

INJURY SETTLEMENT TRUST

TRUSTEES

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

Louis Klein, Jr., Esquire
Stamford, Connecticut

Frank J. Macchiaiolo, Esquire
Brooklyn, New York

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

October 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 September 30, 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 first nine months of 2003, the Trust received approximately 88,800 new claims, including approximately 4,900 which were filed under the new 2002 TDP. As of September 30, 2003, the Trust has received roughly 678,700 claims.

Including approximately \$100 million paid to co-defendants and JM liquidated claimants, the Trust has settled almost 570,000 claims for a total of over \$3.2 billion, of which approximately 542,000 claimants were paid just in excess \$2.0 billion under the former 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 third quarter they accounted for only

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approximately 4,900 claims. This small number of initial filings under the new TDP is most likely due to the October 10, 2003 deadline for filings claims under the 1995 TDP.

At the end of the third quarter, the Trust had approximately 43,000 claims with pending offers or denials and 36,000 claims in process. The Trust also had 29,500 inactive, unsettled claims due to lapsed offers and deficiency notices.

FINANCIAL SUMMARY

Consolidated operating expenses for the nine months ended September 30, 2003, excluding income taxes, were \$6.1 million compared to \$6.2 million for the same period in 2002. Consolidated operating expenses for the third quarter of 2003 and 2002 were approximately \$2.3 million and 2.0 million, respectively. Since implementation of the TDP in early 1995, operating costs, excluding litigation and Johns Manville asset management expenses, have represented 3.4% of total Trust expenditures.

During the quarter ended September 30, 2003, the Trust settled over 26,400 claims for \$61.3 million compared to 24,300 claims for \$72.8 million for the third quarter of 2002. The average claim settlement value for the third quarter 2003 was approximately \$2,500 compared to almost \$3,000 for the third quarter of 2002. Year-to-date the Trust has paid approximately \$171 million in claims.

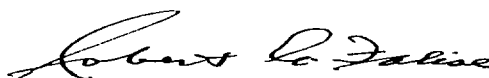
ASSET MANAGEMENT

As of September 30, 2003, the market value of Trust investments, including accrued interest and dividends, was about \$1,599 million, of which approximately \$946 million (59%) was in diversified equities, \$607 million (38%) in fixed income securities and the remaining \$46 million (3%) in cash equivalents. During the first nine months of 2003, after payment of \$171 million in claims and \$8 million in expenses, cash equivalents and investments decreased by only \$17 million. This was principally due to a strong rebound in the stock market that resulted in net gains of almost \$128 million and, to a lesser degree, approximately \$34 million in investment income and other receipts. The Trust continues its planned liquidation of the investment portfolio to replenish its cash position in anticipation of future payments of claims and expenses.

During the quarter and nine months ending September 30, 2003, the total return on investments was approximately 2.5% and 10.8%, respectively. For the three months ended September 30, 2003, the return on the Trust's fixed income and equity investments were about 0.2% and 4.1%, respectively. Year-to-date, fixed income investments returned about 2.9% and equity investments returned about 16.8%.

Beyond the orderly liquidation of assets to pay claims, the Trust expects to review its strategic asset allocation in conjunction with its re-estimation of the pro rata payment percentage. That re-estimate is contingent upon the results of future (2002 TDP) claim forecasts and liability projections. Apparently, the October 10th deadline for filing claims under the former 1995 TDP resulted in most law firms filing these claims rather than claims under the new 2002 TDP. Now that the deadline has passed, it remains to be seen how many more 2002 TDP claims will be filed and what the resulting mix of injuries will be. In the coming months, the Trust will attempt to find patterns in these filings and determine whether it is reasonable to assume that any such patterns are likely to continue into the future.

Yours very truly,



Robert A. Falise
Chairman and Managing Trustee

Enclosure

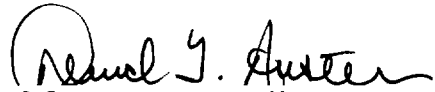
the Period July 1, 2003 through September 30, 2003 and the exhibits thereto are submitted in satisfaction of the requirements that the Trust file a quarterly report. Exhibits I, II and III of the Financial Statements set forth the specific items of information required by Sections 3.02(d)(iii)(w), (y) and (z) of the Trust Agreement.

