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

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.

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

Chapter 11

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

Date: June 9, 2009
Time: 2:00 p.m.
Place: Courtroom 1475
255 East Temple Street
Los Angeles, CA 90012

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 day of April, 2009.

22 JONES VARGAS

23 By: /s/ Janet L. Chubb
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**THIRD ANNUAL REPORT AND ACCOUNTING
OF J.T. THORPE SETTLEMENT TRUST**

The Trustees of the J.T. Thorpe Settlement Trust (“Trust”) hereby submit this Third Annual Report and Accounting (“Annual Report”) covering Trust activities that occurred during the period from January 1, 2008, to and including December 31, 2008, (“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. LA02-14216-BB, in accordance with the First Amended Joint Plan of Reorganization (“Plan”); Order Confirming First Amended Joint Plan of Reorganization Dated August 5, 2005, and Granting Related Relief (“Order Confirming the Plan”); Third Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Agreement (“Trust Agreement”); Second Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust Bylaws (“Trust Bylaws”); J.T. Thorpe Case Valuation Matrix and Order Approving Motion to Amend Plan to Modify Base Case Values Contained in Case Valuation Matrix, including the amendment to Section VII d. (“Matrix”); First Amendment to and Complete Restatement of Trust Distribution Procedures (“TDP”); and other controlling documents approved by this Court¹ and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle J.T. Thorpe Settlement Trust’s Third Annual Report and Accounting, Audited Financial Statements, and Claim Report as described in paragraphs 7 and 8, *infra*. Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan Documents.

This Annual Report respectfully shows:

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

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

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

6 As described in the Trust's Second Annual Report and Accounting, on April 19,
7 2007, the number of Trustees was increased to three (3) by the Futures Representative and the
8 Trust Advisory Committee effective on the first anniversary of the Effective Date of the Trust.

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

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

16 4. Appointment and Continuation of Futures Representative: The Honorable Charles
17 B. Renfrew was appointed as the Futures Representative in the J.T. Thorpe Reorganization Cases
18 on December 2, 2002, and his continued appointment as the Futures Representative of the Trust
19 was approved by this Court in the Order Confirming the Plan. Judge Renfrew has served as the
20 Trust's Futures Representative since December 2, 2002.

21 5. Fiscal Year and Tax Obligations: 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, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports
24 attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust
25 Agreement requires the Trustees to file income tax and other returns and statements in a timely
26 manner, and to comply with all withholding obligations as legally required, including fulfilling
27 requirements to maintain its status as a Qualified Settlement Fund. The Trust has complied with
28 its tax obligations on a quarterly basis since June 29, 2006, based upon the advice of

1 Sitkoff/O'Neil Accountancy Corporation, the certified public accountants retained by the Trust to
2 prepare its annual tax returns. The federal tax return for 2008 will be filed on or before September
3 15, 2009. The Trust resides in Nevada and Nevada has no state income tax. Although the Trust is
4 not subject to tax in California, the Trustees will also file a tax return in California, attaching a
5 copy of the Trust's federal tax return but showing no California taxable income or state tax
6 liability.

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

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

18 The special-purpose accounting methods were adopted by Mr. Snyder as sole Trustee of the Trust
19 with the approval of the TAC and the Futures Representative in the Second Amendment to and
20 Complete Restatement of J.T. Thorpe Settlement Trust Agreement, dated February 22, 2007. The
21 Trust's financial statements are prepared using special-purpose accounting methods that depart
22 from Generally Accepted Accounting Principles (GAAP) in certain instances in order to better
23 disclose the amount and changes in net claimants' equity.

24 7. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the
25 Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton
26 LLP, the independent certified public accountants retained by the Trust to perform the annual
27 audit of its financial statements. The Trust's audited financial statements ("Audited Financial
28 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 accounting adopted by the Trust. These Audited Financial Statements

1 show, among other things, that as of December 31, 2008, total Trust assets were \$170,271,704,
2 total liabilities were \$5,487,110, and Net Claimants' Equity was \$164,784,594.

3 8. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with
4 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, 2008
7 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust
8 received 1,725 claims, paid and closed 567 claims, and made settlement offers on an additional
9 668 claims. Since the Trust received its first Trust claim² on October 24, 2006, the Trust has
10 received 3,100 claims, and paid and closed 667 claims.

