

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

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IN RE :
 : Chapter 11
OWENS CORNING, et al., :
 : Case Nos. 00-3837 to 3854 (JKF)
 : (Jointly Administered)
 :
 Debtors. :
-----X

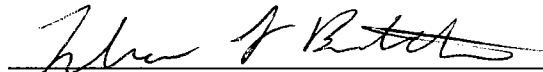
NOTICE OF FILING OF REBUTTAL REPORT OF FREDERICK C. DUNBAR

PLEASE TAKE NOTICE that Credit Suisse First Boston (“CSFB”), as Agent for the prepetition institutional lenders to Owens Corning and certain of its affiliates, hereby files the rebuttal report of Frederick C. Dunbar (the “Rebuttal Report”).

PLEASE TAKE FURTHER NOTICE that on November 15, 2004, counsel for CSFB caused to be sent by overnight mail to the Chambers of the Honorable John P. Fullam, Senior Judge, a copy of this report. A copy of the Rebuttal Report also was served on counsel for the Debtors, the Designated Members of the Official Committee of Unsecured Creditors, the Official Committee of Asbestos Claimants, the Legal Representative for Future Claimants, the Ad Hoc Committee of Bondholders and Century Indemnity Company.

Dated: November 15, 2004

LANDIS RATH & COBB LLP



Richard S. Cobb (I.D. No. 3157)
Rebecca L. Butcher (I.D. No. 3816)
919 Market Street, Suite 600
Wilmington, DE 19810
Telephone: (302) 467-4400
Facsimile: (302) 467-4450

-and-

WEIL, GOTSHAL & MANGES LLP

Martin J. Bienenstock

John J. Rapisardi

767 Fifth Avenue

New York, NY 10153

Telephone: (212) 310-8000

Facsimile: (212) 310-8007

-and-

KRAMER LEVIN NAFTALIS & FRANKEL LLP

Kenneth H. Eckstein

Ellen R. Nadler

Gary M. Becker

919 Third Avenue

New York, New York 10022

Telephone: (212) 715-9100

Facsimile: (212) 715-8000

Counsel for Credit Suisse First Boston, as Agent to
the Bank Group

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REBUTTAL REPORT OF FREDERICK C. DUNBAR

NOVEMBER 15, 2004

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I. INTRODUCTION

The purpose of this report is to give evidence in rebuttal to the expert reports of Mark A. Peterson, Francine F. Rabinovitz, Loreto T. Tersgni and James E. Hass.¹

A. Qualifications

I am a Senior Vice President in NERA's Securities and Financial Services Practice. Prior to joining NERA, I taught regulatory economics, including securities regulation, at Tufts University and served on the faculty of Northeastern University, teaching graduate courses in mathematical economics, statistics, and econometrics. I have also served as an adjunct professor at Fordham Law School and at Columbia Law School.

NERA's finance practice dates from the early 1970s and employs about a hundred research professionals with economics, finance, and mathematics degrees. The practice counts as its clients principals needing valuation services, risk managers, and parties in litigation. My practice at NERA includes providing valuation services, developing risk management products, performing economic research on public policy matters, and providing expert assistance and testimony in litigation.

I have authored various publications and lectured on these subjects at the Massachusetts Institute of Technology, Harvard University, Washington University, the Practicing Law Institute, and in various other seminars that give Continuing Legal Education credits. I have appeared as an expert on valuation, securities markets, damages, and the statistical analysis of economic data in federal and state courts and arbitrations before the American Arbitration Association and the National Association of Securities Dealers. My résumé, including publications I have authored in the last ten years and testimony I have given in the last four years, was attached to my October 15 report.

¹ NERA is currently working, at my direction, with the backup files produced by Dr. Peterson and Dr. Rabinovitz to determine the effect on their liability estimates of making certain adjustments to the assumptions they made in forecasting future claims. To date NERA has been unable to replicate Dr. Peterson's analysis exactly because his quantitative analysis was performed using twenty-year-old software that is no longer commercially available. Furthermore, backup files were produced without any explanation as to how they were used in his analysis. The results presented below are necessarily based on preliminary review of Dr. Peterson's calculations and NERA's understanding of his usual methodology. The results
(cont'd...)

II. THE PROPENSITY TO SUE USED BY DR. PETERSON SHOULD BE ADJUSTED FOR THE UNSUSTAINABLE RATE OF CLAIM FILINGS DURING THE NSP PERIOD

Dr. Peterson concludes that his preferred forecast is one in which propensities to sue increase for five years after the start of the forecast period. This increase is based on a supposed upward trend in filing rates from 1996 to 2000. Exhibits 1A-1D present the findings of an analysis showing that the reason for this apparent increase is that law firms in 1999 and 2000 were filing large numbers of old claims from inventories, a practice sometimes referred to as claim “dredging.” Exhibits 1A-1D compare the propensity to sue as reported in the Peterson report to the propensity to sue calculated with an adjustment for claim dredging.

The adjustment we make is very similar to one made in Dr. Rabinovitz’s report: claims in the Owens Corning (“OC”) database are matched to the Manville Trust database and to the Center for Claims Resolution (“CCR”) database. For those claims that matched one or both of the other databases, the earliest year of filing (against OC, Manville or CCR) was taken to be the file year for that claim. Exhibit 1 shows the propensity to sue as a ratio of the number of OC claims by this redefined filing year to the disease incidence used by Dr. Peterson in his calculation of propensity to sue.

Because incidence calculations are based on the number of people becoming ill in a given year, when calculating a propensity to sue, it is more precise to associate a claimant with the first year in which that claimant filed against any asbestos defendant.² Once this adjustment is made, there is no evidence of any increasing trend in the propensity to sue for any of the malignant diseases. In 1999 and 2000, it was not that a higher fraction of people becoming sick were filing against OC, rather it was that plaintiff law firms found it profitable to speed up filings against OC from their inventory of claimants who had filed against other defendants years in the past.

(...cont'd)

below regarding Dr. Rabinovitz’s calculations are also preliminary. We are continuing to work on refining this analysis.

² Because we are currently unable to run the programs provided in the Peterson backup, the adjusted propensity to sue figures are not based on the exact claim counts used by Dr. Peterson. Instead, we used the iCMS database and used the transition matrix in Table 6 of the Peterson report to transition the open claims, following Dr. Peterson’s methodology.

