

MANVILLE PERSONAL INJURY SETTLEMENT TRUST

TRUSTEES

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

February 28, 2006

Louis Klein, Jr., Esquire
Stamford, Connecticut

Frank J. Macchiarola, Esquire
Brooklyn, New York

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

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

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 Audited Financial Statements and Report of the Manville Personal Injury Settlement Trust ("the Trust"), for the year ending December 31, 2005, filed pursuant to Sections 3.02(d)(i) 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

For the year ended December 31, 2005, the Trust received approximately 18,200 new claim filings compared to 14,400 in 2004. This increase of approximately 26% in year-to-date claim filings indicates that law firms have adjusted their filing practices to accommodate the criteria of the 2002 Trust Distribution Process ("TDP") and have begun to increase their claim filings with the Trust from the abnormally low level in 2004. As you may recall, the deadline to file claims pursuant to the original (1995) TDP was in late 2003 and law firms accelerated the filing of many claims to meet that deadline that, in the ordinary course, would not have been filed

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until 2004 or later. On average between 1995 through 2003, about 50,000 claims were filed each year.

During the year ended December 31, 2005, the Trust settled approximately 20,800 claims for \$71.1 million compared to 42,600 claims for \$117.9 million during 2004. However, as more claims are filed and paid pursuant to the 2002 TDP, the percentage of the total payments paid on cancer claims has risen from about 41% in 2003 to 78% in 2005. The average claim settlement value for the years ended December 31, 2005 and 2004 was \$3,410 and \$2,770, respectively.

On December 31, 2005, the Trust had approximately 4,100 pending offers or denials, 16,100 expired claims, 14,000 claims in process, and settlements of 660,000, for approximately \$3.3 billion. When combined with approximately 73,500 withdrawn claims (unsettled claims in which offers or deficiencies lapsed), on December 31, 2005 the Trust has had a total claim population of 767,700 claims.

The Trustees are continuing to consider a change of the pro rata payment rate on claims and are reviewing forecasts provided by experts, and are consulting with counsel and representatives of the Trust's various constituencies in that regard. We expect to conclude that process shortly.

FINANCIAL SUMMARY

Net operating expenses for the years ended December 31, 2005 and 2004 were \$6.1 million and \$6.6 million, respectively. Operating expenses are net of \$844,200 in 2005 and \$434,600 in 2004 received by the Claims Resolution Management Corporation ("CRMC") for providing claim processing and consulting services and licensing Manville Trust data. Net operating costs for the year ended December 31, 2005 represent a 7% reduction from 2004 net operating costs for the same period. Over the longer term, the Trust has reduced its net operating expenses by 23.5% since 2002, the first full year of electronic claim processing operations. During the same period, inflation, as measured by the Consumer Price Index has increased almost 12%.

In 2005, the Trust made a significant investment in its electronic claim processing system to upgrade its technology and improve its capability has a multi-Trust claim processing system.

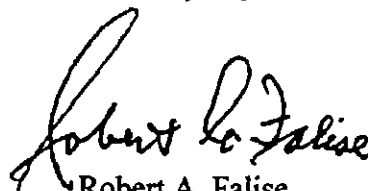
The Trust continues its effort to develop CRMC income from data sales, claim processing for other entities, and consulting services using its experience and systems to increase the assets available for payment to the Trust's beneficiaries by reducing overall claims processing costs.

ASSET AND LIABILITY MANAGEMENT

For the years ended December 31, 2005 and December 31, 2004, the Trust's total return on investment was approximately 5.7% and 9.0%, respectively. The total return during the same periods on the Trust's equity investments was approximately 7.6% and 12.5%, respectively. By way of comparison, the Russell 3000 index, a broad index of U.S. stocks, returned about 6.1% and 12.0% during 2005 and 2004, respectively. The total return on fixed income investments for the same periods was little changed, 2.5% in 2005 versus 2.8% in 2004.

