

# MANVILLE PERSONAL INJURY SETTLEMENT TRUST

## TRUSTEES:

Robert A. Falise, Esquire  
Chairman and Managing Trustee  
Vero, Florida

October 29, 2004

Louis Klein, Jr., Esquire  
Stamford, Connecticut

## BY FEDERAL EXPRESS

Honorable Jack B. Weinstein  
Senior Judge, U. S. District Court  
Eastern District of New York  
225 Cadman Plaza East  
Brooklyn, NY 11201

Frank J. Macchiarola, Esquire  
Brooklyn, New York

Honorable Christian E. Markey, Jr.  
Los Angeles, California

Honorable Burton R. Lifland  
U.S. Bankruptcy Court  
Southern District of New York  
Alexander Hamilton Custom House  
One Bowling Green  
New York, NY 10004-1208

Dear Judge Weinstein and Judge Lifland:

Enclosed are chambers' copies of the Financial Statements and Report of the Manville Personal Injury Settlement Trust ("the Trust"), for the quarter ending September 30, 2004, filed pursuant to Sections 3.02(d)(ii) and (iii) of the Trust Agreement, which were electronically filed today with the Clerk of the United States Bankruptcy Court for the Southern District of New York.

## OPERATIONS

During the 2004 third quarter, the Trust received approximately 3,800 new claim filings pursuant to the 2002 Trust Distribution Process ("TDP"). Total 2004 claim filings pursuant to the 2002 TDP were approximately 11,200 as of the end of the third quarter. In 2003, pursuant to the 1995 TDP, there were 51,400 third quarter filings and 88,500 filings as of the end of the third quarter. We attribute the comparatively low rate of claim filings in 2004 to three factors: 1) the more stringent exposure and medical criteria in the 2004 TDP and lower scheduled values for most non-malignant claims; 2) the slow pace at which new asbestos trusts are being formed; and 3) the uncertainty surrounding national asbestos legislation. Other factors of which we are unaware may also be influencing the comparatively low claim filing rate.

For Further Information  
Contact:  
John B. Falise, Esquire  
Chairman and Managing Trustee  
Vero, Florida  
Phone: 781.234.0000  
Fax: 781.234.0000

During the third quarter of 2004, the Trust settled over 8,400 claims for \$25.3 million compared to 24,600 claims for \$61.1 million during the same period in 2003. The average claim settlement value for the quarters ended September 30, 2004 and 2003 was \$3,000 and \$2,480, respectively. During the previous four years, the Trust received an average of 75,000 claims a year, only 9% of which were cancer claims. Cancer claimants received about one-third of total payments. During the first three quarters of this year, the Trust received about 11,200 claims, 25% of which were cancer claims that were paid 85% of total payments. Year-to-date settlements are approximately 35,300 compared to settlements of 59,200 in the comparable period of 2003.

On September 30, 2004, the Trust had approximately 18,300 pending offers or denials and 11,400 claims in process. When combined with approximately 71,400 withdrawn claims (unsettled claims in which offers or deficiencies lapsed), on September 30, 2004 the Trust had a total claim population of 745,908 claims. The Trust has settled approximately 631,800 claims for more than \$3.3 billion, of which approximately 20,100 claims under the 2002 TDP have been settled and paid \$140.7 million.

### **FINANCIAL SUMMARY**

Operating expenses for the quarters ended September 30, 2004 and 2003, excluding income taxes, were \$1.7 million and \$2.3 million, respectively. Operating expenses for the first nine months of 2004 and 2003 were \$5.3 million and \$6.1 million, respectively. Operating expenses for the nine months ended September 30, 2004 are over 60% less than operating expenses for the same period in 2001 before the advent of the e-Claims processing system. Since implementation of the 1995 TDP, operating costs, excluding litigation and asset management expenses, have averaged 3.2% of total Trust expenditures.

For the three and nine months ended September 30, 2004, CRMC received \$96,400 and \$359,600 income from data sales, claim processing, and consulting services, respectively. These receipts are used to increase the assets available for payment to the Trust's beneficiaries by offsetting overall claims processing costs.

