

# MANVILLE PERSONAL INJURY SETTLEMENT TRUST

April 30, 2003

**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  
One Bowling Green  
New York, NY 10004-1208

Dear Judge Weinstein and Judge Lifland:

Enclosed are chambers' copies of the unaudited Financial Statements and Report of the Manville Personal Injury Settlement Trust ("the Trust"), for the quarter ending March 31, 2003, filed pursuant to Section 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 Trust's fourteen years of operations, it has paid more asbestos injury claimants more money than any other asbestos trust and its recently created operating arm, the Claims Resolution Management Corporation, has the most comprehensive and detailed data bank of asbestos claimants in existence. Now, with the establishment of our E-claims technology and system, we are the foremost and most efficient facility of its kind in the United States of America.

During the first quarter of 2003 approximately 18,000 new claims were filed. Claims filed with the Trust through March 31, 2003 totaled approximately 609,200.

Including approximately \$100 million paid to co-defendants and JM liquidated claimants, the Trust has paid almost 527,000 claimants a total of almost \$3.1 billion, of which approximately 496,000 claimants were paid almost \$2.0 billion under the Trust Distribution Process ("TDP") initiated in early 1995. Filings pursuant to the new 2002 TDP began in January 2003 and by the end of the quarter accounted for approximately 900 claim filings.

At the end of the first quarter, the Trust had 45,178 active, unsettled claims. This total included 33,391 claims with outstanding offers and 11,787 claims in process. The Trust also had 37,378 inactive, unsettled claims due to lapsed offers and deficiency notices.

### **FINANCIAL SUMMARY**

Consolidated operating expenses for the first quarter of 2003, excluding income taxes, were \$1.8 million compared to \$2.4 million for the quarter ended March 31, 2002, a 23% decrease. The reduction in operating expenses is principally attributed to the efficiencies realized due to the processing of claims using the e-Claims system.

During the quarter ended March 31, the Trust settled 15,700 claims for slightly over \$42 million. The average claim settlement value was approximately \$2,700 compared to \$2,900 for all of 2002. Total claim payments during the quarter were \$54.7 million compared to \$16.0 million for the first quarter of 2002. Since implementation of the TDP in early 1995, operating costs, excluding litigation and Trust asset management expenses, represent 3.6% of total Trust expenditures.

### **ASSET MANAGEMENT**

At the Trust's inception in November of 1988, its assets totaled approximately \$2.2 billion and since then it has paid claimants \$3.1 billion and had assets at the end of the first quarter of this year of over \$1.5 billion. This remarkable achievement was largely accomplished by numerous investments and financial restructuring in the Johns Manville Corporation while the Trustees were on its Board of Directors and controlled the voting stock of that company before they sold it to Berkshire Hathaway in 2001.

As of March 31, 2003, the market value of Trust investments, including accrued interest and dividends, was approximately \$1,532 million, of which approximately \$816 million (53%) was in diversified equities, \$595 million (39%) in fixed income securities and the remaining

Honorable Jack B. Weinstein  
Honorable Burton R. Lifland  
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\$121 million (8%) in cash equivalents. During the first quarter of 2003, assets declined about \$82 million, of which \$55 million was due to claim payments, \$3 million from federal income taxes and operations and \$29 million of net unrealized investment losses, offset in part by about \$5 million in investments receipts.

During the quarter ending March 31, 2003, the total return on investments was approximately -1.5%. The return on the Trust's equity investments was about -3.7%, offset in part by a 1.1% return on the Trust's fixed income investments. As of the end of the quarter, the Trust's allocation to equities (53%) was the same as the end of last year and continues to remain below the Trust's long-term equity target allocation (65%).

The Trust still anticipates reviewing its actual and target asset allocations as part of its re-estimation of the pro rata payment percentage in 2003. However, because law firms are facing a September 1, 2003 deadline to file under the old (1995) TDP, the Trust may not see a representative number of filings pursuant to the new (2002) TDP until well after September 1<sup>st</sup>. Thus, the Trust may not have adequate data to re-estimate the pro rata percentage until the fourth quarter.

Yours very truly,

A handwritten signature in cursive script that reads "Robert A. Falise".

