

# MANVILLE PERSONAL INJURY SETTLEMENT TRUST

## TRUSTEES:

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

Frank J. Macchiarola, Esquire  
*Brooklyn, New York*

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

October 30, 2008

## **BY FEDERAL EXPRESS**

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

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

Dear Judge Weinstein and Judge Lifland:

Enclosed are chambers' copies of the Financial Statements and Report of the Manville Personal Injury Settlement Trust ("the Trust") for the period ending September 30, 2008, filed pursuant to Sections 3.02(d)(ii) and (iii) of the Trust Agreement, which were electronically filed today with the Clerk of the United States Bankruptcy Court for the Southern District of New York.

## **OPERATIONS**

During the third quarter of 2008, the Trust received approximately 4,100 new claim filings, bringing the total claims filed during the first three quarters to 9,700 compared to 1,600 and 8,300 for the same period of 2007. The malignant filing population has accounted for approximately 50% of all 2008 claim filings compared to 37% for the first nine months of 2007.

143 Bedford Road  
Suite 200  
P.O. Box 812  
Katonah, NY 10536  
Phone: (914) 767-3700  
Fax: (914) 767-0377

The Trust settled 4,045 claims for \$27.6 million during the third quarter 2008 compared to 1,662 claim settlements for \$11.7 million during the same period of 2007. For the first nine months of 2008, the Trust has settled approximately 8,500 claims for \$61.6 million compared to 7,900 claims for \$37.0 million for the same period of 2007. The average settlement amount for the first nine months of 2008 and 2007 was approximately \$7,200 and \$4,700, respectively. The increase in the average settlement amount is due principally the 50% increase in the pro rata percentage.

Furthermore, the Trust had paid approximately 247,000 claimants a total of \$318.6 million, or 87% of the \$365.7 million retrospective pro rata payment required as a result of the foregoing increase in pro rata payments. As of September 30, 2008, the remaining unpaid liability is approximately 35,400 claimants and \$47.1 million.

On September 30, 2008, the Trust had 2,900 claims pending claimant response to an outstanding offer or denial, 1,800 claims for which the 360 day offer or denial response period had expired (but which could still be reactivated without re-filing the claim), 12,000 claims in process and 690,800 settled claims. When combined with 90,500 withdrawn claims (unsettled claims for which offers were not accepted or deficiencies not cured), as of September 30, 2008 the Trust had received 798,000 claims and had made total claim payments of approximately \$3.8 billion (including \$318.6 million of retrospective payments made as of that date).

#### **FINANCIAL SUMMARY**

Net operating expenses for the three and nine months ended September 30, 2008 were \$1.17 million and \$4.68 million, respectively. For the same periods in 2007 net operating expenses were \$1.22 and \$3.97, respectively. The year to date increase in net operating expenses is principally due to reorganization costs associated with downsizing of CRMC and the \$200,000 reduction in Other Income for the first nine months of 2008. Operating expenses are reported net of Other Income of \$213,000 and \$407,000 for the nine months ended September 30, 2008 and 2007, respectively. Other Income received by the CRMC is derived from claim processing and consulting services to other claims processing entities. Other Income received by the CRMC is used to reduce the overall processing costs of the Trust.

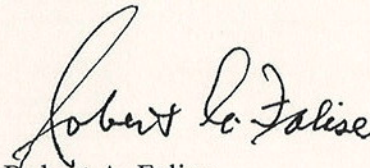
approximately \$47.8 million in claim payments, of which approximately \$19 million were retrospective pro rata adjustment payments. Year to date, the Trust has made over \$378 million in claim payments. The negative return for investments during 2008 (see below) also reduced Net Claimants' Equity by approximately \$156 million, net of the effect of deferred income taxes on unrealized losses. As of September 30, 2008, the Trust had \$10.1 million in deferred income tax liability related to approximately \$68 million in net unrealized gains on investment securities.