III. ADJUSTING DR. PETERSON'S AND DR. RABINOVITZ'S FORECASTS FOR VALID MEDICAL AND PRODUCT IDENTIFICATION CRITERIA OF CLAIMANTS MAKES THEIR ESTIMATES SIMILAR TO THOSE IN THE DUNBAR REPORT

Dr. Peterson's forecast is based on a number of assumptions each of which can have a material impact on his estimate of future asbestos liabilities. Based on our preliminary analysis, without the benefit of Dr. Petersons' underlying support (see footnotes 1 and 2 above), Dr. Peterson's assumptions relate to the following issues and calculations:

- 1) allocation of claims with unknown disease;
- 2) treatment of duplicate claims and missing filing dates in the OC databases;
- 3) choice of the relevant calibration period to estimate the filing rates;
- 4) choice of the incidence curves used to forecast malignant diseases;
- 5) methodology used to forecast the nonmalignant diseases;
- 6) percentage of claims with medical evidence of asbestos-related diseases and impairment;
- 7) percentage of claims with valid product identification;
- 8) choice of the dollar values by disease to price the pending and forecasted claims;
- 9) effects of verdicts and punitive damages on the value of the claims;
- 10) impact of the NSP agreements on the rate of filings against OC;
- 11) choice of inflation and discount rates.

Exhibit 2 shows the results of changing four of Dr. Peterson's underlying assumptions one at a time. We start with Dr. Peterson's forecasted number of claims based on his constant propensity to sue model and make the following adjustments: the percent of allowable claims is changed to include only claims that pass valid medical criteria; the percent of allowable claims is changed to include only claims with valid product identification; we substitute NERA's estimate of average dollars; and we discount future claim values at a rate that reflects

OC's cost of borrowing.³ The cumulative effect of these changes is that Dr. Peterson's forecast value of pending and future claims decreases by a range of 89% to 91% from \$16.7 billion to a range of \$1.5 to \$1.8 billion.⁴

Exhibit 3 shows the results of making the same four changes to the assumptions made by Dr. Rabinovitz in her forecast that uses a two-year calibration period. The cumulative effect of these four changes is to reduce the forecast value of pending and future claims from \$14 billion to a range of \$1.6 to \$1.9 billion, a decrease of 87% to 88%.

IV. THE APPROPRIATE DISCOUNT RATES FOR ESTIMATING THE PRESENT VALUE OF ASBESTOS CLAIMS TAKES ACCOUNT OF THE DEBTORS CREDIT RISK

A. Economic theory holds that Owens Corning obligations should be discounted reflecting Owens Corning's cost of borrowing

Two fundamental tenets of corporate finance are: (1) the rate used to discount future cash flows that are certain to come due is the cost to the corporation of borrowing money;⁵ and (2) the expected cost of borrowing increases as the risk that the obligation will not be paid in full increases.⁶ The risk free rate of interest (such as the yield on U.S. government securities) should be used to value those cash flows today, when future cash flows can be paid with certainty as they come due. There is, however, only one such payor for which the risk free rate is appropriate—the U.S. government. For all others, because the ability to pay future demands in full is less than certain, the applicable risk adjusted interest rate used to discount these cash flows should be linked to the market-perceived risk of non-payment.

An individual with an allowable tort claim against OC is an unsecured claimant on the assets of OC. His right to payment is the same as other unsecured claimholders against OC

³ There are two major differences between the Peterson Report average dollars and NERA's estimate of average dollars: first, NERA excludes the impact of punitive damages on settlement values; second, because NERA's forecasted nonmalignant claims are those that meet more restrictive medical criteria, the average value of these allowable claims is higher.

⁴ Dr. Peterson's total forecasted liability using his constant propensity model, is \$16.8 billion. Our preliminary replication of Dr. Peterson's analysis results in an estimate of \$16.6 billion (see footnotes 1 and 2).

⁵ Richard A. Brealey and Stewart C. Myers, *Principals of Corporate Finance—7th ed.*, (New York: McGraw-Hill/Irwin: 2003) pp. 544-48.

such as parties to a lease, a bond or other contract.⁷ The difference between future asbestos claimants and other unsecured claimants is that the exact identity of those who will develop a compensable disease is not known at the time of exposure to OC's products. What is known is that out of a population of exposed workers, a fraction will become sick and will be able to make a successful claim against OC. The risk of nonpayment—which is the relevant economic factor in setting a discount rate—however, is the same as other unsecured claimants whose identity is known. In all of these cases, the correct discount rate is OC's cost of borrowing.

As a general matter, depending on the nature of the credit risk of a corporation, the unsecured borrowing rate will be between 100 to 600 basis points higher than the risk free rate. Such a difference will have a significant impact on the present value of these claims.

B. Dr. Peterson and Dr. Rabinovitz incorrectly use risk free rates to discount the value of future asbestos claims

Both Dr. Peterson and Dr. Rabinovitz use risk free (U. S. Treasury Note) rates to discount future asbestos claims to present values. The need for discounting future claims is beyond dispute. Dr. Peterson recognizes that the debtor would not need to “put aside [the] entire [nominal] amount to pay these future claims. Rather any non-insurance assets held by OC would presumably earn income. To the extent of such earnings, OC could reserve fewer assets to pay these claims.”⁸

Dr. Peterson uses the risk free discount rate of 6 percent reported by Mr. Tersigni⁹ to then compute the present value of future claims as of October 5, 2000. Dr. Peterson does not explain independently why the risk free rate is the appropriate rate at which assets set aside to pay future claims would earn income. As explained above, the risk free rate is lower than the expected return on these assets.

(...cont'd)

⁶ *Ibid.*, pp. 154-56.

⁷ See, e.g., J. Patell, R. Weil and M. Wolfson, “Accumulating Damages in Litigation: The Roles of Uncertainty and Interest Rates,” *Journal of Legal Studies*, Vol. XI (June 1982), pp. 341-63.

⁸ Mark A. Peterson, “Owens Corning and Fibreboard Projected Liabilities for Asbestos Personal Injury Claims as of October 2000,” October 15, 2004 (“Peterson Report”), p. 28.

⁹ Peterson Report, Table 14, p. 28.

Dr. Rabinovitz states that a discount rate, on a ten year Treasury note in 2000,¹⁰ of 5.7% is “assume[d]”.¹¹ This is a rate similar to that used by Dr. Peterson. Dr. Rabinovitz provides no explanation as to the appropriateness of the risk free rate. As explained above, the risk free rate is lower than the rate that should be used based on economic theory.

