agreement. The Trust agreed to pay a negotiated monthly amount. Such arrangement was
22 approved by this Court in the order approving the Trust's First Annual Report and Accounting.
23 Pursuant to the annual reconciliation of fees presented at the February 7, 2013 meeting, the advance
24 payments were set at \$26,000 for 2013. Additionally, at the February 7, 2013 meeting, the Trustees
25 approved the Fourth Amendment to and Complete Restatement of the Trust Facilities and Services
26

27 ⁴ This figure is net of claimant payments which are budgeted for \$9,400,000, net of extraordinary legal fees that are
28 budgeted for \$1,030,000, and net of income tax payments that are budgeted for \$225,000.

1 Sharing Agreement between the Trust and the Western Trust. The annual reconciliation presented
2 on February 20, 2014 set the advance payments at \$29,000 per month for 2014 and the total amount
3 paid by the Trust to the Western Trust, after accounts were reconciled for 2013, was \$368,360.

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

6 18. Operating Fund: The Operating Fund was established at Wells Fargo Bank,
7 N.A. as described in the Trust's Annual Reports. During the Accounting Period, transfers were made
8 from the Settlement Fund to the Operating Fund to pay anticipated operating expenses of the Trust.

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

14 In 2006, the Trust established an indemnity fund in the amount of \$5,000,000, as
15 described in the Trust's Annual Reports. All interest earned by the fund is returned to the Trust
16 quarterly. On September 11, 2013, the Trust entered into the First Amendment to and Complete
17 Restatement of J.T. Thorpe Settlement Trust Indemnity Agreement. During the Accounting Period,
18 no claims were made against the fund and no money was paid from the fund.

19 20. Legal Dispute: As discussed in the Seventh Annual Report, on September 19,
20 2012, the Trust filed its *Complaint for Declaratory Judgment* [Docket No. 1] and on October 24,
21 2012, its *First Amended Complaint for (I) Declaratory Judgment and (II) Equitable Relief* [Docket
22 No. 18] (the "Amended Complaint") in the Bankruptcy Court (Adversary Case No. 2:12-ap-02182-
23 BB) (the "Adversary Proceeding") against Michael J. Mandelbrot and the Mandelbrot Law Firm
24 (collectively, "Mandelbrot"). The Amended Complaint (i) requested a declaratory judgment from
25 the Bankruptcy Court "confirming that the Investigation to determine whether the Defendants have
26 engaged in a pattern or practice of submitting unreliable evidence to the J.T. Thorpe Trust is
27 authorized and appropriate under the circumstances," and (ii) sought related equitable relief.
28

1 The Adversary Proceeding was procedurally consolidated with a similar adversary
2 proceeding brought by the Thorpe Insulation Company Asbestos Settlement Trust (and collectively
3 with the J.T. Thorpe Settlement Trust, the "Trusts") in the Bankruptcy Court. The docket for the
4 consolidated actions was maintained in the J.T. Thorpe Settlement Trust adversary proceeding (Case
5 No. 2:02-bk-14216-BB). In addition, the Western Trust commenced a similar adversary proceeding
6 against Mandelbrot in its bankruptcy case pending in the United States Bankruptcy Court for the
7 Northern District of California. All three trusts are supervised by the same Trustees and the same
8 Futures Representative, and all three trusts evaluate and process claims through the same facility and
9 processing staff.⁵

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

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

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

21 Those conclusions and decisions are:

- 22 1. Mandelbrot (i.e., the firm and its principal) each are unreliable under the
23 "person" or "entity" requirement of section 5.7(a).
- 24 2. Mandelbrot has submitted unreliable evidence to each of the Trusts and,
25 with regard to the J.T. Thorpe and Thorpe Insulation Trusts specifically, has done so in a pattern
26

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

1 revealed by the practices that have been the focus of this investigation. The pattern revealed by
2 the investigation has been exacerbated by a lack of cooperation with the Trusts' audit efforts.

3 3. While the Trustees do not make such a determination at this time, there is
4 substantial information to support a conclusion that some of the unreliable evidence submitted to
5 the Trusts was fabricated or manipulated intentionally or with conscious disregard for its accuracy
6 and thus was fraudulent.