#### ASSET MANAGEMENT

For the nine months ended September 30, 2008 and September 30, 2007, the Trust's total investment returns were -12.1% and 7.4%, respectively. The total returns during the same periods on the Trust's equity (U.S. and non-U.S.) investments were -20.3% and 9.2%, respectively. By way of comparison, the currency-half hedged MSCI World Index, which is a broad equity index of 23 developed markets including the U.S., returned -23.5% and 9.8% during the first nine months of 2008 and 2007, respectively. The total returns on fixed income investments including cash equivalents were 1.3% in the first three quarters of 2008 versus 4.1% in the first three quarters of 2007.

As of September 30, 2008, after liquidating \$375 million of assets in the first nine months of the year to pay for all the claim payments described above, the market value of the Trust's investments, including accrued interest and dividends, was approximately \$1,253 million, of which approximately \$703 million (56%) was in diversified equities, \$499 million (40%) in fixed income securities and the remaining \$51 million (4%) in cash equivalents.

Yours very truly,



Robert A. Falise  
Chairman and Managing Trustee

Enclosure

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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

FINANCIAL STATEMENTS AND REPORT OF  
MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
FOR THE PERIOD ENDING September 30, 2008  
PURSUANT TO SECTIONS 3.02(d)(ii) and (iii)  
OF THE TRUST AGREEMENT

Sections 3.02(d)(ii) and (iii) of the Trust Agreement provide that the Trustees shall prepare and file with the Court within 30 days following the end of each of the first three quarters of each Fiscal Year a quarterly report containing certified financial statements and a summary of certain additional information, including the number of Trust Claims Liquidated and the average amount per Trust Claim paid or payable, the amount of investment income earned by the Trust, and the amount of Trust Expenses incurred by the Trust. The attached Financial Statements for the Period July 1, 2008 through September 30, 2008 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

By: /s/ David T. Austern  
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

Dated: October 30, 2008  
Falls Church, VA

CERTIFICATE OF SERVICE

I, David T. Austern, hereby certify that on October 30, 2008, I caused a true and complete copy of the Financial Statements for the Period Ending September 30, 2008 pursuant to Sections 3.02(d)(ii) and (iii) of the Manville Personal Injury Settlement Trust Agreement to be served by first class mail, postage prepaid, to the entities named on the service list annexed hereto.

/s/ David T. Austern  
David T. Austern

Professor Lester Brickman  
BENJAMIN CARDOZO SCHOOL OF LAW  
Brookdale Center  
55 Fifth Avenue  
New York, NY 10003

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

Stephen J. Carroll  
RAND Institute  
1776 Main St.  
P.O. Box 2138  
Santa Monica, CA 90437-2138

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

Diana G. Adams, Esq.  
UNITED STATES TRUSTEE  
33 Whitehall St., 21<sup>st</sup> Fl.  
Suite 210C  
New York, NY 10004

Joseph F. Rice, Esq.  
MOTLEY RICE LLC  
28 Bridgeside Blvd.  
Mt. Pleasant, SC 29464

Matthew P. Bergman, Esq.  
BERGMAN, SENN, PAGELER & FROCKT  
17526 Vashon Highway, SW  
Vashon, WA 98070

Barbara J. Stutz, Esq.  
BUNDA STUTZ & DEWITT  
3295 Levis Commons Blvd.  
Perrysburg, OH 43551

Francine R. Rabinovitz  
HAMILTON, RABINOVITZ  
& ALSCHULER, INC.  
36656 Highway 1, Coast Route  
Monterey, CA 93940

Raji Bhagavatula  
MILLIMAN USA  
One Penn Plaza, 38<sup>th</sup> Fl.  
New York, NY 10119

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

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

Maria Keane, Esq.  
PAUL, WEISS, RIFKIND, WHARTON  
1285 Avenue of the Americas  
New York, NY 10019

Elihu Inselbuch, Esq.  
CAPLIN & DRYSDALE  
375 Park Avenue, 35<sup>th</sup> Fl.  
New York, NY 10152-3500