C. The Tersigni and Hass reports wrongly conclude that the risk free rate should be used for discounting future asbestos claims

1. Rebuttal of Tersigni Report

Loreto T. Tersigni concludes that the risk free rate should be used to discount future asbestos liability claims based on the following arguments:¹²

1. that such claims are “involuntary obligations” because they are not entered into as “arms-length” agreements between the two parties (i.e., they are thus presumed not to exist or are totally unforeseen);¹³
2. that the claimant did not receive protections afforded to bank lenders through a loan agreement; thus, a lack of explicit protections implies that no risk exists;¹⁴
3. that there is precedent for using the risk free discount rate for such claims based on previous judgments and SEC and FASB pronouncements.¹⁵

None of these arguments justifies using the risk free rate instead of the unsecured lending rate.

a) Asbestos Claims as Involuntary Obligations

Mr. Tersigni’s opinion is not based on any economic principle but, rather, is based on subjective judgment. In Mr. Tersigni’s view, the key difference between individuals with allowable asbestos claims and other unsecured claimants is that at the time a worker became

¹⁰ Francine F. Rabinovitz, “Estimated Number and Values of Pending and Future Asbestos Personal Injury Claims Against the Owens Corning Corporation,” October 15, 2004 (“Rabinovitz Report”), p. 15.

¹¹ Rabinovitz Report, footnote 16.

¹² Loreto T. Tersigni, Report prepared on behalf of the Official Committee of Asbestos Personal Injury Claimants, October 15, 2004.

¹³ *Ibid.*, p. 3.

¹⁴ *Ibid.*, p. 4.

¹⁵ *Ibid.*, p. 5.

exposed to asbestos he did not anticipate that he would ultimately have a claim against OC. Most other claimants demanding future payments based on tort or breach, however, could make the same claim and Mr. Tersigni does not refer to any provision in the U.S. Bankruptcy Code (or other legal authority) setting a discriminatory discount rate among classes of unsecured claimholders. There is no economic or policy reason why there should be discrimination of claim values among these various claimants based on discount rates. Let us suppose that a worker had \$100 of her pay deferred for three years just before OC defaulted as part of a worker retention program. In valuing her claim, it is likely her claim would be discounted using the debt rate of OC.¹⁶ Compare her valuation to that of asbestos claimants who expect to be paid \$100 in three years; if allowable asbestos claims were discounted using the risk free rate then we would get the anomalous result that asbestos claims would have higher value than claims for deferred compensation. Yet it is difficult to argue that OC's obligation to one class of workers is, in Mr. Tersigni's terms, more involuntary than its obligations to the other.¹⁷

b) Lack of formal lending agreement and subsequent protections between the parties implies this is a risk free venture

Mr. Tersigni states that because there are no formal provisions or protections such as bond covenants between OC and individuals with allowable asbestos claims then the asbestos claims must be risk free. An initial problem with this opinion is that lack of specified protections does not imply the absence of risks. This argument also implies that equity claims (which usually have no or limited protections in place) must also be risk free when in fact equity claims bear the highest risk of all.¹⁸ Second, protections are often written into loan agreements in order to protect lenders from losing their seniority to other claimants such as

¹⁶ More specifically, it would be what the Supreme Court has called the "formula rate" which is a spread above prime (or LIBOR) where the spread takes into account the credit quality of the debtor upon emerging from bankruptcy. See *Till et ux. v. SCS Corp.*, 541 U.S. (2004). We discuss the issue of OC's credit quality upon emerging from bankruptcy in a separate section below.

¹⁷ Economists would also dispute the claim that the obligations were involuntary. There are varying risks and uncertainties associated with occupational choice and corresponding pay differentials to help compensate for these differences. My point is that this issue doesn't matter—but even if it did, it would require a fact intensive inquiry among all creditors to see whose claim is the result of unexpected risks and what the corresponding discount rate should be. This would, no doubt, result in the intellectually and factually demanding task of trying to define and determine relative "involuntariness" and "unexpectedness" for each claim.

¹⁸ William Sharpe, "Capital Asset Prices: A Theory of Market Equilibrium," *Journal of Finance*, September 1964.

equity holders or other subordinated claims.¹⁹ In other words, protections exist so that debtors will not pay off any of the less senior claimants prior to paying off the protected lenders. The absence of such protections thus places the asbestos claimants at more risk of having their claims paid out to less senior claimants and indicates that these claims are subordinate to other fixed claims such as secured loans.

c) Prior precedent for using the risk free rate to value contingent claims

Mr. Tersigni also argues that the risk free rate is appropriate because accounting and securities regulators recommend using the risk free rate to estimate and value contingent claims as they are recorded on financial statements. An initial problem with this argument is that it ignores the well-known distinction between book value and economic value.²⁰ As a general proposition, accounting entries on the balance sheet (“book value”) are generally not the market value of those items but are accorded treatment based on standards to make accounting statements verifiable and uniform. In the specific instance of asbestos claims, these are only recorded when they can be estimated with reasonable certainty.²¹ In fact, typically, the estimates do not extend beyond five to ten years based on the premise that forecasts beyond that time are too speculative. By comparison, Dr. Peterson’s forecast is for several decades. Because accountants are valuing those cash flows that are certain to be paid, and may even exclude cash flows that are probable, the standard allows application of a risk free rate. This is still the wrong rate for any unsecured cash flow, but it is one that makes up for the extreme conservatism of the estimate of cash flows to which it is being applied.

2. Rebuttal of Hass Report

Mr. Hass claims that since expected future asbestos claim cash flows are already adjusted for “rejection rates” there is no other risk associated with these future cash flows.

¹⁹ Richard A. Brealey and Stewart C. Myers, *Principals of Corporate Finance—7th ed.*, (New York: McGraw-Hill/Irwin, 2003), p. 711.

²⁰ *Ibid.*, pp. 202, 330, 819-20.

²¹ FAS 5 “Accounting for Contingencies” requires accrued loss contingencies to be “probable” and that the “amount of the loss be reasonably estimated.” This restriction is meant to prevent companies from over-reserving—creating what are known as “cookie-jar” reserves that can be drawn down to manage future earnings.

Because, in his view, they are essentially risk free, they should be discounted at the risk free rate.²² Mr. Hass has the risk associated with the discount rate coming from the wrong party—it is the credit risk of the debtor not the risk of the creditor that matters.²³

V. USING A DISCOUNT RATE THAT REFLECTS EITHER THE DEBTORS' COST OF FUNDS OR EXPECTED RETURN ON POST-BANKRUPTCY TRUST ASSETS REDUCES THE ESTIMATED PRESENT VALUE OF LIABILITIES REPORTED BY DR. PETERSON AND DR. RABINOVITZ

As described above, the appropriate discount rate for future asbestos claims takes into account the credit of the defendant. Below, we show how such a discount rate should be chosen for the future OC asbestos claims.