11 Section 5.4 of the TDP provides that "...as soon as practicable after the Effective
12 Date, the Trust shall pay all Trust Claims that were liquidated by (i) a written settlement
13 agreement entered into prior to the Petition Date for the particular claim, or (ii) the pre-
14 confirmation claims liquidation process..." The vast majority of the 1,474 claims identified in
15 this Court's January 27, 2006, Order Liquidating Asbestos Related Claims (hereafter "PCLP
16 Claims"), were paid in 2006 and three (3) were withdrawn by their respective law firms. During
17 the Accounting Period, the Trust paid five (5) PCLP Claims in the total amount of \$72,403. That
18 amount was paid in trust to the representative law firms after appropriate releases from the
19 respective claimants were received by the Trust. The Trust has not yet received proper release
20 documents for fifty (50) remaining unpaid PCLP Claims in the amount of \$437,845.

21 9. Bi-Annual Claims Report: Section 5.7(b) of the TDP requires the Trust to provide
22 a report reviewing filed claims, paid claims, average payments and disallowed claims by
23 Compensable Disease every two (2) years. This report was presented at the November 13, 2008,
24 Trustees' meeting. A copy of the report is included in the Appendix filed herewith.

25 10. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
26 Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close
27 as practicable on a quarterly basis. Four (4) meetings were held during the Accounting Period
28

² "Trust Claims" are any claims submitted to the Trust after the Effective Date.

1 (February 21, 2008, April 17, 2008, June 19, 2008, and November 12, 2008). All meetings were
2 held in Reno, Nevada.

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

8 12. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires
9 the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal
10 year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
11 2009 budget and the required four-year budget and cash flow projections on November 12, 2008.
12 Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for
13 operating expenses in 2009 totals \$879,000.³

14 13. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
15 calculate an annual payment limit for claims based upon a model of the amount of cash flow
16 anticipated to be necessary over the entire life of the Trust to ensure that funds will be available to
17 treat all present and future claimants as similarly as possible. At the November 12, 2008, meeting,
18 the Maximum Annual Payment for 2009 was set at \$10,300,000, plus the amount of \$53,016,922
19 of excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled
20 over and remain dedicated to the respective Disease Category to which they were originally
21 allocated.

22 14. Custodial Accounts: Wells Fargo Bank, N.A., continues to act as custodian for the
23 Trust.

24 15. Indemnity Fund/Self-Insured Retention: Section 4.6 of the Trust Agreement
25 provides that the Trust shall indemnify the Trustees, the Trust's officers and employees, the
26 Futures Representative, the TAC and each of their respective agents. The Trustees, the Futures
27

28 ³ This figure is net of claimant payments which are budgeted for \$10,921,046, net of extraordinary legal fees which
are budgeted for \$30,000, and net of income tax payments which are budgeted for \$900,000.

1 Representative, the TAC and their respective agents have a first priority lien upon the Trust's
2 assets to secure the payment of any amounts payable to them pursuant to Section 4.6. A
3 \$5,000,000 Indemnity Fund was established at Wells Fargo Bank, N.A., as described in the
4 Trust's Second Annual Report and Accounting. All interest earned by the fund is returned to the
5 Trust quarterly. During the Accounting Period, no claims were made against the fund and no
6 money was paid from the fund.

7 16. First Priority Lien Fund: The First Priority Lien Fund was established at Wells
8 Fargo Bank, N.A. to pay anticipated operating expenses of the Trust, as described in the Trust's
9 Second Annual Report and Accounting. During the Accounting Period, \$1,228,700 was
10 transferred into the fund from the Settlement Fund.

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

13 18. Payment Percentage: Section 4.2 of the TDP provides that, commencing on the
14 first day of January, after the Plan has been consummated and no less frequently that once every
15 three years thereafter or at any time if requested to do so by the TAC or the Futures
16 Representative, the Trustees shall reconsider the Payment Percentage to assure that it is based on
17 accurate current information and may, after such reconsideration, change the Payment Percentage
18 if necessary with the consent of the TAC and the Futures Representative. Pursuant to the
19 guidelines of Sections 2.3 and 4.2 of the TDP, the Payment Percentage was temporarily decreased
20 to 40% effective December 1, 2008.

