

1 Eve H. Karasik
California Bar No. 155356
2 LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Boulevard, Suite 1700
3 Los Angeles, CA 90067
Telephone: (310) 229-1234
4 Facsimile: (310) 229-1244
Email: EHK@lnbyb.com
5 Bankruptcy Counsel for the Thorpe Insulation
Company Asbestos Settlement Trust
6

7
8 UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
9 LOS ANGELES DIVISION

10 In re) Case No. 02:07-bk-20016-BB
11)
PACIFIC INSULATION COMPANY,) Chapter 11
12) (Jointly Administered with Case No. LA 2:07-
Debtor.) bk-19271-BB

13 _____) Case No. 2:07-bk-19271-BB
14 In re) (Case Closed)
15)
THORPE INSULATION COMPANY,) **FIFTH ANNUAL REPORT AND**
16) **ACCOUNTING, AUDITED FINANCIAL**
17) **STATEMENTS, AND CLAIM REPORT**
18)

19 **Hearing:**

20)
21)
22)
23)
24)
25)
26)
27)
28)
Hearing Date: June 3, 2015
Hearing Time: 2:00 p.m.
Place: Courtroom 1475
255 E. Temple St., 14th Floor
Los Angeles, CA 90012

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

3 The Trustees of the Thorpe Insulation Company Asbestos Settlement Trust by and
4 through their counsel, Levene, Neale, Bender, Yoo & Brill, hereby file the Fifth Annual Report and
5 Accounting, Audited Financial Statements, and Claim Report.

6
7 DATED: April 29, 2015

8 Respectfully submitted,

9
10 By: //s// Eve H. Karasik
11 EVE H. KARASIK
12 LEVENE, NEALE, BENDER,
13 YOO & BRILL L.L.P.
14 Email: EHK@lnbyb.com

15
16
17
18
19
20
21
22
23
24
25
26
27
28
Bankruptcy Counsel for the Thorpe Insulation
Company Asbestos Settlement Trust

1 **FIFTH ANNUAL REPORT AND ACCOUNTING OF THORPE INSULATION**
2 **COMPANY ASBESTOS SETTLEMENT TRUST**

3 The Trustees of the Thorpe Insulation Company Asbestos Settlement Trust ("Trust")
4 hereby submit this Fifth Annual Report and Accounting (the "Annual Report") covering Trust
5 activities that occurred during the period from January 1, 2014 to and including December 31, 2014
6 (the "Accounting Period") and cover certain activities of the Trust that took place outside the
7 Accounting Period. This Annual Report is submitted to the United States Bankruptcy Court for the
8 Central District of California, Los Angeles Division, *In re Thorpe Insulation Company, In re Pacific*
9 *Insulation Company, Debtors*, Case Nos. 2:07-19271-BB and 2:07-20016-BB (jointly administered
10 under Case No. 2:07-20016-BB) in accordance with the *Sixth Amended Joint Plan of Reorganization*
11 *of Thorpe Insulation Company and Pacific Insulation Company* [Docket No. 3418] (the "Plan");
12 *Order Confirming Sixth Amended Joint Plan of Reorganization of Thorpe Insulation Company and*
13 *Pacific Insulation Company (Following Remand)* [Docket No. 3429] ("2013 Confirmation Order")
14 dated May 8, 2013; the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case
15 Valuation Matrix, as amended from time to time, established pursuant to the Plan,¹ and pursuant to
16 the laws of the State of Nevada, where the Trust is organized and where it resides. The Trust
17 Agreement states in Section 7.9 that the Trust is governed by Nevada law. Section 164.015 of the
18 Nevada Revised Statutes allows the Trust to render an accounting and seek approval for its past
19 actions. The factual statements in this Annual Report are supported by the Declaration of Sara Beth
20 Brown, Executive Director, in Support of Motion to Approve and Settle Thorpe Insulation
21 Settlement Trust's Fifth Annual Report and Accounting, Audited Financial Statements, and Claim
22 Report as described in paragraphs 7, 8, and 9 *infra*. Capitalized terms not defined herein are as
23 defined in Article 1 of the Plan. This Court has approved each Annual Report beginning in 2010.

24
25 ¹ The Appendix includes the Plan; 2013 Confirmation Order; Eighth Amendment to and Complete Restatement of
26 Thorpe Insulation Company Asbestos Settlement Trust Agreement ("Trust Agreement"); Second Amendment to and
27 Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Bylaws ("Trust Bylaws"); Third
28 Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation
Matrix ("Matrix"); Fourth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos
Personal Injury Settlement Trust Distribution Procedures ("TDP"); other controlling documents approved by this
Court; and other documents as indicated.

1 1. Effective Date: On February 1, 2010, this Court entered the "Order
2 Confirming Fifth Amended Joint Plan of Reorganization" (the "2010 Confirmation Order").
3 Following remand of certain issues upheld on appeal as described in the Trust's Fourth Annual
4 Report, this Court entered the 2013 Confirmation Order on May 8, 2013. The Plan became effective
5 on July 9, 2013.

6 2. Final Decree and Closing of Thorpe Insulation Company Bankruptcy Case:
7 As described in the Trust's Fourth Annual Report, pursuant to the Plan and 2013 Confirmation
8 Order, the bankruptcy case of Thorpe Insulation Company (Case No. LA 07-19271-BB) was closed
9 and the Bankruptcy Court entered its Final Decree [Docket No. 3447]. The Plan and 2013
10 Confirmation Order further provided that the Pacific Insulation Company case (Case Number LA
11 07-20016-BB) would remain open for purposes of administering the Trust.

12 3. Appointment of Trustees: In the 2010 Confirmation Order, this Court
13 approved the appointment of Mr. John F. Luikart and Dr. Sandra R. Hernandez as the Trustees of the
14 Trust, who have acted in that capacity since the Effective Date of the Trust.

15 Pursuant to Section 4.1 of the Trust Agreement, the number of Trustees was increased
16 to three (3) on January 11, 2011, and on February 17, 2011, Mr. Stephen M. Snyder was appointed
17 to serve as the third Trustee. Mr. Snyder has acted as a Trustee of the Trust since February 17, 2011.
18 Further, on April 21, 2011, in accordance with Section 4.1 of the Trust Agreement, Mr. Snyder was
19 designated by the other two Trustees as Managing Trustee, with the consent of the Trust Advisory
20 Committee and Futures Representative.

21 4. Appointment of Trust Advisory Committee ("TAC"): Pursuant to Section 6.1
22 of the Trust Agreement, Alan R. Brayton, Ron C. Eddins, David McClain, Jerry Neil Paul, and
23 David A. Rosen were designated as the initial members of the TAC. Mr. Brayton was elected Chair
24 of the TAC by its members on October 25, 2010, and has served in that capacity since that time. As
25 described in the Trust's Fourth Annual Report, the selection of Peter A. Kraus to succeed the late
26 Mr. Eddins as a member of the TAC was approved by this Court on July 11, 2012. Messrs. Kraus,
27 McClain, Paul and Rosen continued to serve as members of the TAC during the Accounting Period.
28

1 5. Appointment and Continuation of Futures Representative: The Honorable
2 Charles B. Renfrew, retired, was appointed as the Futures Representative in the Bankruptcy Case on
3 December 20, 2007 and has continued to act in that capacity since the Effective Date of the Trust.

4 6. Fiscal Year and Tax Obligations: The Trust is required by the Internal
5 Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis.
6 Therefore, the Trust's fiscal year is the calendar year. Section 2.2(b) of the Trust Agreement requires
7 the Trustees to file income tax and other returns and statements in a timely manner, and comply with
8 all withholding obligations as legally required, including fulfilling requirements to maintain the
9 Trust's status as a Qualified Settlement Fund. The 2013 federal tax return was filed by its extended
10 due date of September 15, 2014 and the 2014 federal tax return will be filed by its extended due date
11 of September 15, 2015. The Trust resides in Nevada, and Nevada has no state income tax. Although
12 the Trust is not subject to tax in California, the Trustees file a tax return in California, attaching a
13 copy of the Trust's federal tax return but showing no California taxable income or state tax liability.