A. Discount rates to estimate the debtors' cost of funds coming out of Chapter 11

Both Dr. Peterson and Dr. Rabinovitz estimate the present value of future asbestos claims as of the date of bankruptcy filing (October 5, 2000). Consequently, it is appropriate to use a discount rate based on interest rates at that time and based on the expected credit-worthiness of post-confirmation OC. We estimate the following range of borrowing rates for the debtor at that time:

1. The stated rate for OC's debtor in possession (DIP) lending during the re-organization (Libor plus 75 to 200 basis points or 7.55% to 8.80% immediately after filing) – this can be considered a lower boundary on the expected borrowing rate because DIP lenders have priority over most other claimants in bankruptcy.
2. The corporate BBB and BB bond portfolio index yields to maturity for instruments of maturity greater than 15 years, which are 8.53% and 10.18% respectively in October 2000. These were the bond ratings for OC unsecured in 2000 prior to its filing for

²² James E. Hass, "Regarding Interest Rates and Discount Rates for the Estimation of Asbestos Personal Injury Claims for Owens Corning Fiberboard Corporation," October 15, 2004, p. 2.

²³ J. Patell, R. Weil and M. Wolfson, M., "Accumulating Damages in Litigation: The Roles of Uncertainty and Interest Rates," *Journal of Legal Studies*, Vol. XI (June 1982), pp. 341-63.

bankruptcy protection. This range of yields is used as a proxy for Owens' long-term borrowing rate range coming out of bankruptcy in 2000.²⁴

Exhibit 4 shows the effect of these discount rates on discounted present value of future asbestos liabilities for the forecasts of Dr. Peterson and Dr. Rabinovitz.

B. Discount rates based on the creditworthiness of OC at the time of exposure

Another economic theory of the appropriate discount rate is that it should reflect credit risk no lower than the credit-worthiness of the defendant at the time of exposure. According to data available from the period 1969 forward, OC had borrowed short term at the (unadjusted) prime rate; its long term debt had a single A rating. It is not appropriate to use the interest rates from years before 2000, though, because these will embed different inflation expectations than are in interest rates at the time OC filed for bankruptcy. These earlier inflation expectations would be inconsistent with the 2.5% inflation used by Dr. Peterson and Dr. Rabinovitz. For this reason, we use interest rates as of October 5, 2000 reflecting the credit quality of OC debt at the time of worker exposure. In particular, we test the effect on present discounted value of following two discount rates:

1. the Prime Lending rate as of October 5, 2000, which is 9.5%;
2. the corporate A-rated bond portfolio index yield to maturity for instruments of maturity greater than 15 years as of October 5, 2000 which is 8.12%.²⁵

Exhibit 4 presents the discounted present value of the Peterson and Rabinovitz and Rabinovitz asbestos claims forecasts using these discount rates.

²⁴ A third approach to calculating the present value of risky cash flows advocated in Brealey and Myers pp. 239-243, is to adjust for risk in the cash flows by probability weighting them and then using the risk free rate to discount these cash flows into the present. When we apply this approach using assumptions on the risk of subsequent default for firms currently in Chapter 11 (historically at 32% as reported by Edith Hotchkiss in the *Journal of Finance*, Vol. L., No. 1, March 1995, pp. 3-21) and the payoff to unsecured creditors at the time of default (between \$0.45 and \$0.30 on the dollar as reported by Moody's), we get a present value that is similar to that using the unadjusted cash flows and a discount rate in the range of 8.12% to 8.80% (See Exhibit 4).

²⁵ That the long term yield is less than short run interest rates reflects an unusual circumstance called an inverted yield curve.

C. Expected return on post-bankruptcy trust assets

A potential problem can occur if the present discounted value of future claims is used for determining the distribution to be made to these claimants in the form of an asbestos trust but then the asbestos trust is unable to meet its future obligations because amount the asbestos trust can earn is less than the discount rate used in valuing the claims. The asbestos trust must invest assets today to meet asbestos claim obligations in the future. To estimate the expected return on hypothetical OC Trust assets we mimic the portfolio holdings of The Manville Personal Injury Settlement Trust as of year-end 2004 and use these portfolio weights to compute the expected portfolio return for Owens. At year-end 2004 The Manville Trust was holding 63% in diversified equities and 34% fixed income, and 3% cash equivalents.²⁶ Assuming the OC Trust will hold at inception the same ratio of investment assets as Manville, we calculate the expected return on equities, investment grade debt, and cash equivalents and then weight them by the percent held in the portfolio to get an average expected return for the asbestos trust as a whole. The expected return on each of these instruments is as follows:

1. For the expected return on fixed income and cash equivalents we use the 2004 year-to-date average return on investment grade U.S. corporate bonds (6.15%);²⁷
2. For the expected return on cash equivalents we use the 1 month Certificate of Deposit rate (1.32%);²⁸
3. To estimate the expected return on the equity portfolio, we apply the Capital Asset Pricing Model (CAPM) which states that the expected return on any asset is equal to the risk free rate plus a risk premium; the risk premium is measured as the yield on the market portfolio of assets relative to the risk free rate (Equity Risk Premium) multiplied by a factor showing how much that asset's returns vary with the market as a whole (known as beta).²⁹ Since the portfolio in question is a well-diversified market portfolio, we assume its beta is 1.0 (meaning it co-varies perfectly with the

²⁶ Manville Personal Injury Settlement Trust Consolidated Statements Of Net Claimants' Equity As Of December 31, 2001 And 2000.

²⁷ See Exhibit 5.

²⁸ *Ibid.*

market as whole). Our estimate of the equity risk premium is based on Ibbotson's average equity risk premium measured from 1926 to 2003.³⁰ The required return on equity in 2004 from the CAPM is 12.82%.

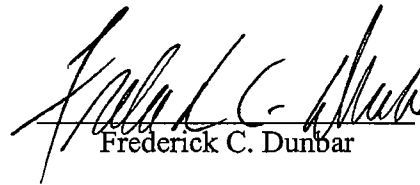
Exhibit 5 shows the calculation that weights these returns by the shares of each type of security. The expected long-run return for the OC Trust portfolio is 10.2%. This 10.2% should be applied to future cash commitments to calculate the amount needed to invest today. As such, any discount rate to determine the present discounted value of future claims that is less than 10.2% will result in an estimate of total future claims that would be consistent with the OC Trust remaining solvent over its life.

* * *

For the reasons presented above, and in my October 15 report, the projections of the value of future asbestos claims made by Dr. Peterson and Dr. Rabinovitz need to be adjusted.

* * *

This rebuttal analysis is based on our preliminary analysis of the backup to the reports produced by Dr. Peterson and Dr. Rabinovitz.³¹ We are continuing to work on refining this analysis.


