

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

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

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re:

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

Debtors.

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

Chapter 11

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

Date: June 22, 2010
Time: 2:00 p.m.
Place: Courtroom 1475
255 East Temple Street
Los Angeles, CA 90012

The Trustees of the J.T. Thorpe Settlement Trust (the "Trust") by and through their counsel,
Janet L. Chubb, Esq. of Jones Vargas, herewith file its Fourth Annual Report and Accounting.

Respectfully submitted this 30th day of April, 2010.

JONES VARGAS

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
Telephone: 775-788-2205 (direct)
Fax: 775-786-1177
Email: jlc@jonesvargas.com
and tbw@jonesvargas.com

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

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

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

The Trustees of the J.T. Thorpe Settlement Trust ("Trust") hereby submit this Fourth Annual Report and Accounting ("Annual Report") covering Trust activities that occurred during the period from January 1, 2009, to and including December 31, 2009 ("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 Fourth 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.

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

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

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

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

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

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

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

5. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement requires the Trustees to file income tax and other returns and statements in a timely manner, and to comply with all withholding obligations as legally required, including fulfilling requirements to maintain its status as a Qualified Settlement Fund. The Trust has complied with 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 2009 will be filed on or before September
3 15, 2010. 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 audit
27 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

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

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1 show, among other things, that as of December 31, 2009, total Trust assets were \$171,430,379,
2 total liabilities were \$4,405,090, and Net Claimants' Equity was \$167,025,289.

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 summary
5 regarding the number and type of claims disposed of during the period covered by the financial
6 statements. The J.T. Thorpe Settlement Trust Claim Report As Of December 31, 2009 ("Claim
7 Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 613
8 claims, paid 641 claims, and made settlement offers on an additional 654 claims. Since the Trust
9 received its first Trust Claim² on October 24, 2006, the Trust has received 3,711 Trust Claims,
10 paid 1,308 Trust Claims, and 112 Trust Claims have been withdrawn.

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 agreement
13 entered into prior to the Petition Date for the particular claim, or (ii) the pre-confirmation claims
14 liquidation process..." The vast majority of the 1,474 Trust claims identified in this Court's
15 January 27, 2006, Order Liquidating Asbestos Related Claims (hereafter "PCLP Claims"), were
16 paid in 2006. To date, four (4) PCLP Claims have been withdrawn by their respective law firms.
17 During the Accounting Period, the Trust paid twenty (20) PCLP Claims in the total amount of
18 \$334,691.38. That amount was paid in trust to the representative law firms after appropriate
19 releases from the respective claimants were received by the Trust. The Trust has not yet received
20 proper release documents for thirty (30) remaining unpaid PCLP Claims in the amount of
21 \$110,208.84.

22 9. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
23 Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close
24 as practicable on a quarterly basis. Four (4) meetings were held during the Accounting Period
25 (February 19, 2009, April 23, 2009, September 10, 2009, and November 19, 2009). All meetings
26 were held in Reno, Nevada.

27 10. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement, the
28

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

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1 Annual Report, including the Audited Financial Statements and Claim Report, has been sent to the
2 Approving Entities, the Debtors, and the Office of the United States Trustee with responsibility for
3 the Central District of California, and has been made available for inspection by the public in
4 accordance with procedures established by this Court.

5 11. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires
6 the Trust to prepare a budget and cash flow projections prior to the commencement of each fiscal
7 year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
8 2010 budget and the required four-year budget and cash flow projections on November 19, 2009.
9 Pursuant to the Trust Agreement, these were provided to the Approving Entities. The budget for
10 operating expenses in 2010 totals \$1,154,000.³

11 12. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
12 calculate an annual payment limit for claims based upon a model of the amount of cash flow
13 anticipated to be necessary over the entire life of the Trust to ensure that funds will be available to
14 treat all present and future claimants as similarly as possible. At the November 19, 2009, meeting,
15 the Maximum Annual Payment for 2010 was set at \$8,200,000, plus the amount of \$51,679,898 of
16 excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled over
17 and remain dedicated to the respective Disease Category to which they were originally allocated.

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

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

28 ³ This figure is net of claimant payments which are budgeted for \$8,160,000, net of extraordinary legal fees which are budgeted for \$150,000, and net of income tax payments which are budgeted for \$1,000,000.