As of December 31, 2005, the market value of Trust investments, including accrued interest and dividends, was approximately \$1,672 million, of which approximately \$1,042 million (62%) was in diversified equities, \$563 million (34%) in fixed income securities and the remaining \$67 million (4%) in cash equivalents. For the full year 2005, cash outflows exceeded inflows by almost \$25 million, while cash equivalents and investments increased by over \$4 million, due to net unrealized gains on the investment portfolio of about \$29 million. Over \$71 million was paid on claims during 2005 compared to over \$123 million during 2004. The decline resulted from fewer claims being filed under the amended 2002 TDP than the original 1995 TDP. The number of claims eligible for settlement at December 31, 2005 was approximately 18,000, of which approximately 4,100 (22%) were malignancies and 83% of these 4,100 claims were filed within the last 3 years. By way of contrast, the claim backlog stood at about 66,000 at the end of 2003.

Yours very truly,



Robert A. Falise
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

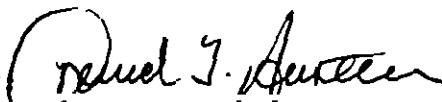
FINANCIAL STATEMENTS AND REPORT OF
MANVILLE PERSONAL INJURY SETTLEMENT TRUST
FOR THE PERIOD ENDING DECEMBER 31, 2005
PURSUANT TO SECTIONS 3.02(d)(i) and (iii)
OF THE TRUST AGREEMENT

The attached Financial Statements for the Period Ending
December 31, 2005 with Auditors' Report and the exhibits thereto
are filed herewith pursuant to Sections 3.02(d)(i) and (iii) of
the Manville Personal Injury Trust Agreement.

Respectfully submitted,

MANVILLE PERSONAL INJURY
SETTLEMENT TRUST

Dated: Falls Church, Virginia
February 28, 2006

By 
David T. Austern
General Counsel
3110 Fairview Park Dr. Ste. 200
P.O. Box 12003
Falls Church, Virginia 22042
(703) 204-9300

CERTIFICATE OF SERVICE

I, David T. Austern, hereby certify that on February 28, 2006, I caused a true and complete copy of the Financial Statements for the Period Ending December 31, 2005 with Auditors' Report pursuant to Sections 3.02(d)(i) and (iii) of the Manville Personal Injury Settlement Trust Agreement to be served by first class mail, postage prepaid, to the entities named on the service list annexed hereto.


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**SPECIAL-PURPOSE CONSOLIDATED
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

**MANVILLE PERSONAL
INJURY SETTLEMENT TRUST**

**DECEMBER 31, 2005 AND 2004 WITH
REPORT OF INDEPENDENT ACCOUNTANTS**

REPORT OF INDEPENDENT ACCOUNTANTS

February 10, 2006

To the Trustees of
Manville Personal Injury Settlement Trust

We have audited the accompanying special-purpose consolidated statements of net claimants' equity of Manville Personal Injury Settlement Trust (the Trust, organized in the state of New York) as of December 31, 2005 and the related consolidated statements of changes in net claimants' equity and cash flows for the year then ended. These special-purpose consolidated financial statements and the exhibits referred to below are the responsibility of the Trust's management. Our responsibility is to express an opinion on these special-purpose consolidated financial statements and exhibits based on our audit. The special-purpose consolidated financial statements of Manville Personal Injury Settlement Trust for the year ended December 31, 2004 were audited by other auditors whose report, dated February 11, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 special-purpose consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these special-purpose consolidated financial statements were prepared on a special-purpose basis of accounting and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. The special-purpose basis of accounting has been used in order to communicate the amount of equity presently available to current and future claimants.

In our opinion, the accompanying special-purpose consolidated financial statements of Manville Personal Injury Settlement Trust as of and for the year ended December 31, 2005 are fairly presented, in all material respects, on the basis of accounting described in Note 2.