Ann C. McMillan, Esq.  
CAPLIN & DRYSDALE  
One Thomas Circle, NW  
Suite 1100  
Washington, DC 20005

Russell Budd, Esq.  
BARON & BUDD  
3102 Oak Lawn Avenue  
Dallas, TX 75219

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST**

**Special-Purpose Consolidated Financial Statements  
As of September 30, 2008 and 2007**

## 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, 2008 and 2007 and the consolidated changes in net claimants' equity and cash flows for the three and nine months ended September 30, 2008 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, 2008 AND 2007**

	2008	2007
<b>ASSETS:</b>		
Cash equivalents and investments (Note 2)		
Restricted (Note 7)	\$59,700,000	\$59,700,000
Unrestricted	1,187,184,845	1,814,519,467
Total cash equivalents and investments	1,246,884,845	1,874,219,467
Accrued interest and dividend receivables	5,468,957	6,719,089
Deposits and other assets	508,838	683,221
Total assets	1,252,862,640	1,881,621,777
<b>LIABILITIES:</b>		
Accrued expenses	1,026,240	3,282,800
Deferred income taxes (Note 8)	10,150,000	54,890,000
Unpaid claims (Notes 3, 5 and Exh. III)		
Outstanding Offers	16,982,297	8,274,904
Settled, not paid	2,916,830	1,314,586
Pro rata adjustment payable	47,142,757	0
Contribution claims payable	3,086,259	0
Lease commitments payable (Note 4)	2,701,795	3,203,317
Total liabilities	84,006,178	70,965,607
<b>NET CLAIMANTS' EQUITY (Note 5)</b>	<b>\$1,168,856,462</b>	<b>\$1,810,656,170</b>

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

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
CONSOLIDATED STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008**

	<u>Three Months</u> <u>Ended 9/30/08</u>	<u>Nine Months</u> <u>Ended 9/30/08</u>
<b>NET CLAIMANTS' EQUITY, BEGINNING OF PERIOD</b>	<u>\$1,269,899,112</u>	<u>\$1,778,033,708</u>
<b>ADDITIONS TO NET CLAIMANTS' EQUITY:</b>		
Investment income (loss) (Exhibit I)	(68,189,863)	(156,722,649)
Decrease in lease commitments payable (Note 4)	125,381	376,142
Net decrease in outstanding claim offers	373,765	0
Total additions	<u>(67,690,717)</u>	<u>(156,346,507)</u>
<b>DEDUCTIONS FROM NET CLAIMANTS' EQUITY:</b>		
Net operating expenses (Exhibit II)	1,172,741	4,677,238
Provision for income taxes	1,496,300	8,331,300
Claims settled	27,596,633	61,594,703
Pro rata adjustment	0	365,736,012
Net increase in outstanding claim offers	0	9,304,256
Contribution and indemnity claims settled	3,086,259	3,187,230
Total deductions	<u>33,351,933</u>	<u>452,830,739</u>
<b>NET CLAIMANTS' EQUITY, END OF PERIOD</b>	<u>\$1,168,856,462</u>	<u>\$1,168,856,462</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 AND NINE MONTHS ENDED SEPTEMBER 30, 2008**

	<u>Three Months Ended 9/30/08</u>	<u>Nine Months Ended 9/30/08</u>
<b>CASH INFLOWS:</b>		
Investment income receipts	\$10,316,775	\$37,038,159
Net realized gains on investment securities	899,187	25,162,468
Decrease in deposits and other assets	98,904	235,466
Total cash inflows	<u>11,314,866</u>	<u>62,436,093</u>
<b>CASH OUTFLOWS:</b>		
Claim payments made	47,870,505	378,705,773
Contribution and indemnity claim payments	0	100,971
Total cash claim payments	<u>47,870,505</u>	<u>378,806,744</u>
Disbursements for Trust operating expenses and income taxes paid	4,749,446	16,015,259
Total cash outflows	<u>52,619,951</u>	<u>394,822,003</u>
<b>NET CASH OUTFLOWS</b>	(41,305,085)	(332,385,910)
<b>NON-CASH CHANGES:</b>		
Net unrealized (losses) on investment securities	<u>(93,408,361)</u>	<u>(255,438,621)</u>
<b>INVESTMENTS</b>	(134,713,446)	(587,824,531)
<b>CASH EQUIVALENTS AND INVESTMENTS BEGINNING OF PERIOD</b>	<u>1,381,598,291</u>	<u>1,834,709,376</u>
<b>CASH EQUIVALENTS AND INVESTMENTS END OF PERIOD</b>	<u>\$1,246,884,845</u>	<u>\$1,246,884,845</u>