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

3 15. 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 Third Annual Report and Accounting. During the Accounting Period, \$500,000 was transferred
6 into the fund from the Settlement Fund.

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

9 17. Payment Percentage: Section 4.2 of the TDP provides that, commencing on the
10 first day of January, after the Plan has been consummated and no less frequently that once every
11 three years thereafter or at any time if requested to do so by the TAC or the Futures
12 Representative, the Trustees shall reconsider the Payment Percentage to assure that it is based on
13 accurate current information and may, after such reconsideration, change the Payment Percentage
14 if necessary with the consent of the TAC and the Futures Representative. Pursuant to the
15 guidelines of Sections 2.3 and 4.2 of the TDP, the Payment Percentage was decreased from 50% to
16 40% effective December 1, 2008. The Payment Percentage remained at forty percent (40%)
17 during the Accounting Period.

18 18. Inflation Adjustment: The original Payment Percentage approved by this Court was
19 based upon projections of future claims payments adjusted annually for inflation. Beginning in
20 2008, all claims payments made during a calendar year include a cost of living adjustment based
21 upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and*
22 *Clerical Workers* (CPI-W) announced in January each year, as described in the Trust's Third
23 Annual Report and Accounting. Consequently, as of January 1, 2009, all claims payments made
24 during the calendar year were increased by 3.78% to account for inflation. At the November 19,
25 2009, meeting, the CPI-W to be published in January 2010, was approved for use by the Trust in
26 making the 2010 cost of living adjustment for claims payments. The CPI-W of 3.4% was issued
27 on January 15, 2010. Thus, all claims payments made during the 2010 calendar year will have an
28 additional 7.31% added to the payment amount.

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1 19. Audit of Claims Processing Operations: The Trustees, with the agreement of the
2 TAC and Futures Representative, contracted with Mr. David Maxam to conduct a claims
3 processing and internal controls audit. Mr. Maxam reported his findings at the April 23, 2009,
4 meeting. Among other things, he found that each of the 32 claims randomly selected had been
5 processed and paid correctly according to Trust documents and policies. His Detail Report is
6 included in the Appendix filed herewith.

7 20. Subpoena in *Congoleum Corporation v. Ace American Insurance Co., et al.*: On
8 January 23, 2009, the Trust was served with a Subpoena Duces Tecum issued by the Second
9 Judicial District Court of the State of Nevada ("Nevada Court") pursuant to an Order for
10 Commissions from the Superior Court of New Jersey obtained by First State Insurance Company
11 ("FSIC") and Twin City Fire Insurance Company ("TCFIC"). The Trust timely filed an objection
12 to the subpoena in the Nevada Court. The Trust also filed a petition for instructions in this
13 Bankruptcy Court proceeding seeking the Court's approval of the Trust's decision to expend
14 additional Trust resources to vindicate its objection filed in the Nevada Court to the production of
15 personal private and confidential Trust beneficiary information to FSIC and TCFIC unless (1)
16 FSIC and TCFIC demonstrate that the individuals whose information is sought are claiming
17 damages against FSIC and TCFIC directly or indirectly through Congoleum; (2) FSIC and TCFIC
18 demonstrate that they have been unable to obtain the documents they seek through less
19 burdensome means from the individual claimants and their counsel directly; (3) the individuals
20 whose Trust information is sought are adequately identified by FSIC and TCFIC so that the Trust
21 will not release confidential documents in error; (4) a protective order is issued that limits FSIC's
22 and TCFIC's use and dissemination of any documents produced (and, ultimately, provides for the
23 return and/or destruction of the information provided); and (5) FSIC and TCFIC agree to pay for
24 all expenses associated with the production and the subpoena, including all attorneys fees and
25 expenses and all Trust out-of-pocket and personnel expenses. A hearing was held before this
26 Court on March 12, 2009, and on April 6, 2009, an order was filed and entered in this Court
27 approving the Trustees' expenditure of Trust funds and stating that the Trustees are acting
28 appropriately in incurring the expenses necessary to seek limitations from the Nevada Court with

1 respect to the subpoena. A copy of the *Order on Trustees' Petition for Instructions* is included in
2 the Appendix filed herewith.

3 The Trust's Third Party Disclosure Policies set forth the process by which the Trust
4 responds to an enforceable subpoena for individual claim information. The following are the steps
5 taken by the Trust when served with an enforceable subpoena.

