

JONES VARGAS
100 West Liberty Street - Twelfth Floor
PO Box 281
Reno, Nevada 89504-0281
Tel: (775) 786-5000 Fax: (775) 786-1177

1 JANET L. CHUBB, ESQ.
California State Bar No. 41292
2 JONES VARGAS
100 West Liberty Street, 12th Floor
3 PO Box 281
Reno, Nevada 89504-0281
4 Telephone: 775-788-2205 (direct)
Fax: 775-786-1177
5 Email: jlc@jonesvargas.com

6 Attorneys for the Trustee of the
J.T. Thorpe Settlement Trust
7

8 **UNITED STATES BANKRUPTCY COURT**
CENTRAL DISTRICT OF CALIFORNIA
9 **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
16
17

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

Chapter 11

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

Date: June 4, 2008
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 Second Annual Report and Accounting.

21 Respectfully submitted this 30th day of April, 2008.

22 JONES VARGAS
23

24 By: /s/ Janet L. Chubb
JANET L. CHUBB (Calif. Bar No. 41292)
100 West Liberty Street, 12th Floor
P. O. Box 281
Reno, NV 89504-0281
25 Telephone: 775-788-2205 (direct)
26 Fax: 775-786-1177
27 Email: jlc@jonesvargas.com

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

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
Section 1.03 Reno, Nevada 89504-0281
Section 1.04 Tel: (775) 786-5000 Fax: (775) 786-1177

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

1
2
3 The Trustees of the J.T. Thorpe Settlement Trust (“Trust”) hereby submit this
4 Second Annual Report and Accounting (“Annual Report”) covering Trust activities that
5 occurred during the period from January 1, 2007, to and including December 31, 2007,
6 (“Accounting Period”) and certain activities of the Trust that took place outside of the
7 Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the
8 Central District of California, Los Angeles Division, *In re J.T. THORPE, INC. a California*
9 *corporation; J.T. THORPE, a dissolved California corporation; THORPE HOLDING*
10 *COMPANY, a California corporation; and THORPE TECHNOLOGIES, INC., a California*
11 *corporation*, Case Nos. LA02-14216-BB; LA04-35876-BB; LA04-35877-BB; LA04-35847-BB,
12 Jointly Administered Under Case No. LA02-14216-BB, in accordance with the First Amended
13 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”); Third Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust
16 Agreement (“Trust Agreement”); First Amendment to and Complete Restatement of J.T. Thorpe
17 Settlement Trust Bylaws (“Trust Bylaws”); J.T. Thorpe Case Valuation Matrix and Order
18 Approving Motion to Amend Plan to Modify Base Case Values Contained in Case Valuation
19 Matrix (“Matrix”); First Amendment to and Complete Restatement of Trust Distribution
20 Procedures (“TDP”); and other controlling documents approved by this Court¹ and pursuant to
21 the laws of the State of Nevada, where the Trust is organized and where it resides. The factual
22 statements in this Annual Report are supported by the Declaration of Sara Beth Brown,
23 Executive Director, in Support of Motion to Approve and Settle J.T. Thorpe Settlement Trust’s
24 Annual Report and Accounting, Audited Financial Statements, and Claim Report as described in
25 paragraphs 7 and 8, *infra*. Capitalized terms not defined herein are as defined in the Glossary of
26 Terms for the Plan Documents.
27
28

¹ The Appendix includes all sections of the Plan Documents, Court Orders, and Agreements referenced herein.

1 This Annual Report respectfully shows:

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

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

7 On April 19, 2007, the number of Trustees was increased to three (3) by the
8 Futures Representative and the TAC effective on the first anniversary of the Effective Date of the
9 Trust. The Futures Representative and TAC appointed John F. Luikart and Sandra R. Hernandez,
10 M.D. to serve as the additional two (2) Trustees, subject to acceptance by them of the
11 appointment. On May 3, 2007, Sandra R. Hernandez, M.D. accepted the appointment to serve as
12 Trustee and on May 4, 2007, John F. Luikart accepted the appointment to serve as Trustee.

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

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

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

24 5. Tax Obligations: Section 2.2(b) of the Trust Agreement requires the Trustees to
25 file income tax and other returns and statements in a timely manner, and to comply with all
26 withholding obligations as legally required, including fulfilling requirements to maintain its status
27 as a Qualified Settlement Fund. The Trust has complied with its tax obligations on a quarterly
28 basis since June 29, 2006, based upon the advice of Sitkoff/O'Neil Accountancy Corporation, the

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
Section 1.03 Reno, Nevada 89504-0281
Section 1.04 Tel: (775) 786-5000 Fax: (775) 786-1177

1 certified public accountants retained by the Trust to prepare its annual tax returns. The federal tax
2 return for 2007 will be filed on or before September 15, 2008. The Trust resides in Nevada and
3 Nevada has no state income tax. Although the Trust is not subject to tax in California, the
4 Trustees will also file a tax return in California, attaching a copy of the Trust's federal tax return
5 but showing no California taxable income or state tax liability.