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, 2008 AND 2007**

**(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 assets are 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. These special-purpose accounting methods are as follows:

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

- (3) Costs of non-income producing assets, which will be exhausted during the life of the Trust and are not available for satisfying claims, are expensed as they are incurred. These costs include acquisition costs of computer hardware, software, software development, office furniture and leasehold improvements.
- (4) Future fixed liabilities and contractual obligations entered into by the Trust are recorded directly against net claimants' equity. Accordingly, the future minimum rental commitments outstanding at period end for non-cancelable operating leases, net of any sublease agreements, have been recorded as deductions to net claimants' equity.
- (5) The liability for unpaid claims reflected in the consolidated statements of net claimants' equity represents settled but unpaid claims and outstanding settlement offers. Post-Class Action complaint claims' liability is recorded once a settlement offer is made to the claimant (Note 3) at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no settlement offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.
- (6) Available-for-sale securities are recorded at market. All interest and dividend income on available-for-sale securities, net of investment expenses are included in investment income on the consolidated statements of changes in net claimants' equity. Realized and unrealized gains and losses on available-for-sale securities are combined and recorded on the consolidated statements of changes in net claimants' equity.

Realized gains/losses on available-for-sale securities are recorded based on the security's original cost. At the time a security is sold, all previously recorded unrealized gains/losses are reversed and recorded net, as a component of other unrealized gains/losses in the accompanying consolidated statements of changes in net claimants' equity.

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

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. These reclassifications have no effect on the previously recorded balance of net claimants' equity.

(b) **Cash Equivalents and Investments**

At September 30, 2008 and 2007, the Trust has recorded all of its investment securities at market value, as follows:

	2008		2007	
	Cost	Market	Cost	Market
Restricted				
Cash equivalents	\$499,486	\$ 499,486	\$61,730	\$ 61,730
U.S. Govt. obligations	18,401,771	18,722,018	21,070,876	21,315,900
Corporate and other debt	5,711,316	5,567,565	2,222,340	2,195,120
Equities -- U.S.	<u>23,431,721</u>	<u>34,910,931</u>	<u>18,121,138</u>	<u>36,127,250</u>
Total	<u>\$48,044,294</u>	<u>\$59,700,000</u>	<u>\$41,476,084</u>	<u>\$59,700,000</u>
	2008		2007	
	Cost	Market	Cost	Market
Unrestricted				
Cash equivalents	\$54,032,500	\$54,032,500	\$56,884,235	\$56,884,235
U.S. Govt. obligations	258,390,386	260,303,925	293,313,065	294,132,771
Corporate and other debt	218,379,041	206,837,326	262,561,622	261,077,159
Equities -- U.S.	511,608,942	560,774,058	768,408,376	1,052,545,005
Equities -- International	<u>88,772,101</u>	<u>105,237,036</u>	<u>85,666,175</u>	<u>149,880,297</u>
Total	<u>\$1,131,182,970</u>	<u>\$1,187,184,845</u>	<u>\$1,466,833,473</u>	<u>\$1,814,519,467</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, 2008, the fair value of these instruments was approximately \$5.0 million and was included in investments available-for-sale on the consolidated statement of net claimants' equity. Foreign currency forwards are utilized for both currency translation purposes and to economically hedge against the currency risk inherent in foreign equity issues and are generally for periods up to 90 days. At September 30, 2008, the Trust held \$52.7 million in net foreign currency forward contracts. The unrealized gain on these outstanding currency forward contracts of approximately \$0.9 million is offset by an equal unrealized loss due to currency exchange on the underlying international securities. These net amounts are recorded in the consolidated statement of net claimants' equity at September 30, 2008.