6 The Trust identifies whether or not a claim exists. If no claim exists, the Trust produces an
7 *Affidavit of No Records*. If a claim exists, the Trust notifies the claimant or claimant's law firm of
8 the subpoena and requests a response within a specified time period as to whether or not an
9 objection or motion to quash will be filed. In the event the Trust receives no response from the
10 claimant or claimant's law firm within the time period given or if the Trust is advised that no
11 objection or motion to quash is forthcoming, the Trust will produce the claim file (without
12 confidential settlement and payment information). The Trust rarely receives subpoenas (only four
13 were received in 2009, and the Trust did not have a claim for two of those), however the majority
14 of subpoenas received by the Trust are limited to requests for non-privileged and non-confidential
15 information related to the claim. The Trust redacts certain portions of medical records that contain
16 medical information not required to substantiate a claim filed with the Trust. In the event an
17 objection or motion to quash is filed, the Trust awaits the outcome of that proceeding.

18 The subpoena in this case sought information about more than 122,000 persons, and listed
19 just the persons' names with no other identifying information. Therefore, the Trust was unable to
20 follow its normal procedures, above. Rather, in this case, the Trust offered to conduct a cross
21 reference of its databases with a list from FSIC/TCFIC that included social security numbers, so
22 long as FSIC/TCFIC paid the costs associated with conducting the search. Once matches were
23 confirmed, the Trust would notify the claimant(s) of the subpoena to allow the claimant(s) the
24 opportunity to object. If no objection was asserted by the claimant(s), the Trust would require
25 FSIC/TCFIC to provide evidence that the claimant(s) filed a claim in the Congoleum action and to
26 enter into a confidentiality agreement/protective order that limits the use and dissemination of the
27 information it receives prior to the Trust's release of the information.

28 On June 22, 2009, FSIC and TCFIC filed a motion to compel production of

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Section 1.01 100 West Liberty Street - Twelfth Floor
Section 1.02 PO Box 281
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1 documents in the Nevada Court. The Trust opposed the motion and a *Recommendation for Order*
2 was issued by the Discovery Commissioner on November 9, 2009. On November 30, 2009, the
3 Trust filed an objection to certain of the Discovery Commissioner's recommendations and FSIC
4 and TCFIC filed a response thereto on January 5, 2010. This matter has been stayed by agreement
5 of the parties pending the outcome of a proposed settlement in the underlying action between
6 Congoleum Corporation and FSIC and TCFIC.

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

10 a. Notice of the inflation adjustment for claims payments (posted on March 16,
11 2009);

12 b. Notice of the hearing on the Trust's Third Annual Report and Accounting
13 (posted on April 29, 2009);

14 c. Notice of the Trust's Hold Claims Policy (posted on September 14, 2009),
15 involves the notice of deadlines for enforcement of the TDP policy to deem withdrawn any claim
16 that has been placed on hold status for six months without any activity on part of the claimant. An
17 additional six months may be added for good cause, but after the extended period, if there is still
18 no activity, the Trust will deem the claim withdrawn. The enforcement of this TDP policy
19 commenced as of October 1, 2009;

20 d. Notice of approved ship and site list modifications (as updated and posted on
21 September 16, 2009); and

22 e. Notice Regarding Medicare Reporting (posted on October 20, 2009), which
23 pursuant to a 2007 law, requires reporting to Centers for Medicare and Medicaid Services of
24 payments, after January 1, 2010, to Medicare recipients. At the November 19, 2009, Trustees'
25 meeting, it was announced that pursuant to official interpretation by the Secretary of Health and
26 Human Services, asbestos trusts are not considered responsible reporting entities under this law
27 and thus no information will be reported.

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

1 to report the amounts paid to the Trustees for compensation and expenses. During the Accounting
2 Period, the Trustees each received an annual payment in the amount of \$15,000. The total paid to
3 all Trustees for hourly compensation was \$91,346, and \$3,287 was the total amount of expenses
4 incurred by all Trustees.

5 23. Filing Fee: Pursuant to Section 6.5 of the TDP at the September 10, 2009,
6 meeting, the filing fee was reviewed and there were no recommended changes to the current
7 amount during the Accounting Period.

