

# MANVILLE PERSONAL INJURY SETTLEMENT TRUST

TRUSTEES:

*Robert A. Falise*  
*Chairman and Managing Trustee*  
*Orchid, Florida*

*Mark A. Peterson*  
*Thousand Oaks, California*

*Edward D. Robertson, Jr.*  
*Jefferson City, Missouri*

July 31, 2014

## **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 Cecelia G. Morris  
U.S. Bankruptcy Court  
Southern District of New York  
Alexander Hamilton Custom House  
One Bowling Green  
New York, NY 10004-1408

Dear Judge Weinstein and Judge Morris:

Enclosed are chambers' copies of the Financial Statements and Report of the Manville Personal Injury Settlement Trust ("the Trust") for the quarter ending June 30, 2014, filed pursuant to Sections 3.02(d)(ii) and (iii) of the Trust Agreement, which were electronically filed today with the Clerk of the United States Bankruptcy Court for the Southern District of New York.

## **SUSPENSION OF OFFERS**

On March 12, 2014, the Trustees suspended making new offers to claimants pending completion of our consultant's future claim forecast and arriving at our estimate of future total return from our investments in order to re-set the appropriate pro rata payment percentage to allow the Trust to meet its obligations to current and future claimants. The Trust anticipates this process to be completed shortly. Claims for which offers have been previously been made are not affected by the stay and will be paid upon acceptance.

4 Trinity Pass  
P.O. Box 288  
Pound Ridge, NY 10576  
Phone: (914) 764-4700  
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### **NEW TRUSTEE**

After having previously consulted with Select Counsel for the Beneficiaries and the Legal Representatives of the Future Claimants, on July 23, 2014 the Trustees elected Senator Kirk Watson of Texas as a Trustee, effective immediately.

### **OPERATIONS**

For the second quarter of 2014 the Trust settled approximately 870 claims for \$4.9 million compared to approximately 7,200 claim settlements for \$31.7 million for the same time period in 2013. Claim filings for the second quarter 2014 were approximately 3,900 compared to 6,600 for the second quarter 2013. Year to date the Trust has received over 11,400 claims compared to 14,900 claims for the first six months of 2013. The Trust believes that the suspension of new claim offers has reduced claim filings, but claim filings will return to previous levels once the suspension of new offers is lifted.

Since inception in November 1988 and through June 30, 2014, the Trust has received approximately 951,000 personal injury claims, including 97,100 claims that have been subsequently withdrawn and has settled almost 829,000. During that time the Trust has paid almost \$4.6 billion in personal injury claims and \$95 million in Co-defendant claims.

### **FINANCIAL SUMMARY**

Net operating expenses for the three months ended June 30, 2014 and 2013 were \$1.3 million and \$921,000 respectively. Other Income, which is reported as a reduction of operating expenses, was \$393,700 and \$73,600 for the quarters ended June 30, 2014 and 2013, respectively. For the first six months of 2014, net operating expenses were \$2.6 million compared to \$2.1 million for the same period in 2013.

During the quarter ended June 30, 2014, investments added approximately \$24.9 million to Net Claimants' Equity and approximately \$36.6 million for the first six months of 2014. For the three and six months ended June 30, 2014, the Trust has paid approximately \$8.7 million and \$63.1 million in beneficiary claims, respectively. Claim payments in 2014 included approximately \$27 million in payments which were stayed in September 2013 as the Trust had met the maximum annual payments

(MAP) per the provision in the Trust Distribution Process. The MAP maximum payment provision for 2014 is approximately \$84 million.

### ASSET MANAGEMENT

For the six months ended June 30, 2014 and June 30, 2013, the Trust's total investment returns were +4.6% and +7.2%, respectively. During the first half of 2014, the total return on the Trust's U.S. equity investments was +7%, the total return on the Trust's non-U.S. equity investments was +4%, and the total return on the Trust's fixed income investments including cash equivalents was +1.5% compared to 14.1%, 7.5% and -0.9%, respectively during the same periods of 2013.