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

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

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

 8. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of
the Trust Agreement, the Trust has caused its accounts to be audited by independent certified public
accountants, Grant Thornton, LLP. The Trust's audited financial statements ("Audited Financial

1 Statements") are attached hereto as Exhibit "A". These include a Statement of Net Claimants'
2 Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and
3 explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate
4 balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis
5 of accounting utilized by the Trust. These Audited Financial Statements show, among other things,
6 that as of December 31, 2014, total Trust assets were \$534,021,310, total liabilities were \$5,543,156,
7 and Net Claimants' Equity was \$528,478,154.

8 9. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along
9 with the Audited Financial Statements, the Trustees shall file with the Court a report containing a
10 summary regarding the number and type of claims disposed of during the period covered by the
11 financial statements. The Thorpe Insulation Settlement Trust Claim Report As Of December 31,
12 2014 ("Claim Report") is attached hereto as Exhibit "B". During the Accounting Period, the Trust
13 received 324 claims, paid 412 claims, and made settlement offers on 428 claims. Since the Trust
14 received its first Trust Claim,² the Trust has received 3,310 Trust Claims, paid 1,817 Trust Claims,
15 and 943 Trust Claims have been withdrawn.³

16 Section 5.4 of the TDP provides that, "As soon as practicable after the Effective Date,
17 the Trust shall pay all Trust Claims that were liquidated by (i) a settlement agreement entered into
18 prior to the Petition Date for the particular claim, or (ii) a judgment of any kind entered on or before
19 October 15, 2007 (collectively, the "Pre-Petition Liquidated Claims"). As described in the Trust's
20 First Annual Report, all Pre-Petition Liquidated Claims were paid by the end of January 2011 in
21 trust to the representative law firms for disbursement to the claimants upon the Trust's receipt and
22 approval of a properly executed release.

23 10. Public Inspection: In compliance with Section 2.2(c)(iii) of the Trust
24 Agreement, the Annual Report, including the Audited Financial Statements and Claim Report, has
25 been provided to the TAC and Futures Representative, filed with the United States Bankruptcy Court
26

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

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

1 for the Central District of California, Los Angeles Division, served on the Office of the United States
2 Trustee with responsibility for the Central District of California, Los Angeles Division, and made
3 available for inspection by the public.

4 11. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the
5 Trustees shall meet in Nevada, or a state other than California, at least four times a year, as close as
6 practicable on a quarterly basis. The Trustees held six meetings during the Accounting Period
7 (January 13, 2014, February 20-21, 2014, March 25, 2014, April 17, 2014, September 22-23, 2014,
8 and November 20-21, 2014). The January, February, April, September and November meetings
9 were held in Nevada, and the March meeting was held in Arizona.

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

12 13. Term Sheet Settlements: As described in the Trust's Fourth Annual Report,
13 this court entered its Order Approving Term Sheet For Settlement Of Pre-Petition Assignment Claim
14 [Docket No. 2998] ("Term Sheet Settlement") which settlement authorized those claimants to assert
15 their claims for 250% of the face value of their settlements under Section 5.4 of the Trust
16 Distribution Procedures and as against specified insurers that were not yet included as Settled
17 Asbestos Insurers as of May 2010. [Docket No. 2905]. The Trust subsequently settled with all
18 known insurers. In order to facilitate those settlements, at the Trustees' meeting on February 7,
19 2013, the Trustees authorized placing 250% of the face value of the Term Sheet Settlement claims or
20 \$22,000,000 in reserves out of those subsequent settlements to preserve the status quo with respect
21 to the pre-petition claimants' rights under the Term Sheet Settlement. This was memorialized in an
22 agreement between the Trust and Term Sheet Settlement claimants on February 13, 2013. During
23 the Trustees' meeting on April 17, 2014, the Trustees approved the resolution of the Term Sheet
24 Settlement claims as follows: (1) the 164 Term Sheet Settlement claimants would forgo any rights
25 to additional payments from the Trust with respect to their claims (e.g. such as increases in the
26 Funds Received Ratio); (2) these claimants will be paid an additional collective lump sum payment
27 of \$4,635,221.02 which when paid, will result in these claimants having been paid the current Funds
28

1 Received Ratio of 250% of the face value of their settlements including payments for inflation
2 through 2013; and (3) the Trust is authorized to release the remaining funds from the above
3 described reserve. The Trust paid the additional amounts to the Term Sheet Settlement claimants on
4 May 10, 2014.

5 14. Funds Received Ratio: Section 4.2 of the TDP provides for the Trustees to
6 reconsider the Funds Received Ratio on the first day of each January after the Plan has been
7 confirmed. As described in the Trust's First Annual Report, on November 17, 2010, based upon the
8 analysis and advice of the Trust's expert economist, the Trust, with the consent of the TAC and
9 Futures Representative, set the Initial Funds Received Ratio at 17.5%. On September 11, 2013, the
10 Trustees approved an increase in the Funds Received Ratio to 30.5%. The Funds Received Ratio
11 remained at 30.5% during the Accounting Period.

12 15. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust
13 calculate a maximum annual payment for claims (the "Maximum Annual Payment") based upon a
14 model of the amount of cash flow anticipated to be necessary over the entire life of the Trust to
15 ensure that funds will be available to treat all present and future claimants as similarly as possible.
16 At the November 20, 2014 meeting, the Maximum Annual Payment for 2015 was set at
17 \$34,800,000, plus the amount of \$42,617,180 of excess funds carried over from 2014, which Section
18 2.5 of the TDP requires to be rolled over and remain dedicated to the respective "Disease Category"
19 in the "Jurisdiction" (as such terms are described in the TDP) to which they were originally located.

20 16. Inflation Adjustment: Section 5.3(d) of the TDP requires that all claims
21 payments be adjusted for inflation annually beginning with the calendar year after the Effective Date
22 of the Trust. Beginning in 2011, all claims payments made during a calendar year include a cost of
23 living adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for*
24 *Urban Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the
25 November 20, 2014 meeting, the CPI-W to be published in January 2015 was approved for use by
26 the Trust in making the 2015 cost of living adjustment for claims payments. The CPI-W of 0.3%
27 was issued on January 16, 2015. Consequently, all claims payments made during the 2015 calendar
28

1 year will have a compounded inflation rate of 8.66% added to the payment amount.

2 17. Budget and Cash Flow Projection: Section 2.2(d) of the Trust Agreement
3 requires the Trust to prepare a budget and cash flow projections prior to the commencement of each
4 fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the
5 2015 budget and the required four-year budget and cash flow projections on November 21, 2014.
6 Pursuant to the Trust Agreement, these were provided to the TAC and Futures Representative. The
7 budget for operating expenses, including investment fees, in 2015 totals \$3,452,400.⁴

8 18. Trust Facilities and Services Sharing Agreement with Western Asbestos
9 Settlement Trust: As initially described in the Trust's First Annual Report, the Trust and Western
10 Asbestos Settlement Trust ("Western Trust") entered into a Trust Facilities and Services Sharing
11 Agreement. The Trust agreed to pay a negotiated monthly amount. Such arrangement was approved
12 by this Court in the order approving the Trust's First Annual Report. As described in the Trust's
13 Fourth Annual report, pursuant to the annual reconciliation of fees presented on February 20, 2014,
14 the Trust and the Western Trust agreed to set the advance payments at \$32,000 per month for 2014.
15 Pursuant to an interim reconciliation of fees presented on September 23, 2014, the Trust and the
16 Western Trust revised the amount of the advance payments to \$29,000 per month as of October 1,
17 2014.

18 Pursuant to the annual reconciliation of fees presented on February 27, 2015, the
19 Trust and the Western Trust agreed that the advance payments shall be \$37,000 per month for 2015.
20 The total amount paid by the Trust to the Western Trust, after accounts were reconciled for 2014,
21 was \$440,455.