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

17 The special-purpose accounting methods were adopted by Mr. Snyder as sole Trustee of the Trust
18 with the approval of the TAC and the Futures Representative in the Second Amendment to and
19 Complete Restatement of J.T. Thorpe Settlement Trust Agreement, dated February 22, 2007. The
20 special-purpose accounting methods have been followed since the Trust's inception as described
21 in the Trust's First Annual Report and Accounting. The Trust is required by the Internal Revenue
22 Code to account for and report on its activities for tax purposes on a calendar-year basis.
23 Therefore, except where otherwise stated, all reports attached to this Annual Report cover the
24 Accounting Period.

25 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the
26 Trust Agreement, the Trust has caused its accounts to be audited by Grant Thornton LLP, the
27 independent certified public accountants retained by the Trust to perform the annual audit of its
28 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, 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

1 accounting adopted by the Trust. These Audited Financial Statements show, among other things,
2 that as of December 31, 2007, total Trust assets were \$191,274,495, total liabilities were
3 \$4,068,342, and Net Claimants' Equity was \$187,206,153.

4 8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with
5 the Audited Financial Statements, the Trust shall file with the Court a report containing a
6 summary regarding the number and type of claims disposed of during the period covered by the
7 financial statements. The J.T. Thorpe Settlement Trust Claim Report As Of December 31, 2007
8 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust
9 received 1,327 claims, paid and closed 98 claims, and made settlement offers on an additional 112
10 claims. Of those 1,327 claims received, 1,237 claims were received between June 28, 2007, and
11 December 31, 2007. The majority of those 1,237 claims were placed on hold at the time of
12 submittal based upon the request of the representative law firms. As of December 31, 2007, 417
13 claims remained on hold; 151 claims were awaiting prima facie review; 337 claims had undergone
14 prima facie review and were awaiting content review; 191 claims had undergone the prima facie
15 and content reviews and were determined to be deficient; and 21 claims had been withdrawn by
16 the representative law firms. Since the Trust received its first Trust claim² on October 24, 2006,
17 the Trust has received 1,374 claims, and paid and closed 100 claims.

18 Section 5.4 of the TDP provides that "...as soon as practicable after the Effective
19 Date, the Trust shall pay all Trust Claims that were liquidated by (i) a written settlement
20 agreement entered into prior to the Petition Date for the particular claim, or (ii) the pre-
21 confirmation claims liquidation process..." The vast majority of the 1,474 claims identified in
22 this Court's January 27, 2006, Order Liquidating Asbestos Related Claims (hereafter "PCLP
23 Claims") were paid in 2006 and three (3) were withdrawn by their respective law firms. During
24 the Accounting Period, the Trust paid 120 PCLP Claims in the total amount of \$2,280,061.53.
25 That amount was paid in trust to the representative law firms after appropriate releases from the
26 respective claimants were received by the Trust. The Trust has not yet received proper release
27 documents for 54 remaining unpaid PCLP Claims in the amount of \$643,855.72.

28 _____
² A claim submitted to the Trust after the Effective Date.

1 9. Trustee Meetings: Article II, Section 4 of the Trust Bylaws provides that the
2 Trustees shall meet in Nevada, or a state other than California, at least once per quarter as soon as
3 practicable after the Effective Date, and on or about the anniversary of the Effective Date. Five
4 (5) meetings were held during the Accounting Period (February 22, 2007, April 19, 2007, July 24,
5 2007, September 20, 2007, and November 15, 2007). All meetings were held in Reno, Nevada at
6 the offices of Western Asbestos Settlement Trust.

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

12 11. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires
13 the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal
14 year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
15 2008 budget and the required four-year budget and cash flow projections on November 15, 2007.
16 Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for
17 operating expenses in 2008 is \$1,228,700.³

18 12. Agreement with Western Asbestos Settlement Trust: On June 29, 2006, the Trust
19 entered into the Trust Facilities and Services Sharing Agreement with the Western Asbestos
20 Settlement Trust (the “Western Trust”) as described in the Trust’s First Annual Report and
21 Accounting. The Trust is empowered to enter into this agreement pursuant to Section 2.4 of the
22 Trust Agreement. The, agreement provides:

23 i) for the Trust to pay all of its own start up costs and a monthly amount, subject
24 to the annual adjustment described in iii), of \$21,000 to the Western Trust for processing and its
25 share of fixed costs (“Advance Payments”), as well as the hiring of the Western Trust’s Executive
26 Director as its Executive Director;

27
28 ³ This figure is net of claimant payments which are budgeted for \$28,529,993, and net of income tax payments which are budgeted for \$900,000.