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

13 i) for the Trust to pay all of its own start up costs and a monthly amount, subject
14 to the annual adjustment described in iii), of \$21,000 to the Western Asbestos Settlement Trust for
15 processing and its share of fixed costs ("Advance Payments"), as well as the hiring of the Western
16 Asbestos Settlement Trust's Executive Director as its Executive Director;

17 ii) for sharing of the Western Asbestos Settlement Trust's employees other than
18 the Executive Director; and

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

21 As described in the Trust's Third Annual Report and Accounting, an interim
22 reconciliation was presented during the meeting on November 12, 2008, and at that time, it was
23 determined that the Trust should pay the anticipated shortfall in the Annual Services Cost of
24 \$64,365 and that the Advance Payments should be increased to \$27,000 per month beginning with
25 the July 2008, payment. The final reconciliation was presented at the February 19, 2009, meeting
26 and it was determined that the Western Asbestos Settlement Trust should reimburse the Trust for
27 an overpayment in the amount of \$936.93 plus interest in the amount of \$3.47 and that the
28 Advance Payments should remain at \$27,000 for 2009. As approved at the April 23, 2009,

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1 meeting, a copy of the *Second Amendment to and Complete Restatement of the Trust Facilities and*
2 *Services Sharing Agreement* is included in the Appendix filed herewith.

3 25. Audit of Trust Facilities and Services Sharing Agreement: On September 10,
4 2009, it was agreed to retain Mr. David Maxam to perform an independent accounting audit of the
5 Trust Facilities and Services Sharing Agreement between the Trust and J.T. Thorpe Settlement
6 Trust. Mr. Maxam's report was presented at the February 18, 2010, meeting and found that the
7 current method of allocation is fair and efficient. A copy of the report is included in the Appendix
8 filed herewith.

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

11 a. Analysis Research Planning Corporation ("ARPC"): Consulting firm hired to
12 help the Trust develop a claims manual, claims processing procedures, create a system to process
13 claims, provide program updates and improvements to the claims processing system and provide
14 monthly maintenance. Dr. Vasquez of ARPC also acts as the expert professional with whom the
15 Trustees and Approving Entities consult;

16 b. Dwight Asset Management Company: One of four investment managers for the
17 Trust;

18 c. Jones Vargas: Law firm that acts as Nevada counsel responsible for the legal
19 administration of the Trust and bankruptcy matters;

20 d. Standish Mellon Asset Management Company: One of four investment
21 managers for the Trust; and

22 e. Western Asbestos Settlement Trust for shared services pursuant to the Trust
23 Facilities and Services Sharing Agreement, as described in paragraph 24, *supra*.

24 27. Trust Investment Management: Article 3 of the Trust Agreement authorizes the
25 Trust to administer the investment of funds in the manner in which individuals of ordinary
26 prudence, discretion and judgment would act in the management of their own affairs, subject to
27 certain limitations. Callan & Associates continued to assist the Trust during the Accounting
28 Period as its manager of investment managers. Dwight Asset Management, Eagle Capital

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1 Management, Standish Mellon Asset Management, and State Street Global Advisors have
2 continued to act as the Trust's investment managers. The Trust closely monitors any market
3 volatility with its investment advisors and continues to be in compliance with its Investment Policy
4 Statement. On April 21, 2010, the Investment Policy Statement was amended. A copy of the
5 Investment Policy Statement, as amended, is included in the Appendix filed herewith.

6 28. Extension of Arbitration Procedures: At the April 23, 2009, meeting, the J.T.
7 Thorpe Settlement Trust Arbitration Procedures that were approved on November 15, 2007, were
8 extended to April 22, 2011.

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

11 30. Record Retention and Destruction Policy: On April 21, 2010, the Trustees adopted
12 a record retention and destruction policy. A copy of the approved Record Retention and
13 Destruction Policy is included in the Appendix filed herewith.

14 31. Amendment to the Trust Agreement: On April 21, 2010, paragraph 3.2(d) was
15 revised to be consistent with the changes made to the Trust's Investment Policy Statement. A
16 copy of the *Fourth Amendment to and Complete Restatement of J.T. Thorpe Settlement Trust*
17 *Agreement* incorporating those revisions is included in the Appendix filed herewith.

18 ***

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



Grant Thornton

Financial Statements and Report of Independent
Certified Public Accountants

J. T. Thorpe Settlement Trust

December 31, 2009 and 2008

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Audit • Tax • Advisory

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note A8, the Trust adopted new accounting guidance on January 1, 2009, related to the accounting for uncertainty in income tax reporting.

