

Western Asbestos

1 22. Fees for Plaintiffs' Firms: In the process of entering the Confirmation Order, the
2 Bankruptcy Court entered Order Regarding Fees Paid to Certain Law Firms, on January 26, 2004
3 ("Fee Order"), requiring three firms to pay to the Trust a total of \$12.3 million in legal fees
4 previously paid to such firms by USF&G. The three firms were Brayton and Purcell, Kazan,
5 McLain, et al. and the Wartnick Law Firm (hereafter "Plaintiffs' Firms"). On the Effective Date,
6 the Plaintiffs' Firms paid such amounts to the Trust, but appealed the Fee Order to the Federal
7 District Court. The Trust put the \$12.3 million in a segregated account pending the appeal. The
8 Fee Order was reversed by District Court Order on July 14, 2004. Pursuant to the Court's Order
9 of July 14, 2004, the Trustees approved payment on July 27, 2004 of the \$12.3 million in fees to
10 Plaintiffs' Counsel.

11 23. Fees for Special Counsel: Pursuant to this Court's July 13, 2004 Order of Final
12 Allowance of Contingent Bonus Fees to Debtors' Special Counsel, the Trust paid fees totaling
13 \$35,542,397 to Brobeck, Phleger and Harrison, Faricy and Roen, Miller, Starr and Regalia and
14 Morgan, Lewis & Bockius law firms.

15 24. Final Fee Applications: In compliance with this Court's August 2, 2004 Order
16 Modifying Requirements of Guidelines in Connection with Final Fee Applications, the Trust
17 reviewed all legal bills for work completed in the bankruptcy cases between November 22, 2002
18 and April 22, 2004. As a result of this review, the Trust entered into numerous agreements with
19 bankruptcy counsel for reimbursement of improperly billed fees or expenses. Subject to Fee
20 Applicants' agreements with the Trust, the Court approved all Final Fee Applications in December
21 2004 and January 2005 except for the application of Baron and Budd which was decided outside
22 the Accounting Period.

23 25. Western Asbestos Claims Fund: Section L, paragraphs 50 and 51, of the Order
24 Confirming the Plan, provides that the Trustees shall maintain all proceeds from Debtors'
25 settlement with General Accident in a segregated account to pay individuals' bodily injury claims
26 that resulted exclusively from exposure to Western Asbestos' products. The Trust therefore
27 established the Western Asbestos Settlement Fund Custody Account for funds to be paid to
28 Western-only claimants who met the requirements specified in the Plan, this Court's Orders, the

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J. T. Thorpe Settlement Trust
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2006

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).

For all claims, a liability for unpaid claims is recorded at the time the offer is extended and the release form is sent. Funds are released after the release form is signed and received by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted or expires after six months. Offers may be extended an additional six months upon written request and good cause. During the period ended December 31, 2006, 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 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. The approved Payment Percentage during the period ended December 31, 2006 was 50%.

The cases underlying the Pre-Confirmation Liquidated Claims were stayed by the courts until the Plan was approved. The Trust approved and immediately made offers to pay, subject to receiving a claimant release, the approved Payment Percentage of the liquidated value of each Pre-Confirmation Liquidated Claim. The total dollar amount of the net Pre-Confirmation Liquidated Claims approved in the period ended December 31, 2006 was approximately \$34,219,000.

➔ Additionally, in October 2006, the bankruptcy court ordered approximately \$18,805,000 of contingency fees, substantial contribution claims and related costs to be paid to the Pre-Confirmation claimants' attorneys. These fees were reduced by approximately \$2,323,000 paid prior to the inception of the Trust. During the period ended December 31, 2006, the Trust paid approximately \$11,863,000 against this obligation. The remaining obligation is scheduled to be paid in the year ended December 31, 2007.

The Trust processed and approved approximately \$719,000 of Trust Claims during the period ended December 31, 2006.

NOTE E - FACILITY SHARING AGREEMENT

The Trust has entered into a facilities sharing agreement with the Western Asbestos Settlement Trust, (the Western Trust). The two trusts are related through a common Trustee. Under the agreement, and in exchange for advance payments of \$21,000 per month, the Western Trust provides use of its facilities and services relating to administration and claims processing. The agreement expires June 30, 2007, and will automatically renew for additional one-year periods unless either party provides six months written notice. Annually (subsequent to the first anniversary of the agreement), the Western Trust is required to provide a written 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 future minimum payments under this agreement have been recorded as a liability on the accompanying statement of net claimants' equity.

Thorpe Insulation Settlement Trust
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010

NOTE D - LEGAL FEES - COURT ORDERED

→ The Trust is required to pay legal fees that were authorized by bankruptcy court order incurred through the effective date of the Plan. For the period from inception (October 22, 2010) through December 31, 2010, the Trust incurred a total of \$22,710,789 of contingent and hourly fees for coverage litigation. Of this amount, \$11,523,416 was paid and \$11,187,373 is represented in accrued expenses on the accompanying Statement of Net Claimants' Equity.

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 \$35,000 will be in place through June 30, 2011, and will be lowered to \$27,000 effective July 1, 2011 and for all months thereafter. The agreement expires December 31, 2011; 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 first reconciliation period will be the fourteen-month period ending December 31, 2011. 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 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.