Frederick C. Dunbar

Nov. 15, 2004
Date

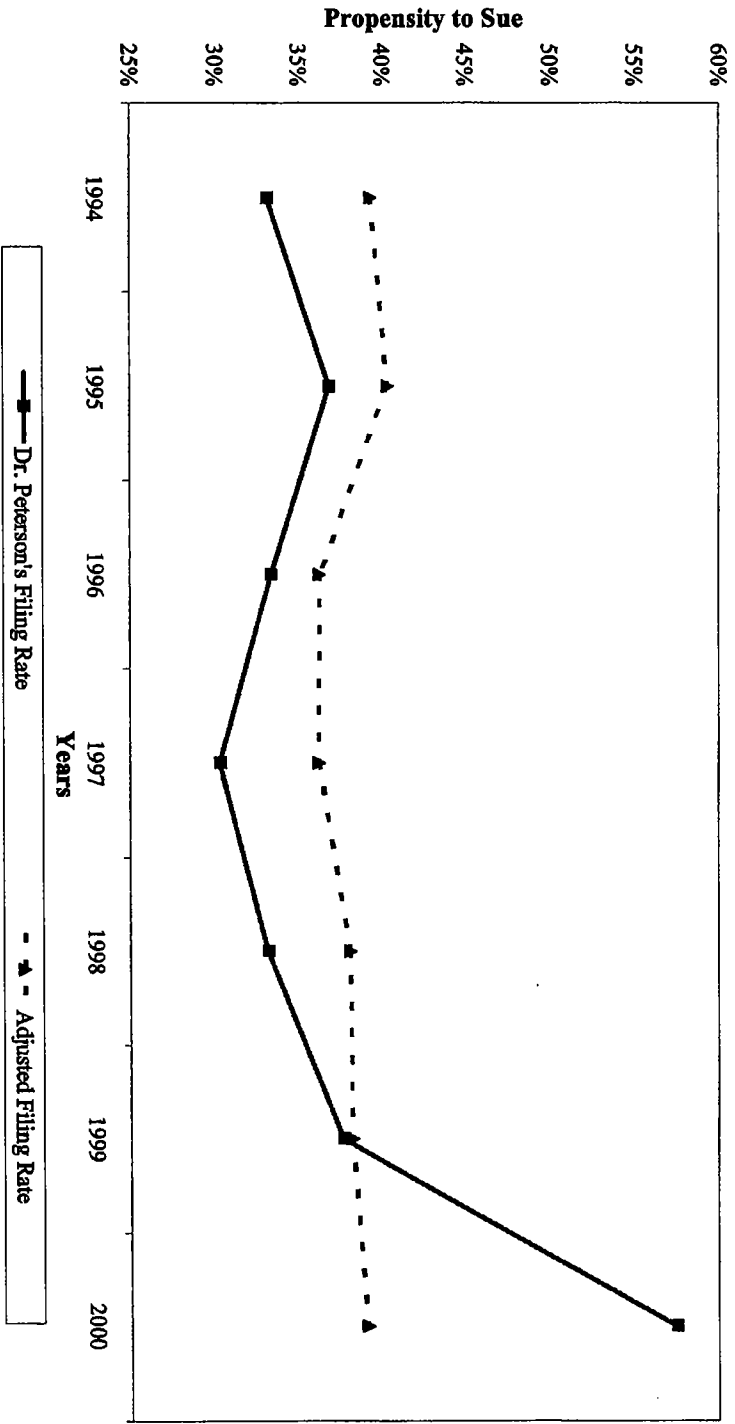
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²⁹ William Sharpe, "Capital Asset Prices: A Theory of Market Equilibrium," *Journal of Finance*, September 1964. Expected return = $R_f + \text{Beta} \cdot (R_m - R_f)$.

³⁰ Ibbotson 2004 Stocks, Bonds, Bills & Inflation (SBBI) Yearbook.

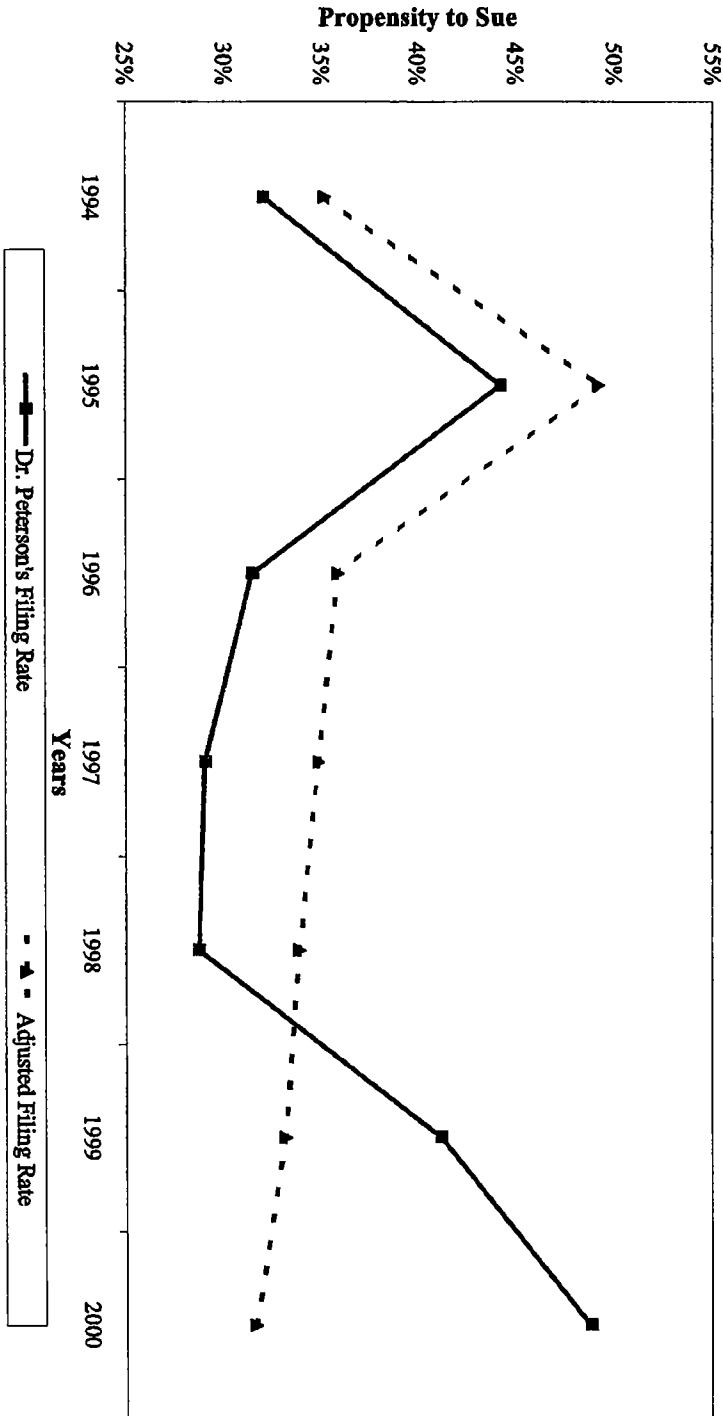
³¹ See footnotes 1 and 2.