22 At the beginning of 2015, the Trusts each consulted with outside counsel concerning
23 the continued viability and fairness of the Trust Facilities and Services Sharing Agreements by and
24 between Western Trust and this Trust, and based on advice of counsel, the Trust and the Western
25 Trust determined that the formula and methodology being used should continue and was fair to this
26

27 ⁴ This figure excludes claimant payments budgeted for \$34,800,000 and extraordinary legal fees budgeted for \$600,000.
28 Budgeted investments fees were previously reported as a reduction to investment income. The 2015 operating expense
budget includes investment fees of \$1,973,000.

1 Trust and the Western Trust.

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

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

6 21. Operating Fund: The Operating Fund was established at Wells Fargo Bank,
7 N.A., to pay anticipated operating expenses of the Trust.

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

14 In addition to the first priority lien on all the Trust's assets, in November of 2010, the
15 Trust established an indemnity fund in the amount of \$5,000,000, as described in the Trust's First
16 Annual Report. All interest earned by the fund is returned to the Trust quarterly. During the
17 Accounting Period, no claims were made against the fund and nothing was paid from the fund.

18 Additionally, as described in the Trust's Fourth Annual Report, at the September 11,
19 2013 meeting, an increase in the amount of the fund to \$25,000,000 was approved.

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

1 Thorpe Trust is authorized and appropriate under the circumstances," and (ii) sought related
2 equitable relief.

3 The Adversary Proceeding was procedurally consolidated with a similar adversary
4 proceeding brought by the J.T. Thorpe Settlement Trust (collectively with the Thorpe Insulation
5 Company Asbestos Settlement Trust, the "Trusts") in the Bankruptcy Court. The docket for the
6 consolidated actions was maintained in the J.T. Thorpe Settlement Trust adversary proceeding , case
7 number 2:12-ap-02182-BB. In addition, the Western Trust commenced a similar adversary
8 proceeding against Mandelbrot in its bankruptcy case pending in the United States Bankruptcy Court
9 for the Northern District of California. All three trusts are supervised by the same Trustees and the
10 same Futures Representative, and all three trusts evaluate and process claims through the same
11 facility and processing staff.⁵

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

23 At the Trusts' request, this Court set a hearing and briefing schedule for enforcement
24 of the stipulated agreement. The hearing was held on March 27, 2014 and this Court ruled that the
25 agreement was enforceable. The Order Granting Motion To Enforce January 23, 2014 Stipulated
26

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

1 Agreement [Docket No. 232] (“Enforcement Order”) and Order Following Trial On Adversary
2 Complaints And Motion For Instructions [Docket No. 233] (“Order After Trial”) were entered.

3 The Order After Trial ordered, among other things, that Mandelbrot: (1) “effective
4 immediately” shall file no new claims with the Trusts; (2) “effective immediately, Mandelbrot shall
5 cease all activity with respect to claims (“Pending Claims”) for the Trusts and shall transfer each
6 Pending Claim and all past claims made against the Trusts to an attorney who will take
7 responsibility; and (3) that if the Trusts do not receive a notice of transfer for the Pending Claims
8 and past claims by July 23, 2014, then those claims shall be deemed withdrawn and Mandelbrot
9 agreed that all such claims with respect to this Trust may be deemed withdrawn. All of this was
10 reduced to a Judgment, entered on April 7, 2014, resolving the adversary proceedings. [Docket No.
11 234]. This Court issued its Findings of Fact and Conclusions of Law supporting its Order after Trial
12 [Docket No. 235] on April 9, 2014. The Trust has implemented the stipulated agreement found to be
13 enforceable by this Court. Following entry of Judgment, Mandelbrot has filed a notice of appeal,
14 and likewise filed a motion to stay enforcement of the Judgment pending appeal. On May 27, 2014,
15 this Court heard and denied Mandelbrot’s motion to stay enforcement judgment and order following
16 trial. Thereafter, in early June 2014, Mandelbrot filed a motion to stay enforcement of the judgment
17 and order pending appeal before the Honorable Virginia A. Phillips of the United States District
18 Court for the Central District of California, who has been assigned to hear Mr. Mandelbrot’s appeal
19 of the judgment and order. Prior to the hearing on the motion, which was scheduled for July 7,
20 2014, Judge Phillips denied Mr. Mandelbrot’s motion on the grounds that Mr. Mandelbrot had failed
21 to meet his burden of establishing an abuse of discretion by the Bankruptcy Court in denying the
22 requested stay.⁶

23 _____
24 ⁶ Attached hereto as Exhibit “C” is the Honorable Virginia A. Phillips’ Minute Order (1) Denying Motion to Stay
25 Enforcement of Judgment and Order following Trial (Doc. No. 10) and (2) Vacating July 7, 2014 Hearing (in
26 Chambers) (Document 26). In her Order, Judge Phillips noted that even if she were to engage in a *de novo*
27 consideration, she would agree with the decision of the Bankruptcy Court on the merits of the motions brought before
28 the Bankruptcy Court.

1 Thereafter, on June 18, 2014, and pursuant to a briefing schedule established by the
2 United States District Court, Mr. Mandelbrot filed his District Court brief. Briefing on Mr.
3 Mandelbrot's appeal was completed on July 15, 2014, and no decision has been issued.

4 As a result of the stipulation, and consistent with its terms, the Trust is not accepting
5 claims from Mandelbrot and all claims previously submitted by Mandelbrot have been transferred to
6 new counsel.

7 24. Claim with Manville Personal Injury Trust: The Trust is pursuing a potential
8 claim with the Manville Personal Injury Trust ("Manville Trust"). The Trust alleges it has the right
9 to pursue Thorpe Distributor Indemnity claims against the Manville Trust for asbestos related losses
10 it sustained in a case which has been finally resolved by settlement, judgment or otherwise. The
11 Trust filed a claim in November of 2014 and is currently in discussions with the Manville Trust.

12 25. Amendments to the Trust Documents: As described in the Trust's Fourth
13 Annual Report, the Bylaws were amended on February 20, 2014, and amendments to the Trust
14 Distribution Procedures and Matrix were approved on March 25, 2014. Copies of the Second
15 Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust
16 Bylaws, Fourth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos
17 Personal Injury Settlement Trust Distribution Procedures, and Third Amendment to and Complete
18 Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation Matrix are
19 included in the Appendix filed herewith.

20 On November 20, 2014, sections 4.5(a) and 6.6(b) of the Trust Agreement were
21 amended to allow for an annual increase in Trustee and TAC compensation based upon the Federal
22 Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers*
23 (CPI-W) announced in January each year. A copy of the Eighth Amendment to and Complete
24 Restatement of Thorpe Insulation Company Asbestos Settlement Trust Agreement is included in the
25 Appendix filed herewith.

26 26. Notifications to Beneficiaries: During the Accounting Period and,
27 additionally, from January 1, 2015 to and including April 16, 2015, the following notifications were
28

1 placed on the Trust's Web site:

- 2 a. Notice of Suspension of Pro Bono Evaluation Procedures (posted January 14,
3 2014);
- 4 b. Notice of settlement of Mandelbrot adversary proceeding (posted January 31,
5 2014);
- 6 c. Notice of claims processing FTP server maintenance (posted February 18,
7 2014);
- 8 d. Notice of computer system incursion (posted February 21, 2014);
- 9 e. Notice/update regarding computer system incursion (posted March 6, 2014);
- 10 f. Notice regarding submission of claims in paper form (posted March 14,
11 2014);
- 12 g. Notice/update regarding settlement of Mandelbrot adversary proceeding
13 (posted April 16, 2014);
- 14 h. Notice/update regarding submission of claims (posted April 25, 2014);
- 15 i. Notice of hearing on the Trust's Fourth Annual Report and Accounting
16 (posted April 30, 2014);
- 17 j. Notice of approved modifications to the TDP and Matrix (posted May 1,
18 2014);
- 19 k. Notice/update regarding settlement of Mandelbrot adversary proceeding
20 (posted May 5, 2014);
- 21 l. Notice/update regarding settlement of Mandelbrot adversary proceeding
22 (posted May 12, 2014);
- 23 m. Notice/update regarding submission of claims (posted July 10, 2014); and
- 24 n. Notice regarding compliance with court order in Mandelbrot adversary
25 proceeding (posted March 6, 2015).