Grant Thornton LLP

Reno, Nevada
April 12, 2010

J. T. Thorpe Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	\$ 5,000,000	\$ 5,000,000
Unrestricted	162,321,436	156,333,079
Total cash, cash equivalents and investments	167,321,436	161,333,079
Accrued interest and dividend receivables	1,447,048	1,541,017
Prepaid federal income tax	663,827	653,880
Deferred tax asset	1,998,068	6,743,728
Total assets	<u>\$ 171,430,379</u>	<u>\$ 170,271,704</u>
LIABILITIES		
Accrued expenses	\$ 156,185	\$ 154,278
Claim processing deposits	626,750	628,500
Unpaid claims (Note D)		
Outstanding offers	3,148,595	4,063,655
Pre-confirmation liquidated claims	149,560	478,677
Facility and staff sharing agreement payable	324,000	162,000
Total liabilities	<u>\$ 4,405,090</u>	<u>\$ 5,487,110</u>
NET CLAIMANTS' EQUITY	<u>\$ 167,025,289</u>	<u>\$ 164,784,594</u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	<u>2009</u>	<u>2008</u>
Net claimants' equity, beginning	\$ 164,784,594	\$ 187,206,153
Additions to net claimants' equity		
Initial funding	-	265,499
Investment income	5,958,416	6,358,087
Net decrease in outstanding claim offers	915,060	-
Provision for income taxes	-	6,100,904
Net realized and unrealized gains on available-for-sale securities	<u>13,700,057</u>	<u>-</u>
Total additions	<u>20,573,533</u>	<u>12,724,490</u>
Deductions from net claimants' equity		
Operating expenses	1,189,945	761,836
Provision for income taxes	5,338,564	-
Claims settled	11,642,329	12,355,162
Net realized and unrealized losses on available-for-sale securities	-	20,457,803
Net increase in outstanding claim offers	-	1,535,248
Net increase in facility and staff sharing agreement	<u>162,000</u>	<u>36,000</u>
Total deductions	<u>18,332,838</u>	<u>35,146,049</u>
Net claimants' equity, ending	<u>\$ 167,025,289</u>	<u>\$ 164,784,594</u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2009</u>	<u>2008</u>
Cash inflows:		
Initial funding	\$ -	\$ 265,499
Investment income receipts	6,052,385	6,179,337
Increase in claim processing deposits	-	268,250
Total cash inflows	<u>6,052,385</u>	<u>6,713,086</u>
Cash outflows:		
Claim payments made	11,971,446	12,520,341
Net realized loss on available-for-sale securities	2,208,854	835,228
Decrease in claim processing deposits	1,750	-
Disbursements for Trust operating expenses	1,188,038	743,187
Disbursements for Trust income taxes	602,851	1,853
Total cash outflows	<u>15,972,939</u>	<u>14,100,609</u>
Net cash outflows	(9,920,554)	(7,387,523)
Non-cash changes:		
Net unrealized gains (losses) on available-for-sale securities	<u>15,908,911</u>	<u>(19,622,575)</u>
NET INCREASE (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	5,988,357	(27,010,098)
Cash, cash equivalents and investments available-for-sale, beginning	<u>161,333,079</u>	<u>188,343,177</u>
Cash, cash equivalents and investments available-for-sale, ending	<u>\$ 167,321,436</u>	<u>\$ 161,333,079</u>

The accompanying notes are an integral part of these statements.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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, 2009 and 2008

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 records investments at estimated fair value. 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, 2009 and 2008

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 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. Income Taxes

Effective January 1, 2009, the Trust adopted new accounting guidance related to accounting for uncertainty in income taxes which requires the recognition of uncertain tax positions taken or expected to be taken in a tax return, when it is "more likely than not" to be sustained upon examination. This assessment further presumes that tax authorities evaluate the technical merits of transactions individually with full knowledge of all facts and circumstances surrounding the issue.

A recognized tax position is recorded in the financial statements at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Changes in judgment resulting in subsequent recognition, de-recognition, or adjusted measurement of a tax position taken in a prior annual period, including any related interest and penalties, are recognized as discrete items during the period in which the change occurs.

As the result of implementation of the new accounting guidance related to accounting for uncertainty in income taxes, the Trust recognized no change in the liability for unrecognized tax benefits related to tax positions taken in prior periods. All positions taken on the income tax returns were deemed highly certain. The adoption of the new accounting guidance related to accounting for uncertainty in income taxes did not have an impact on the financial statements.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

8. Income Taxes - Continued

The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2009, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did the Trust record any interest or penalties expense for year ended December 31, 2009.