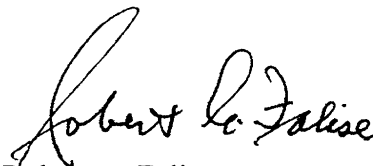
### **ASSET AND LIABILITY MANAGEMENT**

As of September 30, 2004, the market value of Trust investments, including accrued interest and dividends, was approximately \$1,586 million, of which approximately \$998 million (63%) was in diversified equities, \$567 million (36%) in fixed income securities and the remaining \$21 million (1%) in cash equivalents. For the first nine months of 2004, after \$101 million in claim payments and \$10 million in expenses (including income taxes), the Trust's investments decreased by only \$66 million due to total cash inflows of \$45 million (principally investment receipts). Included in this amount is reimbursement for a contribution claim of approximately \$12.4 million.

For the nine months ended September 30, 2004, the total return on investment was approximately 2.0%. The total return during the same period on the Trust's equity and fixed income investments were approximately 1.9% and 2.2%, respectively. Investments continue to be liquidated, but at a gradual pace mirroring the relatively stable and low level of claims filed pursuant to the 2002 TDP. We do not anticipate making any significant changes to the asset allocation until more is known about the future direction of claim filings.

In that regard, the Trust expects to retain in the near future a consultant to project future claim filings, the second step towards a re-estimate of the pro rata percentage payout. The initial step of extracting and reformatting information from the claims database to support the new claim forecasts is complete. The Trust may have some preliminary findings as to future claim filings this year and hopes to complete the re-estimate by the end of the first quarter of 2005, subject to whatever time may be required for consultation with the Selected Counsel for the Beneficiaries and the Legal Representative for Future Claimants.

Yours very truly,

A handwritten signature in black ink, appearing to read "Robert A. Falise". The signature is fluid and cursive, with the first name "Robert" being more prominent.

Robert A. Falise  
Chairman and Managing Trustee

Enclosure

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

In re	) In Proceedings For A
	) Reorganization Under
JOHNS-MANVILLE CORPORATION,	) Chapter 11
et al.,	)
	) Case Nos. 82 B 11656 (BRL)
Debtors	) Through 82 B 11676 (BRL)
	) Inclusive

FINANCIAL STATEMENTS AND REPORT OF  
MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
FOR THE PERIOD ENDING SEPTEMBER 30, 2004  
PURSUANT TO SECTIONS 3.02(d)(ii) and (iii)  
OF THE TRUST AGREEMENT

Sections 3.02(d)(ii) and (iii) of the Trust Agreement provide that the Trustees shall prepare and file with the Court within 30 days following the end of each of the first three quarters of each Fiscal Year a quarterly report containing certified financial statements and a summary of certain additional information, including the number of Trust Claims Liquidated and the average amount per Trust Claim paid or payable, the amount of investment income earned by the Trust, and the amount of Trust Expenses incurred by the Trust. The attached Financial Statements for

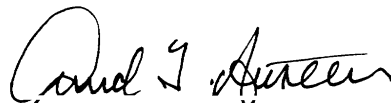
the Period July 1, 2004 through September 30, 2004 and the exhibits thereto are submitted in satisfaction of the requirements that the Trust file a quarterly report. Exhibits I, II and III of the Financial Statements set forth the specific items of information required by Sections 3.02(d)(iii)(w),(y) and (z) of the Trust Agreement.

Respectfully submitted,

MANVILLE PERSONAL INJURY  
SETTLEMENT TRUST

Dated: Falls Church, Virginia  
October 29, 2004

By:



David T. Austern  
General Counsel  
Manville Personal Injury  
Settlement Trust  
3110 Fairview Park Dr.  
Ste. 200  
P.O. Box 12003  
Falls Church, Virginia 22031  
(703) 205-0835

# **MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

**Special-Purpose Consolidated Financial Statements  
As of September 30, 2004 and 2003**

## **MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

The consolidated financial statements included herein are unaudited. In the opinion of the management of the Trust, the accompanying consolidated financial statements present fairly, subject to normal year-end adjustments, the consolidated net claimants' equity as of September 30, 2004 and 2003 and the consolidated changes in net claimants' equity and cash flows for the three months and nine months ended September 30, 2004 presented on the special-purpose basis of accounting described in Note 2, which accounting methods have been applied on a consistent basis.