Respectfully submitted,

MANVILLE PERSONAL INJURY
SETTLEMENT TRUST

Dated: Falls Church, Virginia
October 30, 2003

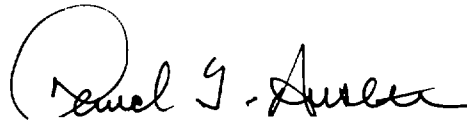
By:



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

CERTIFICATE OF SERVICE

I, David T. Austern, hereby certify that on October 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 September 30, 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.


David T. Austern

Professor Lester Brickman
Benjamin Cardozo School of Law
Brookdale Center
55 Fifth Avenue
New York, NY 10003

Matthew P. Bergman, Esq.
Bergman, Senn, Pageler & Frockt
17526 Vashon Highway, SW
Vashon, WA 98070

Michael E. Angelina
Tillinghast-Towers Perrin
Mellon Bank Center
1735 Market St.
Philadelphia, PA 19103-7501

Paul M. Matheny, Esq.
Bruce McElhone, Esq.
LAW OFFICES OF PETER ANGELOS
One Charles Center
100 N. Charles St.
Baltimore, MD 21201-3812

Charles Carpenter, Esq.
PEPPER HAMILTON, LLP
Hamilton Square
600 Fourteenth St., N.W.
Washington, DC 20005

Hon. Christian E. Markey, Jr.
800 West First Street #2608
Los Angeles, CA 90012

Timothy J. Hogan, Esq.
LAW OFFICES OF PETER T. NICHOLL
36 So. Charles St., Ste. 1700
Baltimore, MD 21201

David Maxam
Claims Processing Facility, Inc.
161 S. Lincolnway, Ste. 206
P.O. Box 306
North Aurora, IL 60542

Elihu Inselbuch, Esq.
CAPLIN & DRYSDALE
399 Park Avenue, 27th Fl.
New York, NY 10022

Francis Lawall, Esq.
PEPPER HAMILTON LLP
3000 Two Logan Square
18th & Arch Streets
Philadelphia, PA 19103

Frank Macchiarola, Esq.
St. Francis College
180 Remsen Street
Brooklyn, NY 11201

Frederick Baron, Esq.
BARON & BUDD
3102 Oak Lawn Avenue
Dallas, TX 75219

Louis Klein, Jr., Esq.
#80 Butternut Lane
Stamford, CT 06903

Robert Steinberg, Esq.
ROSE, KLEIN & MARIAS
801 So. Grand Avenue, 18th Fl.
Los Angeles, CA 90017

Barbara J. Stutz, Esq.
BUNDA STUTZ & DEWITT
One SeaGate
Suite 650
Toledo, OH 43604

Leslie G. Fagen, Esq.
PAUL, WEISS, RIFKIND, WHARTON
1285 Avenue of the Americas
New York, NY 10019

Elizabeth W. Magner, Esq.
1100 Poydras Street
Suite 1806, Energy Centre
New Orleans, LA 70163

Steve Kazan, Esq.
KAZAN, McCLAIN, EDISES
171 Twelfth St., 3rd Fl.
Oakland, CA 94607

Bill Nurre
Claims Processing Facility, Inc.
161 S. Lincolnway, Ste. 206
P.O. Box 306
North Aurora, IL 60542

Stephen J. Carroll
RAND Institute
1700 Main St.
P.O. Box 2138
Santa Monica, CA 90437-2138

Raji Bhagavatula
Milliman USA
One Penn Plaza, 38th Fl.
New York, NY 10119

John Faricy, Jr., Esq.
FARICY & ROEN, P.A.
Metropolitan Centre, Suite 2320
333 So. Seventh Street
Minneapolis, MN 55402

Carolyn S. Schwartz, Esq.
UNITED STATES TRUSTEE
33 Whitehall St., 21st Fl.
New York, NY 10004

Robert A. Falise, Esq.
MANVILLE TRUST
143 Bedford Rd., Ste. 200
Katonah, NY 10536

