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MAY 01 2007

6 Attorneys for the Trustee of the
J.T. Thorpe Settlement Trust
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8 UNITED STATES BANKRUPTCY COURT
9 CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

10 In re:

11 J.T. THORPE, INC., a California corporation,
J.T. THORPE, INC., a dissolved California
12 corporation; THORPE TECHNOLOGIES, INC.
INC., a California corporation, and THORPE
13 HOLDING COMPANY, INC., a California
corporation

14 Debtors.
15

*Jointly Administered under
Case No. LA-02-14216-BB*

(ORIGINAL SIGNATURE ONLY)

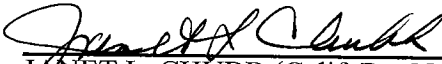
**FIRST ANNUAL REPORT AND
ACCOUNTING, AUDITED FINANCIAL
STATEMENTS, AND CLAIM REPORT
OF J.T. THORPE SETTLEMENT
TRUST**

Date: May 30, 2007
Time: 10:00 a.m.
Place: Courtroom 1475
255 East Temple Street
Los Angeles, CA 90012

18
19 J.T. Thorpe Settlement Trust by and through its counsel, Janet L. Chubb, Esq., of Jones
20 Vargas, herewith files its First Annual Report and Accounting

21 Respectfully submitted this 30th day of April, 2007.

22 JONES VARGAS

23
24 By: 
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6 Attorneys for the Trustees of the
J.T. Thorpe Settlement Trust
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CENTRAL DISTRICT OF CALIFORNIA
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J.T. THORPE, INC., a dissolved California
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*Jointly Administered under
Case No. LA-02-14216-BB*

Chapter 11

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28 Attorneys for the Trustee of the
J.T. Thorpe Settlement Trust

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**FIRST ANNUAL REPORT AND ACCOUNTING
OF J.T. THORPE SETTLEMENT TRUST**

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3 The Trustee of the J.T. Thorpe Settlement Trust (“Trust”) hereby submits this First
4 Annual Report and Accounting (“Annual Report”) covering Trust activities that occurred during
5 the period from the commencement of the Trust on June 29, 2006, to and including December
6 31, 2006 (“Accounting Period”) and also covers certain activities of the Trust that took place
7 outside of the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy
8 Court for the Central District of California, Los Angeles Division, *In re J.T. THORPE, INC. a*
9 *California corporation; J.T. THORPE, a dissolved California corporation; THORPE*
10 *HOLDING COMPANY, a California corporation; and THORPE TECHNOLOGIES, INC., a*
11 *California corporation*, Case Nos. LA02-14216-BB; LA04-35876-BB; LA04-35877-BB; LA04-
12 35847-BB, Jointly Administered Under Case No. LA02-14216-BB, in accordance with the First
13 Amended Joint Plan of Reorganization (“Plan”); Order Confirming First Amended Joint Plan of
14 Reorganization Dated August 5, 2005, and Granting Related Relief (“Order Confirming the
15 Plan”); First Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust
16 Agreement (“Trust Agreement”); First Amended J.T. Thorpe Settlement Trust Bylaws (“Trust
17 Bylaws”); J.T. Thorpe Case Valuation Matrix and Order Approving Motion to Amend Plan to
18 Modify Base Case Values Contained in Case Valuation Matrix (“Matrix”); Revised Trust
19 Distribution Procedures (“TDP”); Agreement Regarding Initial Payment Percentage; and other
20 controlling documents approved by this Court¹ and pursuant to the laws of the State of Nevada,
21 where the Trust is organized and where it resides. The factual statements in this Annual Report
22 are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion
23 to Approve and Settle J.T. Thorpe Settlement Trust’s Annual Report and Accounting, Audited
24 Financial Statements, and Claim Report as described in paragraphs 5 and 6 *infra*. Capitalized
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¹ The Appendix includes all sections of the Plan Documents, Court Orders, and Agreements referenced herein.