/signed/ Mark E. Lederer  
Mark E. Lederer  
Chief Financial Officer

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
CONSOLIDATED STATEMENTS OF NET CLAIMANTS' EQUITY  
AS OF SEPTEMBER 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>ASSETS:</b>		
Cash equivalents and investments (Note 2)		
Available-for-sale		
Restricted (Note 7)	\$71,872,748	\$68,282,982
Unrestricted	1,508,097,986	1,521,764,643
Total cash equivalents and investments	1,579,970,734	1,590,047,625
Accrued interest and dividend receivables	5,821,843	7,115,716
Deposits and other assets	537,135	2,818,995
Total assets	1,586,329,712	1,599,982,336
<b>LIABILITIES:</b>		
Accrued expenses	3,089,593	2,640,092
Unpaid claims (Notes 3, 5 and Exh. III)		
Outstanding Offers	21,785,708	66,244,652
Settled, not paid	2,366,909	6,352,235
Lease commitments payable (Note 4)	4,635,545	5,018,045
Total liabilities	31,877,755	80,255,024
<b>NET CLAIMANTS' EQUITY (Note 5)</b>	<b>\$1,554,451,957</b>	<b>\$1,519,727,312</b>

The accompanying notes are an integral part of these consolidated statements.



**MANVILLE PERSONAL INJURY SETTLEMENT TRUST**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004**

	Three Months Ended 9/30/04	Nine Months Ended 9/30/04
<b>NET CLAIMANTS' EQUITY, BEGINNING OF PERIOD</b>	\$1,569,192,483	\$1,581,388,280
<b>ADDITIONS TO NET CLAIMANTS' EQUITY:</b>		
Investment income (Exhibit I)	12,636,980	34,061,486
Decrease in lease commitments payable (Note 4)	95,625	286,875
Net reduction in outstanding claim offers	8,713,558	35,846,831
Return of contribution claim (Note 10)	10,000,000	10,000,000
Total additions	31,446,163	80,195,192
<b>DEDUCTIONS FROM NET CLAIMANTS' EQUITY:</b>		
Operating expenses (Exhibit II)	1,667,593	5,338,195
Provision for income taxes (Exhibit II)	1,176,400	4,186,542
Claims settled	25,274,516	96,980,980
Net realized and unrealized losses on available-for-sale securities	18,068,180	625,798
Total deductions	46,186,689	107,131,515
<b>NET CLAIMANTS' EQUITY, END OF PERIOD</b>	\$1,554,451,957	\$1,554,451,957

The accompanying notes are an integral part of these consolidated statements.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004**

	Three Months Ended 9/30/04	Nine Months Ended 9/30/04
<b>CASH INFLOWS:</b>		
Investment income receipts	12,660,085	34,125,537
Return of contribution claim (Note 10)	10,000,000	10,000,000
Decrease in deposits and other assets	9,804	1,870,164
Total cash inflows	22,669,889	45,995,701
<b>CASH OUTFLOWS:</b>		
Claim payments made	28,794,014	101,259,873
Contribution and indemnity claim payments	0	305,686
Total cash claim payments	28,794,014	101,565,559
Net realized losses on available-for-sale securities	3,238,235	737,744
Disbursements for Trust operating expenses and income taxes	3,265,228	9,687,462
Total cash outflows	35,297,477	111,990,765
<b>NET CASH (OUTFLOWS)</b>	(12,627,588)	(65,995,064)
<b>NON-CASH CHANGES:</b>		
Net unrealized gains (losses) on available-for-sale securities	(14,829,944)	111,946
<b>NET (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE</b>	(27,457,532)	(65,883,118)
<b>CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, BEGINNING OF PERIOD</b>	1,607,428,266	1,645,853,852
<b>CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, END OF PERIOD</b>	\$1,579,970,734	\$1,579,970,734

The accompanying notes are an integral part of these consolidated statements.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF SEPTEMBER, 2004 AND 2003**

**(1) DESCRIPTION OF THE TRUST**

The Manville Personal Injury Settlement Trust (the Trust), organized pursuant to the laws of the state of New York with its office in Katonah, New York, was established pursuant to the Manville Corporation (Manville or JM) Second Amended and Restated Plan of Reorganization (the Plan). The Trust was formed to assume Manville's liabilities resulting from pending and potential litigation involving (i) individuals exposed to asbestos who have manifested asbestos-related diseases or conditions, (ii) individuals exposed to asbestos who have not yet manifested asbestos-related diseases or conditions and (iii) third-party asbestos-related claims against Manville for indemnification or contribution. Upon consummation of the Plan, the Trust assumed liability for existing and future asbestos health claims. The Trust's initial funding is described below under "Funding of the Trust." The Trust's funding is dedicated solely to the settlement of asbestos health claims and the related costs thereto, as defined in the Plan. The Trust was consummated on November 28, 1988.