21 19. Inflation Adjustment: The original Payment Percentage approved by this Court was
22 based upon projections of future claims payments adjusted annually for inflation. In the interest of
23 treating all claimants equitably in accordance with the Plan, the Trustees recommended all claims
24 payments made during a calendar year include a cost of living adjustment based upon the Federal
25 Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers*
26 (CPI-W) announced in January each year. The TAC and the Futures Representative consented to
27 this adjustment. Consequently, as of January 1, 2008, all claims payments made during the
28 calendar year were increased by 4.3% to account for inflation. The resolution also stated that in

1 each January, the Trust shall review the CPI-W from the previous year and make a determination
2 as to whether that adjustment shall be included in claims payments made in that year. At the
3 February 19, 2009, meeting, the CPI-W of -.50% published in January 2009, was reviewed and
4 approved for use by the Trust in making the 2009 cost of living adjustment for claims payments.
5 Thus, all claims payments made during the 2009 calendar year will have an additional 3.78%
6 added to the payment amount.

7 20. Amendments to the Trust Documents: During the Accounting Period, Section 4 of
8 the Trust Bylaws was revised regarding the requirement as to when Trust meetings should be
9 conducted to allow more flexibility in scheduling.

10 21. Subpoena in *Congoleum Corporation v. Ace American Insurance Co., et al.*: On
11 January 23, 2009, the Trust was served with a Subpoena Duces Tecum issued by the Second
12 Judicial District Court of the State of Nevada (“Nevada Court”) pursuant to an Order for
13 Commissions from the Superior Court of New Jersey obtained by First State Insurance Company
14 (“FSIC”) and Twin City Fire Insurance Company (“TCFIC”). The Trust timely filed an objection
15 to the subpoena in the Nevada Court. The Trust also filed a petition for instructions in this
16 Bankruptcy Court proceeding seeking the Court’s approval of the Trust’s decision to expend
17 additional Trust resources to vindicate its objection filed in the Nevada Court to the production of
18 personal private and confidential Trust beneficiary information to FSIC and TCFIC unless (1)
19 FSIC and TCFIC demonstrate that the individuals whose information is sought are claiming
20 damages against FSIC and TCFIC directly or indirectly through Congoleum; (2) FSIC and TCFIC
21 demonstrate that they have been unable to obtain the documents they seek through less
22 burdensome means from the individual claimants and their counsel directly; (3) the individuals
23 whose Trust information is sought are adequately identified by FSIC and TCFIC so that the Trust
24 will not release confidential documents in error; (4) a protective order is issued that limits FSIC’s
25 and TCFIC’s use and dissemination of any documents produced (and, ultimately, provides for the
26 return and/or destruction of the information provided); and (5) FSIC and TCFIC agree to pay for
27 all expenses associated with the production and the subpoena, including all attorneys fees and
28 expenses and all Trust out-of-pocket and personnel expenses. A hearing was held before this

1 Court on March 12, 2009, and on April 6, 2009, an order was filed and entered in this Court
2 approving the Trustees' expenditure of Trust funds and stating that the Trustees are acting
3 appropriately in incurring the expenses necessary to seek limitations from the Nevada Court with
4 respect to the subpoena. A copy of the *Order on Trustees' Petition for Instructions* is included in
5 the Appendix filed herewith.

6 22. Notifications to Beneficiaries: During the Accounting Period, the following
7 notifications were placed on the Trust's website and forwarded to all interested parties via
8 electronic mail on or about the date of the website posting:

9 a. Notice of the correct method of calculating attorneys' fees (deducting costs
10 before the fee is calculated) and the maximum fee allowed (25% on the net recovery) pursuant to
11 Section 8.4 of the TDP (posted on May 15, 2008).

12 b. Notice reminding law firms to return the refunded filing fee to the claimant if it
13 was paid by the claimant (posted on May 21, 2008).

14 c. Notice of temporary reduction in Payment Percentage (posted on December
15 11, 2008).

16 23. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the Trust
17 to report the amounts paid to the Trustees for compensation and expenses. During the Accounting
18 Period, the Trustees each received an annual payment in the amount of \$15,000. The total paid to
19 all Trustees for hourly compensation was \$71,480, and \$5,179 was the total amount of expenses
20 incurred by all Trustees.