(c) **Fixed Assets**

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

Acquisition of furniture and equipment	\$ 341,600
Acquisition of computer hardware and software	840,700
Computer software development (e-Claims)	<u>2,361,100</u>
Total	<u>\$3,543,700</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, 2008 was approximately \$3,700 and \$35,700, respectively.

### (3) UNPAID CLAIMS

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

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

#### (4) COMMITMENTS AND CONTINGENCIES

In April 2003, the CRMC executed an early termination of its old lease in Fairfax Virginia and signed a new 10-year lease through September 2013 for its offices in Falls Church, Virginia. CRMC may terminate the new lease at the end of the seventh lease year (September 2010) upon proper notification and payment of certain unamortized leasing costs. The lease was executed with CRMC conditioned upon the Trust's guarantee of future lease payments.

Future minimum rental commitments under this operating lease, as of September 30, 2008, are as follows:

<u>Calendar Year</u>	<u>Amount</u>
2008	\$128,496
2009	517,199
2010	530,115
2011	543,388
2012	557,017
2013	<u>425,580</u>
	<u>\$2,701,795</u>

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

#### (5) NET CLAIMANTS' EQUITY

A class action complaint was filed on behalf of all Trust beneficiaries on November 19, 1990, seeking to restructure the methods by which the Trust administers and pays claims. On July 25, 1994, the parties signed a Stipulation of Settlement that included a revised the TDP. The TDP prescribes certain procedures for distributing the Trust's limited assets, including pro rata payments and initial determination of claim value based on scheduled diseases and values. The Court approved the settlement in an order dated January 19, 1995 and the Trust implemented the TDP payment procedures effective February 21, 1995.

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 referred to as the "2002 TDP". The 2002 TDP principally changes the categorization criteria and scheduled values for the scheduled diseases.

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 pro rata percentage was changed in June 2001 when the pro rata percentage was reduced from 10% to 5%.

In January 2008, the Trust completed its most recent 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 Selected Counsel for the Beneficiaries (SCB) and the Legal Representative of Future Claimants (Legal Representative) in early March 2008. 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 claimants eligible to receive a retro active payment. Through September 30, 2008, the Trust has paid approximately 247,000 claimants a total of \$318.6 million.

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 changes in the pro rata payment percentage.

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

The Trust established a tax-deferred employee savings plan under Section 401(k) of the Internal Revenue Code, with an effective date of January 1, 1988. The plan allows employees to defer a percentage of their salaries within limits set by the Internal Revenue Code with the Trust matching contributions by employees of up to 6% of their salaries. The total employer contributions and expenses under the plan were approximately \$34,400 and \$151,200 for the three and nine months ended September 30, 2008, respectively.

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

In order to avoid the high costs of director and officer liability insurance, the Trust ceased purchasing such insurance in 1991 and, with the approval of the United States Bankruptcy Court for the Southern District of New York, the Trust established a segregated security fund of \$30 million and, with the additional approval of the United States District Court for the Southern and Eastern Districts of New York, an additional escrow fund of \$3 million from the assets of the Trust, which are devoted exclusively to securing the obligations of the Trust to indemnify the former and current Trustees and officers, employees, agents and representatives of the Trust. Also, a \$15 million escrow and security fund was established to secure the obligations of the Trust to exclusively indemnify the current Trustees, whose access to the other security funds is subordinated to the former Trustees. Upon the final order in the Class Action litigation (Note 3), the \$15 million escrow and security fund was reduced by \$5 million. Pursuant to Section 5.07 of the Plan, Trustees are entitled to a lien on the

segregated security and escrow funds to secure the payment of any amounts payable to them through such indemnification. Accordingly, in total, \$43 million has been transferred from the Trust's bank accounts to separate bank escrow accounts and pledge and security agreements have been executed perfecting those interests. The investment earnings on these escrow accounts accrue to the benefit of the Trust.