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 MARCH 31, 2003  
PURSUANT TO SECTIONS 3.02(d)(ii) and (iii)  
OF THE TRUST AGREEMENT

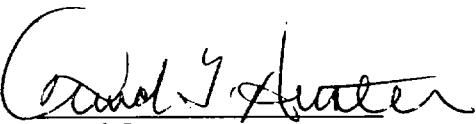
Sections 3.02(d)(ii) and (iii) of the Trust Agreement provide that the Trustees shall prepare and file with the Court within 30 days following the end of each of the first three quarters of each Fiscal Year a quarterly report containing certified financial statements and a summary of certain additional 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 January 1, 2003 through March 31, 2003 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: Fairfax, Virginia  
April 30, 2003

By:   
David T. Austern  
General Counsel  
Manville Personal Injury  
Settlement Trust  
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P.O. Box 10415  
Fairfax, Virginia 22031  
(703) 205-0835

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

**Special-Purpose Unaudited Consolidated Financial Statements  
As of March 31, 2003 and 2002**

## 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 March 31, 2003 and 2002 and the consolidated changes in net claimants' equity and cash flows for the three months ended March 31, 2003 and 2002 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 MARCH 31, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
<b>ASSETS:</b>		
Cash equivalents and investments (Notes 1 & 2)		
Available-for-sale		
Restricted (Note 7)	\$64,086,566	\$70,866,928
Unrestricted	1,460,331,961	1,889,972,989
Total cash equivalents and investments	<u>1,524,418,527</u>	<u>1,960,839,917</u>
Accrued interest and dividend receivables	7,594,096	9,356,106
Deposits and other assets	<u>3,909,240</u>	<u>197,410</u>
Total assets	<u>1,535,921,863</u>	<u>1,970,393,433</u>
<b>LIABILITIES:</b>		
Accrued expenses	2,524,789	3,695,245
Unpaid claims (Notes 3, 5 and Exh. III)		
Settled, not paid - Pre-Class Action complaint	613,073	1,014,773
Outstanding Offers - Post Class Action complaint	45,534,202	37,195,343
Settled, not paid - Post Class Action complaint	6,882,056	-
Lease commitments payable (Note 4)	<u>499,585</u>	<u>1,125,357</u>
Total liabilities	<u>56,053,705</u>	<u>43,030,718</u>
<b>NET CLAIMANTS' EQUITY (Note 5)</b>	<u>\$1,479,868,158</u>	<u>\$1,927,362,715</u>

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 MONTHS ENDED MARCH 31, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
<b>NET CLAIMANTS' EQUITY, BEGINNING OF PERIOD</b>	<u>\$1,544,226,919</u>	<u>\$1,924,901,736</u>
<b>ADDITIONS TO NET CLAIMANTS' EQUITY:</b>		
Investment income (Exhibit I)	11,415,100	14,689,354
Net reduction in outstanding claim offers	4,041,798	7,298,275
Net realized and unrealized gains on available-for-sale securities		833,290
Decrease in lease commitments payable	166,529	157,989
Total additions	<u>15,623,427</u>	<u>22,978,908</u>
<b>DEDUCTIONS FROM NET CLAIMANTS' EQUITY:</b>		
Operating expenses (Exhibit II)	1,835,952	2,395,342
Provision for income taxes (Exhibit II)	510,500	2,046,300
Claims settled	42,004,623	15,992,408
Contribution and indemnity claims settled	0	83,879
Net realized and unrealized losses on available-for-sale securities	35,631,113	
Total deductions	<u>79,982,188</u>	<u>20,517,929</u>
<b>NET CLAIMANTS' EQUITY, END OF PERIOD</b>	<u>\$1,479,868,158</u>	<u>\$1,927,362,715</u>

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>CASH INFLOWS:</b>		
Investment income receipts	4,075,470	15,858,259
Decrease in deposits and other assets	440,616	
Total cash inflows	4,516,086	15,858,259
<b>CASH OUTFLOWS:</b>		
Claim payments made	54,658,643	15,992,408
Contribution and indemnity claim payments	0	86,098
Total cash claim payments	54,658,643	16,078,506
Disbursements for Trust operating expenses and income taxes	2,512,152	2,485,747
Change in deposits and other assets		4,488
Total cash outflows	57,170,795	18,568,741
<b>NET CASH (OUTFLOWS) INFLOWS</b>	(52,654,709)	(2,710,482)
<b>NON-CASH CHANGES:</b>		
Net unrealized losses on available- for-sale securities	(29,527,229)	(279,098)
<b>NET (DECREASE) INCREASE IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE</b>	(82,181,938)	(2,989,580)
<b>CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, BEGINNING OF PERIOD</b>	1,606,600,465	1,963,829,497
<b>CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, END OF PERIOD</b>	\$1,524,418,527	\$1,960,839,917

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AS OF MARCH 31, 2003 AND 2002**

**(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 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 March 31, 2003 and 2002, the Trust has recorded all its investment securities at market value, as follows:

	2003		2002	
	Cost	Market	Cost	Market
Restricted				
Cash equivalents	\$3,709,004	\$ 3,709,004	\$1,971,013	\$1,971,013
U.S. Govt. obligations	10,826,552	11,029,542	9,777,470	9,958,805
Corporate and other debt	5,607,732	5,789,061	9,179,658	9,203,859
Equities – U.S.	<u>47,364,782</u>	<u>43,558,959</u>	<u>44,142,737</u>	<u>49,733,251</u>
Total	<u>\$67,508,070</u>	<u>\$64,086,566</u>	<u>\$65,070,878</u>	<u>\$70,866,928</u>
	2003		2002	
	Cost	Market	Cost	Market
Unrestricted				
Cash equivalents	\$132,802,781	\$132,802,781	\$230,538,354	\$230,538,354
U.S. gov't. obligations	247,594,199	255,345,059	301,275,944	302,683,430
Corporate and other debt	291,163,051	300,841,999	370,478,097	369,292,154
Equities – U.S.	942,436,273	705,358,697	918,016,922	893,552,952
Equities – International	<u>94,384,478</u>	<u>65,983,425</u>	<u>102,561,282</u>	<u>93,906,099</u>
Total	<u>\$1,708,380,782</u>	<u>\$1,460,331,961</u>	<u>\$1,922,870,599</u>	<u>\$1,889,972,989</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 March 31, 2003, the fair value of these instruments was approximately \$5.8 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 March 31, 2003, the Trust held at market value approximately \$43.3 million in sell currency forward contracts offset by approximately \$43.4 million in buy currency forward contracts. The unrealized loss on these outstanding currency forward contracts of approximately \$0.1 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 March 31, 2003.

**(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, these costs, net of disposals, include:

Acquisition of furniture and equipment	\$ 819,594
Acquisition of computer hardware and software	1,866,459
Computer software development (e-Claims)	2,361,065
Leasehold improvements	<u>72,965</u>
Total	<u>\$5,120,082</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 three months ended March 31, 2003 and 2002 was approximately \$24,500 and \$113,800, respectively.

Depreciation expense related to asset acquisitions using accounting principles generally accepted in the United States would have been approximately \$156,900 and \$40,800 for the three months ended March 31, 2003 and 2002, 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.

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

#### **Operating Leases**

In September 1993, the Trust executed a 5-year lease through December 1998 for its offices in Fairfax, Virginia. The lease was extended for an additional 5 years beginning at the expiration of the initial lease. Effective January 1, 1999, the Trust assigned its rights under the lease to CRMC conditioned upon the Trust's guarantee of future lease payments.

Future minimum rental commitments under this operating lease, as of March 31, 2003, are as follows:

<u>Calendar Year</u>	<u>Amount</u>
2003	\$499,585

This obligation has been recorded as a liability at face value 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 June 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. Claimants may continue to file claims pursuant to the original TDP ("1995 TDP") provided that (i) the claim is filed prior to August 31, 2003 and (ii) the claimant's date of diagnosis is 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. Management of the Trust estimates that the next revision to the pro rata percentage will not be completed until late 2003.

#### **(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 \$55,100 and \$57,900 for the three months ended March 31, 2003 and 2002, respectively.

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

In order to avoid the high costs of director and officer liability insurance 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 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 March 31, 2003, securities with a market value of \$21.1 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 March 31, 2003, the Trust has recorded a net deferred tax asset of \$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 <u>3/31/03</u>	As of <u>3/31/02</u>
Claims filed	609,177	541,548
Expired offers <sup>(1)</sup>	<u>(37,378)</u>	<u>(42,777)</u>
Active claims	571,799	498,771
Settled claims	<u>(526,621)</u>	<u>(449,001)</u>
Claims currently eligible for settlement	<u>45,178</u>	<u>49,770</u>

- <sup>(1)</sup> Claims that received a Trust offer, but failed to respond within the offer acceptance period. A claim may be reactivated upon written request and is eligible for a new offer at the end of the FIFO queue.

## **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 MONTHS ENDED MARCH 31, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
<b>INVESTMENT INCOME (1)</b>		
Interest	\$ 8,225,719	\$ 11,783,727
Dividends (Note 2(e))	3,795,305	3,537,681
Total investment income	<u>12,021,024</u>	<u>15,321,408</u>
Investment expenses	<u>(605,924)</u>	<u>(632,054)</u>
<b>TOTAL</b>	<u><u>\$11,415,100</u></u>	<u><u>\$14,689,354</u></u>

(1) Certain amounts have been reclassified to be consistent with 2003 reporting.