1 ii) for sharing of the Western Trust’s employees other than the Executive Director;
2 and

3 iii) for an annual accounting to identify and adjust costs as shared to insure that
4 each Trust is paying its proportionate share of the expenses.

5 On July 24, 2007, the Western Trust provided a written reconciliation of the costs
6 incurred by the Trust during the time period of July 1, 2006, to and including June 30, 2007. The
7 reconciliation demonstrated that the Annual Services Cost was in excess of the total amount of the
8 Advance Payments. That excess amount, including interest, totaled \$46,308 and was approved for
9 payment on July 24, 2007. At that time, it was also approved that the amount of the Advance
10 Payments shall remain at \$21,000 per month.

11 13. Custodial Accounts: Wells Fargo Bank, N.A., continues to act as custodian for the
12 Trust.

13 14. Priority Lien Funds: Section 4.7 of the Trust Agreement provides in pertinent part
14 that the Trustees, and the Approving Entities and their agents are granted a first priority lien to
15 hold cash and securities sufficient to pay the anticipated compensation and expenses of such
16 parties. The parties who hold a security interest in these funds include the Trustees, the Futures
17 Representative, the TAC and their agents, professionals and representatives (“Secured Parties”).
18 In order to further perfect and acknowledge such priority security interest for the benefit of
19 Secured Parties, the Trust, without waiving or eliminating the security interest rights in any other
20 assets of the Trust by the Secured Parties or anyone else, has established the following bank
21 accounts which reflect such security interests in favor of the Secured Parties:

22 a. Indemnity Fund/Self-Insured Retention: Section 4.6 of the Trust Agreement
23 provides that the Trust shall indemnify the Trustees, the Trust’s officers and employees, the
24 Futures Representative, the TAC and each of their respective agents. The Trustees, the Futures
25 Representative, the TAC and their respective agents have a first priority lien upon the Trust’s
26 assets to secure the payment of any amounts payable to them pursuant to Section 4.6. A
27 \$5,000,000 Indemnity Fund was established at Wells Fargo Bank, N.A., as described in the
28 Trust’s First Annual Report and Accounting. All interest earned by the fund is returned to the

1 Trust quarterly. During the Accounting Period, no claims were made against the fund and no
2 money was paid from the fund.

3 b. First Priority Lien Fund: The First Priority Lien Fund was established at Wells
4 Fargo Bank, N.A. to pay anticipated operating expenses of the Trust, as described in the Trust's
5 First Annual Report and Accounting. During the Accounting Period, \$2,289,750 was transferred
6 into the fund from the Settlement Fund.

7 c. Settlement Fund: The Settlement Fund was established at Wells Fargo Bank,
8 N.A. to pay valid claims.

9 15. Amendments to the Trust Documents: During the Accounting Period, certain of
10 the Trust documents were revised and placed on the Trust's website as follows:

11 a. As previously set forth in the Trust's First Annual Report and Accounting: on
12 February 22, 2007, the following significant changes were made to the Trust Agreement:
13 Paragraphs 2.2(c) (i) 6 and 7 were amended to restate financial reporting of interest and dividend
14 income on available-for-sale securities on a net realized and unrealized gains and losses basis; and
15 Paragraph 2.2(d) was amended to remove the requirement that the budgets be sent to the Debtors.

16 b. On September 20, 2007, the following significant changes were made to the
17 Trust Agreement: revisions were made throughout the document to provide for the addition of
18 two (2) Trustees of the Trust as described in paragraph 2, *supra*; revisions were made throughout
19 the document to provide for the designation of the Managing Trustee; and Paragraph 4.5 was
20 revised to reflect the current compensation of the Managing Trustee, which was reviewed and
21 increased to \$550 per hour by the Futures Representative and TAC, with the consent of the non-
22 managing Trustees, on July 24, 2007.

23 c. On September 20, 2007, the Trust Facilities and Services Sharing Agreement
24 entered into with the Western Asbestos Settlement Trust was amended as follows: revisions were
25 made throughout the document to provide for the addition of two (2) Trustees of the Trust as
26 described in paragraph 2, *supra*; and Paragraph 4.2 was revised to change the measuring period
27 for the Annual Reconciliation to be on a calendar year basis and to specify the time period of July
28 1, 2007, to and including December 31, 2008, for the next reconciliation.

1 d. On September 20, 2007, the TDP was amended as follows: revisions were
2 made throughout the document to provide for the addition of two (2) Trustees of the Trust as
3 described in paragraph 2, *supra*; Paragraph 2.3 was revised to accurately reflect the Initial
4 Payment Percentage pursuant to the Agreement Regarding Initial Payment Percentage; and
5 Paragraph 5.3(a)(2) was revised to include an extension of the tolling of the statute of limitations
6 through October 16, 2007.