26 27. Attempt to Place False Claim in the Western Trust Database/Overhaul of
27 Network Infrastructure: On February 18, 2014, Western Trust staff discovered that an attempt had
28

1 been made to place a fictitious claim within the Western Trust database on or about February 15,
2 2014. In response to the incursion, the Trust unplugged its system from the internet and took it off-
3 line. A cyber-security firm was hired to conduct a forensic investigation. The Trust also hired a law
4 firm that specialized in the legal requirements, if any, related to the false claim placement. The
5 cyber-security firm's investigation revealed no evidence of exfiltration of data on or from the Trust's
6 server. There was also no evidence that the intruder accessed any personally identifiable information
7 or protected health information contained elsewhere in the Trust's system. Based on the cyber-
8 security firm's findings, the law firm determined that potentially applicable state and federal data
9 breach notification laws did not require notice to any third parties of the attempted false claim
10 placement. In an abundance of caution, the following law enforcement agencies were contacted to
11 report the data breach: the Reno Police Department, the Monterey Park Police Department (where
12 the private post office box for the fictitious law firm was located), and the Las Vegas office of the
13 Federal Bureau of Investigation. All three agencies noted the data breach but did not pursue an
14 investigation despite follow up by the law firm. The Trust began again accepting claims in paper
15 form on March 14, 2014, and the Trust also began accepting claims on CD on April 25, 2014.

16 As a result of this false claim placement attempt, the Trust determined that it needed
17 an independent information technology company to review the Trust's network infrastructure and
18 security. After consultation with other trusts across the country, the Trust retained the information
19 technology firm of STF Consulting of Atlantic Highlands, NJ in June of 2014. By the end of June,
20 2014, STF Consulting had implemented increased security measures so that on July 10, 2014, the
21 Trust opened up its system to again allow electronic filing of claims. STF Consulting has completed
22 a total overhaul of the Trust's core network infrastructure and has continued to refine the network
23 throughout the remainder of 2014 and the first quarter of 2015.

24 28. System Development: During the Accounting Period, the Trust entered into a
25 contract with an outside vendor to develop an updated claims processing system and move to a new
26 platform, which is expected to be completed within weeks.

27 29. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at
28

1 the September 22, 2014 meeting and there were no recommended changes to the existing \$250.00
2 fee during the Accounting period or as of the date hereof.

3 30. Trustees' Compensation: Section 4.5(c) of the Trust Agreement requires the
4 Trust to report the amounts paid to the Trustees for compensation and expenses. During the
5 Accounting Period, the Trustees each received per annum compensation in the amount of \$40,000
6 paid in quarterly installments. The total paid to all Trustees for hourly compensation and for
7 reimbursement of expenses was \$143,361 and \$3,708, respectively.

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

10 a. BlackRock Financial Management: One of eight investment managers for the
11 Trust described in paragraph 32, *infra*;

12 b. Eagle Capital Management: One of eight investment managers for the Trust
13 described in paragraph 32, *infra*;

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

16 d. Harding Loevner, LP: One of eight investment managers for the Trust
17 described in paragraph 32, *infra*;

18 e. Klee, Tuchin, Bogdanoff & Stern LLP: Counsel to the Debtors and now
19 counsel to the Trust in the appeals as described in paragraph 23, *supra*;

20 f. Molland Law: Co-counsel for the Mandelbrot litigation described in
21 paragraph 23(e), *supra*;

22 g. Morgan Lewis & Bockius LLP: Counsel to Debtors and now counsel to the
23 Trust in the litigation, as described in paragraph 23, *supra*;

24 h. Silvercrest Asset Management Group LLC: One of eight investment
25 managers for the Trust described in paragraph 32, *infra*;

26 i. Stutman, Treister & Glatt P.C.: former bankruptcy counsel to the Trust;

27 j. Western Asbestos Settlement Trust for shared services pursuant to the Trust
28

1 Facilities and Services Sharing Agreement, as described in paragraph 18, *supra*; and

2 k. Westwood Management Corporation: One of eight investment managers for
3 the Trust described in paragraph 32, *infra*.

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

14 Additionally, the Trust's Investment Policy Statement was amended on November 20,
15 2014 and February 27, 2015, copies of which are included in the Appendix filed herewith.

16 ***

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

EXHIBIT A



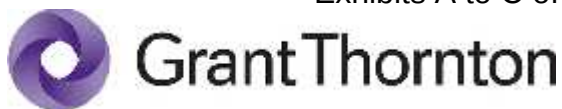
Financial Statements and Report of Independent
Certified Public Accountants

Thorpe Insulation Settlement Trust

December 31, 2014 and 2013

Contents

	Page
Report of Independent Certified Public Accountants	3
Statements of Net Claimants' Equity	5
Statements of Changes in Net Claimants' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplemental Information	17
Schedule of Operating Expenses	18



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

Trustees
Thorpe Insulation Settlement Trust

We have audited the accompanying financial statements of Thorpe Insulation Settlement Trust (“the Trust”), organized in the State of Nevada, which comprise the statements of net claimants’ equity as of December 31, 2014 and 2013, and the related statements changes in net claimants’ equity and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of Thorpe Insulation Settlement Trust as of December 31, 2014 and 2013, and the changes in net claimants' equity and cash flows for the years then ended in accordance with the Trust's other basis of accounting.

Basis of accounting

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

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expense for the years ended December 31, 2014 and 2013 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on use

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

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Reno, Nevada
April 15, 2015

Thorpe Insulation Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents and investments available-for-sale		
Restricted	\$ 25,000,000	\$ 25,000,000
Unrestricted	495,317,949	499,136,708
Total cash and cash equivalents and investments	520,317,949	524,136,708
Accrued interest and dividend receivables	2,021,361	2,091,722
Deferred tax asset	11,682,000	19,422,000
Total assets	<u>\$ 534,021,310</u>	<u>\$ 545,650,430</u>
LIABILITIES		
Accrued expenses	\$ 461,490	\$ 3,197,598
Claim processing deposits	194,250	383,500
Unpaid claims (Note D)		
Outstanding offers	4,479,416	6,763,135
Facility and staff sharing agreement payable	408,000	384,000
Total liabilities	<u>\$ 5,543,156</u>	<u>\$ 10,728,233</u>
NET CLAIMANTS' EQUITY	<u>\$ 528,478,154</u>	<u>\$ 534,922,197</u>

The accompanying notes are an integral part of these statements.

Thorpe Insulation Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	<u>2014</u>	<u>2013</u>
Net claimants' equity, beginning of year	<u>\$ 534,922,197</u>	<u>\$ 144,697,237</u>
Additions to net claimants' equity		
Initial funding	1,400,000	456,743,296
Investment income	8,849,033	8,836,456
Provision for income taxes, deferred	-	8,420,000
Net decrease in outstanding claim offers	2,283,719	-
Net realized/unrealized gains on available-for sale securities	16,917,998	11,235,613
Total additions	<u>29,450,750</u>	<u>485,235,365</u>
Deductions from net claimants' equity		
Operating expenses	4,422,922	40,555,818
Court ordered bankruptcy fees	-	1,910,997
Claims settled	23,707,871	50,381,088
Net increase in outstanding claim offers	-	2,126,502
Provision for income taxes, deferred	7,740,000	-
Net increase in facility and staff sharing agreement	24,000	36,000
Total deductions	<u>35,894,793</u>	<u>95,010,405</u>
Net claimants' equity, end of year	<u><u>\$ 528,478,154</u></u>	<u><u>\$ 534,922,197</u></u>

The accompanying notes are an integral part of these statements.