As of June 30, 2014, the market value of the Trust's investments, including accrued interest and dividends, was approximately \$886 million, of which approximately \$534 million (60%) was in diversified domestic and foreign equities and \$352 million (40%) in domestic fixed income securities.

Yours very truly,

A handwritten signature in black ink that reads "Robert A. Falise". The signature is written in a cursive style with a large initial 'R'.

Robert A. Falise  
Chairman and Managing Trustee

Enclosure

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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

FINANCIAL STATEMENTS AND REPORT OF  
MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
FOR THE PERIOD ENDING JUNE 30, 2014  
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 April 1, 2014 through June 30, 2014 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)(A),(C) and (D) of the Trust Agreement.

Respectfully submitted,

MANVILLE PERSONAL INJURY  
SETTLEMENT TRUST

By:     /s/ Jared S. Garelick      
Jared S. Garelick  
General Counsel  
Manville Personal Injury  
Settlement Trust  
3110 Fairview Park Dr. Ste. 200  
P.O. Box 12003  
Falls Church, Virginia 22031  
(703) 205-0836

Dated: July 31, 2014  
Falls Church, VA

CERTIFICATE OF SERVICE

I, Jared S. Garelick, hereby certify that on July 31, 2014, I caused a true and complete copy of the Financial Statements for the Period Ending June 30, 2014 pursuant to Sections 3.02(d)(ii) and (iii) of the Manville Personal Injury Settlement Trust Agreement to be served by email, to the entities named on the service list annexed hereto.

      /s/ Jared S. Garelick        
Jared S. Garelick

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# **MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

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

**JUNE 30, 2014 AND 2013**



## **MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

The special purpose consolidated financial statements included herein are unaudited. In the opinion of the management of the Trust, the accompanying special purpose consolidated financial statements present fairly, subject to normal year-end adjustments, the consolidated net claimants' equity as of June 30, 2014 and 2013 and the consolidated changes in net claimants' equity and cash flows for the three and six months ended June 30, 2014, presented on the special-purpose basis of accounting described in Note 2, which accounting methods have been applied on a consistent basis.

\_/signed/\_William L. Tomlinson  
William L. Tomlinson  
Chief Financial Officer

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SPECIAL-PURPOSE CONSOLIDATED STATEMENTS OF NET CLAIMANTS' EQUITY  
AS OF JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS:</b>		
Cash equivalents and investments (Note 3)		
Restricted (Note 9)	\$44,500,000	\$41,500,000
Unrestricted	839,831,964	819,355,677
Total cash equivalents and investments	884,331,964	860,855,677
Accrued interest and dividend receivables	2,481,300	2,807,395
Deposits and other assets	438,460	377,594
Total assets	887,251,724	864,040,666
<b>LIABILITIES:</b>		
Accrued expenses	2,011,644	2,494,036
Deferred income taxes (Note 10)	43,739,000	35,150,000
Unpaid claims (Notes 5, 7 and Exh. III)		
Outstanding offers	4,221,275	15,266,965
Settled, not paid	540,262	3,494,550
Pro rata adjustment payable - personal injury	110,152	109,478
Lease commitment payable (Note 6)	403,481	716,382
Total liabilities	51,025,814	57,231,411
<b>NET CLAIMANTS' EQUITY (Note 7)</b>	<b>\$836,225,910</b>	<b>\$806,809,255</b>

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST**  
**SPECIAL-PURPOSE CONSOLIDATED STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014**