21 24. Filing Fee: Pursuant to Section 6.5 of the TDP, the filing fee was reviewed and
22 there were no recommended changes to the current amount during the Accounting Period.

23 25. Agreement with Western Asbestos Settlement Trust: As described in the Trust's
24 Second Annual Report and Accounting, the Trust entered into the Trust Facilities and Services
25 Sharing Agreement (the "Facilities Agreement") with the Western Asbestos Settlement Trust on
26 June 29, 2006. The Trust is empowered to enter into this agreement pursuant to Section 2.4 of the
27 Trust Agreement. The, agreement provides:

28 i) for the Trust to pay all of its own start up costs and a monthly amount, subject

1 to the annual adjustment described in iii), of \$21,000 to the Western Asbestos Settlement Trust for
2 processing and its share of fixed costs (“Advance Payments”), as well as the hiring of the Western
3 Asbestos Settlement Trust’s Executive Director as its Executive Director;

4 ii) for sharing of the Western Asbestos Settlement Trust’s employees other than
5 the Executive Director; and

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

8 On September 20, 2007, the Facilities Agreement was amended to provide for the
9 addition of two (2) Trustees of the J.T. Thorpe Settlement Trust and Paragraph 4.2 was revised to
10 change the measuring period for the Annual Reconciliation to be on a calendar year basis and to
11 specify the time period of July 1, 2007, to and including December 31, 2008, for the next
12 reconciliation. An interim reconciliation was presented during the meeting on November 12,
13 2008, and at that time, it was agreed that the Trust should pay the anticipated shortfall in the
14 Annual Services Cost of \$64,365 and that the Advance Payments should be increased to \$27,000
15 per month beginning with the July 2008, payment. The final reconciliation was presented at the
16 February 19, 2009, meeting and it was determined that the Western Asbestos Settlement Trust
17 should reimburse the Trust for an overpayment in the amount of \$936.93 plus interest in the
18 amount of \$3.47 and that the Advance Payments should remain at \$27,000 for 2009. A copy of
19 the *Second Amendment to and Complete Restatement of the Trust Facilities and Services Sharing*
20 *Agreement* is included in the Appendix filed herewith.

21 26. Significant Vendors: Although the Trust has many vendors, only three vendors
22 were paid more than \$100,000 for work performed during the Accounting Period as follows:

23 a. Dwight Asset Management Company: One of four investment managers for
24 the Trust.

25 b. Standish Mellon Asset Management Company: One of four investment
26 managers for the Trust.

27 c. Western Asbestos Settlement Trust for shared services pursuant to the Trust
28 Facilities and Services Sharing Agreement, as described in paragraph 25, *supra*.

EXHIBIT "A"



Financial Statements and Report of Independent
Certified Public Accountants

J. T. Thorpe Settlement Trust

December 31, 2008 and 2007

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Report of Independent Certified Public Accountants

To the Trustees of J. T. Thorpe Settlement Trust

We have audited the accompanying special-purpose statements of net claimants' equity of J. T. Thorpe Settlement Trust (the Trust), organized in the State of Nevada, for the years ended December 31, 2008 and 2007, and the related statements of changes in net claimants' equity and cash flows for the years then ended. These special-purpose financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

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

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

In our opinion, the accompanying special-purpose financial statements of J. T. Thorpe Settlement Trust, as of and for the years ended December 31, 2008 and 2007, are fairly presented, in all material respects, on the basis of accounting described in Note A.

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

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

Grant Thornton LLP

Reno, Nevada
March 27, 2009

J. T. Thorpe Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2008	2007
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 5,000,000	\$ 5,000,000
Unrestricted	156,333,079	183,343,177
Total cash, cash equivalents and investments	161,333,079	188,343,177
Accrued interest and dividend receivables	1,541,017	1,362,267
Prepaid federal income tax	653,880	1,569,051
Deferred tax asset	6,743,728	-
Total assets	\$ 170,271,704	\$ 191,274,495
LIABILITIES		
Accrued expenses	\$ 154,278	\$ 135,629
Claim processing deposits	628,500	360,250
Deferred tax liabilities	-	274,200
Unpaid claims (Note D)		
Outstanding offers	4,063,655	2,528,407
Pre-confirmation liquidated claims	478,677	643,856
Facility and staff sharing agreement payable	162,000	126,000
Total liabilities	\$ 5,487,110	\$ 4,068,342
NET CLAIMANTS' EQUITY	\$ 164,784,594	\$ 187,206,153