MEMBER OF THE LEADING EDGE ALLIANCE

Our audit was made for the purpose of forming an opinion on the special-purpose consolidated financial statements taken as a whole. The supplementary schedules at Exhibits I, II, and III are presented for purposes of additional analysis and are not a required part of the special-purpose consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the special-purpose consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose consolidated financial statements taken as a whole. The supplementary information for the year ended December 31, 2004 was audited by other auditors whose report, dated February 11, 2005, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Trust, the Trustees, the beneficiaries of the Trust, and the United States Bankruptcy Court for the Southern District of New York and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report which, upon filing with the United States Bankruptcy Court for the Southern District of New York, is a matter of public record.

Angy, Wittke & Robinson, P.C.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST
CONSOLIDATED STATEMENTS OF NET CLAIMANTS' EQUITY
AS OF DECEMBER 31, 2005 AND 2004**

| | 2005 | 2004 |
|---|------------------------|------------------------|
| ASSETS: | | |
| Cash equivalents and investments (Note 2) | | |
| Available-for-sale | | |
| Restricted (Note 7) | \$76,896,986 | \$74,765,551 |
| Unrestricted | 1,589,884,698 | 1,587,812,212 |
| Total cash equivalents and investments | 1,666,781,684 | 1,662,577,763 |
| Accrued interest and dividend receivables | 5,543,780 | 5,591,318 |
| Deposits and other assets | 526,167 | 673,439 |
| Total assets | 1,672,851,631 | 1,668,842,520 |
| LIABILITIES: | | |
| Accrued expenses | 3,960,897 | 3,503,820 |
| Deferred income taxes (Note 8) | 22,707,000 | 18,062,100 |
| Unpaid claims (Notes 3, 5 and Exh. III) | | |
| Outstanding Offers | 9,390,121 | 15,471,046 |
| Settled, not paid | 1,046,020 | 1,197,997 |
| Lease commitments payable (Note 4) | 4,050,512 | 4,519,117 |
| Total liabilities | 41,154,550 | 42,754,080 |
| NET CLAIMANTS' EQUITY (Note 5) | \$1,631,697,081 | \$1,626,088,440 |

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 YEARS ENDED DECEMBER 31, 2005 AND 2004**

| | 2005 | 2004 |
|---|------------------------|------------------------|
| NET CLAIMANTS' EQUITY, BEGINNING OF YEAR | \$1,626,088,440 | \$1,581,388,280 |
| ADDITIONS TO NET CLAIMANTS' EQUITY: | | |
| Investment income (Exhibit I) | 88,099,256 | 140,305,537 |
| Decrease in lease commitments payable (Note 4) | 468,605 | 403,303 |
| Net decrease in outstanding claim offers | 6,080,925 | 42,769,328 |
| Return of contribution claim (Note 10) | - | 10,000,000 |
| Insurance proceeds | 592,191 | - |
| Total additions | 95,240,977 | 193,478,168 |
| DEDUCTIONS FROM NET CLAIMANTS' EQUITY: | | |
| Net operating expenses (Exhibit II) | 6,131,497 | 6,567,873 |
| Provision for income taxes | 7,608,179 | 5,724,620 |
| Change in deferred income taxes on available-for-sale investments (Note 8) | 4,644,900 | 18,062,100 |
| Claims settled | 71,069,180 | 117,877,144 |
| Contribution and indemnity claims settled | 178,580 | 546,271 |
| Total deductions | 89,632,336 | 148,778,008 |
| NET CLAIMANTS' EQUITY, END OF YEAR | \$1,631,697,081 | \$1,626,088,440 |