7 e. On September 20, 2007, the following documents were amended throughout to
8 provide for the addition of two (2) Trustees of the Trust as described in paragraph 2, *supra*: Trust
9 Bylaws; Indemnity Agreement; and each Control Agreement for the Settlement Fund, Operating
10 Account, and Indemnity Fund.

11 16. Arbitration Procedures: Arbitration Procedures pursuant to Section 5.9(a)-(c) of
12 the TDP were reviewed at the February 22, 2007, meeting, and were approved on September 20,
13 2007, and additional updated procedures and forms were approved on November 15, 2007.
14 Claims Resolution Management Corporation (“CRMC”) of Falls Church, Virginia, was retained
15 by the Trust to assist in the administration of claims that proceed through arbitration. CRMC
16 provides arbitration management services and arbitrators to other similar asbestos bankruptcy
17 trusts

18 17. Notifications to Beneficiaries: During the Accounting Period, the following
19 notifications were placed on the Trust’s website and forwarded to all interested parties via
20 electronic mail on or about the date of the website posting:

21 a. Notice of an amendment to Section VII d of the Case Valuation Matrix
22 regarding minimum exposure requirements and pro-rata awards; blended exposure rates; and
23 allocation of exposure time at multiple sites (posted on March 23, 2007).

24 b. Notice regarding the assessment process concerning post-repair shipboard
25 exposures (posted on March 23, 2007).

26 c. Notice regarding the requirement that interrogatories be submitted to the Trust
27 pursuant to Section 6.2(a) of the TDP (posted on May 3, 2007).

28 d. Notice regarding an extension of the tolling of the statute of limitations (posted

1 on October 2, 2007).

2 e. Notices regarding updates to the ship and job site lists and updated claim form
3 (posted on October 2, 2007 and December 19, 2007).

4 18. Trustee Compensation: Section 4.5(c) of the Trust Agreement requires the Trust to
5 report the amounts paid to the Trustees for compensation and expenses. During the Accounting
6 Period, the Trustees each received an annual payment in the amount of \$15,000. The total paid to
7 all Trustees for hourly compensation was \$96,057.50, and \$3,717 was the total amount of
8 expenses incurred by all Trustees.

9 19. Significant Vendors: Although the Trust has many vendors, only two vendors were
10 paid more than \$100,000 for work performed during the Accounting Period as follows:

11 a. Morgan, Lewis & Bockius, LLP: Counsel to the Trust concerning general
12 matters.

13 b. Western Asbestos Settlement Trust for shared services pursuant to the Trust
14 Facilities and Services Sharing Agreement, as described in paragraph 12, *supra*.

15 20. Trust Investment Management: Article 3 of the Trust Agreement authorizes the
16 Trust to administer the investment of funds in the manner in which individuals of ordinary
17 prudence, discretion and judgment would act in the management of their own affairs, subject to
18 certain limitations. The Trust engaged Dwight Asset Management, Eagle Capital Management,
19 Standish Mellon Asset Management, and State Street Global Advisors to act as the Trust's
20 investment managers. The Trust closely monitors any market volatility with its investment
21 advisors and continues to be in compliance with its Investment Policy Statement.

22 21. Payment Percentage: Section 4.2 of the TDP provides that, commencing on the
23 first day of January, after the Plan has been consummated and no less frequently that once every
24 three years thereafter or at any time if requested to do so by the TAC or the Futures
25 Representative, the Trustees shall reconsider the Payment Percentage to assure that it is based on
26 accurate current information and may, after such reconsideration, change the Payment Percentage
27 if necessary with the consent of the TAC and the Futures Representative. During the Accounting
28 Period, the Trust did not receive any such requests from the TAC or the Futures Representative.

JONES VARGAS
Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
Section 1.03 Reno, Nevada 89504-0281
Section 1.04 Tel: (775) 786-5000 Fax: (775) 786-1177

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Pursuant to the guidelines of Sections 2.3 and 4.2 of the TDP, the Payment Percentage remained at 50% for 2007 as described in the Trust's First Annual Report and Accounting.

22. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust calculate an annual payment limit 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 November 15, 2007, meeting, the Maximum Annual Payment for 2008 was set at \$10,300,000, plus the amount of \$18,229,993 of excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled over and remain dedicated to the respective Disease Category to which they were originally allocated.

The Trustees submit 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 execute equitable claims procedures and process Trust Claims with due diligence during the Accounting Period. Moreover, the Trust worked with its accountants and financial advisors to preserve and grow Trust assets in order to fulfill the purpose of the Trust--paying valid asbestos claims. In so doing, the Trust carefully complied with all Plan documents and the mandates of this Court.