Exhibit 1A
Owens Corning
Propensity to Sue Adjusted for Unsustainable Filing Rates - Mesothelioma



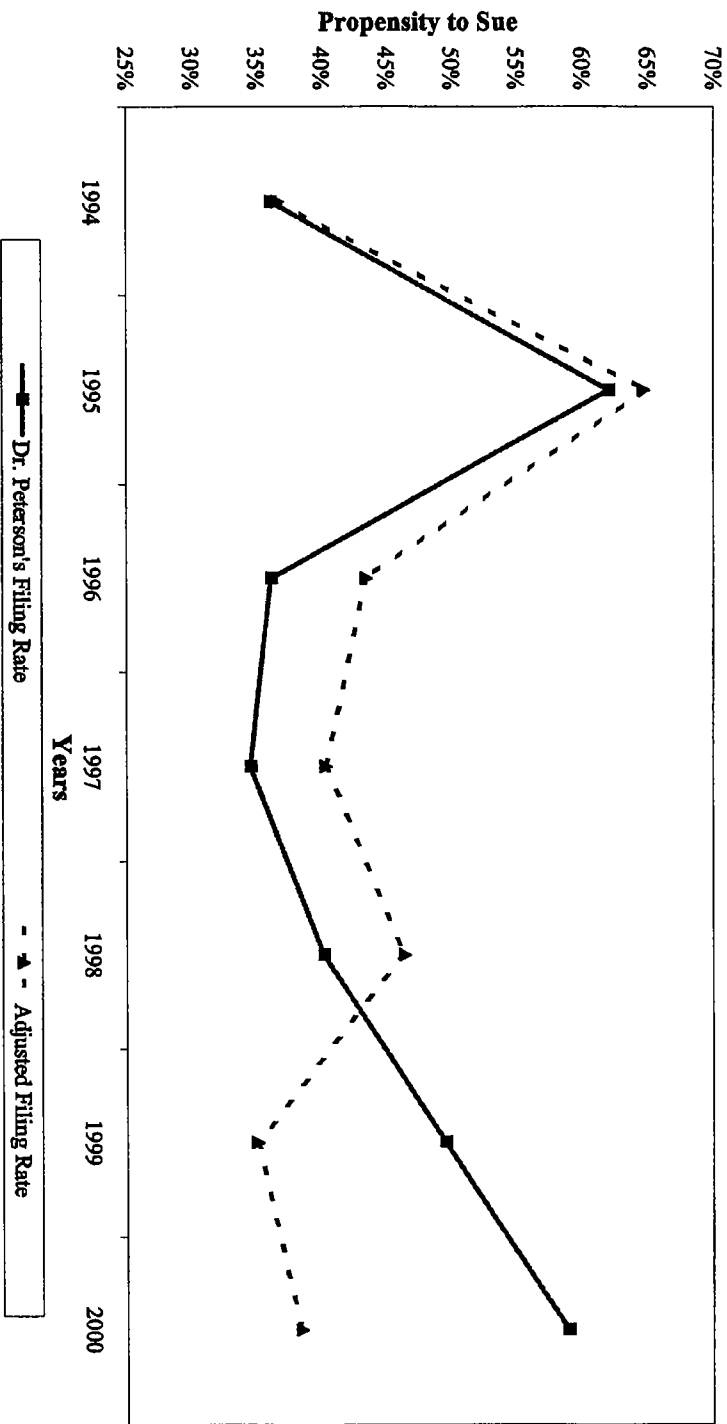
Notes and Sources:
 2000 values are annualized by the actual day calculations (In 2000, number of days until 10/05/2000 is 278, total number of days is 366).
 Dr. Peterson's filing rates are obtained from Peterson, Dr. Mark A., Owens Corning and Fibreboard Projected Liabilities for Asbestos Personal Injury Claims as of October 2000; Page 21, Table 11.
 The adjusted filing rates are based on the ICMS database. For closed claims (claims with either a closed date or a non-zero monetary allocation), we have used the resolved disease field. For open claims (all other claims), we have taken the claimed disease field and reallocated diseases according to Dr. Peterson's transition matrix (Peterson Report; Page 15, Table 6). Claims are then matched by social security number to the Manville and CCR databases. The adjusted file date for each claimant is the earliest date at which that social security number was attached to a claim against any of the defendants.
 Disease incidence is from Nicholson, W. Occupational Exposure to Asbestos: Population at Risk and Projected Mortality - 1980-2030; 1982.

Exhibit 1B
Owens Corning
Propensity to Sue Adjusted for Unsustainable Filing Rates - Lung Cancer