Additionally, as a condition of the tax agreement between JM and the Trust discussed in Note 8, the Trust was required to transfer \$30 million in cash to an escrow account to secure the payment of its future income tax obligations post settlement of the transaction. The escrow account balance may be increased or decreased over time. As of September 30, 2008, securities with a market value of \$33.4 million were held by an escrow agent, of which \$16.7 million is reported as restricted in accordance with the agreement.

## **(8) INCOME TAXES**

For federal income tax purposes, JM had elected for the qualified assets of the Trust to be taxed as a Designated Settlement Fund (DSF). Income and expenses associated with the DSF are taxed in accordance with Section 468B of the Internal Revenue Code, which obligates JM to pay for any federal income tax liability imposed upon the DSF. In addition, pursuant to an agreement between JM and the Trust, JM is obligated to pay for any income tax liability of the Trust. In a separate agreement between the Trust and JM to facilitate the sale of JM to a third party, JM paid the Trust \$90 million to settle the JM obligation to the Trust. In return, the Trust terminated JM's contractual liability for income taxes of the DSF and agreed to indemnify JM in respect for all future income taxes of the Trust and established an escrow fund to secure such indemnification. The statutory income tax rate for the DSF is 15%. As a New York domiciled trust, the Trust is not subject to state income taxes. CRMC is subject to federal and Virginia corporate income taxes, its state of residence.

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. As of September 30, 2008 and 2007, the Trust has recorded a net deferred tax liability of approximately \$10.2 million and \$54.9 million, respectively from net unrealized gains on investment securities. As of September 30, 2008 and 2007, the Trust recorded net deferred tax assets of \$360,900 and \$345,200, representing temporary differences primarily due to expensing asset acquisitions for financial reporting purposes, accrued vacation and deferred compensation. The deferred tax assets are included in other assets in the accompanying consolidated statement of net claimants' equity. As of September 30, 2008 and 2007, the Trust has prepaid income taxes of \$1.9 million and \$0.5 million, respectively. These amounts are included with accrued expenses on the consolidated statements of net claimants' equity as of September 30, 2008 and 2007, respectively.

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

Proof of claim forms filed as September 30, 2008 and 2007 with the Trust are as follows:

	<u>2008</u>	<u>2007</u>
Claims filed	798,026	786,527
Withdrawn (1)	(90,510)	(87,915)
Expired offers (2)	<u>(1,807)</u>	<u>(3,730)</u>
Active claims	705,709	694,882
Settled claims	<u>(690,814)</u>	<u>(680,118)</u>
Claims currently eligible for settlement	<u>14,895</u>	<u>14,764</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 September 30, 2008 and 2007, approximately 900 and 1,400 respectively, of the claims with expired offers are still eligible to accept their original offer with a payment value of \$4 million and \$4 million, respectively. All claims with expired offers may be reactivated upon written request by the claimant and be 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, 2008**

	<u>Three Months Ended 9/30/08</u>	<u>Nine Months Ended 9/30/08</u>
<b>INVESTMENT INCOME</b>		
Interest	\$ 6,432,775	\$ 21,014,768
Dividends	4,260,177	15,475,048
Total interest and dividends	<u>10,692,952</u>	<u>36,489,816</u>
Net realized gains	899,187	25,162,468
Net unrealized (losses), net of the change in deferred income taxes (Note 8)	(79,398,361)	(217,128,621)
Investment expenses	<u>(383,641)</u>	<u>(1,246,312)</u>
<b>TOTAL INVESTMENT INCOME (LOSS)</b>	<u>\$ (68,189,863)</u>	<u>\$ (156,722,649)</u>

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
CONSOLIDATED NET OPERATING EXPENSES  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008**