7 The Trusts filed an initial Motion for Instruction with respect to their audit of
8 Mandelbrot in August 2013. By order dated October 2, 2013, this Court set both the adversary
9 proceeding and the motion for instructions for evidentiary hearing or trial to begin on January 21,
10 2014. The Trusts presented the testimony of their witnesses through declaration and submitted other
11 evidence. Trial commenced on January 21 and continued through January 22.

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

23 At the Trusts' request, this Court set a hearing and briefing schedule for enforcement
24 of the stipulated agreement. The hearing was held on March 27, 2014 and this Court ruled that the
25 agreement was enforceable. The Order Granting Motion To Enforce January 23, 2014 Stipulated
26 Agreement [Docket No. 232] ("Enforcement Order") and Order Following Trial On Adversary
27 Complaints And Motion For Instructions [Docket No. 233] ("Order After Trial") were entered.
28

1 The Order After Trial ordered, among other things, that Mandelbrot: (1) “effective
2 immediately” shall file no new claims with the Trusts; (2) “effective immediately, Mandelbrot shall
3 cease all activity with respect to claims (“Pending Claims”) for the Trusts and shall transfer each
4 Pending Claim and all past claims made against the Trusts to an attorney who will take
5 responsibility; and (3) that if the Trusts do not receive a notice of transfer for the Pending Claims
6 and past claims by July 23, 2014, then those claims shall be deemed withdrawn and Mandelbrot
7 agreed that all such claims with respect to this Trust may be deemed withdrawn. All of this was
8 reduced to a Judgment, entered on April 7, 2014, resolving the adversary proceedings. [Docket No.
9 234]. This Court issued its Findings of Fact and Conclusions of Law supporting its Order after Trial
10 [Docket No. 235] on April 9, 2014. The Trust has implemented the stipulated agreement found to be
11 enforceable by this Court. Following entry of Judgment, Mandelbrot has filed a notice of appeal,
12 and likewise filed a motion to stay enforcement of the Judgment pending appeal, which is currently
13 set for hearing on May 27, 2014.

14 21. Amendments to the Trust Documents: No changes were made to Trust
15 Documents during the Accounting Period. However, the J.T. Thorpe Settlement Trust Bylaws were
16 amended on February 20, 2014, and the Trust Distribution Procedures and Matrix were amended on
17 March 25, 2014. Copies of the Third Amended and Completely Restated J.T. Thorpe Settlement
18 Trust Bylaws, J.T. Thorpe, Inc., a California corporation/J.T. Thorpe, Inc., a dissolved California
19 corporation/Thorpe Holding Company, Inc., a California corporation/Thorpe Technologies, Inc., a
20 California corporation Asbestos Personal Injury Settlement Second Amendment to and Complete
21 Restatement of Trust Distribution Procedures, and Second Amendment to and Complete
22 Restatement of J.T. Thorpe Case Valuation Matrix are included in the Appendix filed herewith.

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

26 a. Notice of no modification to J.T. Thorpe Payment Percentage (posted
27 February 20, 2013);
28

- 1
2 b. Notification of the hearing on the Trust's Seventh Annual Report and
Accounting (posted May 1, 2013);
3
4 c. Notice of approved modifications to JTTS Land Site List and JTTS
Ships List (posted October 1, 2013);
5
6 d. Notice of suspension of the Phase One Pro Bono Evaluation
Proceedings (posted January 14, 2014);
7
8 e. Notice of Settlement of Mandelbrot adversary proceeding (posted
January 31, 2014);
9
10 f. Notice of claims processing FTP server maintenance (posted February
18, 2014);
11
12 g. Notice of computer system incursion (posted February 21, 2014);
13
14 h. Notice/update regarding computer system incursion (posted March 6,
2014);
15
16 i. Notice regarding submission of claims in paper form (posted March
14, 2014); and
17
18 j. Notice/update regarding settlement of Mandelbrot adversary
proceeding (posted April 16, 2014).

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

25 24. System Development: The Trust has been working to develop an updated
26 system and anticipates that it will contract with an outside vendor and move to a new platform
27 within 2014.
28

1 25. Filing Fee: Pursuant to Section 6.5 of the TDP at the September 11, 2013
2 meeting, the filing fee was reviewed and there were no recommended changes to the existing \$250
3 fee during the Accounting Period or as of the date hereof.