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
CONSOLIDATED OPERATING EXPENSES  
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
<b>OPERATING EXPENSES:</b>		
Personnel costs	\$1,041,944	\$1,092,249
Office general and administrative	260,128	334,405
Travel and meetings	26,125	63,125
Board of Trustees	89,033	171,228
Professional fees	283,174	537,541
Net fixed asset purchases	24,535	113,769
Computer and other EDP costs	111,013	83,025
	<hr/>	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	1,835,952	2,395,342
	<hr/>	<hr/>
Income tax provision	510,500	2,046,300
	<hr/>	<hr/>
<b>TOTAL</b>	<u>\$2,346,452</u>	<u>\$4,441,642</u>

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 MARCH 31, 2003**

Exhibit III  
Page 1 of 2

	<u>Number</u>	<u>Amount</u>	<u>Average Payment Amount</u>
<b><u>Trust Liquidated Claims</u></b>			
<b>Pre-Class Action Complaint November 19, 1990 and Before-</b>			
Liquidated Claim Value	27,609	\$1,188,255,672	
Present Value Discount (1)		(135,306,535)	
Net Settlements	27,609	1,052,949,137	
Payments	(27,583)	(1,052,336,064)	<u>\$38,152</u>
Unpaid Balance	26	\$613,073	
<b>Post-Class Action Complaint After November 19, 1990-</b>			
Offers Made at Full Liquidated Amount	514,877	\$22,167,810,816	
Reduction in Claim Value (2)		(20,208,629,435)	
Net Offer Amount	514,877	1,959,181,381	
Offers Accepted	(499,012)	(1,913,647,179)	<u>\$3,835</u>
Offers Accepted, Not Paid	2,781	6,882,056	
Unpaid Balance	18,646	52,416,258	
<b>Total Trust Liquidated Claims</b>	<u>526,621</u>	<u>2,966,596,316</u>	<u>\$5,633</u>
<b><u>Manville Liquidated Claims Paid (3)</u></b>	<u>158</u>	<u>\$24,946,620</u>	
<b><u>Co-Defendant Liquidated Claims (4)</u></b>			
Liquidated Claim Value		\$97,042,174	
Investment Receipts (5)		2,624,732	
Payments		(99,666,906)	
Unpaid Balance		<u>\$0</u>	

- (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 MARCH 31, 2003**

	<u>Number</u>	<u>Amount</u>	<u>Avg. Payment Amount</u>
<b><u>Trust Liquidated Claims</u></b>			
<b>Pre-Class Action Complaint</b>			
<b>November 19, 1990 and Before-</b>			
Payable as of December 31, 2002	26	\$613,073	
Paid (1)			
Payable as of March 31, 2003	<u>26</u>	<u>\$613,073</u>	
<b>Post-Class Action Complaint</b>			
<b>After November 19, 1990- (2)</b>			
Offers Outstanding as of December 31, 2002	17,579	\$49,576,000	
Net Offers Made (3)	13,982	37,962,825	
Offers Accepted	<u>(15,696)</u>	<u>(42,004,623)</u>	<u>\$2,676</u>
Offers Outstanding as of March 31, 2003	15,865	\$45,534,202	
Offers Accepted, Not Paid as of Mar. 31, 2003	<u>2,781</u>	<u>6,882,056</u>	
Payable as of March 31, 2003	<u>18,646</u>	<u>\$52,416,258</u>	
<b>Total Trust Liquidated Claims</b>	<u>15,696</u>	<u>42,004,623</u>	<u>\$2,676</u>

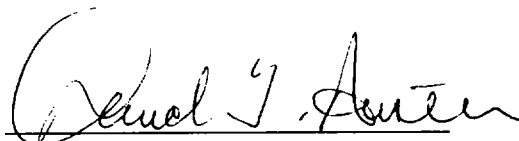
**Co-Defendant Liquidated Claims**

Payable as of December 31, 2002		\$0	
Settled			
Paid			
Payable as of March 31, 2003		<u>\$0</u>	

- (1) During the period the dollar amount of paid claims may include fully and partially paid claims. The number of paid claims represents only fully paid claims.
- (2) Under the TDP, Post Class Action Complaint claims have been reported at a pro rata percentage of their liquidated value.
- (3) Represents payment offers made during the period net of rejected and expired offers.

CERTIFICATE OF SERVICE

I, David T. Austern, hereby certify that on April 30, 2003, I caused a true and complete copy of the Financial Statements and Report of Manville Personal Injury Settlement Trust for the Period Ending March 31, 2003 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.

  
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