In December 1998, the Trust formed a wholly-owned corporation, the Claims Resolution Management Corporation (CRMC), to provide the Trust with claim processing and settlement services. Prior to January 1, 1999, the Trust provided its own claim processing and settlement services. CRMC began operations on January 1, 1999 in Fairfax, Virginia. The accounts of the Trust and CRMC have been consolidated for financial reporting purposes. All significant transactions between the Trust and CRMC have been eliminated in consolidation.

The Trust was initially funded with cash, Manville securities and insurance settlement proceeds. Since consummation, the Trust has converted the Manville securities to cash and currently holds no Manville securities.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation**

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 communicate to the beneficiaries of the Trust the amount of equity available for payment of current and future claims. These special-purpose accounting methods are as follows:

- (1) The financial statements are prepared using the accrual basis of accounting.
- (2) The funding received from JM and its liability insurers was recorded directly to net claimants' equity. These funds do not represent income of the Trust. Settlement offers for asbestos health claims are reported as deductions in net claimants' equity and do not represent expenses of the Trust.

- (3) 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 as they are incurred. These costs include acquisition costs of computer hardware, software, software development, office furniture and leasehold improvements.
- (4) Future fixed liabilities and contractual obligations entered into by the Trust are recorded directly against net claimants' equity. Accordingly, the future minimum rental commitments outstanding at period end for non-cancelable operating leases, net of any sublease agreements, have been recorded as deductions to net claimants' equity.
- (5) The liability for unpaid claims reflected in the statements of net claimants' equity represents settled but unpaid claims and outstanding settlement offers. Post-Class Action complaint claims' liability is recorded once a settlement offer is made to the claimant (Note 3) at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no settlement offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.
- (6) Available-for-sale securities are recorded at market. All interest and dividend income on available-for-sale securities, net of investment expenses are 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 original 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 accompanying statements of changes in net claimants' equity.

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates. The most significant estimates with regard to these financial statements relate to unpaid claims, as discussed in Notes 3 and 5.

**(b) Cash Equivalents and Investments**

At September 30, 2004 and 2003, the Trust has recorded all its investment securities at market value, as follows:

	2004		2003	
	Cost	Market	Cost	Market
Restricted				
Cash equivalents	\$3,257,811	\$ 3,257,811	\$5,097,703	\$5,097,703
U.S. Govt. obligations	9,046,274	8,907,254	8,695,429	8,664,555
Corporate and other debt	8,945,429	8,906,538	6,853,680	7,024,923
Equities – U.S.	37,359,367	50,801,145	41,764,702	47,495,801
Total	\$58,608,881	\$71,872,748	\$62,411,514	\$68,282,982
	2004		2003	
	Cost	Market	Cost	Market
Unrestricted				
Cash equivalents	\$32,934,749	\$32,934,749	\$57,045,907	\$57,045,907
U.S. Govt. obligations	227,381,585	227,253,934	279,314,852	283,137,279
Corporate and other debt	299,722,286	302,081,897	276,305,365	284,724,970
Equities – U.S.	841,889,293	847,873,321	901,125,527	814,119,079
Equities – International	92,464,203	97,954,085	94,174,560	82,737,408
Total	\$1,494,392,116	\$1,508,097,986	\$1,607,966,211	\$1,521,764,643

The Trust invests in two types of derivative financial instruments. Equity index futures are used as strategic substitutions to cost effectively replicate the underlying index of its domestic equity investment fund. At September 30, 2004, the fair value of these instruments was approximately \$8.6 million and was included in investments available-for-sale on the statement of net claimants' equity. Foreign currency forwards are utilized for both currency translation purposes and to economically hedge against the currency risk inherent in foreign equity issues and are generally for periods up to 90 days. At September 30, 2004, the Trust held \$47.8 million in net foreign currency forward contracts. The unrealized loss on these outstanding currency forward contracts of approximately \$0.7 million is principally offset by corresponding unrealized gain due to currency exchange on the underlying securities being hedged. These amounts are recorded in the statement of net claimants' equity at September 30, 2004.