4 26. Trustee's Compensation: Section 4.5(c) of the Trust Agreement requires the
5 Trust to report the amounts paid to the Trustees for compensation and expenses. During the
6 Accounting Period, the Trustees each received per annum compensation in the amount of \$20,000
7 paid in quarterly installments. The total paid to all Trustees for hourly compensation was \$155,080
8 and \$4,722 was the total amount of expenses incurred by all Trustees.

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

11 a. Analysis Research Planning Corporation (“ARPC”): Provides monthly
12 maintenance of the Trust’s current claims processing system. Dr. Vasquez of ARPC acts as the
13 expert professional with whom the Trustees consult;

14 b. Eagle Capital Management, LLC: One of six investment managers for the
15 Trust described in paragraph 28, *infra*;

16 c. Fergus, a Law Office: Counsel to the Honorable Charles Renfrew, Futures
17 Representative;

18 d. Harding Loevner, LP: One of six investment managers for the Trust
19 described in paragraph 28, *infra*;

20 e. Molland Law: Co-counsel for the Mandelbrot litigation described in
21 paragraph 20, *supra*;

22 f. Morgan Lewis & Bockius: Counsel to the Trust in the Mandelbrot
23 investigation and the Adversary Proceeding described in paragraph 20, *supra*;

24 g. Standish Mellon Asset Management Company: One of six investment
25 managers for the Trust described in paragraph 28, *infra*;

26 h. Stutman, Treister & Glatt Professional Corporation: Bankruptcy counsel to the
27 Trust;

28

1 i. Western Asbestos Settlement Trust for shared services pursuant to the Trust
2 Facilities Services Sharing Agreement, as described in paragraph 16, *supra*; and

3 j. Westwood Management Corporation: One of six investment managers for the
4 Trust described in paragraph 28, *infra*.

5 28. Trust Investment Management: Article 3 of the Trust Agreement authorizes
6 the Trust to administer the investment of funds in the manner in which individuals of ordinary
7 prudence, discretion and judgment would act in the management of their own affairs, subject to
8 certain limitations. The Trust closely monitors any market volatility with its investment advisors
9 and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc.
10 continued to assist the Trust during the Accounting Period as its manager of investment managers.
11 Eagle Capital Management, Harding Loevner, LP, Segall Bryant & Hamill, Standish Mellon Asset
12 Management, State Street Global Advisors, and Westwood Management Corporation have continued
13 to act as the Trust's investment managers.

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

16 ***

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



Financial Statements and Report of Independent
Certified Public Accountants

J. T. Thorpe Settlement Trust

December 31, 2013 and 2012

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Report of Independent Certified Public Accountants

Trustees
J.T. Thorpe Settlement Trust

We have audited the accompanying financial statements of J.T. Thorpe Settlement Trust (“the Trust”), organized in the State of Nevada, which comprise the statements of net claimants’ equity as of December 31, 2013 and 2012, and the related statements changes in net claimants’ equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of J.T. Thorpe Settlement Trust as of December 31, 2013 and 2012, and the changes in net claimants' equity and cash flows for the years then ended in accordance with the Trust's other basis of accounting.

Basis of accounting

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

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expense for the years ended December 31, 2013 and 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on use