Perry Weitz, Esq.
WEITZ & LUXENBERG, P.A.
180 Maiden Lane
New York, NY 10038

James F. Sottile, IV, Esq.
BAACH, ROBINSON & LEWIS
One Thomas Circle, Se. 2000
Washington, DC 20005

Richard Brody, Esq.
WARTNICK, CHABER
101 California St., 22nd Fl.
San Francisco, CA 94111

Mark Peterson, Esq.
Legal Analysis Systems
970 Calle Arroyo
Thousand Oaks, CA 91360

James L. Stengel, Esq.
ORRICK, HERRINGTON & SUTCLIFFE
666 Fifth Avenue
New York, NY 10103

Robert H. Riley, Esq.
SCHIFF HARDIN & WHITE
7200 Sears Tower
Chicago, IL 60606

MANVILLE PERSONAL INJURY SETTLEMENT TRUST

**Special-Purpose Unaudited Consolidated Financial Statements
As of September 30, 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 September 30, 2003 and 2002 and the consolidated changes in net claimants' equity and cash flows for the three months and nine months ended September 30, 2003 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, 2003 AND 2002**

| | 2003 | 2002 |
|--|------------------------|------------------------|
| ASSETS: | | |
| Cash equivalents and investments (Notes 1 & 2) | | |
| Available-for-sale | | |
| Restricted (Note 7) | \$68,282,982 | \$63,148,084 |
| Unrestricted | 1,521,764,643 | 1,550,666,004 |
| Total cash equivalents and investments | 1,590,047,625 | 1,613,814,088 |
| Accrued interest and dividend receivables | 7,115,716 | 8,706,772 |
| Deposits and other assets | 2,818,995 | 3,864,812 |
| Total assets | 1,599,982,336 | 1,626,385,672 |
| LIABILITIES: | | |
| Accrued expenses | 2,640,092 | 2,458,953 |
| Unpaid claims (Notes 3, 5 and Exh. III) | | |
| Settled, not paid - Pre-Class Action complaint | 0 | 631,073 |
| Outstanding Offers - Post Class Action complaint | 66,244,652 | 52,791,798 |
| Settled, not paid - Post Class Action complaint | 6,352,235 | 7,147,767 |
| Lease commitments payable (Note 4) | 5,018,045 | 809,373 |
| Total liabilities | 80,255,024 | 63,838,964 |
| NET CLAIMANTS' EQUITY (Note 5) | \$1,519,727,312 | \$1,562,546,708 |

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, 2003

| | Three Months Ended 9/30/03 | Nine Months Ended 9/30/03 |
|---|---------------------------------------|--------------------------------------|
| NET CLAIMANTS' EQUITY, BEGINNING OF PERIOD | \$1,562,123,329 | \$1,544,226,919 |
| ADDITIONS TO NET CLAIMANTS' EQUITY: | | |
| Investment income (Exhibit I) | 10,762,010 | 33,407,196 |
| Net realized and unrealized gains on available-for-sale securities | 28,714,750 | 127,453,890 |
| Total additions | 39,476,760 | 160,861,086 |
| DEDUCTIONS FROM NET CLAIMANTS' EQUITY: | | |
| Operating expenses (Exhibit II) | 2,349,024 | 6,089,186 |
| Provision for income taxes (Exhibit II) | 904,100 | 1,936,100 |
| Claims settled | 60,867,690 | 155,425,463 |
| Contribution and indemnity claims settled | 790,073 | 889,361 |
| Increase in lease commitments payable | | 4,351,931 |
| Net increase in outstanding claim offers | 16,961,890 | 16,668,652 |
| Total deductions | 81,872,777 | 185,360,693 |
| NET CLAIMANTS' EQUITY, END OF PERIOD | \$1,519,727,312 | \$1,519,727,312 |