1 terms not defined herein are as defined in the Glossary of Terms for the Plan Documents, a copy
2 of which is attached hereto as Exhibit "A".

3 This Annual Report respectfully shows:

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 Trustee: In its March 23, 2006, Order Granting Plan Proponents'
7 Motion for Approval of Appointment of Trustee for the J.T. Thorpe Settlement Trust, this Court
8 approved the appointment of Mr. STEPHEN M. SNYDER as the sole Trustee of the Trust, who
9 has acted in that capacity since that time.

10 3. Appointment of Trust Advisory Committee ("TAC"): In the Order Confirming the
11 Plan, this Court approved the appointment of Alan Brayton, Steven Kazan, and David Rosen as
12 the initial members of the TAC. Mr. Brayton has served as Chair of the TAC, and Messrs. Kazan
13 and Rosen have continued to serve as members of the TAC since the Effective Date of the Trust.

14 4. Appointment and Continuation of Futures Representative: The Honorable Charles
15 B. Renfrew was appointed as the Futures Representative in the J.T. Thorpe Reorganization Cases
16 on December 2, 2002 and his continued appointment as the Futures Representative of the Trust
17 was approved by this Court in the Order Confirming the Plan.

18 5. Tax Obligations: Section 2.2(b) of the Trust Agreement requires the Trustee file
19 income tax and other returns and statements in a timely manner, and comply with all withholding
20 obligations as legally required, including fulfilling requirements to maintain its status as a
21 Qualified Settlement Fund. The Trust has complied with state and federal tax obligations on a
22 quarterly basis since June 29, 2006, based upon the advice of the Trust's certified public
23 accountants, Sitkoff/O'Neill Accountancy Corporation. The federal tax return for 2006 will be
24 filed on or before September 15, 2007. The Trust resides in Nevada and Nevada has no state
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1 income tax. Although the Trust is not subject to tax in California, the Trustee will file a tax return
2 in California, attaching a copy of the Trust's federal tax return but showing no California taxable
3 income or state tax liability.

4
5 6. Annual Report: Section 2.2(c)(i) of the Trust Agreement provides in pertinent part:

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

11 The special-purpose accounting methods were adopted by the Trustee with the approval of the
12 TAC and the Futures Representative in the Trust Agreement. The Trust is required by the Internal
13 Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis.
14 Therefore, except where otherwise stated, all reports attached to this Annual Report cover the
15 Accounting Period.

16
17 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the
18 Trust Agreement, the Trust has caused its accounts to be audited by independent certified public
19 accountants, Grant Thornton, LLP. The Trust's audited financial statements ("Audited Financial
20 Statements") are attached hereto as Exhibit "B". These include a Statement of Net Claimants'
21 Equity, a Statement of Changes in Net Claimants' Equity, Statement of Cash Flows and
22 explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a
23 corporate balance sheet, reflects total assets of the Trust at market value and on the other
24 comprehensive bases of accounting adopted by the Trust. These Audited Financial Statements
25 show, among other things, that as of December 31, 2006, total Trust assets were \$111,556,342,
26 total liabilities were \$8,482,770, and Net Claimants' Equity was \$103,073,572.
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1 8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with
2 the Audited Financial Statements, the Trust shall file with the Court a report containing a
3 summary regarding the number and type of claims disposed of during the period covered by the
4 financial statements. The J.T. Thorpe Settlement Trust Claim Report As Of December 31, 2006
5 (“Claim Report”), is attached hereto as Exhibit “C”. The Claim Report shows that the first
6 unliquidated claim (“Trust Claim”) was submitted to the Trust on October 24, 2006, and that by
7 December 31, 2006, the Trust had received 48 claims, paid and closed 2 claims, and made
8 settlement offers on an additional 5 claims.