(c) **Fixed Assets**

The cost of non-income producing assets that will be exhausted during the life of the Trust and are not available for satisfying claims are expensed as incurred. Since inception, the cost of fixed assets expensed, net of disposals, include:

Acquisition of furniture and equipment	\$ 963,540
Acquisition of computer hardware and software	2,007,795
Computer software development (e-Claims)	2,361,065
Leasehold improvements	72,965
Total	\$5,405,365

These items have not been recorded as assets, but rather as direct deductions to net claimants' equity in the accompanying consolidated financial statements. The cost of fixed assets, net of proceeds on disposals that were expensed during the three and nine months ended September 30, 2004 was approximately \$34,600 and 56,200, respectively.

Depreciation expense related to asset acquisitions using accounting principles generally accepted in the United States would have been approximately \$164,000 and \$481,700 for the three and nine months ended September 30, 2004, respectively.

### **(3) UNPAID CLAIMS**

The Trust distinguishes between claims that were resolved prior to the filing of the class action complaint on November 19, 1990, and claims resolved after the filing of that complaint. Claims resolved prior to the complaint (Pre-Class Action Claims) were resolved under various payment plans, all of which called for 100% payment of the full liquidated amount without interest over some period of time. However, between July 1990 and February 1995, payments on all claims except qualified exigent health and hardship claims were stayed by the courts. By court order on July 22, 1993 (which became final on January 11, 1994), a plan submitted by the Trust was approved to immediately pay, subject to claimant approval, a discounted amount on Pre-Class Action Claims, in full satisfaction of these claims. The discount amount taken, based on the claimants who accepted the Trust's discounted offer, was approximately \$135 million.

The unpaid liability for the Post-Class Action claims represents outstanding offers made in First-in, First-out (FIFO) order to claimants eligible for settlement after November 19, 1990. Under the TDP (Note 5), claimants receive an initial pro rata payment equal to a percentage of the liquidated value of their claim. The Trust remains liable for the unpaid portion of the liquidated amount only to the extent that assets are available after paying all claimants the established pro rata share of their claims. The Trust makes these offers electronically for law firms that file their claims electronically (e-filers), or in the form of a check made payable to the claimant and/or claimant's counsel for claimants that file their proof of claim with paper. E-filers may accept their offers electronically and the Trust records a settled, but unpaid claim at the time of acceptance. Paper filers may accept their offer by depositing the check. An unpaid claim liability is recorded once an offer is made. The unpaid claim liability remains on the Trust's books until accepted or expiration of the offer after 360 days. Expired offers may be reinstated if the claimant accepts the original offer within two years of offer expiration.

#### **(4) COMMITMENTS AND CONTINGENCIES**

##### **Operating Leases**

In April 2003, the CRMC executed an early termination of its old lease and a new 10-year lease through September 2013 for its offices in Falls Church, Virginia. CRMC may terminate the new lease at the end of the seventh lease year upon proper notification and payment of certain unamortized leasing costs. The lease was executed with CRMC conditioned upon the Trust's guarantee of future lease payments.

Future minimum rental commitments under this operating lease, as of September 30, 2004, are as follows:

Calendar Year	Amount
2004	116,428
2005	468,605
2006	480,275
2007	492,301
2008	504,638
2009	517,198
2010	530,115
2011	543,388
2012	557,017
2013	425,580
	\$4,635,545

This obligation has been recorded as a liability in the accompanying financial statements.

#### **(5) NET CLAIMANTS' EQUITY**

A class action complaint was filed on behalf of all Trust beneficiaries on November 19, 1990, seeking to restructure the methods by which the Trust administers and pays claims. On July 25, 1994, the parties signed a Stipulation of Settlement that included a revised Trust Distribution Process (the TDP). 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 diseases and values. The Court approved the settlement in an order dated January 19, 1995. Though six appeals were filed with the Court of Appeals, no stay was granted and the Trust implemented the TDP payment procedures effective February 21, 1995. On February 21, 1996, the Court of Appeals affirmed the decision.

Prior to the commencement of the class action in 1990, the Trust filed a motion for a determination that its assets constitute a "limited fund" for purposes of Federal Rules of Civil Procedure 23(b)(1)(B). The Courts adopted the findings of the Special Master that the Trust is a "limited fund". In part, the limited fund finding concludes that there is a substantial probability that estimated future assets of the Trust are and will be insufficient to pay in full all claims that have been and will be asserted against the Trust.