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, 2003**

| | Three Months Ended 9/30/03 | Nine Months Ended 9/30/03 |
|---|---------------------------------------|--------------------------------------|
| CASH INFLOWS: | | |
| Investment income receipts | 13,688,489 | 32,632,285 |
| Decrease in deposits and other assets | | 1,530,861 |
| Total cash inflows | 13,688,489 | 34,163,146 |
| CASH OUTFLOWS: | | |
| Claim payments made | 58,110,729 | 170,113,977 |
| Increase in deposits and other assets | 337,143 | |
| Net realized losses on available-for-sale securities | 5,809,221 | 14,159,107 |
| Contribution and indemnity claim payments | 790,073 | 889,360 |
| Total cash claim payments | 65,047,166 | 185,162,444 |
| Disbursements for Trust operating expenses and income taxes | 3,044,815 | 8,058,139 |
| Total cash outflows | 68,091,981 | 193,220,583 |
| NET CASH (OUTFLOWS) | (54,403,492) | (159,057,437) |
| NON-CASH CHANGES: | | |
| Net unrealized gains on available- for-sale securities | 30,263,611 | 141,612,997 |
| NET (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE | (24,139,881) | (17,444,440) |
| CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, BEGINNING OF PERIOD | 1,614,187,506 | 1,607,492,065 |
| CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE, END OF PERIOD | \$1,590,047,625 | \$1,590,047,625 |

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 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 September 30, 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 | \$5,097,703 | \$ 5,097,703 | \$3,277,252 | \$3,277,252 |
| U.S. Govt. obligations | 8,695,429 | 8,664,555 | 10,138,109 | 10,430,587 |
| Corporate and other debt | 6,853,680 | 7,024,923 | 8,263,413 | 8,497,670 |
| Equities – U.S. | 41,764,702 | 47,495,801 | 47,872,011 | 40,942,575 |
| Total | <u>\$62,411,514</u> | <u>\$68,282,982</u> | <u>\$69,550,785</u> | <u>\$63,148,084</u> |
| Unrestricted | | | | |
| Cash equivalents | \$57,045,907 | \$57,045,907 | \$182,769,672 | \$182,769,672 |
| U.S. gov't. obligations | 279,314,852 | 283,137,279 | 263,395,548 | 276,386,040 |
| Corporate and other debt | 276,305,365 | 284,724,970 | 363,837,931 | 374,099,277 |
| Equities U.S. | 901,125,527 | 814,119,079 | 911,070,777 | 647,404,897 |
| Equities International | 94,174,560 | 82,737,408 | 96,731,399 | 70,006,118 |
| Total | <u>\$1,607,966,211</u> | <u>\$1,521,764,643</u> | <u>\$1,817,805,327</u> | <u>\$1,550,666,004</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 September 30, 2003, the fair value of these instruments was approximately \$9.8 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 September 30, 2003, the Trust held at market value approximately \$125.3 million in sell currency forward contracts offset by approximately \$128.0 million in buy currency forward contracts. The unrealized loss on these outstanding currency forward contracts of approximately \$2.7 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, 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 | \$ 928,073 |
| Acquisition of computer hardware and software | 1,950,058 |
| Computer software development (e-Claims) | 2,361,065 |
| Leasehold improvements | 72,965 |
| Total | <u>\$5,312,161</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 and nine months ended September 30, 2003 was approximately \$181,100 and \$215,600, respectively.

Depreciation expense related to asset acquisitions using accounting principles generally accepted in the United States would have been approximately \$134,600 and \$488,400 for the three and nine months ended September 30, 2003, 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 April 2003, the CRMC executed a 10-year lease through September 2013 for its offices in Falls Church, Virginia. CRMC may terminate the lease at the end of the seventh lease year upon proper notification and payment of certain unamortized costs 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, 2003, are as follows:

| Calendar Year | <u>Amount</u> |
|---------------|--------------------|
| 2003 | \$ 95,625 |
| 2004 | 403,303 |
| 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 | <u>425,580</u> |
| | <u>\$5,018,045</u> |

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 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. 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 (extended until October 10, 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 sometime in 2004.