The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months.

The Trust files income tax returns in the United States and no state jurisdictions. The Trust is no longer subject to United States federal income tax examinations for years before 2006.

9. Subsequent Events

In May 2009, the FASB issued general standards for the accounting and reporting of subsequent events that occur between the balance sheet date and issuance of financial statements. Issuers will be required to recognize the effects, if material, of subsequent events in the financial statements if the subsequent event provides additional evidence about conditions that existed as of the balance sheet date. The issuer must also disclose the date through which subsequent events have been evaluated and the nature of any nonrecognized subsequent events. Nonrecognized subsequent events include events that provide evidence about conditions that did not exist as of the balance sheet date, but which are of such a nature that they must be disclosed to keep the financial statements from being misleading. These new standards became effective for financial reporting periods ending after June 15, 2009. The adoption of them has had no material effect on the Trust's financial statements.

The Trust evaluated subsequent events through April 12, 2010, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

10. Reclassifications

Certain reclassifications have been made to the December 31, 2008 financial statements to conform to the December 31, 2009 presentation. The reclassifications have no effect on net claimants' equity.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	December 31, 2009	
	Cost	Market
<u>Restricted</u>		
Cash equivalents	\$ 5,000,000	\$ 5,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 667,626	\$ 667,626
Cash equivalents	8,848,233	8,848,233
Equity securities	39,061,916	32,221,412
U.S. Government obligations	24,549,410	25,188,534
Municipal bonds	73,925,515	77,237,286
Mortgage backed securities	7,520,096	7,148,175
Corporate and other debt	10,413,457	11,010,170
	<u>\$164,986,253</u>	<u>\$162,321,436</u>
	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
	<u>\$174,977,877</u>	<u>\$156,333,079</u>

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

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS – Continued

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

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities 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 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.

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

	December 31, 2009		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 667,626	\$ -	\$ -
Cash equivalents	13,848,233	-	-
Equity securities	32,221,412	-	-
U.S. Government obligations	-	25,188,534	-
Municipal bonds	-	77,237,286	-
Mortgage backed securities	-	6,417,988	730,187
Corporate and other debt	4,347,745	6,662,425	-
	<u>\$51,085,016</u>	<u>\$115,506,233</u>	<u>\$730,187</u>
	December 31, 2008		
	Level 1	Level 2	Level 3
<u>Assets</u>			
Cash demand deposits	\$ 1,434,003	\$ -	\$ -
Cash equivalents	10,074,222	4,001,726	-
Equity securities	25,270,661	-	-
U.S. Government obligations	-	27,019,859	-
Municipal bonds	10,041,890	62,689,340	-
Mortgage backed securities	-	12,276,292	-
Corporate and other debt	3,895,098	4,629,988	-
	<u>\$50,715,874</u>	<u>\$110,617,205</u>	<u>\$ -0-</u>

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Activity in Level 3 investments for the year ended December 31, 2009 was:

	<u>Mortgage Backed Securities</u>
Balance at January 1, 2009	\$ -
Transfers from Level 2	678,143
Purchases	240,995
Redemptions	(123,035)
Accretion of discount	2,568
Unrealized loss	<u>(68,484)</u>
Balance at December 31, 2009	<u><u>\$730,187</u></u>

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2009:

	<u>Less than 1 Year</u>	<u>After 1 Year Through 5 Years</u>	<u>After 5 Years Through 10 Years</u>	<u>After 10 Years</u>
U.S. Government obligations	\$ -	\$ 7,494,461	\$ 1,272,928	\$16,421,145
Municipal bonds	1,044,305	14,887,137	26,452,225	34,853,619
Mortgage backed securities	-	1,508,742	-	5,639,433
Corporate and other debt	-	5,219,473	5,582,571	208,126
	<u>\$1,044,305</u>	<u>\$29,109,813</u>	<u>\$33,307,724</u>	<u>\$57,122,323</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>\$113,377</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, 2009 and 2008 were \$1,146 and \$-0-, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$26,250 and \$36,104 for the years ended December 31, 2009 and 2008, respectively.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

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, 2009 and 2008, 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 Adjustments of 7.31% and 3.78% are included in outstanding claims liabilities as of December 31, 2009 and 2008, respectively.