	<b>Three Months Ended 6/30/14</b>	<b>Six Months Ended 6/30/14</b>
<b>NET CLAIMANTS' EQUITY, BEGINNING OF PERIOD</b>	<u>\$817,587,710</u>	<u>\$834,883,011</u>
<b>ADDITIONS TO NET CLAIMANTS' EQUITY:</b>		
Investment income (Exhibit I)	24,896,859	36,631,335
Net decrease in outstanding claim offers	1,667,485	7,082,062
Decrease in lease commitments payable (Note 6)	78,797	157,593
Total additions	<u>26,643,141</u>	<u>43,870,990</u>
<b>DEDUCTIONS FROM NET CLAIMANTS' EQUITY:</b>		
Net operating expenses (Exhibit II)	1,307,716	2,595,199
Provision for income taxes	1,787,900	3,759,300
Claims settled for personal injury claims	4,909,325	36,173,592
Contribution and indemnity claims settled	0	0
Total deductions	<u>8,004,941</u>	<u>42,528,091</u>
<b>NET CLAIMANTS' EQUITY, END OF PERIOD</b>	<u><u>\$836,225,910</u></u>	<u><u>\$836,225,910</u></u>

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SPECIAL-PURPOSE CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014**

	<u>Three Months Ended 6/30/14</u>	<u>Six Months Ended 6/30/14</u>
<b>CASH INFLOWS:</b>		
Investment income receipts	\$5,099,271	\$9,912,861
Net realized gains on investment securities	8,462,615	17,616,716
Decrease in deposits and other assets		59,439
Total cash inflows	<u>13,561,886</u>	<u>27,589,016</u>
<b>CASH OUTFLOWS:</b>		
Claim payments made	8,740,273	63,068,155
Co-defendant claim payments	0	0
Total claim payments	<u>8,740,273</u>	<u>63,068,155</u>
Disbursements for Trust operating expenses and income taxes paid	4,700,711	9,298,558
Increase in deposits and other assets	20,501	
Total cash outflows	<u>13,461,485</u>	<u>72,366,713</u>
<b>NET CASH INFLOWS (OUTFLOWS)</b>	100,401	(44,777,697)
<b>NON-CASH CHANGES:</b>		
Net unrealized gains on investment securities	13,657,170	10,757,097
<b>NET INCREASE (DECREASE) IN CASH EQUIVALENTS AND INVESTMENTS</b>	13,757,571	(34,020,600)
<b>CASH EQUIVALENTS AND INVESTMENTS BEGINNING OF PERIOD</b>	<u>870,574,393</u>	<u>918,352,564</u>
<b>CASH EQUIVALENTS AND INVESTMENTS END OF PERIOD</b>	<u>\$884,331,964</u>	<u>\$884,331,964</u>

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

## **MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

### **NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2014 AND 2013**

#### **(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 Pound Ridge, 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 intercompany balances and 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. Since the accompanying consolidated special-purpose financial statements and transactions are not based upon generally accepted accounting principles (GAAP), accounting treatment by other parties for these same transactions may differ as to timing and amount. 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 special-purpose 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 5) 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) Investment securities are recorded at fair value. All interest and dividend income on investment securities, net of investment expenses are included in investment income on the special-purpose consolidated statements of changes in net claimants' equity. Realized and unrealized gains and losses on investment securities are combined and recorded on the special-purpose consolidated statements of changes in net claimants' equity.  
  
Realized gains/losses on investment 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.
- (7) The Trust records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities.

**(b) Use of Estimates**

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 5 and 7.

### (3) CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2014 and 2013, the Trust has recorded all of its investment securities at fair value, as follows:

Value	2014		2013	
	Cost	Fair Value	Cost	Fair
Restricted				
Cash equivalents	\$720,514	\$ 720,514	\$244,849	\$ 244,849
U.S. Govt. obligations	9,122,994	9,147,167	8,498,322	8,496,716
Corporate and other debt	21,895,509	21,858,022	22,517,216	22,461,732
Equities - U.S.	<u>4,951,659</u>	<u>12,774,297</u>	<u>4,680,943</u>	<u>10,296,703</u>
Total	<u>\$36,690,676</u>	<u>\$44,500,000</u>	<u>\$35,941,330</u>	<u>\$41,500,000</u>
Value	2014		2013	
	Cost	Fair Value	Cost	Fair
Unrestricted				
Cash equivalents	\$50,725,652	\$50,725,652	\$37,868,172	\$37,868,172
U.S. Govt. obligations	86,343,585	87,805,896	103,104,509	103,194,738
Corporate and other debt	179,650,950	180,920,542	150,078,693	151,233,804
Equities - U.S.	189,217,178	429,227,617	244,155,507	442,797,241
Equities - International	<u>50,108,681</u>	<u>91,152,257</u>	<u>55,366,772</u>	<u>84,261,722</u>
Total	<u>\$556,046,046</u>	<u>\$839,831,964</u>	<u>\$590,573,653</u>	<u>\$819,355,677</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 June 30, 2014, the fair value of these instruments was approximately \$17.8 million and was included in investments on the special-purpose consolidated statements of net claimants' equity. Foreign currency forwards are utilized for both currency translation purposes and to economically hedge against some of the currency risk inherent in foreign equity issues and are generally for periods up to 90 days. At June 30, 2014, the Trust held \$45.7 million in net foreign currency forward contracts. The unrealized loss on these outstanding currency forward contracts of approximately \$0.3 million is offset by an equal unrealized gain due to currency exchange on the underlying international securities. These net amounts are recorded in the special-purpose consolidated statements of net claimants' equity at June 30, 2014.

The Trust invests in professionally managed portfolios that contain common shares of publicly traded companies, U.S. government obligations, U.S. and International equities, corporate and other debt, and money market funds. Such investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Trust's account balance in the future and the amounts reported in the special-purpose consolidated statements of net claimants' equity and special-purpose consolidated statements of changes in net claimants' equity.

#### (4) 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	\$ 260,600
Acquisition of computer hardware and software	311,900
Computer software development (e-Claims)	<u>2,361,100</u>
Total	<u>\$2,933,600</u>

These items have not been recorded as assets, but rather as direct deductions to net claimants' equity in the accompanying special-purpose consolidated financial statements.

#### (5) 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 7), 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.

#### (6) COMMITMENT

In September 2009, CRMC executed an early termination of its Falls Church, Virginia office space lease effective September 30, 2010. Subsequently, CRMC signed a new 5-year office lease effective October 1, 2010 at its same location for approximately one-half of the existing space. CRMC has a 5-year option at expiration of its current lease in September 2015.

Future minimum rental commitments under this operating lease, as of June 30, 2014, are as follows:

<u>Calendar Year</u>	<u>Amount</u>
2014	\$159,968
2015	<u>243,513</u>
	<u>\$403,481</u>

This obligation has been recorded as a liability in the accompanying special-purpose consolidated statement of net claimants' equity.



## **(7) 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 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 and the Trust implemented the TDP payment procedures effective February 21, 1995.

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. In June 2001, the pro rata percentage was reduced from 10% to 5%.

During the second and third quarters of 2002, the Selected Counsel for the Beneficiaries (SCB) and Legal Representative of Future Claimants (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 referred to as the "2002 TDP". The 2002 TDP principally changes the categorization criteria and scheduled values for the scheduled diseases.

In January 2008, the Trust completed a review of the Trust's projected assets and liabilities. Based upon this review, the Trustees approved an increase in the pro rata percentage from 5% to 7.5%. This proposed change received the required concurrence of the SCB and the Legal Representative in early March 2008. Since that time the Trustees elected to keep the current pro rata percentage at 7.5 %, subject to monitoring of both claim filings and the Trust Corpus. Under the TDP, any claimant who received less than the current pro rata percentage is entitled to receive a retroactive payment sufficient to increase their previous payment percentage to the current pro rata percentage. Accordingly, the Trust recorded a liability of \$365.7 million for approximately 282,000 personal injury claimants eligible to receive a retro active payment.

In January 2012, the Trustees amended the 2002 TDP to include a provision requiring the Trust to determine the Maximum Annual Payment (MAP) amount, which limits the amount of claim payments in any one year based upon its projections of assets and liabilities at the current pro rata percentage. Once the claim payments in any one year reach the annual MAP amount, the Trust ceases claim payments and any unpaid claims are carried over to the next year and placed at the front of the FIFO payment queue. For 2014, the MAP amount is \$84.2 million and for the first six months of 2014 the Trust paid approximately \$63.1 million.