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

Grant Thornton LLP

Reno, Nevada

April 17, 2014

J. T. Thorpe Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 5,000,000	\$ 5,000,000
Unrestricted	<u>151,980,051</u>	<u>151,389,759</u>
Total cash, cash equivalents and investments	156,980,051	156,389,759
Accrued interest and dividend receivables	1,074,656	1,061,954
Prepaid federal income tax	<u>245,032</u>	<u>346,856</u>
 Total assets	 <u><u>\$ 158,299,739</u></u>	 <u><u>\$ 157,798,569</u></u>
LIABILITIES		
Accrued expenses	\$ 545,576	\$ 355,364
Claim processing deposits	349,000	387,750
Unpaid claims (Note D)		
Outstanding offers	3,208,511	2,603,261
Pre-confirmation liquidated claims	84,224	83,642
Deferred tax liability	8,255,000	4,610,000
Facility and staff sharing agreement payable	<u>348,000</u>	<u>312,000</u>
 Total liabilities	 <u><u>\$ 12,790,311</u></u>	 <u><u>\$ 8,352,017</u></u>
 NET CLAIMANTS' EQUITY	 <u><u>\$ 145,509,428</u></u>	 <u><u>\$ 149,446,552</u></u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	<u>2013</u>	<u>2012</u>
Net claimants' equity, beginning of year	<u>\$ 149,446,552</u>	<u>\$ 154,646,540</u>
Additions to net claimants' equity		
Investment income	3,480,440	3,897,669
Net decrease in facility sharing payable	-	12,000
Net realized and unrealized gains on available-for-sale securities	<u>10,629,876</u>	<u>8,733,866</u>
Total additions	<u>14,110,316</u>	<u>12,643,535</u>
Deductions from net claimants' equity		
Operating expenses	2,823,882	1,817,506
Provision for income taxes, current	165,485	260,588
Provision for income taxes, deferred	3,645,000	3,224,000
Net increase in facility sharing	36,000	-
Claims settled	10,771,240	11,774,395
Net increase in outstanding claim offers	<u>605,833</u>	<u>767,034</u>
Total deductions	<u>18,047,440</u>	<u>17,843,523</u>
Net claimants' equity, end of year	<u><u>\$ 145,509,428</u></u>	<u><u>\$ 149,446,552</u></u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2013</u>	<u>2012</u>
Cash inflows:		
Investment income receipts	\$ 3,467,738	\$ 4,136,853
Net realized gain on available-for-sale securities	771,425	2,288,342
Total cash inflows	<u>4,239,163</u>	<u>6,425,195</u>
Cash outflows:		
Claim payments made	10,771,239	11,772,992
Decrease in claim processing deposits	38,750	47,000
Disbursements for Trust operating expenses	2,633,672	1,640,561
Disbursements for Trust income taxes	63,661	47,061
Total cash outflows	<u>13,507,322</u>	<u>13,507,614</u>
Net cash outflows	(9,268,159)	(7,082,419)
Non-cash changes:		
Net unrealized gains on available-for-sale securities	<u>9,858,451</u>	<u>6,445,524</u>
NET INCREASE (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	590,292	(636,895)
Cash, cash equivalents and investments available-for-sale, beginning of year	<u>156,389,759</u>	<u>157,026,654</u>
Cash, cash equivalents and investments available-for-sale, end of year	<u>\$ 156,980,051</u>	<u>\$ 156,389,759</u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. Description of Trust

The J. T. Thorpe Settlement Trust (the Trust), organized pursuant to the laws of the state of Nevada with its office in Reno, Nevada, was established pursuant to the J. T. Thorpe, Inc. (J. T. Thorpe), Dissolved J. T. Thorpe, Inc. (Dissolved Thorpe), Thorpe Technologies, Inc., and Thorpe Holding Company, Inc., (collectively the Debtors), First Amended Joint Plan of Reorganization (the Plan), dated August 5, 2005. The Trust was formed to assume the Debtors' liabilities resulting from pending and potential litigation involving individuals exposed to asbestos who have manifested asbestos-related diseases or conditions for which the Debtors' are legally responsible; 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 approval of the Plan, the Trust assumed liability for existing and future asbestos health claims against the Debtors. The Trust was created effective June 29, 2006.

The Trust was initially funded with insurance settlement proceeds, Dissolved Thorpe securities, cash and a note receivable. Since the Trust's creation, the note receivable has been collected. The Trust's funding is dedicated solely to the settlement of asbestos health claims and the related costs thereto, as defined in the Plan.