9
10 Section 5.4 of the TDP provides that “...as soon as practicable after the Effective
11 Date, the Trust shall pay all Trust Claims that were liquidated by (i) a written settlement
12 agreement entered into prior to the Petition Date for the particular claim, or (ii) the pre-
13 confirmation claims liquidation process...” Of the 1,474 claims identified in this Court’s January
14 27, 2006, Order Liquidating Asbestos Related Claims, the Trust paid 1,297 Pre-Confirmation
15 Liquidated Claims and 3 were withdrawn by their respective law firms. The total amount paid
16 was Thirty-One Million, Two Hundred Ninety-Four Thousand, One Hundred Ninety Dollars and
17 85/100 (\$31,294,190.85). That amount was paid in trust to the representative law firms after
18 appropriate releases from the respective claimants were received by the Trust. The Trust has not
19 yet received proper release documents for 174 remaining unpaid Pre-Confirmation Liquidated
20 Claims.
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23 9. Trustee Meetings: Article II, Section 4 of the Trust Bylaws provides that the
24 Trustee shall meet in Nevada, or a state other than California, at least once per quarter as soon as
25 practicable after the Effective Date, and on or about the anniversary of the Effective Date. The
26 Trustee held three meetings during the Accounting Period (July 10, 2006, September 20, 2006,
27 and December 13, 2006). All meetings were held in Reno, Nevada at the offices of Western
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1 Asbestos Settlement Trust.

2 10. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement, the
3 Annual Report, including the Audited Financial Statements and Claim Report, has been sent to the
4 Approving Entities, each of the Debtors, and the Office of the United States Trustee with
5 responsibility for the Central District of California, and has been made available for inspection by
6 the public in accordance with procedures established by this Court.

7
8 11. Claims Processing Procedures: Section 5.3(b) of the TDP provides that within six
9 months after the establishment of the Trust (on or before December 29, 2006), the Trustee, with
10 the consent of the Approving Entities, shall adopt procedures for reviewing and liquidating all
11 Trust Claims. An official claim form and written procedures for processing Trust Claims were
12 approved by the Trustee, with the consent of the Approving Entities on September 20, 2006. With
13 the approval of the claim form, claim procedures, and development of a claims processing system,
14 the Trust was ready to accept claims for processing on October 16, 2006.

15
16 12. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires
17 the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal
18 year covering such fiscal year and the succeeding four fiscal years. The Trustee approved the
19 2007 budget and the required four-year budget and cash flow projections on December 13, 2006.
20 Pursuant to the Trust Agreement, these were provided to the Approving Entities and Debtors. The
21 budget for operating expenses in 2007 is \$1,708,750 (net of claimant payments which are
22 budgeted for \$63,651,353, and net of income tax payments which are budgeted for \$700,000).

23
24 13. Agreement with Western Asbestos Settlement Trust: Section 2.4 of the Trust
25 Agreement provides:

26
27 In order to employ the resources of an organization whose capabilities are uniquely
28 suited to the claims processing and administrative work of the Trust, and to realize
cost savings through two similar trusts sharing overhead, the Debtors hereby direct
the Trustee to enter into a transaction with the Western Asbestos Settlement Trust

1 to permit the Trust’s use of Western Asbestos Settlement Trust employees for
2 administrative support and the processing of claims pursuant to the TDP.
3 Notwithstanding anything to the contrary in this Trust Agreement, and in express
4 acknowledgment that the Trustee also serves as a trustee of the Western Asbestos
5 Settlement Trust, the Trustee is expressly relieved of any fiduciary obligation to act
6 solely in the best interest of the beneficiaries of the Trust only with regard to such
7 transaction with the Western Asbestos Settlement Trust. The Trustee may
8 disregard this direction to so transact with the Western Asbestos Settlement Trust
9 for administrative support and claims processing services if, due to a change of
10 circumstances, the Trustee determines, with the consent of the Futures
11 Representative and the TAC, it is no longer reasonable to do so.