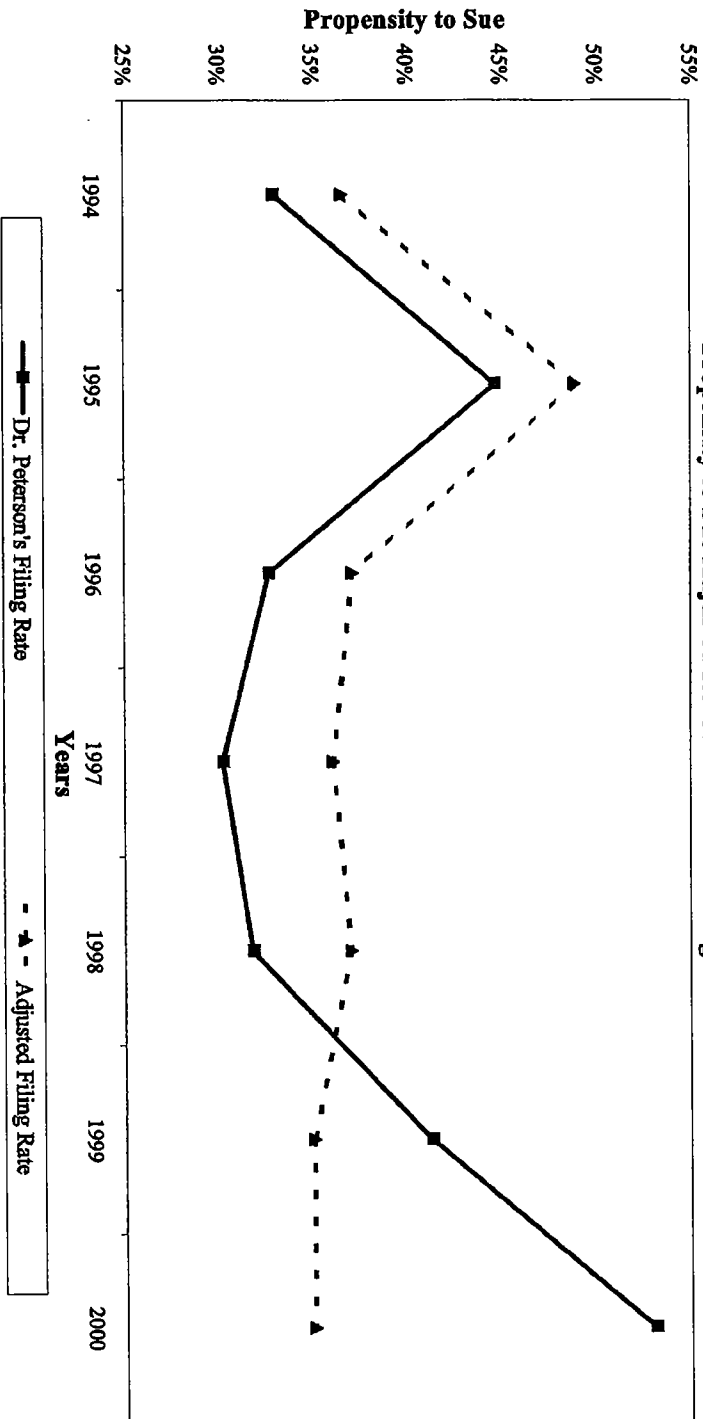
Notes and Sources:
 2000 values are annualized by the actual day calculations (In 2000, number of days until 10/05/2000 is 278, total number of days is 366).
 Dr. Peterson's filing rates are obtained from Peterson, Dr. Mark A., Owens Corning and Fibreboard Projected Liabilities for Asbestos Personal Injury Claims as of October 2000; Page 21, Table 11.
 The adjusted filing rates are based on the ICMS database. For closed claims (claims with either a closed date or a non-zero monetary allocation), we have used the resolved disease field. For open claims (all other claims), we have taken the claimed disease field and reallocated diseases according to Dr. Peterson's transition matrix (Peterson Report; Page 15, Table 6). Claims are then matched by social security number to the Marville and CCR databases. The adjusted file date for each claimant is the earliest date at which that social security number was attached to a claim against any of the defendants.
 Disease incidence is from Nicholson, W. Occupational Exposure to Asbestos: Population at Risk and Projected Mortality - 1980-2030; 1982.

Exhibit 1C
Owens Corning
Propensity to Sue Adjusted for Unsustainable Filing Rates - Other Cancer



Notes and Sources:
 2000 values are annualized by the actual day calculations (In 2000, number of days until 10/05/2000 is 278, total number of days is 366).
 Dr. Peterson's filing rates are obtained from Peterson, Dr. Mark A., Owens Corning and Fireboard Projected Liabilities for Asbestos Personal Injury Claims as of October 2000; Page 21, Table 11.
 The adjusted filing rates are based on the iCMS database. For closed claims (claims with either a closed date or a non-zero monetary allocation), we have used the resolved disease field. For open claims (all other claims), we have taken the claimed disease field and reallocated diseases according to Dr. Peterson's transition matrix (Peterson Report; Page 15, Table 6). Claims are then matched by social security number to the Marville and CCR databases. The adjusted file date for each claimant is the earliest date at which that social security number was attached to a claim against any of the defendants.
 Disease incidence is from Nicholson, W., Occupational Exposure to Asbestos: Population at Risk and Projected Mortality - 1980-2030; 1982.

Exhibit 1D
Owens Corning
Propensity to Sue Adjusted for Unsustainable Filing Rates - All Cancers



Notes and Sources:

2000 values are annualized by the actual day calculations (In 2000, number of days until 10/05/2000 is 278, total number of days is 366).

Dr. Peterson's filing rates are obtained from Peterson, Dr. Mark A., Owens Corning and Fibreboard Projected Liabilities for Asbestos Personal Injury Claims as of October 2000; Page 21, Table 11.

The adjusted filing rates are based on the ICNMS database. For closed claims (claims with either a closed date or a non-zero monetary allocation), we have used the resolved disease field. For open claims (all other claims), we have taken the claimed disease field and reallocated diseases according to Dr. Peterson's transition matrix (Peterson Report; Page 15, Table 6). Claims are then matched by social security number to the Maryville and CCR databases. The adjusted file date for each claimant is the earliest date at which that social security number was attached to a claim against any of the defendants.

Disease incidence is from Nicholson, W. Occupational Exposure to Asbestos: Population at Risk and Projected Mortality - 1980-2030; 1982.

Exhibit 2
Owens Corning
Adjustments to Dr. Peterson's Forecasted and Pending Claims

	Mesothelioma (1)	Lung Cancer (2)	Other Cancer (3)	Non-Malignant (4)	Total (5)
Dr. Peterson's Constant Propensity to Sue Model ¹	\$7.7 B	\$1.9 B	\$3 B	\$6.8 B	\$16.7 B
Apply NERA Dollars ²	\$3.8 B	\$1.1 B	\$2 B	\$7.2 B	\$12.3 B
Apply Manville Criteria ³	\$3.8 B	\$1.0 B	\$2 B	\$1.1 B	\$6.1 B
Apply Product ID of 48.58% ⁴	\$1.8 B	\$.5 B	\$.1 B	\$.5 B	\$2.9 B
Apply Appropriate Discount Rate ⁵ 7.55% - 10.18%	\$.9 B - \$1.1 B	\$.3 B - \$.3 B	\$.0 B - \$.1 B	\$.3 B - \$.4 B	\$1.5 B - \$1.8 B

Notes and Sources:

- ¹ Based on Dr. Peterson's report of his forecast of claims. We have not been able to replicate this forecast due to the nature of Dr. Peterson's backup materials. Dollars are inflated at 2.5%.
- Dr. Peterson's average resolution dollars are: Mesothelioma: \$185,462; Lung Cancer: \$40,883; Other Cancer: \$17,471; Non-Malignant: \$7,080. Peterson, Dr. Mark A. Owens Corning and Fibreboard Projected Liabilities for Asbestos Personal Injury Claims as of October 2000. October 15, 2004. Page 21, Table 11.
- ² 1996-2000 average settlement values adjusted for punitive damages. Impaired Non-Malignant prices as 28% of Lung Cancer average. Mesothelioma: \$130,195; Lung Cancer: \$30,787; Other Cancer: \$14,937; Impaired: \$10,158. Dollars are not inflated.
- ³ Punitive damage adjustment factors: Mesothelioma: 75.8%; Lung Cancer: 76.3%; Other Cancer: 86.2%; Impaired Non-Malignant 90.1%.
- ⁴ Manville audit results used to reallocate asbestosis to pleural and no disease, and pleural to no disease. Dr. Friedman's study used to estimate fraction of impaired pleurals (6.8%).
- ⁵ NERA has estimated that 48.58% of sampled depositions have a valid product ID.
- Average dollars are discounted 7.55% - 10.18% and inflated at 2.5%. For more information about the discount rate, see Exhibit 4.