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>2008</u>	<u>2007</u>
Net claimants' equity, beginning	<u>\$ 187,206,153</u>	<u>\$ 103,073,572</u>
Additions to net claimants' equity		
Initial funding	265,499	86,033,187
Investment income	6,358,087	7,184,846
Provision for income taxes	6,100,904	-
Net realized and unrealized gains on available-for-sale securities	-	1,386,585
Total additions	<u>12,724,490</u>	<u>94,604,618</u>
Deductions from net claimants' equity		
Operating expenses	761,836	1,110,809
Provision for income taxes	-	2,017,138
Claims settled	12,355,162	5,405,842
Net realized and unrealized losses on available-for-sale securities	20,457,803	-
Net increase in outstanding claim offers	1,535,248	1,938,248
Net increase in facility and staff sharing agreement	36,000	-
Total deductions	<u>35,146,049</u>	<u>10,472,037</u>
Net claimants' equity, ending	<u><u>\$ 164,784,594</u></u>	<u><u>\$ 187,206,153</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,

	2008	2007
Cash inflows:		
Initial funding	\$ 265,499	\$ 86,033,187
Investment income receipts	6,179,337	6,299,931
Realized gain	-	408,807
Increase in claim processing deposits	268,250	283,750
Total cash inflows	6,713,086	93,025,675
 Cash outflows:		
Claim payments made	12,520,341	7,686,792
Court ordered claimants' attorney fees (Note D)	-	4,622,742
Total cash claim payments	12,520,341	12,309,534
Realized loss	835,228	-
Disbursements for Trust operating expenses	743,187	1,117,743
Disbursements for Trust income taxes	1,853	2,750,000
Total cash outflows	14,100,609	16,177,277
Net cash inflows	(7,387,523)	76,848,398
 Non-cash changes:		
Net unrealized gains (losses) on available-for-sale securities	(19,622,575)	977,778
 NET INCREASE (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	(27,010,098)	77,826,176
 Cash, cash equivalents and investments available-for-sale, beginning	188,343,177	110,517,001
 Cash, cash equivalents and investments available-for-sale, ending	\$ 161,333,079	\$ 188,343,177

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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; liquidate, resolve, pay and satisfy all current and future 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, (Matrix) and Trust Distribution Procedures, as amended and restated, (TDP) (collectively, the Trust Procedures).

2. Special-Purpose Accounting Methods

The Trust's financial statements are prepared using special-purpose accounting methods that differ from accounting principles generally accepted in the United States. The special-purpose accounting methods were adopted in order to present the amount of equity available for payment of current and future claims. These special-purpose accounting methods are as follows:

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

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. Special-Purpose Accounting Methods - Continued

- e. The liability for unpaid claims reflected in the statement of net claimants' equity represents settled but unpaid claims and outstanding offers. A claims liability is recorded once an offer is made to the claimant at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.
- f. Available-for-sale securities are recorded at fair value. All interest and dividend income on available-for-sale securities, net of investment expenses 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.
- g. 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

The Trust has adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. Fair value is generally determined based on quoted market prices in active markets for identical assets. If quoted market prices are not available, the Trust uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Trust may make adjustments for risk and uncertainties, if a market participant would include such an adjustment in its pricing.

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, 2008 and 2007

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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates.

7. Concentration of Risk

Financial instruments that potentially subject the Trust to concentrations of concentrations of risk consist of cash, cash equivalents and investments. Cash equivalents consist of money market accounts and certificates of deposit. 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. Reclassifications

Certain reclassifications have been made to the December 31, 2007 financial statements to conform to the December 31, 2008 presentation. The reclassifications have no effect on net claimants' equity.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

The Trust has classified its investments as available for sale and records the financial assets at fair value. The Trust has adopted SFAS 157, *Fair Value Measurements*, effective January 1, 2008. SFAS 157 establishes 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 prices in active markets for identical assets. Level 1 assets generally include equity securities that are traded in an active exchange market.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. Level 2 assets and liabilities include derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

generally includes agency mortgage-backed securities, U.S. Government obligations, municipal bonds and corporate and other debt.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. The Trust has no level 3 assets.