Thorpe Insulation Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2014</u>	<u>2013</u>
Cash inflows:		
Initial funding	\$ 1,400,000	\$ 456,743,296
Investment income receipts	8,919,394	7,471,840
Net realized gains on available-for-sale securities	1,532,481	153,441
Total cash inflows	<u>11,851,875</u>	<u>464,368,577</u>
Cash outflows:		
Claim payments made	23,707,871	50,381,088
Disbursements for Trust operating expenses	7,348,280	38,417,488
Disbursements for Court ordered bankruptcy fees	-	1,868,664
Total cash outflows	<u>31,056,151</u>	<u>90,667,240</u>
Net cash outflows	(19,204,276)	373,701,337
Non-cash changes:		
Net unrealized gains on available-for-sale securities	<u>15,385,517</u>	<u>11,082,174</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,818,759)	384,783,511
Cash, cash equivalents, and investments available-for-sale, beginning of year	<u>524,136,708</u>	<u>139,353,197</u>
Cash, cash equivalents, and investments available-for-sale, end of year	<u>\$ 520,317,949</u>	<u>\$ 524,136,708</u>

The accompanying notes are an integral part of these statements.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. Description of Trust

The Thorpe Insulation 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 Pacific Insulation Company and Thorpe Insulation Company (collectively the “Debtors”) Sixth Amended Joint Plan of Reorganization (the “Plan,” following Remand), dated May 1, 2013. The Trust was formed to assume the Debtors’ liabilities resulting from pending and potential litigation involving individuals exposed to asbestos who have manifested asbestos-related diseases or conditions, for which the Debtors have legal responsibility; liquidate, resolve, pay and satisfy all valid asbestos-related claims in accordance with the Plan, preserve, hold, manage and maximize the Trust assets for use in paying and satisfying allowed asbestos-related claims, prosecute, settle and manage the disposition of the asbestos in-place insurance coverage, and prosecute, settle and manage asbestos insurance coverage actions. Upon the effective date of the Plan, the Trust assumed liability for existing and future asbestos-related claims against the Debtors. The Trust became effective on October 22, 2010. The Trust’s Confirmation Remand Effective Date occurred on July 9, 2013.

The Trust was initially funded with cash, notes receivable and insurance settlement proceeds. The Trust’s funding is dedicated solely to the settlement of asbestos-related claims and the related costs thereto, as defined in the Plan.

The Trust processes and pays all asbestos-related claims in accordance with the Thorpe Insulation Settlement Trust Agreement, as amended and restated, the Case Valuation Matrix, as amended and restated, (Matrix) and Trust Distribution Procedures, as amended and restated, (TDP) (collectively, the Trust Documents).

2. Special-Purpose Accounting Methods

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

- The financial statements are prepared using the accrual basis of accounting, as modified below.
- The funding received from Thorpe Insulation Company, Pacific Insulation Company, Farwest Insulation Contracting and their liability insurers is recorded directly to net claimants’ equity. These funds do not represent income of the Trust. Offers for asbestos-related claims are reported as deductions from net claimants’ equity and do not represent expenses of the Trust.
- Costs of non-income producing assets, which will be exhausted during the life of the Trust and are not available for satisfying claims, are expensed when incurred. These costs include acquisition costs of computer hardware, software and software development.
- 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.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. **Special-Purpose Accounting Methods** - Continued

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

3. **Cash and Cash Equivalents**

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

4. **Investments**

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

5. **Deposits**

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

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. Use of Estimates

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

7. Concentration of Risk

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

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

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

8. Income Taxes

The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2014, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States. Although the Trust owes no tax to the State of California, it files an annual tax return in California reporting no taxable income or tax owed. The Trust is no longer subject to United States federal tax examinations for years before 2011 and state examinations before 2010.

9. Reclassification

Certain prior year amounts have been reclassified to current year presentation. These reclassifications had no impact on net claimants' equity.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

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, 2014	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 1,096,357	\$ 1,096,357
U.S. Government obligations	13,490,377	13,560,687
Municipal bonds	258,891	252,174
Asset backed securities	1,026,623	1,012,413
Corporate and other debt	9,104,752	9,078,369
	\$ 24,977,000	\$ 25,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 240,903	\$ 240,903
Cash equivalents	137,824,849	137,824,849
Equity securities	183,804,520	213,671,342
U.S. Government obligations	12,349,264	12,355,639
Municipal bonds	116,586,342	118,081,761
Asset backed securities	1,154,650	1,132,196
Corporate and other debt	12,094,887	12,011,259
	\$ 464,055,415	\$ 495,317,949
	December 31, 2013	
	Cost	Fair Value
<u>Restricted</u>		
Cash equivalents	\$ 10,347,157	\$ 10,347,157
U.S. Government obligations	6,702,708	6,554,521
Municipal bonds	239,137	230,883
Asset backed securities	624,502	621,131
Corporate and other debt	7,349,653	7,246,308
	\$ 25,263,157	\$ 25,000,000
<u>Unrestricted</u>		
Cash demand deposits	\$ 266,832	\$ 266,832
Cash equivalents	223,213,185	223,213,185
Equity securities	86,503,564	104,481,334
U.S. Government obligations	10,274,652	9,927,841
Municipal bonds	80,667,597	80,418,689
Asset backed securities	990,431	979,684
Corporate and other debt	81,018,569	79,849,143
	\$ 482,934,830	\$ 499,136,708

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

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

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

Level 3 - Valuations based on models where significant inputs are not observable, and for which the determination of fair value requires significant management judgment or estimation. The Trust does not hold any Level 3 investments as of December 31, 2014 and 2013.

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, 2014	
	Level 1	Level 2
<u>Assets</u>		
Cash demand deposits	\$ 240,903	\$ -
Cash equivalents	138,921,206	-
Equity securities	213,671,342	-
U.S. Government obligations	5,593,277	20,323,049
Municipal bonds	-	118,333,935
Asset-backed securities	-	2,144,609
Corporate and other debt	21,089,628	-
	<u>\$ 379,516,356</u>	<u>\$ 140,801,593</u>
	December 31, 2013	
	Level 1	Level 2
<u>Assets</u>		
Cash demand deposits	\$ 266,832	\$ -
Cash equivalents	233,560,342	-
Equity securities	104,481,334	-
U.S. Government obligations	8,167,816	8,314,548
Municipal bonds	-	80,649,572
Asset-backed securities	-	1,600,815
Corporate and other debt	87,095,451	-
	<u>\$ 433,571,773</u>	<u>\$ 90,564,935</u>

The Trust's policy is to recognize transfers in and out of levels within the fair value hierarchy at the actual date the event or change in circumstance caused the transfer. Between the measurement dates of December 31, 2013 and December 31, 2014, no securities were transferred between Level 1 and Level 2.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The maturities of the Trust's available-for-sale securities at market value are as follows as of December 31, 2014:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	\$ -	\$ 7,782,514	\$ 4,503,253	\$ 13,630,559
Municipal bonds	7,662,433	61,057,266	42,465,955	7,148,281
Asset backed securities	-	1,415,822	246,158	482,629
Corporate	1,460,639	8,859,830	9,856,580	840,004
	<u>\$ 9,123,072</u>	<u>\$ 79,115,432</u>	<u>\$ 57,071,946</u>	<u>\$ 22,101,473</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, includes:

Acquisition of computer equipment	\$ 16,886
Acquisition of computer software	<u>100,912</u>
	<u>\$ 117,798</u>

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, 2014 and 2013 was \$63,484 and \$0, respectively. Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately \$9,500 and \$15,500 for the years ended December 31, 2014 and 2013, respectively.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE D - CLAIM LIABILITIES

Pursuant to the Trust Documents, the Trust distinguishes between claims that were liquidated prior to the establishment of the Trust (Pre-Petition Liquidated Claims) and claims processed after the creation of the Trust (Trust Claims). The Pre-Petition Liquidated Claims are grouped into two categories: settlement and judgment claims.

The cases underlying the Pre-Petition Liquidated Claims were stayed by the court until the Plan became effective. The Trust reviewed, processed and paid each Pre-Petition Liquidated Claim at the approved Funds Received Ratio. The Pre-Petition Liquidated Claims were paid in trust to the representative law firms for disbursement to the claimants upon the Trust's receipt and approval of a properly executed release.