n/e/r/a

Exhibit 3
Owens Corning
Adjustments to Dr. Rabinovitz's Forecasted and Pending Claims

	Mesothelioma (1)	Lung Cancer (2)	Other Cancer (3)	Non-Malignant (4)	Total (5)
Dr. Rabinovitz's 2 Year Calibration Model ¹	\$5.8 B	\$1.7 B	\$2 B	\$6.3 B	\$14.0 B
Apply NERA Dollars ²	\$3.2 B	\$1.1 B	\$2 B	\$8.4 B	\$12.8 B
Apply Manville Criteria ³	\$3.2 B	\$9 B	\$2 B	\$13 B	\$5.6 B
Apply Product ID of 48.58% ⁴	\$1.6 B	\$5 B	\$1 B	\$6 B	\$2.7 B
Apply Appropriate Discount Rate ⁵ 7.55% - 10.18%	\$.9 B - \$1.0 B	\$.3 B - \$.3 B	\$.05 B - \$.06 B	\$.4 B - \$.4 B	\$1.6 B - \$1.9 B

Notes and Sources:

- ¹ Values equal those from Dr. Rabinovitz's report. Dollars are inflated at 2.5%. Rabinovitz's average resolution dollars are: Mesothelioma: \$174,730; Lung Cancer: \$38,160; Other Cancer: \$15,890; Non-Malignant: \$5,880.
Rabinovitz et al, "Estimated Number and Value of Pending and Future Asbestos Personal Injury Claims Against the Owens Corning Corporation," October 15, 2004.
- ² 1996-2000 average settlement values adjusted for punitive damages. Impaired Non-Malignant prices as 28% of Lung Cancer average.
Mesothelioma: \$130,195; Lung Cancer: \$30,787; Other Cancer: \$14,937; Impaired: \$10,158. Dollars are not inflated.
Punitive damage adjustment factors: Mesothelioma: 75.8%; Lung Cancer: 76.3%; Other Cancer: 86.2%; Impaired Non-Malignant: 90.1%.
- ³ Manville audit results used to reallocate asbestosis to pleural and no disease, and pleural to no disease. Dr. Friedman's study used to estimate fraction of impaired pleurals (6.8%).
- ⁴ NERA estimates that 48.58% of sampled depositions have a valid product ID.
- ⁵ Average dollars are discounted 7.55% - 10.18% and inflated at 2.5%. For more information about the discount rates see Exhibit 4.

Exhibit 4
Owens Corning
Dr. Peterson's and Dr. Rabinovitz's Forecast of Present Value of Future Claims
Assuming Alternative Discount Rates ¹

	<u>Dr. Peterson</u> (1)	<u>Dr. Rabinovitz</u> (2)
Present Value of Future Claims	\$6.4 B ²	\$6.2 B ⁶
OC Debtor in Possession Credit Facility from 2000 10K (Libor - 6.8% plus 0.75% to 2.0%) ³ Discount Rate of 7.55%	\$5.5 B	\$5.3 B
Corporate A Index - 15+ years October 5, 2000 ⁴ Discount Rate of 8.12%	\$5.2 B	\$5.1 B
Corporate BBB Index - 15+ years October 5, 2000 ⁴ Discount Rate of 8.53%	\$5.0 B	\$4.9 B
OC Debtor in Possession Credit Facility from 2000 10K (Libor - 6.8% plus 0.75% to 2.0%) Discount Rate of 8.80%	\$4.9 B	\$4.8 B
Prime Rate ⁵ Discount Rate of 9.50%	\$4.6 B	\$4.6 B
Corporate BB Index - 15+ years October 5, 2000 ⁴ Discount Rate of 10.18%	\$4.3 B	\$4.3 B

Notes and Sources:

- ¹ All scenarios assume 2.5% annual inflation in claim dollars.
- ² Peterson, "Owens Corning and Fiberboard Projected Liabilities for Asbestos Personal Injuries Claims as of October 2000," October 15, 2004, page 28, Table 14. Dr. Peterson uses a 6.07% discount rate based on a risk free treasury bond. This analysis is based on a reproduction of Dr. Peterson's forecast. While the values are not exact, they are very close. Uses Dr. Peterson's constant propensity to sue model, in which Dr. Peterson assumes that the propensity to sue will remain at the level of his base period, 1996 through September 2000.
- ³ 6.8% rate obtained from <http://www.bba.org.uk/public/libor/5036>, and is equal to the 3 month Libor rate in USD. Owens Corning 10-K405 filed April 02, 2001, page 71.
- ⁴ Data obtained from Bloomberg.
- ⁵ <http://www.federalreserve.gov/releases/h15/data/m/prime.txt>
- ⁶ Rabinovitz 2 year calibration model. Rabinovitz et al., "Estimated Number and Value of Pending and Future Asbestosis Personal Injury Claims Against the Owens Corning Corporation," October 15, 2004.

Exhibit 5
Owens Corning
Return on Investment Trust
2004

<u>Equity</u>		
US Treasury (Risk Free Rate)	(a)	5.02%
Maturity-15+ 2004 ¹		
Equity Risk Premium 1926-2003 ²	(b)	7.80%
Expected Return on Equity	(c) = (a) + (b)	12.82%
<u>Bonds</u>		
US Investment Grade Corporate	(d)	6.15%
Bonds Maturity-15+ 2004 ¹		
<u>Cash</u>		
30 Day CD Rate 2004 ¹	(e)	1.32%
<u>Manville Trust³</u>		
% held in Equities	(f)	63.00%
% held in Fixed Income	(g)	34.00%
Cash	(h)	3.00%
Expected Portfolio Return	(i)=[(c)*(f)]+[(d)*(g)]+[(e)*(h)]	10.21%

Notes and Sources:

¹ Data obtained from Bloomberg.

² Ibbotson 2004 Stocks, Bonds, Bills & Inflation (S&BBI) Yearbook

³ http://mantrust.org/FILINGS/Q2_04/2NDQTR04.pdf, pg 2.