At the end of 2013, the Trust contracted with a third party to prepare an updated claim forecast. Now that it has been completed, the Trust will review its projected assets and liabilities and determine the appropriate pro rata percentage. On March 12, 2014, the Trustees suspended making new offers until the claim forecast and analysis is complete.

## **(8) 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 \$31,200 and \$77,700 for the three and six months ended June 30, 2014, respectively.

The Trust and CRMC (collectively, the Employer) established a nonqualified, unfunded deferred compensation plan in accordance with Section 409A of the Internal Revenue Code, with an effective date of November 1, 1995. The plan was most recently amended and restated effective January 1, 2005 and is maintained primarily for the purpose of providing deferred compensation to senior management. The plan allows participants to defer up to 100% of any bonuses and any other incentive compensation paid during the year, as well as up to 25% of their base salaries. Participant accounts are credited monthly with a hypothetical rate of return based on the investment options offered by the Employer and chosen by the participant. However, the Employer is not obligated to purchase any investments selected. Any and all payments made to participants pursuant to the plan shall be made from the general assets of the Employer. All participant accounts under the plan shall be for bookkeeping purposes only and do not represent claims against specific assets of the Employer. The plan does not create a trust of any kind or a fiduciary relationship. Other than calculating and applying hypothetical rates of return to participant accounts, no other Employer contributions shall be made. For the three and six months ended June 30, 2014, deferred compensation expense due to participant-elected investment returns totaled approximately \$1,654 and \$3,400, respectively. As of June 30, 2014 and 2013, deferred compensation liabilities totaled approximately \$153,600 and \$1,174,400, respectively. There were no employee contributions to the plan during for the three and six months ended June 30, 2014.

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

In order to avoid the high costs of director and officer liability insurance (approximately \$2.5 million in 1990), 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 and CRMC. 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 5), 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.

These three segregated funds totaling \$43 million expired on December 31, 2012. In their place, an agreement has been executed to establish a single escrow and security fund of \$30 million for the purpose of securing the obligations of the Trust to indemnify former and current Trustees. As before, the investment earnings on this fund will accrue to the benefit of the Trust.

Additionally, as a condition of the tax agreement between JM and the Trust discussed in Note 10, 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 June 30, 2014, securities with a market value of \$65.5 million were held by an escrow agent, of which \$14.5 million is reported as restricted in accordance with the agreement.

## (10) 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 subsequent 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 files separate federal and state corporate income taxes returns.

As of June 30, 2014 and 2013, the Trust has recorded a net deferred tax liability of approximately \$43.7 million and \$35.2 million from net unrealized gains on investment securities, respectively. As of June 30, 2014 and 2013, the Trust had income taxes payable of \$0.5 million and \$0.1 million, respectively. These amounts are included with accrued expenses as of June 30, 2014 and 2013 on the consolidated statements of net claimants' equity.

## (11) PROOF OF CLAIM FORMS FILED

Proof of claim forms filed as June 30, 2014 and 2013 with the Trust are as follows:

	<u>2014</u>	<u>2013</u>
Claims filed	950,921	930,162
Withdrawn (1)	(97,097)	(94,906)
Expired offers (2)	<u>(4,043)</u>	<u>(2,780)</u>
Active claims	849,781	832,476
Settled claims	<u>(828,540)</u>	<u>(811,349)</u>
Claims currently eligible for settlement	<u><u>21,241</u></u>	<u><u>21,127</u></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 June 30, 2014 and 2013, approximately 1,300 and 990 respectively, of the claims with expired offers are still eligible to accept their original offer with a payment value of \$3.0 million and \$2.8 million, respectively. All claims with expired offers may be reactivated upon written request by the claimant and will be eligible for a new offer at the end of the FIFO queue.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2014 AND 2013**

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  
SPECIAL-PURPOSE CONSOLIDATED INVESTMENT INCOME  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014**