For all Trust claims, a liability for unpaid claims is recorded at the time the offer is extended. Funds are mailed after the approved release is signed, received, and approved by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected, withdrawn or expires after six months. Offers may be extended an additional six months upon written request and good cause. As of the years ended December 31, 2014 and 2013, 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 Funds Received Ratio of the claim's liquidated value. The remaining obligation for the unpaid portion of the liquidated amount is not recorded and is not a liability of the Trust, unless the Funds Received Ratio is increased. In that instance, the Trust would be obligated to retroactively pay the increased percentage to all previously paid claimants (see Note G).

In the interest of treating all claimants equitably in accordance with the Plan and pursuant to the TDP, all payments made during each calendar year ended December 31, 2010 through December 31, 2014 and future years shall include a Cost of Living Adjustment for inflation based upon 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 Adjustments. Inflation Adjustments are cumulative. Cumulative Inflation Adjustments of 8.66% and 8.34% are included in outstanding claims liabilities as of December 31, 2014 and 2013, respectively.

The Trust processed and approved approximately \$16,788,931 and \$17,670,611 of Trust Claims during the years ended December 31, 2014 and 2013, respectively.

NOTE E - LEGAL FEES - COVERAGE LITIGATION

For the years ended December 31, 2014 and 2013, the Trust incurred a total of \$542,370 and \$35,137,490, respectively, of contingent and hourly fees for coverage litigation. As of December 31, 2014 and 2013, \$0 and \$2,579,351 were reported in accrued expenses on the accompanying Statement of Net Claimants' Equity.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE F - 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 monthly payment of \$29,000 was in place through December 31, 2013. The average monthly payment in 2014 was \$31,250; and provisions allow for automatic renewals for additional one-year periods unless either party provides written notice. The amounts of advance monthly payments are agreed upon between the trusts from time to time. As of December 31, 2014, the equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Western Trust. The reconciliation is performed and recorded in the period subsequent to the reconciliation period. The reconciliation performed for the year ended December 31, 2014 resulted in an additional payment to the Western Trust of approximately \$65,377. The reconciliation performed for the year ended December 31, 2013 resulted in an additional payment to the Western Trust of approximately \$68,955. The monthly payment for 2015 was increased to \$37,000. A portion of the future payments under this agreement has been recorded as a liability on the accompanying statement of net claimants' equity.

NOTE G - NET CLAIMANTS' EQUITY

The Trust was created pursuant to the Plan confirmed 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 scheduled disease values, and individual factual information concerning each claimant as set forth in the Trust Documents.

Under the TDP, the Trust forecasts its anticipated annual sources and uses of cash until the last projected future claim has been paid. A pro rata Funds Received Ratio is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

The Trustees, with the consent of the Trust Advisory Committee ("TAC") and Futures Representative, set the Initial Funds Received Ratio at 17.5%, based upon the analysis and advice of the Trust's expert economist. The TDP requires the Trustees, with the consent of the TAC and the Futures Representative, to periodically review the Funds Received Ratio and, if appropriate, propose additional changes in the pro rata Funds Received Ratio based on updated assumptions regarding the Trust's future assets and liabilities and if appropriate, propose additional changes in the Funds Received Ratio. The Funds Received Ratio was increased by the Trustees to 30.50% in September 2013. This change was made with the consent of the TAC and Futures Representative. The increase was retroactive for claims approved since inception.

NOTE H - 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. These funds are devoted exclusively to securing the obligations of the Trust to indemnify the current Trustees and officers, employees, agents and representatives of the Trust. The funds are held in a separate Trust bank account; and interest income accrues to the benefit of the Trust. As of December 31, 2014 and 2013, cash, cash equivalents and investments of \$25,000,000 were restricted for these purposes.

Thorpe Insulation Settlement Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014 and 2013

NOTE I - INCOME TAXES

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 39.6% for the year ended December 31, 2014 and 2013.

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 Trust has recorded a deferred tax asset of approximately \$12 million reflecting the benefit of approximately \$61 million in loss carryforwards, which expire in varying amounts between 2030 and 2033. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, the Trust believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

The provision for income taxes consists of the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Federal income tax – current	\$ -	\$ -
Deferred income tax (expense)/benefit	<u>(7,740,000)</u>	<u>8,420,000</u>
	<u>\$ (7,740,000)</u>	<u>\$ 8,420,000</u>

The components of the deferred income tax asset, as presented in the statements of net claimants' equity consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<u>Deferred tax asset (liability)</u>		
Depreciation and amortization	\$ 54,000	\$ 33,000
Unrealized appreciation	(12,410,000)	(6,317,000)
Loss carryforward	<u>24,038,000</u>	<u>25,706,000</u>
	<u>\$ 11,682,000</u>	<u>\$ 19,422,000</u>

NOTE J - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 15, 2015, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure.

SUPPLEMENTAL INFORMATION

Thorpe Insulation Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	<u>2014</u>	<u>2013</u>
Accounting	\$ 51,740	\$ 52,969
Claims processing/claims system development	109,510	95,827
Computer equipment	7,027	-
Futures representative	270,838	767,777
Information technology support	23,528	34,796
Investment expense	1,714,883	778,956
Legal fees	861,034	2,797,474
Contingency legal fees	542,370	35,137,490
System security	74,612	-
Trust Advisory Committee	34,837	62,243
Trust facility and staff sharing expense	443,955	398,274
Trustee fees	288,588	334,612
Trustees professional	-	95,400
	<u>\$ 4,422,922</u>	<u>\$ 40,555,818</u>

EXHIBIT “B”

EXHIBIT "B"

**Thorpe Insulation Settlement Trust
Claim Report
As of December 31, 2014**

This report is submitted pursuant to Section 2.2 (c)(ii) of the Eighth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos 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 time period covered by the financial statements ("Accounting Period"). This report summarizes the Trust's processing of claims liquidated by settlement agreement or judgment on or before October 15, 2007, the Petition Date, ("Pre-Petition Liquidated Claims") and unliquidated Trust Claims.

Pre-Petition Liquidated Claims

On October 27, 2010 and November 17, 2010, the Trust implemented procedures to pay the Pre-Petition Liquidated Claims in accordance with the Plan, the Confirmation Order and Section 5.4 of the Trust Distribution Procedures. The Trust was authorized to approve for payment all settlements and judgments listed on the Schedule F filed in the bankruptcy case, as well as settlements and judgments which the Trust was able to verify as unpaid.

By the end of January 2011, the Trust reviewed, processed and paid all 326 Pre-Petition Liquidated Claims in the total amount of \$9,822,489.50, which amount was paid in trust to the representative law firms for disbursement to the claimants upon the Trust's receipt and approval of a properly executed release. All Pre-Petition Liquidated Claims were paid at the approved Funds Received Ratio of 17.5% and the Pre-Petition Liquidated Claims that were paid in 2011, included 1.7% to account for inflation based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W"). As the Funds Received Ratio has been raised, the Pre-Petition Liquidated Claims, that were paid earlier, have received the additional amounts.

Unliquidated Trust Claims

Unliquidated Trust Claims reviewed by the Trust from January 1, 2014, through December 31, 2014, in accordance with the Third Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Settlement Trust Case Valuation Matrix ("Matrix") and Fourth Amendment to and Complete Restatement of Thorpe Insulation Company Asbestos Personal Injury Settlement 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 jurisdiction and tort related individual characteristics including, but not limited to: age, marital status, dependents, medical specials, economic loss, 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, 2014, all unliquidated Trust Claims were paid at the approved Funds Received Ratio of 30.5%. Payments made on Trust Claims in 2014 included the additional 8.34% to account for inflation based upon the CPI-W.

During the Accounting Period, 324 claims were received. In addition, offers were issued to 428 claimants. Further, 412 claims were paid

Below is a summary of the number and type of claims disposed of (paid) in 2014.