12 The Trust approached the Western Asbestos Settlement Trust (“Western Trust”) in the spring of
13 2006 about sharing its resources to administer and process the Trust. The Executive Director was
14 asked by the two non-conflicted Trustees of the Western Trust, Sandra R. Hernandez, M.D. and
15 John F. Luikart, to analyze the benefits and burdens of sharing Western Trust resources with the
16 Trust. In accordance with the analysis, the non-conflicted Trustees of the Western Trust
17 concluded that sharing resources as proposed would result in a more efficient and economical
18 operation for the benefit of both the current and future claimants of each of the Trusts, and would
19 enable the Western Trust to retain full use of its existing resources at less cost, and maintain its
20 critical mass, notwithstanding the ebb and flow of claims entering the system, without imposing
21 significant additional burdens that might slow the processing of Trust claims. The Trustee
22 concluded that entering into a resources sharing agreement with the Western Trust would be in the
23 best interests of the Western Trust’s beneficiaries as well as being provided for in the Trust
24 documents. The Trust Facilities and Services Sharing Agreement, negotiated and approved on
25 June 29, 2006, by the non-conflicted Trustees of the Western Trust and the Trustee of the Trust,
26 with the consent of the Approving Entities, provides:

- 27 i) for the Trust to pay all of its own start up costs and a monthly amount, subject
28 to the annual adjustment described in iii), of \$21,000 to the Western Trust for processing and its
share of fixed costs, as well as the hiring of the Western Trust’s Executive Director as its

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Executive Director.
ii) for sharing of the Western Trust’s employees other than the Executive Director.
iii) for an annual accounting in July of each year to identify and adjust actual costs as shared to insure that each Trust is paying its proportionate share of the expenses.

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

15. Self-Insured Retention: The Trust initially investigated Director and Officer Liability insurance pursuant to Section 4.6(e) of the Trust Agreement. However, it became clear that available policies that offered protection to the Trustee, Approving Entities and their respective agents, were excessively expensive. Therefore, during the September 20, 2006, meeting, the Trust approved the creation of a self-insurance fund in the amount of \$5,000,000 to provide liability coverage for the Trustee, the Futures Representative and the TAC, and their agents. Pursuant to the J.T. Thorpe Settlement Trust Indemnity Agreement approved on September 20, 2006, by and among the Trust, the Trustee, the Futures Representative and the TAC, the Trust created a custodial account with Wells Fargo entitled “Indemnity Fund” to provide for the expenses, costs and fees (including attorneys’ fees and costs) associated with defending any judicial, administrative, or arbitrate action, suit or proceeding.

16. Priority Lien Funds: Section 4.7 of the Trust Agreement provides in pertinent part that the Trustee, and the Approving Entities and their agents are granted a first priority lien to hold cash and securities sufficient to pay the anticipated compensation and expenses of such parties. The parties who hold a security interest in these funds include the Trustee, the Futures Representative, the TAC and their agents, professionals and representatives (“Secured Parties”). In order to further perfect and acknowledge such priority security interest for the benefit of Secured Parties, the Trust, without waiving or eliminating the security interest rights in any other

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1 assets of the Trust by the Secured Parties or anyone else, has established the following bank
2 accounts which reflect such security interests in favor of the Secured Parties:

3 a. Indemnity Fund/Self-Insured Retention: A \$5,000,000 Indemnity Fund
4 established at Wells Fargo, as described in paragraph 12, *supra*.

5 b. First Priority Lien Fund: The First Priority Lien Fund established by the
6 Trustee at Wells Fargo to pay anticipated expenses of the Trust.