The TDP contains certain procedures for the distribution of the Trust's limited assets. Under the TDP, the Trust forecasts its anticipated annual sources and uses of cash until the last projected future claim has been paid. A pro rata payment percentage is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

Prior to the implementation of the TDP, the Trust conducted its own research and monitored studies prepared by the Courts' appointee regarding the valuation of Trust assets and liabilities. Based on this valuation, the TDP provided for an initial 10% payment of the liquidated value of then current and estimated future claims (pro rata payment percentage). As required by the TDP, the Trust has periodically reviewed the values of its projected assets and liabilities to determine whether a revised pro rata payment percentage should be applied. The most recent estimate began in 2000 and was concluded in September of 2001. Following its review and consultation with the Selected Counsel for the Beneficiaries (SCB), the Legal Representative of Future Claimants (Legal Representative) and Special Advisor to the Trust (Special Advisor), the Trust proposed to the SCB and Future Representative that the pro rata payment percentage be reduced from 10% to 5%, beginning generally with claims filed after October of 2000. The SCB and Legal Representative consented to the Trust's request that, pending a final resolution of this issue and without prejudice to their rights to dispute the issue in binding arbitration, the Trust may make offers and pay claims based upon a 5% pro rata payment percentage.

During the second and third quarters of 2002, the SCB and Legal Representative and the Trust met to discuss amending the TDP. As a result of these meetings, in late August 2002, the parties agreed to TDP amendments that are now contained in what is called the "2002 TDP". The 2002 TDP principally changes the categorization criteria and scheduled values for the scheduled diseases. Until October 10, 2003, claimants could file claims pursuant to the original TDP ("1995 TDP") provided that (i) the claim was filed prior to October 10, 2003 and (ii) the claimant's date of diagnosis was prior to September 1, 2002. Otherwise, claims must be filed pursuant to the 2002 TDP. Pending receipt of sufficient claim filing information to revise the estimate of the pro rata percentage, the Trust, SCB and Legal Representative agreed that the Trust will continue to pay 5% pro rata payment on the liquidated value of resolved 1995 TDP and 2002 TDP claims.

Thereafter, the Trust will continue to periodically update its estimate of the pro rata payment percentage based on updated assumptions regarding its future assets and liabilities and, if appropriate, propose additional changes in the pro rata payment percentage.

## **(6) EMPLOYEE BENEFIT PLANS**

The Trust established a tax-deferred employee savings plan under Section 401(k) of the Internal Revenue Code, with an effective date of January 1, 1988. The plan allows employees to defer a percentage of their salaries within limits set by the Internal Revenue Code with the Trust matching contributions by employees of up to 6% of their salaries. The total employer contributions and expenses under the plan were approximately \$48,400 and \$157,255 for the three and nine months ended September 30, 2004, respectively.



## **(7) RESTRICTED CASH EQUIVALENTS AND INVESTMENTS**

In order to avoid the high costs of director and officer liability insurance the Trust ceased purchasing such insurance in 1991 and with the approval of the United States Bankruptcy Court for the Southern District of New York, the Trust established a segregated security fund of \$30 million and, with the additional approval of the United States District Court for the Southern and Eastern Districts of New York, an escrow fund of \$3 million from the assets of the Trust, which are devoted exclusively to securing the obligations of the Trust to indemnify the former and current Trustees and officers, employees, agents and representatives of the Trust. In addition, a \$15 million escrow and security fund was established to secure the obligations of the Trust to exclusively indemnify the current Trustees, whose access to the other security funds is subordinated to the former Trustees. Upon the final order in the Class Action litigation (Note 3), the \$15 million escrow and security fund was reduced by \$5 million. Pursuant to Section 5.07 of the Plan, Trustees are entitled to a lien on the segregated security and escrow funds to secure the payment of any amounts payable to them through such indemnification. Accordingly, in total, \$43 million has been transferred from the Trust's bank accounts to separate bank escrow accounts and pledge and security agreements have been executed perfecting those interests. The investment earnings on these escrow accounts accrue to the benefit of the Trust.

As a condition of the tax agreement between JM and the Trust discussed in Note 8 below, the Trust was required to transfer \$30 million in cash to an escrow account to secure the payment of its future income tax obligations post settlement of the transaction. The escrow account balance may be increased or decreased over time. As of September 30, 2004, securities with a market value of \$28.9 million were held by an escrow agent in accordance with the agreement. These funds have been reported as restricted investments.