The following table summarizes the valuation of financial assets measured at fair value on a recurring basis in the statement of net claimants' equity at December 31:

	December 31, 2008	
	Cost	Market
<u>Restricted</u>		
Cash equivalents	\$ 5,000,000	\$ 5,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 1,434,003	\$ 1,434,003
Cash equivalents	9,075,948	9,075,948
Equity securities	41,035,841	25,270,661
U.S. Government obligations	25,888,230	27,019,859
Municipal bonds	73,606,350	72,731,230
Mortgage backed securities	14,362,400	12,276,292
Corporate and other debt	9,575,105	8,525,086
	\$174,977,877	\$156,333,079
	December 31, 2007	
	Cost	Market
<u>Restricted</u>		
Cash equivalents	\$ 5,000,000	\$ 5,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 462,754	\$ 462,754
Cash equivalents	43,760,471	43,760,471
Equity securities	35,414,523	34,907,756
U.S. Government obligations	27,493,595	28,199,129
Municipal bonds	51,340,012	52,142,053
Mortgage backed securities	16,412,889	16,679,903
Corporate and other debt	7,481,155	7,191,111
	\$182,365,399	\$183,343,177

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2008:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ -	\$ 1,205,152	\$ 562,022	\$25,252,685
Municipal bonds	-	16,234,050	30,902,732	25,594,448
Mortgage backed securities	-	1,501,000	-	10,775,292
Corporate and other debt	-	3,542,643	3,885,121	1,097,322
	<u>\$ -0-</u>	<u>\$22,482,845</u>	<u>\$35,349,875</u>	<u>\$62,719,747</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>\$112,231</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, 2008 and 2007 were \$-0- and \$42,900, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$36,104 and \$28,975 for the years ended December 31, 2008 and 2007, respectively.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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 courts 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 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 release is signed and received by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected or expires after six months. Offers may be extended an additional six months upon written request and good cause. During the years ended December 31, 2008 and 2007, 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 claims' 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 and retroactively pay the increased percentage to all previously paid claimants.

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, 2009 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 Adjustment of 3.78% is included in outstanding claims liabilities as of December 31, 2008.

In October 2006, the bankruptcy court ordered approximately \$18,805,000 of contingency fees, substantial contribution claims and related costs to be paid. Approximately \$2,323,000 of these fees were paid prior to the inception of the Trust. During the year ended December 31, 2007, the Trust paid approximately \$4,623,000 against this obligation. As of December 31, 2007, there was no remaining obligation.

The Trust processed and approved approximately \$13,998,000 and \$7,345,000 of Trust Claims during the years ended December 31, 2008 and 2007, respectively.

NOTE E - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into a facilities and staff sharing agreement with the Western Asbestos Settlement Trust, (the Western Trust). The two trusts are related through common trustees. Under the agreement and in exchange for advance monthly payments, the Western Trust provides use of its facilities and services relating to administration and claims processing. The initial monthly payment of \$21,000 was in place through June 30, 2008, and was raised to \$27,000 effective July 1, 2008 and for all months thereafter. The agreement expires June 30, 2009, and will automatically renew for additional one-year

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE E - FACILITY AND STAFF SHARING AGREEMENT - Continued

periods unless either party provides six months written notice. The Western Trust is required to provide a written calendar year reconciliation of the annual services costs compared to the advance payments. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The reconciliations performed for the years ended December 31, 2008 and 2007 resulted in additional payments to the Western Trust of approximately \$64,000 and \$46,000, respectively. The next reconciliation period will be the twelve-month period ending December 31, 2009. 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, jurisdictions, and individual factual information concerning each claimant as set forth in the Trust Procedures.

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 Council ("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 Trustees are currently updating assumptions regarding the Trust's future assets and liabilities and, if appropriate, will propose permanent changes in the Payment Percentage. As a result of the temporarily decreased Payment Percentage, all claims approved and paid from that date receive 40% of the claim's liquidated value until the results of the analysis are evaluated. These changes were made with the consent of the TAC and Futures Representative. The decrease has no impact on previously paid claims.