The Trust processes and pays all asbestos-related claims in accordance with the J. T. Thorpe Settlement Trust Agreement, as amended and restated, the Case Valuation Matrix, as amended 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 J. T. Thorpe, Dissolved Thorpe, Thorpe Technologies, Inc., Thorpe Holding Company, Inc. and their insurers is recorded directly to net claimants' equity. These funds do not represent income of the Trust. Offers for asbestos health claims are reported as deductions from net claimants' equity and do not represent expenses of the Trust.
- 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.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. Special-Purpose Accounting Methods - Continued

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

3. Cash and Cash Equivalents

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

4. Investments

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

5. Deposits

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

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. Use of Estimates

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

7. Concentration of Risk

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

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

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

8. Income Taxes

The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2013, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States. Although the Trust owes no tax to the State of California, it files an annual tax return in California reporting no taxable income or tax owed. The Trust is no longer subject to United States federal tax examinations for years before 2010.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	December 31, 2013	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 57,775	\$ 57,776
U.S. Government obligations	2,196,215	2,118,230
Municipal bonds	156,701	148,241
Asset backed securities	261,335	258,621
Corporate and other debt	2,485,193	2,417,132
	\$ 5,157,219	\$ 5,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 251,703	\$ 251,703
Cash equivalents	12,790,088	12,790,088
Equity securities	44,792,975	64,620,382
U.S. Government obligations	6,630,254	6,447,383
Municipal bonds	57,490,725	59,703,071
Asset-backed securities	806,162	812,787
Corporate and other debt	7,556,903	7,354,637
	\$ 130,318,810	\$ 151,980,051
	December 31, 2012	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 123,520	\$ 123,520
U.S. Government obligations	2,241,115	2,241,617
Municipal bonds	139,249	138,360
Asset backed securities	79,184	79,657
Corporate and other debt	2,429,467	2,416,846
	\$ 5,012,535	\$ 5,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 986,856	\$ 986,856
Cash equivalents	11,772,246	11,772,246
Equity securities	52,706,510	59,335,209
U.S. Government obligations	6,911,985	6,979,896
Municipal bonds	59,819,475	64,752,050
Asset-backed securities	493,605	505,793
Corporate and other debt	7,040,979	7,057,709
	\$ 139,731,656	\$ 151,389,759

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

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

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

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

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

	December 31, 2013		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 251,703	\$ -	\$ -
Cash equivalents	12,847,864	-	-
Equity securities	64,620,382	-	-
U.S. Government obligations	3,848,150	4,717,463	-
Municipal bonds	-	59,851,312	-
Asset-backed securities	-	1,071,408	-
Corporate debt and other	9,771,769	-	-
	<u>\$ 91,339,868</u>	<u>\$ 65,640,183</u>	<u>\$ -</u>
	December 31, 2012		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 986,856	\$ -	\$ -
Cash equivalents	11,895,766	-	-
Equity securities	59,335,209	-	-
U.S. Government obligations	1,202,816	8,018,697	-
Municipal bonds	-	64,890,410	-
Asset-backed securities	-	585,450	-
Corporate debt	9,474,555	-	-
	<u>\$ 82,895,202</u>	<u>\$ 73,494,557</u>	<u>\$ -</u>

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The Trust experiences transfers in and out of levels within the fair value hierarchy primarily due to the market activity of the underlying security. The Trust's policy is to recognize transfers in and out at the actual date the event or change in circumstance caused the transfer. During December 31, 2013 and December 31, 2012, no securities were transferred between Level 1 to Level 2.

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

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ 898,655	\$ 1,633,404	\$ 1,560,339	\$ 4,473,215
Municipal bonds	509,875	25,494,017	30,947,192	2,900,228
Asset-backed securities	-	521,107	416,255	134,046
Corporate and other debt	257,011	5,631,695	3,551,813	331,250
	<u>\$ 1,665,541</u>	<u>\$ 33,280,223</u>	<u>\$ 36,475,599</u>	<u>\$ 7,838,739</u>

NOTE C - FIXED ASSETS

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

Acquisition of computer hardware and software	<u>\$ 116,189</u>
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These items have not been recorded as assets, but rather as operating expenses and direct deductions from net claimants' equity in the accompanying financial statements. The cost of fixed assets that were expensed during the years ended December 31, 2013 and 2012 were \$7,728 and \$5,158, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$3,225 and \$2,063 for the years ended December 31, 2013 and 2012, respectively.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE D - CLAIM LIABILITIES

The Trust distinguishes between claims that were resolved prior to the establishment of the Trust (Pre-Confirmation Liquidated Claims) and claims received and processed using the Trust Procedures after the creation of the Trust (Trust Claims).