Compensable Disease	Number of Claims
Grade II Non-Malignant	84
Grade I Non-Malignant	54
Grade I Non-Malignant Enhanced Asbestosis	21
Grade I Non-Malignant Serious Asbestosis	29
Colo-Rectal	7
Esophageal	2
Laryngeal	1
Non-Hodgkin's Lymphoma	1
Other Cancer	1
Lung Cancer	83
Mesothelioma	129
Total	412

EXHIBIT “C”

PRIORITY SEND

JS-6

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES -- GENERAL

Case No. CV 14-03883-VAP
USBC Case No. 2:02-BK-14216-BB
ADVERSARY Case No. 2:12-AP-02182-BB

Date: July 3, 2014

Title: IN RE: J.T. THORPE, INC. & THORPE INSULATION COMPANY,
DEBTORS

=====

PRESENT: HONORABLE VIRGINIA A. PHILLIPS, U.S. DISTRICT JUDGE

Marva Dillard
Courtroom Deputy

None Present
Court Reporter

ATTORNEYS PRESENT FOR
PLAINTIFFS:

ATTORNEYS PRESENT FOR
DEFENDANTS:

None

None

PROCEEDINGS: MINUTE ORDER (1) DENYING MOTION TO STAY
ENFORCEMENT OF JUDGMENT AND ORDER
FOLLOWING TRIAL (DOC. NO. 10); AND (2) VACATING
JULY 7, 2014 HEARING(IN CHAMBERS)

Before the Court is a Motion to Stay Enforcement of (1) Judgment in Adversary Proceeding, and (2) Order Following Trial on Adversary Complaints and Motion for Instructions (Doc. No. 10) ("Motion"), filed by Appellants Michael J. Mandelbrot ("Mandelbrot") and the Mandelbrot Law Firm (collectively, "Appellants") on June 4, 2014. Appellees J.T. Thorpe Settlement Trust and Thorpe Insulation Company Asbestos Settlement Trust (collectively, "Appellees") filed an Opposition to the Motion (Doc. No. 13) ("Opposition"), and a Request for Judicial Notice (Doc. No. 14)

MINUTES FORM 11
CIVIL -- GEN

Initials of Deputy Clerk ___md_____

CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

("Appellees' RJN") on June 16, 2014. The Futures Representative, Charles B. Renfrew, filed a Joinder in the Opposition (Doc. No. 15), also on June 16, 2014. Appellants filed their Request for Judicial Notice (Doc. No. 19) ("Appellants' RJN") as well as their Objection to Appellees' RJN (Doc. No. 18) on June 19, 2014. The Motion is appropriate for resolution without a hearing, and accordingly, the Court VACATES the July 14, 2014 hearing on this Motion. See Fed. R. Civ. P. 78; Local R. 7-15. After considering the papers filed in support of, and in opposition to, the Motion, the Court DENIES the Motion as set forth below.

I. BACKGROUND

This is an appeal of the United States Bankruptcy Court's May 28, 2014 denial of Appellants' Motion to Stay Enforcement of (1) Judgment in Adversary Proceedings, and (2) Order Following Trial on Adversary Complaints and Motion for Instructions ("Bankruptcy Court Motion"). Mandelbrot is a California attorney who has filed numerous claims for compensation for asbestos-related injuries against Appellees on behalf of individual clients. The parties commenced an adversary proceeding in the Bankruptcy Court after a dispute arose over audits of claims filed by Mandelbrot, and Appellees alleged Mandelbrot had exhibited a pattern of filing unreliable evidence in support of the claims. (See Appellees' RJN Ex. 4 at 6-7; Opp'n at 5-6.)

In January 2014, the Bankruptcy Court held a trial, beginning with the Appellees' case-in-chief. (See Appellees' RJN Ex. 4 at 8-9.) On January 23, 2014, while the trial was pending, the parties entered into a stipulated settlement agreement ("Agreement"), which was recited into the record. (Id. at 13.) Mandelbrot stipulated that he would file no new claims against Appellees, the Western Asbestos Settlement Trust, and the Plant Insulation Settlement Trust. He also stipulated that he would transfer his current clients to new counsel. (Id. at 13-15.) On January 31, 2014, however, Mandelbrot sought to withdraw from the Agreement (id. at 12-13), leading Appellees to file a Motion to Enforce January 23, 2014 Stipulated Agreement, which the Bankruptcy Court granted on April 7, 2014 (see Appellees' RJN Ex. 1). Also on April 7, 2014, the Bankruptcy Court issued an Order Following Trial on Adversary Complaints and Motion for Instructions, and a Judgment in Adversary Proceedings, in favor of Appellees. (Id. Exs. 2, 3.)

CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

On April 21, 2014, Appellants filed the Bankruptcy Court Motion, seeking a stay of judgment pending appeal. The Bankruptcy Court held a hearing on this motion on May 27, 2014, and issued an Order denying the motion on June 4, 2014. (Id. Ex. 8.) That court found that Appellants do not have a reasonable likelihood of success on the merits of their appeal, and that the public interest demanded that the motion be denied. (Id. at 2.)

On May 20, 2014, Appellants filed a Notice of Appeal of the Bankruptcy Court's Order in this Court. (Doc. No. 1.) On June 4, 2014, Appellants filed the Motion. On June 16, 2014, Appellees filed the Opposition and their RJN. On June 19, 2014, Appellants filed their RJN and Objection to Appellees' RJN.

II. REQUESTS FOR JUDICIAL NOTICE

In their RJN, Appellees request that the Court take judicial notice of the following nine documents from the record of this case before the Bankruptcy Court, Case No. 2:12-AP-02182-BB:

- (1) Order Granting Motion to Enforce January 23, 2014 Stipulated Agreement, Docket No. 232 (Appellees' RJN Ex. 1);
- (2) Order Following Trial on Adversary Complaints and Motion for Instructions, Docket No. 233 (id. Ex. 2);
- (3) Judgment in Adversary Proceedings, Docket No. 234 (id. Ex. 3);
- (4) Findings of Fact and Conclusions of Law, Docket No. 235 (id. Ex. 4);
- (5) May 24, 2013 Letter from Stephen M. Snyder, Managing Trustee, to Michael J. Mandelbrot, Esq. and the Mandelbrot Law Firm, Trial Exhibit 227¹ (id. Ex. 5);
- (6) Trusts' Notice of Completion of Providing Notice to Beneficiaries and Potential Beneficiaries as Specified in April 7, 2014 Court Order, Docket No. 256 (id. Ex. 6);
- (7) Transcript of Proceedings of Hearing Re Motion to Stay Enforcement of Judgment in Adversary Proceeding and Order Following Trial on Adversary Complaints and Motion for Instructions, Docket No. 281 (id.

¹ In its Findings of Fact and Conclusions of Law, the Bankruptcy Court ordered that this letter be "a part of the public record."

CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

- Ex. 7);
- (8) Order Denying Mandelbrot Amended Motion to Stay Enforcement of Judgment in Adversary Proceeding and Order Following Trial on Adversary Complaints and Motion for Instructions, Docket No. 283 (*id.* Ex. 8); and
 - (9) Trust Distribution Procedures for the J.T. Thorpe Settlement Trust, Exhibit A to Declaration of Sara Beth Brown in Support of "Notice of Motion and Motion for Approval of Continued Claim Payment by the J.T. Thorpe Settlement Trust in Accordance With Additional Evaluation Criteria," Docket No. 11 (*id.* Ex. 9).

In the Objection to Appellees' RJN, Appellants ask the Court to deny judicial notice of Appellees' Exhibits 5, 6, 7, and 8, asserting that these documents are "unreliable, contain perjury or perjured testimony, and were prepared by those with interests adverse to the Trusts who should be removed." (Objection to Appellees' RJN at 2.)

In their RJN, Appellants ask the Court to take judicial notice of the following:

- (1) Mandelbrot Opposition to Enforcement of Settlement Agreement, and Declaration of Michael J. Mandelbrot in Support of Opposition of Motion to Enforce Settlement Agreement, filed in Bankruptcy Court Case No. 2:12-AP-02182, Docket No. 216 (Appellants' RJN Ex. A); and
- (2) Objection to Western Asbestos Tenth Annual Report and Accounting, in Bankruptcy Court Case No. 13-31914, Docket No. 1814 (*id.* Ex. B-P).