(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 \$52,600 and \$150,500 for the three and nine months ended September 30, 2003, 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 September 30, 2003, securities with a market value of \$25.3 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, 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>9/30/03</u> | As of <u>9/30/02</u> |
|--|-------------------------|-------------------------|
| Claims filed | 678,667 | 580,414 |
| Expired offers ⁽¹⁾ | <u>(29,589)</u> | <u>(38,354)</u> |
| Active claims | 649,078 | 542,060 |
| Settled claims | <u>(570,108)</u> | <u>(485,657)</u> |
| Claims currently eligible for settlement | <u>78,970</u> | <u>56,403</u> |

- (1) 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 AND NINE MONTHS ENDED SEPTEMBER 30, 2003**

| | Three Months Ended 9/30/03 | Nine Months Ended 9/30/03 |
|--------------------------|---------------------------------------|--------------------------------------|
| INVESTMENT INCOME | | |
| Interest | \$ 7,316,545 | \$ 23,179,767 |
| Dividends (Note 2(e)) | 4,103,292 | 12,194,973 |
| Total investment income | 11,419,837 | 35,374,740 |
| Investment expenses | (657,827) | (1,967,544) |
| TOTAL | \$10,762,010 | \$33,407,196 |

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, 2003**

| | Three Months Ended 9/30/03 | Nine Months Ended 9/30/03 |
|-----------------------------------|---------------------------------------|--------------------------------------|
| OPERATING EXPENSES: | | |
| Personnel costs | \$1,208,085 | \$3,333,213 |
| Office general and administrative | 97,501 | 576,165 |
| Travel and meetings | 34,397 | 122,051 |
| Board of Trustees | 92,364 | 278,771 |
| Professional fees | 622,307 | 1,231,366 |
| Net fixed asset purchases | 181,081 | 215,568 |
| Computer and other EDP costs | 113,289 | 332,052 |
| TOTAL OPERATING EXPENSES | 2,349,024 | 6,089,186 |
| Income tax provision | 904,100 | 1,936,100 |
| TOTAL | \$3,253,124 | \$8,025,286 |

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, 2003**

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- | | | |
| 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 | 536,720 | \$25,483,625,203 | |
| Reduction in Claim Value (2) | | (23,389,909,259) | |
| Net Offer Amount | 536,720 | 2,093,715,944 | |
| Offers Accepted | (542,519) | (2,027,408,292) | <u>\$3,737</u> |
| Offers Accepted, Not Paid | 2,509 | 6,352,235 | |
| Unpaid Balance | (3,290) | 72,659,887 | |
| Total Trust Liquidated Claims | 570,108 | 3,079,954,156 | <u>\$5,402</u> |
| Manville Liquidated Claims Paid (3) | 158 | \$24,946,620 | |
| Co-Defendant Liquidated Claims (4) | | | |
| Liquidated Claim Value | | \$97,931,535 | |
| Investment Receipts (5) | | 2,624,732 | |
| Payments | | (100,556,267) | |
| 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, 2003**

| | <u>Number</u> | <u>Amount</u> | <u>Avg. Payment Amount</u> |
|---|---------------|-------------------|------------------------------------|
| Trust Liquidated Claims | | | |
| Pre-Class Action Complaint November 19, 1990 and Before- | | | |
| Payable as of June 30, 2003 | 26 | \$613,073 | |
| Withdrawn | (20) | (\$403,273) | |
| Paid (1) | (6) | (209,800) | |
| Payable as of September 30, 2003 | 0 | \$0 | |
| Post-Class Action Complaint After November 19, 1990- (2) | | | |
| Offers Outstanding as of June 30, 2003 | 18,844 | \$49,282,762 | |
| Net Offers Made (3) | 30,287 | 78,039,380 | |
| Offers Accepted | (24,643) | (61,077,490) | <u>\$2,478</u> |
| Offers Outstanding as of September 30, 2003 | 24,488 | \$66,244,652 | |
| Offers Accepted, Not Paid as of Sept. 30, 2003 | 2,509 | 6,352,235 | |
| Payable as of September 30, 2003 | 26,997 | \$72,596,887 | |
| Total Trust Liquidated Claims | 24,643 | 61,077,490 | <u>\$2,478</u> |
| Co-Defendant Liquidated Claims | | | |
| Payable as of June 30, 2003 | | \$0 | |
| Settled | | 790,073 | |
| Paid | | (790,073) | |
| Payable as of September 30, 2003 | | \$0 | |

- (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.