## **(8) INCOME TAXES**

For Federal income tax purposes, JM had elected for the qualified assets of the Trust to be taxed as a Designated Settlement Fund (DSF). Income and expenses associated with the DSF are taxed in accordance with Section 468B of the Internal Revenue Code, which obligates JM to pay for any federal income tax liability imposed upon the DSF. In addition, pursuant to an agreement between JM and the Trust, JM is obligated to pay for any income tax liability of the Trust. In a separate agreement between the Trust and JM, JM paid the Trust \$90 million to settle JM's obligation to the Trust. In return, the Trust terminated JM's contractual liability for income taxes of the DSF and agreed to indemnify JM in respect for all future income taxes of the Trust. The statutory income tax rate for the DSF is 15%.

The Trust accounts for income taxes in accordance with the Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities. As of September 30, 2004 and 2003, the Trust has recorded a net deferred tax asset of \$297,500 and \$85,000, representing temporary differences primarily due to expensing asset acquisitions for financial reporting purposes, accrued vacation and deferred compensation. The deferred asset is included in other assets in the accompanying consolidated statement of net claimants' equity.

## **(9) PROOF OF CLAIM FORMS FILED**

Proof of claim forms have been filed with the Trust as follows:

	As of 9/30/04	As of 9/30/03
Claims filed	745,908	720,285
Withdrawn <sup>(1)</sup>	(71,371)	(41,618)
Expired offers <sup>(2)</sup>	(13,039)	(29,589)
Active claims	661,498	649,078
Settled claims	(631,822)	(570,108)
 Claims currently eligible for settlement	 29,676	 78,970

- (1) Principally claims that have received a denial notification and the claim has been in an expired status for more than two years. These claims must be refiled to receive a new offer.
- (2) Claims that received a Trust offer or denial, but failed to respond within the specified response period, usually 360 days. As of September 30, 2004 and 2003, approximately 6,000 and 5,400 respectively, of the claims with expired offers are still eligible to accept their original offer with a payment value of \$14.3 million and \$14.8 million, respectively. All claims with expired offers may also be reactivated upon written request by the claimant and be eligible for a new offer at the end of the FIFO queue.

## **(10) MACARTHUR FUND PRINCIPLES**

The 1995 TDP established a separate fund of \$10 million to be available to pay legal fees and expenses of outside counsel of the MacArthur Group in its claims or litigation against current and/or former insurance companies. The MacArthur Group alleged that they were entitled to further insurance coverage for asbestos related losses. If such insurance litigation was successful, then the Trust would be entitled to reimbursement for the amount of funds expended plus a calculation of interest. Upon the conclusion of successful litigation in 2004, the Trust received \$10 million plus interest of \$2.4 million. The recovery of the \$10 million was recorded as an addition to Net Claimant's Equity and the interest was recorded as interest income.

## **MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

The following exhibits are provided in accordance with Article 3.02 (d)(iii) of the Manville Personal Injury Settlement Trust Agreement.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
CONSOLIDATED INVESTMENT INCOME  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004**

	<b>Three Months Ended 9/30/04</b>	<b>Nine Months Ended 9/30/04</b>
<b>INVESTMENT INCOME</b>		
Interest (Note 10)	\$ 9,086,469	\$ 23,115,759
Dividends	4,107,193	12,839,085
Total investment income	13,193,662	35,954,844
Investment expenses	(556,682)	(1,893,358)
<b>TOTAL</b>	<b>\$12,636,980</b>	<b>\$34,061,486</b>

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
CONSOLIDATED OPERATING EXPENSES  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004**

	<b>Three Months Ended 9/30/04</b>	<b>Nine Months Ended 9/30/04</b>
<b>OPERATING EXPENSES:</b>		
Personnel costs	\$1,084,605	\$3,289,235
Office general and administrative	192,955	546,968
Travel and meetings	32,936	109,723
Board of Trustees	88,731	296,863
Professional fees	129,295	711,526
Net fixed asset purchases	34,607	56,204
Computer and other EDP costs	104,464	327,676
<b>TOTAL OPERATING EXPENSES</b>	<b>1,667,593</b>	<b>5,338,195</b>
Income tax provision	1,176,400	4,186,542
<b>TOTAL</b>	<b>\$2,843,993</b>	<b>\$9,524,737</b>