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

| | 2005 | 2004 |
|---|------------------------|------------------------|
| CASH INFLOWS: | | |
| Investment income receipts | \$43,775,573 | \$46,763,338 |
| Net realized gains on available-for-sale securities | 15,167,175 | - |
| Insurance proceeds | 592,191 | - |
| Return of contribution claim (Note 10) | - | 10,000,000 |
| Decrease in deposits and other assets | 147,273 | 1,733,860 |
| Total cash inflows | 59,682,212 | 58,497,198 |
| CASH OUTFLOWS: | | |
| Claim payments made | 71,221,157 | 123,022,800 |
| Contribution and indemnity claim payments | 178,580 | 546,271 |
| Total cash claim payments | 71,399,737 | 123,569,071 |
| Net realized losses on available-for-sale securities | - | 1,084,057 |
| Disbursements for Trust operating expenses and income taxes paid | 13,092,666 | 12,628,541 |
| Total cash outflows | 84,492,403 | 137,281,669 |
| NET CASH OUTFLOWS | (24,810,191) | (78,784,471) |
| NON-CASH CHANGES: | | |
| Net unrealized gains on available- for-sale securities | 29,014,112 | 95,508,382 |
| NET INCREASE IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE | 4,203,921 | 16,723,911 |
| CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, BEGINNING OF YEAR | 1,662,577,763 | 1,645,853,852 |
| CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, END OF YEAR | \$1,666,781,684 | \$1,662,577,763 |

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2005 AND 2004**

(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 and subsequently relocated to Falls Church, 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 consolidated 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 consolidated statements of changes in net claimants' equity. Realized and unrealized gains and losses on available-for-sale securities are combined and recorded on the consolidated 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 consolidated 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.

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation. These reclassifications have no effect on the previously recorded balance of Net Claimants' Equity.

(b) Cash Equivalents and Investments

At December 31, 2005 and 2004, the Trust has recorded all of its investment securities at market value, as follows:

| | 2005 | | 2004 | |
|--------------------------|------------------------|------------------------|------------------------|------------------------|
| | Cost | Market | Cost | Market |
| Restricted | | | | |
| Cash equivalents | \$114,421 | \$ 114,421 | \$2,710,682 | \$2,710,682 |
| U.S. Govt. obligations | 14,820,717 | 14,736,521 | 9,810,586 | 9,712,425 |
| Corporate and other debt | 6,915,147 | 6,764,184 | 8,805,176 | 8,723,479 |
| Equities – U.S. | <u>32,743,365</u> | <u>55,281,860</u> | <u>34,893,738</u> | <u>53,618,965</u> |
| Total | <u>\$54,593,650</u> | <u>\$76,896,986</u> | <u>\$56,220,182</u> | <u>\$74,765,551</u> |
| | | | | |
| | 2005 | | 2004 | |
| | Cost | Market | Cost | Market |
| Unrestricted | | | | |
| Cash equivalents | \$84,349,883 | \$84,349,883 | \$27,355,740 | \$27,355,740 |
| U.S. Govt. obligations | 242,547,089 | 238,884,629 | 264,212,775 | 264,137,119 |
| Corporate and other debt | 286,266,657 | 281,384,998 | 249,551,033 | 249,026,535 |
| Equities – U.S. | 766,817,205 | 875,094,301 | 852,903,194 | 938,289,180 |
| Equities – International | <u>80,826,914</u> | <u>110,170,887</u> | <u>89,968,665</u> | 109,003,638 |
| Total | <u>\$1,460,807,748</u> | <u>\$1,589,884,698</u> | <u>\$1,483,991,407</u> | <u>\$1,587,812,212</u> |

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 December 31, 2005, the fair value of these instruments was approximately \$10.6 million and was included in investments available-for-sale on the consolidated 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 December 31, 2005, the Trust held \$54.4 million in net foreign currency forward contracts. The unrealized loss on these outstanding currency forward contracts of approximately \$0.1 million is offset by an equal unrealized gain due to currency exchange on the underlying international securities. These net amounts are recorded in the consolidated statement of net claimants' equity at December 31, 2005.

(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 | \$ 378,420 |
| Acquisition of computer hardware and software | 781,573 |
| Computer software development (e-Claims) | 2,361,065 |
| Leasehold improvements | <u>74,890</u> |
| Total | <u>\$3,595,948</u> |

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 years ended December 31, 2005 and 2004 was approximately \$31,000 and \$57,900, respectively.