A court may take judicial notice of court filings and other matters of public record. See Reyn's Pasta Bella, LLC v. Visa USA, Inc., 442 F.3d 741, 746 n.6 (9th Cir. 2006) (citing Burbank-Glendale-Pasadena Airport Auth. v. City of Burbank, 136 F.3d 1360, 1364 (9th Cir. 1998)). Both Appellants and Appellees have provided reference and case numbers for these documents showing that they were in fact court documents and matters of public record. See Grant v. Aurora Loan Servs., Inc., 736 F. Supp. 2d 1257, 1264 (C.D. Cal. 2010) (citing cases); Velazquez v. GMAC Mortg. Corp., 605 F. Supp. 2d 1049, 1057-58 (C.D. Cal. 2008). Despite Appellants' objection to Appellees' RJN Exhibits 5-8, the Court finds no good cause to deny judicial notice of these documents, as they too are court documents and

CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

matters of public record. The Court's judicial notice of the existence of certain records, however, does not denote notice of the truth, reliability, or admissibility of the contents of the documents. See Erie R.R. v. Tompkins, 304 U.S. 64, 78 (1938); Wyatt v. Terhune, 315 F.3d 1108, 1114 (9th Cir. 2003).

The Court thus GRANTS judicial notice of all the documents requested in Appellees' RJN and Appellants' RJN.

III. JURISDICTION AND STANDARD OF REVIEW

28 U.S.C. § 158(a) confers jurisdiction on federal district court to entertain an appeal from a bankruptcy court; it provides in pertinent part: "The district courts of the United States shall have jurisdiction to hear appeals . . . from final judgments, orders, and decrees."

Federal Rule of Bankruptcy Procedure 8005 provides that a bankruptcy court may stay a case pending the outcome of an appeal or make other appropriate orders to protect the interests of the parties involved. Fed. R. Bankr. P. 8005. A party seeking a stay must generally file the motion with the bankruptcy court first before seeking relief from a district court. Id.

A stay is not a matter of right – "even if irreparable injury might otherwise result." Nken v. Holder, 556 U.S. 418, 433 (2009). Rather, a stay is an exercise of judicial discretion. Id. A movant must generally satisfy four elements: "(1) appellant is likely to succeed on the merits of the appeal; (2) appellant will suffer irreparable injury; (3) no substantial harm will come to appellee; and (4) the stay will do no harm to the public interest." In re Irwin, 338 B.R. 839, 843 (E.D. Cal. 2006) (internal quotation marks omitted). The first two factors are the most important. Nken, 556 U.S. at 434.

After a bankruptcy court denies a motion to stay, the district court may only review the denial for abuse of discretion. In re Irwin, 338 B.R. at 847; Universal Life Church v. United States, 191 B.R. 433, 444 (E.D. Cal. 1995) ("When a bankruptcy court has ruled on the issue of a stay of its order pending appeal, the district court, sitting as an appellate court, reviews that decision for abuse of discretion."). Thus, Appellants' request that the Court conduct a de novo review the Bankruptcy Court's

CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

denial of the motion to stay is unavailing. "Abuse of discretion" is the proper standard for the Court's review of the Motion.

IV. DISCUSSION

Appellants fail to establish that the Bankruptcy Court abused its discretion in denying their Bankruptcy Court Motion. The Motion never addresses how the Bankruptcy Court abused its discretion, and merely requests a de novo review of the Bankruptcy Court Motion by pointing the Court to the April 21, 2014 filing of the Bankruptcy Court Motion – without even attaching a copy of the motion but only reproducing a portion of the Bankruptcy Court's docket in the body of the Motion. (See Mot. at 2.) As Appellants fail to address the central question before this Court – the issue of the Bankruptcy Court's abuse of discretion – they fail to meet their burden as the moving party. Even if Appellants had argued that the Bankruptcy Court abused its discretion, the Court, as discussed below, finds Appellants cannot demonstrate that the Bankruptcy Court abused its discretion in denying a stay request. (See Appellees' RJN Ex. 8 at 2.)

In the Bankruptcy Court Motion, Appellants asserted that the Agreement violates California's public policy as expressed in California Business & Professions Code Section 16600 and California Rule of Professional Conduct 1-500. (Bankr. Ct. Mot. at 5-9; see also Opp'n at 13-19.) According to Appellants, the Agreement, which prevents Mandelbrot from filing new claims to Appellees and two other trusts, violates Section 16600's prohibition of contracts that restrain parties from engaging in a lawful profession, and Rule 1-500's disallowance of settlement agreements that restrict the right to practice law. (See Bankr. Ct. Mot. at 5-7.) On May 27, 2014, at the hearing on the Bankruptcy Court Motion, the Bankruptcy Court indicated to the parties that the motion in consideration essentially was seeking to relitigate the case, and that the court stood by the Findings of Fact and Conclusions of Law ("Findings") (in which the court found to the Agreement be valid, binding, and enforceable), as the Findings not only were based on the parties' knowing and voluntary entry into the Agreement itself, but also were consistent with the evidence the court had heard during the trial. (Appellees' RJN Ex. 7 at 3-4; id. Ex. 4 at 11-13.) On June 4, 2014, the Bankruptcy Court formalized its conclusion in an Order denying the Bankruptcy Court Motion, holding that Appellants failed to show that they have a reasonable likelihood of success on the merits of their appeal, or that the public interest

CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

demands a stay. (See id. Ex. 8 at 2.) Therefore, even if the remaining standards necessary to obtain a stay had been satisfied – i.e., whether Appellants will suffer irreparable injury, and whether no substantial harm will come to Appellees, the court found the Bankruptcy Court Motion should be denied. (Id.)

The record shows that the Bankruptcy Court considered the evidence and the issue of the enforceability of the Agreement, found Appellants' arguments to be unpersuasive, concluded that the Agreement was valid and enforceable, and denied the Bankruptcy Court Motion. (See Appellees' RJN Exs. 4, 7, 8; see also Appellants' RJN Ex. A.) This decision can hardly be said to be an "arbitrary, fanciful or unreasonable" judicial action, which no reasonable [person] would adopt. See In re Irwin, 338 B.R. at 844 (quoting In re Blackwell, 162 B.R. 117, 119 (E.D. Pa. 1993) (defining "abuse of discretion")). "If reasonable [persons] could differ as to the propriety of the action taken by the trial court, then it cannot be said that the trial court abused its discretion." Id. In consideration of the highly deferential standard of review, the Court cannot conclude that the Bankruptcy Court abused its discretion.

Moreover, even if the Court were to engage in a de novo consideration of Appellants' stay request, the Court would agree with Appellees that: (1) permitting Appellants with an established record of filing unreliable evidence in support of their clients' claims would undermine the public interest of ensuring the integrity of the claims process and a proper administration of mass-asbestos trusts created under bankruptcy court authority (see Opp'n at 11-13); (2) Appellants are unlikely to prevail on their argument that the Agreement violates Section 16600 and Rule 1-500, as the two provisions are inapplicable to the instant dispute arising out of Appellants' own misconduct (id. at 13-18); (3) Appellants, in the Bankruptcy Court Motion, fail to show any irreparable injury they will suffer absent a stay (id. at 19-20; see also Bankr. Ct. Mot. at 9-10); and (4) Appellees and their beneficiaries, including individual claimants, will receive substantial injury, if a stay is issued, as the stay likely will lead to delays and conflicting instructions (Opp'n at 20-21). Thus, the Court also agrees with the Bankruptcy Court on the merits of the Bankruptcy Court Motion.

V. CONCLUSION

For the foregoing reasons, the Court DENIES Appellants' Motion to Stay

MINUTES FORM 11
CIVIL -- GEN

Initials of Deputy Clerk ___md_____

Page 7

CV 14-03883-VAP; USBC Case No. 2:02-BK-14216-BB; ADVERSARY Case No. 2:12-AP-02182-BB
IN RE J.T. THORPE, INC. & THORPE INSULATION
MINUTE ORDER of July 3, 2014

Enforcement of Judgment in Adversary Proceeding and Order Following Trial on
Adversary Complaints and Motion for Instructions (Doc. No. 10).

IT IS SO ORDERED.