7
8 17. Amendments to the Trust Documents:

9 a. On June 29, 2006, and July 10, 2006, the Trustee, with the consent of the TAC
10 and Futures Representative, approved amendments to the Trust Agreement as set forth herein.
11 Section 2.4 was added to empower the Trustee to enter into a claim processing and administrative
12 sharing agreement with the Western Trust and to further recognize that the Trustee was relieved of
13 any fiduciary obligation to act solely in the best interest of the Trust beneficiaries in regard to the
14 transaction with the Western Trust. (See paragraph 13 *supra*). Section 4.1 was changed to name
15 the Trustee as Stephen M. Snyder. Section 5.1 was amended to name the Futures Representative
16 as Charles B. Renfrew. Section 6.1 added a section which named the appointed TAC members as
17 Alan R. Brayton, Steven Kazan, and David A. Rosen. This change caused number changes in the
18 rest of Section 6. Section 7.4 was changed to allow a member of the TAC to be considered to
19 have attended a meeting if the TAC member spent a substantial portion of the day conferencing by
20 phone or in person on Trust matters. Section 7.6 added an additional law firm as an entity to
21 receive notices required under the Trust Agreement.

22 b. After discussions with the Trust's accountants and legal counsel, the Trustee
23 and the Approving Entities amended the Trust Agreement by adding subparagraphs 1-7 of Section
24 2.2(c)(i) to employ specialized accounting principles in certain instances due to the "special
25 purpose" nature of the Trust, at the September 20, 2006, meeting. As explained in more detail in
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1 Section 2.2(c)(i) 1-7 of the First Amendment to and Complete Restatement of J.T. Thorpe
2 Settlement Trust Agreement and in “Notes to Financial Statements”, the Trust’s financial
3 statements are prepared using special-purpose accounting methods that depart from Generally
4 Accepted Accounting Principals (GAAP) in certain instances in order to better disclose the
5 amount and changes in net claimants’ equity.

6
7 c. On September 20, 2006, the Trustee, with the consent of the TAC and Futures
8 Representative, approved the First Amended J.T. Thorpe Settlement Trust Bylaws. Section 4 of
9 the Bylaws provides for meetings to be held no less than quarterly and on the anniversary of the
10 Effective Date. The Trustee, with the consent of the TAC and Futures Representative, amended
11 the annual meeting requirement to be on or about the anniversary of the Effective Date.

12
13 d. On December 13, 2006, Section VII d. of the J.T. Thorpe Settlement Trust Case
14 Valuation Matrix was amended to allow claimants to blend differing exposure ratings of multiple
15 job sites. Under the amended Section VII d., the Trust will calculate a blended exposure giving
16 proportional weight to each site based upon the length of exposure and the site rating.

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18 e. On February 22, 2007, the Trust Agreement was amended to include the
19 following significant changes: Its title was changed to “Second Amendment to and Complete
20 Restatement of J.T. Thorpe Settlement Trust Agreement”; Paragraphs 2.2(c) (i) 6 and 7 were
21 amended to restate financial reporting of interest and dividend income on available-for-sale
22 securities on a net realized and unrealized gains and losses basis; and Paragraph 2.2(d) was
23 amended to remove the requirement that the budgets be sent to the Debtors.

24 18. Claims Processing Notifications: During the Accounting Period, the Trust placed
25 the following Claim Processing Notifications on its website:

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27 a. Notice that payment of a \$250 filing fee is required by Section 6.5 of the TDP
28 for each claim submitted to the Trust, including procedures to establish an account with the Trust

1 for the prepayment of filing fees.

2 b. Procedures for submitting claims electronically to the Trust.

3 c. Notice to all interested parties and invitation to participate in a web-based
4 claims processing seminar that reviewed Trust claim requirements, documents, and procedures.

5 d. Notice of the Trust Facilities and Services Sharing Agreement entered into
6 between J.T. Thorpe Settlement Trust and Western Asbestos Settlement Trust, as described in
7 paragraph 13, *supra*.

8 e. Trust documents, including amendments as described in paragraph 17, *supra*.

9 f. Approved claim form, claim form checklists, ship and job site lists, high
10 expsoure job types, and forms that could be used for supporting documents.