Total depreciation expense related to asset acquisitions using accounting principles generally accepted in the United States would have been approximately \$659,400 and \$641,200 for the years ended December 31, 2005 and 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 settled, but unpaid 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 Trust Distribution Process (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 on 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 in Fairfax Virginia and signed 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 (September 2010) 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 December 31, 2005, are as follows:

| Calendar Year | |
|---------------|--------------------|
| 2006 | \$ 480,275 |
| 2007 | 492,301 |
| 2008 | 504,638 |
| 2009 | 517,198 |
| 2010 | 530,115 |
| 2011 | 543,388 |
| 2012 | 557,017 |
| 2013 | <u>425,580</u> |
| | <u>\$4,050,512</u> |

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 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) and based upon the increase in the number of claims being filed with the Trust, 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. In the event a new higher pro rata share is agreed to, the Trust is obligated to make, as cash is available, a subsequent additional pro rata payment to Trust beneficiaries with liquidated claims whose previous cumulative pro rata share was less than the existing or the new higher pro rata share.

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 provides more stringent exposure requirements and medical criteria and changes the 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.

The Tillinghast business of Towers, Perrin, Foster & Crosby, Inc. recently completed an actuarial analysis of future asbestos claims experience for the Trust. Based on these forecasts and other assumptions, the Trust is re-estimating the pro rata payment percentage. This re-estimate is being discussed with the Special Advisor to the Trust and representatives of the beneficiaries whose concurrence is required to confirm the current 5% payment or make any adjustments.

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 \$183,400 and \$202,600 for the years ended December 31, 2005 and 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 additional 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. Also, 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.

Additionally, as a condition of the tax agreement between JM and the Trust discussed in Note 8, 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 December 31, 2005, securities with a market value of \$33.9 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 to facilitate the sale of JM to a third party, JM paid the Trust \$90 million to settle the JM 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 and established an escrow fund to secure such indemnification. The statutory income tax rate for the DSF is 15%. As a New York domiciled trust, the Trust is not subject to state income taxes. CRMC is subject to federal and Virginia corporate income state taxes, its state of residence.

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 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 December 31, 2005 and 2004, the Trust has recorded a net deferred tax liability of \$22.7 million and \$18.1 million, respectively from net unrealized gains on available-for-sale securities. As of December 31, 2005 and 2004, the Trust recorded net deferred tax assets of \$319,500 and \$348,600, representing temporary differences primarily due to expensing asset acquisitions for financial reporting purposes, accrued vacation and deferred compensation. The deferred tax assets are included in other assets in the accompanying consolidated statement of net claimants' equity.

(9) PROOF OF CLAIM FORMS FILED

Proof of claim forms filed as December 31, 2005 and 2004 with the Trust are as follows:

| | <u>2005</u> | <u>2004</u> |
|--|------------------|------------------|
| Claims filed | 767,685 | 749,288 |
| Withdrawn (1) | (73,547) | (71,462) |
| Expired offers (2) | <u>(16,129)</u> | <u>(15,705)</u> |
| Active claims | 678,009 | 662,121 |
| Settled claims | <u>(659,982)</u> | <u>(639,145)</u> |
| | | |
| Claims currently eligible for settlement | <u>18,027</u> | <u>22,976</u> |

- (1) Principally claims that have received a denial notification and the claim is 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 December 31, 2005 and 2004, approximately 6,300 and 6,900 respectively, of the claims with expired offers are still eligible to accept their original offer with a payment value of \$15.0 million and \$15.7 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 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 YEARS ENDED DECEMBER 31, 2005 AND 2004**

| | 2005 | 2004 |
|---------------------------------|----------------------|-----------------------|
| INVESTMENT INCOME | | |
| Interest (Note 10) | \$ 26,394,449 | \$ 29,118,589 |
| Dividends | 19,938,195 | 19,307,620 |
| Total interest and dividends | 46,332,644 | 48,426,209 |
| Net realized gains and (losses) | 15,167,175 | (1,084,057) |
| Net unrealized gains | 29,014,112 | 95,508,382 |
| Investment expenses | (2,414,675) | (2,544,997) |
| TOTAL INVESTMENT INCOME | \$ 88,099,256 | \$ 140,305,537 |