The cases underlying the Pre-Confirmation Liquidated Claims were stayed by the court until the Plan was approved. The Trust approved procedures and immediately arranged to pay, subject to receiving a claimant release, the approved Payment Percentage of the liquidated value of each Pre-Confirmation Liquidated Claim.

For all claims, a liability for unpaid claims is recorded at the time the offer is extended and the release authorization is mailed. Funds are mailed after the approved release is signed, received, and approved by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected, withdrawn or expires after six months. Offers may be extended an additional six months upon written request and good cause. During the years ended December 31, 2013 and 2012, there were no expired offers.

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

In the interest of treating all claimants equitably in accordance with the Plan, the Trustees have recommended that all payments made during each calendar year ended December 31, 2008 through December 31, 2013 include a cost of Living Adjustment for inflation based on the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W). Claims liabilities at year end are adjusted for any approved Inflation Adjustment. Inflation Adjustments are cumulative. Cumulative Inflation Adjustments of 16.26% and 14.54% are included in outstanding claims liabilities as of December 31, 2013 and 2012, respectively.

The Trust processed and approved approximately \$11,376,489 and \$12,540,026 of Trust Claims during the years ended December 31, 2013 and 2012, respectively.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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, 2013, the equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Western Trust. The reconciliation is performed and recorded in the period subsequent to the reconciliation period. The reconciliation performed for the year ended December 31, 2013 resulted in an additional payment to the Western Trust of approximately \$56,000. The reconciliation performed for the year ended December 31, 2012 resulted in an additional payment to the Western Trust of approximately \$103,000. The next reconciliation period will be the twelve-month period ending December 31, 2014. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The future payments under this agreement have been recorded as a liability on the accompanying statement of net claimants' equity.

NOTE F - NET CLAIMANTS' EQUITY

The Trust was created pursuant to the Plan approved by the United States Bankruptcy Court for the Central District of California, Los Angeles Division. The TDP was adopted pursuant to the Plan and concurrently with the Trust Agreement. It is designed to provide fair and equitable treatment for all Trust claims that may presently exist or may arise in the future. The TDP prescribes certain procedures for distributing the Trust's limited assets, including pro rata payments and initial determination of claim value based on compensable diseases, 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 Payment Percentage is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

Based on research and testimony presented during the bankruptcy, the court approved an initial Payment Percentage to claimants to be applied to the liquidated value of then current and estimated future claims. The TDP provided that the committee and the Futures Representative may agree on a different Initial Payment Percentage prior to the Effective Date if another party became a Settling Asbestos Insurance Company. Pursuant to an agreement between the Committee and the Futures Representative dated June 29, 2006, the Initial Payment Percentage to be used was 50% of the total liquidated value. The TDP gives the Trustees, with the consent of the Trust Advisory Committee ("TAC") and the Futures Representative, the power to periodically update its estimate of the Payment Percentage based on updated assumptions regarding its future assets and liabilities and, if appropriate, propose additional changes in the Payment Percentage. In December 2008, the Payment Percentage was temporarily decreased from 50% to 40%. The decrease had no impact on previously paid claims. In November 2010, after evaluating assumptions regarding the Trust's future assets and liabilities, the Trustees approved an increase in the Payment Percentage from 40% to 45%. The increase was retroactive for all claims previously paid at the 40% Payment Percentage. These changes were made with the consent of the TAC and Futures Representative.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE G - RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

To avoid the high costs of director and officer liability insurance, and pursuant to the Trust Agreement, the Trust has elected to be self-insured and has established a segregated security fund of \$5 million. These funds are devoted exclusively to securing the obligations of the Trust to indemnify the former and current Trustees and officers, employees, agents and representatives of the Trust. The funds are held in a separate Trust bank account; and interest income accrues to the benefit of the Trust. As of December 31, 2013 and 2012, cash, cash equivalents and investments of \$5,000,000 were restricted for these purposes.

NOTE H - INCOME TAXES

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 39.6% for the year ended December 31, 2013 and 35% for the year ended December 31, 2012.