	<u>Three Months Ended 6/30/14</u>	<u>Six Months Ended 6/30/14</u>
<b>INVESTMENT INCOME</b>		
Interest	\$ 1,768,619	\$ 3,624,706
Dividends	3,340,876	6,835,168
Total interest and dividends	<u>5,109,495</u>	<u>10,459,874</u>
Net realized gains	8,462,615	17,616,716
Net unrealized gains, net of the change in deferred income taxes (Note 10)	11,609,170	9,144,097
Investment expenses	<u>(284,421)</u>	<u>(589,352)</u>
<b>TOTAL INVESTMENT INCOME</b>	<u><u>\$ 24,896,859</u></u>	<u><u>\$ 36,631,335</u></u>

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SPECIAL-PURPOSE CONSOLIDATED NET OPERATING EXPENSES  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014**

	<u>Three Months Ended 6/30/14</u>	<u>Six Months Ended 6/30/14</u>
<b>NET OPERATING EXPENSES:</b>		
Personnel costs	\$ 892,369	\$ 1,803,299
Office general and administrative	116,362	275,171
Travel and meetings	15,171	42,500
Board of Trustees	222,534	407,877
Professional fees	434,936	716,797
Net fixed asset purchases	2,339	13,495
Web hosting and other EDP costs	17,719	48,443
Other income	(393,714)	(712,383)
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<b>TOTAL NET OPERATING EXPENSES</b>	<b>\$ 1,307,716</b>	<b>\$ 2,595,199</b>
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The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SUPPLEMENTAL SCHEDULE OF LIQUIDATED CLAIMS  
SINCE CONSUMMATION (NOVEMBER 28, 1988)  
THROUGH JUNE 30, 2014**

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>				
Full Liquidated Claim Value	27,590	\$1,187,852,399		
Present Value Discount (1)		(135,306,535)		
Net Settlements	27,590	1,052,545,864		
Payments	(27,590)	(1,052,545,864)		<u>\$38,150</u>
Unpaid Balance	0	\$0		
<b>Post-Class Action Complaint After November 19, 1990-</b>				
Offers Made at Full Liquidated Amount	801,755	\$40,978,182,545		
Reduction in Claim Value (2)		(37,469,714,510)		
Net Offer Amount	801,755	3,508,468,035		
Offers Accepted	(800,950)	(3,504,246,760)		<u>\$4,375</u>
Outstanding Offers	805	4,221,275		
Offers Accepted, Not Paid	37	540,262		
Unpaid Balance	842	4,761,537		
<b>Total Trust Liquidated Claims</b>	<u>828,540</u>	<u>4,556,792,624</u>		<u>\$5,500</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>				
Settlement Claim Value		\$94,383,561		
Investment Receipts (5)		2,624,732		
Payments		(97,008,293)		
Payable		<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  
SUPPLEMENTAL SCHEDULE OF LIQUIDATED CLAIMS  
FOR THE THREE MONTHS ENDED JUNE 30, 2014**

<u>Trust Liquidated Claims</u>	<u>Number</u>	<u>Amount</u>	<u>Average Payment Amount</u>
<b>Post-Class Action Complaint After November 19, 1990 (1)</b>			
Offers Outstanding as of March 31, 2014	1,327	\$5,888,760	
Net Offers Made (2)	352	3,241,840	
Offers Accepted	<u>(874)</u>	<u>(4,909,325)</u>	<u>\$5,617</u>
Offers Outstanding as of June 30, 2014	805	4,221,275	
Offers Accepted, Not Paid as of June 30, 2014	<u>37</u>	<u>540,262</u>	
Payable as of June 30, 2014	<u>842</u>	<u>\$4,761,537</u>	
 <b><u>Co-Defendant Liquidated Claims</u></b>			
Payable as of March 31, 2014		\$0	
Settled		0	
Paid		0	
Payable as of June 30, 2014		<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.

The accompanying notes are an integral part of this exhibit.