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST
CONSOLIDATED NET OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

| | 2005 | 2004 |
|-------------------------------------|---------------------|---------------------|
| NET OPERATING EXPENSES: | | |
| Personnel costs | \$ 3,835,838 | \$ 4,424,442 |
| Office general and administrative | 592,730 | 718,371 |
| Travel and meetings | 74,933 | 139,405 |
| Board of Trustees | 471,570 | 408,131 |
| Professional fees | 1,601,015 | 822,709 |
| Net fixed asset purchases | 30,957 | 57,854 |
| Computer and other EDP costs | 368,666 | 431,569 |
| Other income | (844,212) | (434,608) |
| TOTAL NET OPERATING EXPENSES | \$ 6,131,497 | \$ 6,567,873 |

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST
SCHEDULE OF LIQUIDATED CLAIMS
SINCE CONSUMMATION (NOVEMBER 28, 1988)
THROUGH DECEMBER 31, 2005**

Exhibit III
Page 1 of 2

| | <u>Number</u> | <u>Amount</u> | <u>Average Payment Amount</u> |
|---|----------------|----------------------|---------------------------------------|
| Trust Liquidated Claims | | | |
| Pre-Class Action Complaint November 19, 1990 and Before- | | | |
| 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) | <u>\$38,151</u> |
| Unpaid Balance | 0 | \$0 | |
| Post-Class Action Complaint After November 19, 1990- | | | |
| Offers Made at Full Liquidated Amount | 634,775 | \$29,048,321,251 | |
| Reduction in Claim Value (2) | | (26,761,981,867) | |
| Net Offer Amount | 634,775 | 2,286,339,384 | |
| Offers Accepted | (632,393) | (2,276,949,263) | <u>\$3,601</u> |
| Offers Accepted, Not Paid | 276 | 1,046,020 | |
| Unpaid Balance | 2,658 | 10,436,141 | |
| Total Trust Liquidated Claims | 659,982 | 3,329,495,127 | <u>\$5,045</u> |
| Manville Liquidated Claims Paid (3) | 158 | \$24,946,620 | |
| Co-Defendant Liquidated Claims (4) | | | |
| Settlement Claim Value | | \$88,656,385 | |
| Investment Receipts (5) | | 2,624,732 | |
| Payments, Net of Returned Settlement (6) | | (91,281,117) | |
| 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.
- (6) 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).

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST
SCHEDULE OF LIQUIDATED CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Exhibit III
Page 2 of 2

| | <u>Number</u> | <u>Amount</u> | <u>Average Payment Amount</u> |
|--|---------------|------------------|---------------------------------------|
| Trust Liquidated Claims | | | |
| Post-Class Action Complaint After November 19, 1990 (1) | | | |
| Offers Outstanding as of December 31, 2004 | 4,872 | \$15,471,046 | |
| Net Offers Made (2) | 18,348 | 64,988,255 | |
| Offers Accepted | (20,838) | (71,069,180) | <u>\$3,411</u> |
| Offers Outstanding as of December 31, 2005 | 2,382 | 9,390,121 | |
| Offers Accepted, Not Paid as of Dec. 31, 2005 | 276 | 1,046,020 | |
| Payable as of December 31, 2005 | 2,658 | \$10,436,141 | |
| Co-Defendant Liquidated Claims (3) | | | |
| Payable as of December 31, 2004 | | \$0 | |
| Settled | | 178,580 | |
| Paid | | <u>(178,580)</u> | |
| Payable as of December 31, 2005 | | <u>\$0</u> | |

- (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) Settled and paid amounts exclude the \$10 million received from the MacArthur Group (Note 10)

The accompanying notes are an integral part of this exhibit.