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

The provision for income taxes consists of the following for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Income tax – current	\$ 165,485	\$ 260,588
Deferred income tax expense	<u>3,645,000</u>	<u>3,224,000</u>
	<u>\$ 3,810,485</u>	<u>\$ 3,484,588</u>

The components of the deferred income tax asset (liability), as presented in the statement of net claimants' equity consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
<u>Deferred tax asset (liability)</u>		
Operating loss carryforwards	\$ 258,000	-
Other	3,000	2,000
Unrealized appreciation	<u>(8,516,000)</u>	<u>(4,612,000)</u>
	<u>\$ (8,255,000)</u>	<u>\$ (4,610,000)</u>

NOTE I - SUBSEQUENT EVENTS

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

SUPPLEMENTAL INFORMATION

J. T. Thorpe Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	<u>2013</u>	<u>2012</u>
Accounting	\$ 55,286	\$ 44,058
Claims processing/claims system development	83,557	80,668
Futures representative	450,539	141,381
Information technology support	36,025	21,761
Legal fees	1,544,120	881,468
Trust advisory committee	15,211	18,909
Trust facility and staff sharing expense	415,290	363,071
Trustee fees	219,802	227,055
Trustees professional	4,052	39,135
	<u>\$ 2,823,882</u>	<u>\$ 1,817,506</u>

EXHIBIT "B"

**J.T. Thorpe Settlement Trust
Claim Report
As of December 31, 2013**

This report is submitted pursuant to Section 2.2 (c)(ii) of the Seventh Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Agreement, which requires the Trust to file with the Bankruptcy Court a summary of the number and type of claims disposed of during the period covered by the financial statements ("Accounting Period"). This report summarizes the Trust's processing of claims liquidated under supervision of the Bankruptcy Court ("Pre-Confirmation Liquidated Claims") and claims received since June 29, 2006, the Effective Date of the Trust ("Trust Claims").

Pre-Confirmation Liquidated Claims

In 2006, the Trust implemented a procedure to pay the Pre-Confirmation Liquidated Claims ("PCLP Claims") in accordance with the Plan, the Trust Distribution Procedures, the Confirmation Order, the January 27, 2006, Order Liquidating Asbestos Related Claims, and the Agreement Regarding Initial Payment Percentage entered into on June 29, 2006, by the Trust Advisory Committee and the Futures Representative. The Agreement Regarding Initial Payment Percentage provided that the Initial Payment Percentage was to be 50% of the total liquidated claim value. This remained in effect until December 1, 2008, when the Trustees, with the agreement of the Futures Representative and the TAC, adjusted the Payment Percentage to 40%. The Payment Percentage was reviewed and adjusted to 45% on November 18, 2010.

No PCLP Claims were paid during the Accounting Period. The Trust has not yet received proper release documents for twenty-two (22) remaining unpaid PCLP Claims in the total amount of \$75,542. That amount is based upon the current Payment Percentage of 45% and includes an inflation adjustment of 16.26% utilized for claims payments made in 2014, which is based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W").

Trust Claims

Claims received and disposed of from January 1, 2013, through December 31, 2013, in accordance with the First Amendment to and Complete Restatement of J.T. Thorpe Case Valuation Matrix ("Matrix") and the J.T. Thorpe, Inc., a California corporation/J.T. Thorpe, Inc., a dissolved California corporation/Thorpe Holding Company, Inc., a California corporation/Thorpe Technologies, Inc., a California corporation Asbestos Personal Injury Settlement First Amendment to and Complete Restatement of Trust Distribution Procedures ("TDP") are as set forth below.

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

commencement of litigation or filing the claim with the Trust. Each valid claim is awarded a total liquidated value. As of December 31, 2013, Trust Claims were paid at the approved Payment Percentage of 45%. Payments made on Trust Claims in 2013 included an additional 14.54% to account for inflation based upon the CPI-W.

During the Accounting Period, 493 claims were received, 452 claims were paid, and 623 claims received offers.

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

Compensable Disease	Number of Claims
Grade II Non-Malignant	122
Grade I Non-Malignant	61
Grade I Non-Malignant Enhanced Asbestosis	30
Grade I Non-Malignant Serious Asbestosis	22
Colo-Rectal	13
Esophageal	2
Kidney	4
Laryngeal	2
Non-Hodgkin's Lymphoma	2
Other Cancer	4
Lung Cancer	84
Mesothelioma	106
Total	452