11 g. Third Party Disclosure Policy.

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14 19. Trustee Compensation: Section 4.5(c) of the Trust Agreement requires the Trust to
15 report the amounts paid to the Trustee for compensation and expenses. During the Accounting
16 Period, the Trustee received an annual payment in the amount \$15,000; hourly compensation in
17 the amount of \$126,031.50; and reimbursement for out-of-pocket costs and expenses in the
18 amount of \$1,021.09.

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20 20. Final Fee Applications: All Final Fee Applications were approved by this Court
21 during the Accounting Period and the Trust has paid all amounts due and payable accordingly.

22 21. Significant Vendors: Although the Trust has many vendors, those who were paid
23 more than \$100,000 for work performed during the Accounting Period were:

24 a. Fergus, a Law Firm: Counsel to Judge Renfrew, Futures Representative.

25 b. Legal Analysis Systems: Expert hired by the TAC.

26 c. Rutter Hobbs & Davidoff: Counsel to the Debtors.

27 d. Sheppard, Mullin, Richter & Hampton LLP: Counsel to the TAC.
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1 e. Western Asbestos Settlement Trust for shared services pursuant to the Trust
2 Facilities and Services Sharing Agreement, as described in paragraph 13, *supra*.

3 22. Payment Percentage: Section 4.2 of the TDP provides that, commencing on the
4 first day of January, after the Plan has been confirmed, the Trust shall reconsider the Payment
5 Percentage to assure that it is based on accurate current information and may, after such
6 reconsideration, change the Payment Percentage if necessary with the consent of the TAC and the
7 Futures Representative. In Section 2.3 of the Revised Trust Distribution Procedures, the Payment
8 Percentage was set at 9%. On June 29, 2006, the TAC and the Futures Representative entered into
9 an Agreement Regarding Initial Payment Percentage, which increased the initial Payment
10 Percentage to 50%. This Agreement was entered into in part pursuant to Section 2.3 of the TDP
11 which provides that the TAC and the Futures Representative may agree on a different initial
12 Payment Percentage prior to the Effective Date in the event that the amount available to be paid as
13 of the Effective Date has increased due to another party becoming a Settling Asbestos Insurance
14 Company after July 13, 2005. At the December 13, 2006, meeting, the Payment Percentage was
15 reviewed by the Trust, in consultation with the TAC and Futures Representative, and it was
16 determined that no change in the current Payment Percentage was warranted at that time.
17 However, in accordance with Section 4.2 of the TDP, the Trust shall reconsider the Payment
18 Percentage within three years of January 1, 2007, or at any time if requested to do so by the TAC
19 or the Futures Representative.
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23 23. Trust Investment Management: Article 3 of the Trust Agreement authorizes the
24 Trust to administer the investment of funds in the manner in which individuals of ordinary
25 prudence, discretion and judgment would act in the management of their own affairs, subject to
26 certain limitations. The Trust engaged Callan Associates in September 2006 to assist it in
27 developing an investment policy and selecting investment managers.
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24. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust calculate an annual payment for claims based upon a model of the amount of cash flow anticipated to be necessary over the entire life of the Trust to ensure that funds will be available to treat all present and future claimants as similarly as possible. At the September 20, 2006, meeting, the Maximum Annual Payment for 2006 was set at \$34,300,000. At the December 13, 2006, meeting, the Maximum Annual Payment for 2007 was set at \$26,400,000.

The Trustee submits that the Annual Report and attached exhibits demonstrate that the Trust acted prudently and expeditiously in executing its legal obligations during the Accounting Period. The Trust conscientiously worked to establish equitable claims procedures and processed Trust Claims with due diligence soon after the Effective Date. Moreover, the Trust worked assiduously with its accountants to preserve Trust assets in order to fulfill the purpose of the Trust--paying valid asbestos claims. In so doing, the Trust carefully complied with all Plan documents and the mandates of this Court.