	<u>Three Months</u> <u>Ended 9/30/08</u>	<u>Nine Months</u> <u>Ended 9/30/08</u>
<b>NET OPERATING EXPENSES:</b>		
Personnel costs	\$ 905,251	\$ 3,312,347
Office general and administrative	114,199	437,724
Travel and meetings	17,635	76,692
Board of Trustees	92,643	359,970
Professional fees	51,388	525,443
Net fixed asset purchases	3,683	35,715
Computer and other EDP costs	17,107	142,391
Other income	<u>(29,165)</u>	<u>(213,044)</u>
<b>TOTAL NET OPERATING EXPENSES</b>	<b><u>\$ 1,172,741</u></b>	<b><u>\$ 4,677,238</u></b>

The accompanying notes are an integral part of this exhibit.

**MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SCHEDULE OF LIQUIDATED CLAIMS  
SINCE CONSUMMATION (NOVEMBER 28, 1988)  
THROUGH SEPTEMBER 30, 2008**

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)		<u>(135,306,535)</u>	
Net Settlements	27,590	1,052,545,864	
Payments	<u>(27,590)</u>	<u>(1,052,545,864)</u>	\$38,150
Unpaid Balance	<u>0</u>	<u>50</u>	
<b>Post-Class Action Complaint After November 19, 1990-</b>			
Offers Made at Full Liquidated Amount	665,315	\$32,045,781,430	
Reduction in Claim Value (2)		<u>(29,224,182,745)</u>	
Net Offer Amount	665,315	2,821,598,685	
Offers Accepted	<u>(663,224)</u>	<u>(2,804,616,388)</u>	\$4,229
Outstanding Offers	2,091	16,982,297	
Offers Accepted, Not Paid	641	2,916,830	
Pro rata Adjustment Payable	<u>35,405</u>	<u>47,142,757</u>	\$1,332
Unpaid Balance	<u>38,137</u>	<u>67,041,884</u>	
<b>Total Trust Liquidated Claims</b>	<u>690,814</u>	<u>3,857,162,252</u>	<u>\$5,584</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		\$92,335,236	
Investment Receipts (5)		2,624,732	
Payments, Net of Returned Settlement (6)		<u>(91,873,709)</u>	
Unpaid Balance		<u>\$3,086,259</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.
- (6) Per the terms of the MacArthur Fund Principles of the 1995 TDP, upon successful insurance litigation, the MacArthur Group returned \$10 million plus the change in value.

The accompanying notes are an integral part of this exhibit.

MANVILLE PERSONAL INJURY SETTLEMENT TRUST  
SCHEDULE OF LIQUIDATED CLAIMS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008

Exhibit III  
Page 2 of 2

	<u>Number</u>	<u>Amount</u>	<u>Average Payment Amount</u>
<u>Trust Liquidated Claims</u>			
<b>Post-Class Action Complaint After November 19, 1990 (1)</b>			
Offers Outstanding as of June 30, 2008	2,160	\$17,356,062	
Net Offers Made (2)	(4,114)	27,222,868	
Offers Accepted	<u>4,045</u>	<u>(27,596,633)</u>	(\$6,822)
Offers Outstanding as of September 30, 2008	2,091	16,982,297	
Offers Accepted, Not Paid as of Sept. 30, 2008	<u>641</u>	<u>2,916,830</u>	
Payable as of September 30, 2008	<u><u>2,732</u></u>	<u><u>\$19,899,127</u></u>	
 <u>Pro Rata Adjustment</u>			
Remaining Liability as of June 30, 2008	48,216	66,240,195	
Payments Made	<u>(12,811)</u>	<u>(19,097,438)</u>	\$1,491
Remaining Liability as of September 30, 2008	<u><u>35,405</u></u>	<u><u>\$47,142,757</u></u>	
 <u>Co-Defendant Liquidated Claims</u>			
Payable as of June 30, 2008		\$0	
Settled		0	
Pro rata adjustment		3,086,259	
Paid		<u>0</u>	
Payable as of September 30, 2008		<u><u>\$3,086,259</u></u>	

- (1) Under the FDP, 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.