Under the terms of the settlement agreements with certain insurers, a portion of the initial funding of the Trust was deferred until 2007. The amount owed to the Trust by the insurers was \$86,000,000 as of December 31, 2006, and was recorded as an addition to net claimants' equity when received during the year ended December 31, 2007.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE G - RESTRICTED CASH EQUIVALENTS

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; interest income accrues to the benefit of the Trust. As of December 31, 2008 and 2007, cash equivalents of \$5,000,000 were restricted for these purposes.

NOTE H - INCOME TAXES

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

The Trust accounts for income taxes in accordance with the Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the recognition of 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, 2008 and 2007:

	2008	2007
Federal income tax – current	\$ 1,060,107	\$1,681,738
Deferred income tax expense (benefit)	(7,161,011)	335,400
	(\$6,100,904)	\$2,017,138

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:

	2008	2007
<u>Deferred tax asset (liability)</u>		
Depreciation and amortization	\$ 10,877	\$ 22,700
Capital loss carryforwards	149,247	-
Facility-sharing obligation	56,700	44,100
Other	1,225	1,200
Unrealized losses (appreciation)	6,525,679	(342,200)
	\$6,743,728	(\$274,200)

Management expects to realize the deferred tax asset through the generation of future taxable income and, accordingly, has not established a valuation allowance.

SUPPLEMENTAL INFORMATION

J. T. Thorpe Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the year ended December 31,

	<u>2008</u>	<u>2007</u>
Accounting	\$ 56,458	\$ 96,022
Claims processing	68,846	90,479
Computer equipment	-	42,900
Information technology support	17,525	22,185
Futures representatives	53,938	42,085
Legal fees	63,716	303,540
Travel, meals and entertainment	352	2,601
Trust advisory committee	19,939	65,703
Trust facility and staff sharing expense	353,096	298,308
Trustee fees	127,966	146,986
	<u>\$ 761,836</u>	<u>\$ 1,110,809</u>

EXHIBIT “B”

J.T. Thorpe Settlement Trust Claim Report As of December 31, 2008

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

During the Accounting Period, three (3) PCLP Claims were paid in the total amount of \$50,549 based upon the Payment Percentage of 50%; and two (2) PCLP claims were paid in the total amount of \$21,854 based upon the lowered Payment Percentage of 40%. These amounts also included an additional 4.3% to account for inflation based upon the Federal Bureau of Labor Statistics’ Consumer Price Index for Urban Wage Earners and Clerical Workers (“CPI-W”). The Trust has not yet received proper releases for fifty (50) PCLP Claims in the total amount of \$437,845, which amount is based upon the current Payment Percentage of 40% and includes the inflation adjustment of 3.78% utilized for claims payments made in 2009.

Trust Claims

The following includes claims received and disposed of from January 1, 2008, through December 31, 2008, in accordance with the J.T. Thorpe Case Valuation Matrix, Order Approving Motion to Amend Plan to Modify Base Case Values Contained in Case Valuation Matrix and the Amendment to Section VII d “Minimum Exposure Criteria” of the 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”).

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. During the Accounting Period, Trust Claims were paid at the Payment Percentage of 50% of the total liquidated value, which was lowered to 40% as of December 1, 2008.

During the Accounting Period, 1,725 claims were received and 1,791 claims were processed. During that same time period, 1,235 claims were determined to be valid and properly submitted under the Trust claim requirements. Of those 1,235 claims, 567 claims were paid in the total amount of \$12,447,911 and settlement offers remained outstanding for 214 claims.

Based upon the 1,235 claims that were determined to be valid and property submitted per Trust requirements, the following chart identifies the average total liquidated values for each compensable disease under the Matrix, comparing the average total liquidated values in 2008, to the Matrix averages.

Compensable Disease	Matrix Averages	2008 Claim Averages
Grade II Non-Malignant	\$3,000	\$2,327
Grade I Non-Malignant	\$10,000	\$6,186
Grade I Non-Malignant Enhanced Asbestosis	\$10,000	\$11,045
Grade I Non-Malignant Serious Asbestosis	\$40,000	\$58,474
Colo-Rectal	\$25,000	\$13,657
Esophageal	\$25,000	\$20,055
Laryngeal	\$25,000	\$8,064
Other Cancer	\$25,000	\$5,123
Lung Cancer	\$40,000	\$22,053
Mesothelioma	\$150,000	\$155,055