The Trust processed and approved approximately \$10,618,000 and \$13,998,000 of Trust Claims during the years ended December 31, 2009 and 2008, 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 originally expired December 31, 2009, however provisions allow for automatic renewal for additional one-year periods unless either party provides six months written notice. The Western Trust is required to provide a written calendar year reconciliation of the annual services costs compared to the advance payments. Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest. The reconciliation is performed and recorded in the period subsequent to the reconciliation period. The reconciliation performed for the year ended December 31, 2008 resulted in an additional payment to the Trust of approximately \$1,000, and the

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE E - FACILITY AND STAFF SHARING AGREEMENT - Continued

reconciliation performed for the year ended December 31, 2007 resulted in an additional payment to the Western Trust of approximately \$64,000. 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.

NOTE G - RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

To avoid the high costs of director and officer liability insurance, and pursuant to the Trust Agreement, the Trust has elected to be self insured and has established a segregated security fund of \$5 million. These funds are devoted exclusively to securing the obligations of the Trust to indemnify the former and current Trustees and officers, employees, agents and representatives of the Trust. The funds are held in a separate Trust bank account; interest income accrues to the benefit of the Trust. As of December 31, 2009 and 2008, cash, cash equivalents and investments of \$5,000,000 were restricted for these purposes.

J. T. Thorpe Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

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

The provision for income taxes consists of the following for the years ended December 31, 2009 and 2008:

	2009	2008
Federal income tax – current	\$ 592,904	\$ 1,060,107
Deferred income tax expense (benefit)	4,745,660	(7,161,011)
	<u>\$5,338,564</u>	<u>(\$6,100,904)</u>

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

	2009	2008
<u>Deferred tax asset (liability)</u>		
Depreciation and amortization	\$ 2,487	\$ 10,877
Capital loss carryforwards	922,346	149,247
Facility-sharing obligation	113,400	56,700
Other	2,275	1,225
Unrealized losses	957,560	6,525,679
	<u>\$1,998,068</u>	<u>\$6,743,728</u>

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>2009</u>	<u>2008</u>
Accounting	\$ 85,785	\$ 56,458
Claim audit	32,095	540
Claims processing	76,695	68,659
Computer equipment	1,146	-
Information technology support	26,291	17,525
Futures representatives	118,922	53,938
Legal fees	213,471	63,716
Trust advisory committee	25,316	19,939
Trust facility and staff sharing expense	323,063	353,096
Trustee fees	140,470	124,012
Trustees professional	146,691	3,953
	<u>\$ 1,189,945</u>	<u>\$ 761,836</u>

EXHIBIT "B"

J.T. Thorpe Settlement Trust Claim Report As of December 31, 2009

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%.

The Trust paid twenty (20) PCLP Claims during the Accounting Period in the amount of \$334,691.38, which included an additional 3.78% 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 thirty (30) PCLP Claims in the total amount of \$110,208.84. That amount is based upon the current Payment Percentage of 40% and includes the inflation adjustment of 7.31% utilized for claims payments made in 2010.

Trust Claims

Claims received and disposed of from January 1, 2009, through December 31, 2009, 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") are as set forth below.

The value of each compensable disease is determined by the Matrix and TDP. Claim compensation is adjusted for individual claimants based upon tort related

individual characteristics, including, but not limited to: age, marital status, dependents, medical specials, economic loss, exposure location, and whether living at the time of commencement of litigation or filing the claim with the Trust. Each valid claim is awarded a total liquidated value. As of December 31, 2009, Trust Claims were paid at the approved Payment Percentage of 40%. Payments made on Trust Claims included an additional 3.78% to account for inflation based upon the CPI-W.

During the Accounting Period, 613 claims were received, 2,442 claims were processed, 654 claims received offers, and 641 claims were paid.

Below is a summary of the number and type of claims disposed of (paid) in 2009.

Compensable Disease	Number of Claims
Grade II Non-Malignant	170
Grade I Non-Malignant	83
Grade I Non-Malignant Enhanced Asbestosis	27
Grade I Non-Malignant Serious Asbestosis	19
Colo-Rectal	25
Esophageal	3
Kidney	1
Laryngeal	7
Non-Hodgkin's Lymphoma	1
Other Cancer	6
Lung Cancer	127
Mesothelioma	172
Total	641