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SCHEDULE OF LIQUIDATED CLAIMS  
SINCE CONSUMMATION (NOVEMBER 28, 1988)  
THROUGH SEPTEMBER 30, 2004**

Exhibit III  
Page 1 of 2

	Number	Amount	Average Payment Amount
<b>Trust Liquidated Claims</b>			
<b>Pre-Class Action Complaint November 19, 1990 and Before-</b>			
Full Liquidated Claim Value	27,589	\$1,187,852,399	
Present Value Discount (1)		(135,306,535)	
Net Settlements	27,589	1,052,545,864	
Payments	(27,589)	(1,052,545,864)	\$38,151
Unpaid Balance	0	\$0	
<b>Post-Class Action Complaint After November 19, 1990-</b>			
Offers Made at Full Liquidated Amount	621,619	\$27,674,326,317	
Reduction in Claim Value (2)		(25,467,193,210)	
Net Offer Amount	621,619	2,207,133,107	
Offers Accepted	(604,233)	(2,185,347,399)	\$3,617
Offers Accepted, Not Paid	1,121	2,366,909	
Unpaid Balance	18,507	24,152,617	
<b>Total Trust Liquidated Claims</b>	<b>631,822</b>	<b>3,237,893,263</b>	<b>\$5,125</b>
<b>Manville Liquidated Claims Paid (3)</b>	<b>158</b>	<b>\$24,946,620</b>	
<b>Co-Defendant Liquidated Claims (4)</b>			
Settlement Claim Value		\$86,187,220	
Investment Receipts (5)		2,624,732	
Payments, net of Receivable from Co-defendant		(88,811,952)	
Unpaid Balance		\$0	

- (1) The unpaid liability for Pre-Class Action Complaint claims has been reduced based upon a plan approved by the Courts in January, 1994 which requires the Trust to offer to pay a discounted amount in full satisfaction of the unpaid claim amount.
- (2) Under the TDP, Post Class Action Complaint claims have been reported at a pro rata percentage of their liquidated value.
- (3) Manville Liquidated Claims refers to Liquidated AH Claims (as defined in the Plan) which the Trust has paid pursuant to an order of the United States Bankruptcy Court for the Southern District of New York dated January 27, 1987.
- (4) Number of personal injury claimants not identifiable.
- (5) Investment receipts of separate investment escrow account established for the sub-class beneficiaries per the Stipulation of Settlement, net of income taxes.

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SCHEDULE OF LIQUIDATED CLAIMS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2004**

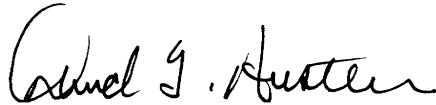
Exhibit III  
Page 2 of 2

	Number	Amount	Avq. Payment Amount
<b>Trust Liquidated Claims</b>			
<b>Post-Class Action Complaint After November 19, 1990- (1)</b>			
Offers Outstanding as of June 30, 2004	12,601	\$30,512,740	
Net Offers Made (2)	4,523	16,560,957	
Offers Accepted	(8,431)	(25,287,989)	\$2,999
Offers Outstanding as of September 30, 2004	8,693	21,785,708	
Offers Accepted, Not Paid as of Sept. 30, 2004	1,121	2,366,909	
Payable as of September 30, 2004	9,814	\$24,152,617	
<b>Co-Defendant Liquidated Claims</b>			
Payable as of June 30, 2004		\$0	
Settled (3)		(10,000,000)	
Paid		(10,000,000)	
Payable as of September 30, 2004		\$0	

- (1) Under the TDP, Post Class Action Complaint claims have been reported at a pro rata percentage of their liquidated value.
- (2) Represents payment offers made during the period net of rejected and expired offers.
- (3) Per the terms of the MacArthur Fund Principles of the 1995 TDP, upon successful insurance litigation, the MacArthur Group returned \$10 million plus the change in value (Note 10).

CERTIFICATE OF SERVICE

I, David T. Austern, hereby certify that on October 29, 2004, I caused a true and complete copy of the Financial Statements and Report of Manville Personal Injury Settlement Trust for the Period Ending September 30, 2004 Pursuant to Sections 3.02(d)(ii) and (iii) of the Trust Agreement to be served by first class mail, postage prepaid, to the entities named on the service list annexed hereto.

  
David T. Austern



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