

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE**

In re: ) Chapter 11  
)  
ARMSTRONG WORLD INDUSTRIES, ) Case No. 00-4471 (KG)  
INC., *et al.*, )  
)  
Debtors. )

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**ARMSTRONG WORLD INDUSTRIES, INC. ASBESTOS PERSONAL INJURY  
SETTLEMENT TRUST'S NOTICE OF FILING OF ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Pursuant to Article 7.1 of Debtors' Fourth Amended Plan of Reorganization, as modified, and Section 2.2(c) of the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement (the "**Trust Agreement**"), the Trustees of the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the "**Trust**"), Anne M. Ferazzi, Harry Huge, and Richard E. Neville (collectively, the "**Trustees**"), hereby give notice of the filing of the Trust's Annual Report for the year ended December 31, 2013 (the "**Annual Report**"), a copy of which is attached hereto as Exhibit 1.


Consistent with Sections 2.2(c), 4.5(c), 5.6, and 6.5 of the Trust Agreement, the Annual Report includes the following: a copy of the Trust's financial statements for calendar years 2012 and 2013; the opinion and report from the independent auditors for the Trust; a summary of the number and type of claims disposed of during the year ended December 31, 2013 (the "**Reporting Period**"); and a report of the total fees and expenses paid to the Trustees, the Trust Advisory Committee, and the Future Claimants' Representative during the Reporting Period. As required by Section 2.2(c)(i) of the Trust Agreement, a copy of the Annual Report has been provided to the Trust Advisory Committee, the Future Claimants' Representative, and

Reorganized Armstrong World Industries, Inc. In addition, pursuant to Section 2.2(c)(iii) of the Trust Agreement, the Annual Report is available for inspection by the public through the records of the Bankruptcy Court, and a copy has been provided to the office of the United States Trustee for the District of Delaware.

Dated: April 30, 2014

Respectfully submitted,

MORRIS JAMES LLP



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Counsel for Armstrong World Industries, Inc.  
Asbestos Personal Injury Settlement Trust

# Exhibit 1

Annual Report for the  
Year Ended December 31, 2013

# Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust

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## ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2013

Pursuant to Article 7.1 of the Fourth Amended Plan of Reorganization of Armstrong World Industries, Inc., as modified (the “**Plan**”), and Section 2.2(c) of the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement (the “**Trust Agreement**”), the Trustees of the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the “**Trust**”), Anne M. Ferazzi, Harry Huge, and Richard E. Neville (collectively, the “**Trustees**”), make the following Annual Report for the year ended December 31, 2013 (the “**Annual Report**”).

### **A. Financial Statements**

Section 2.2(c)(i) of the Trust Agreement requires the Annual Report to include the following:

[F]inancial statements of the PI Trust (including, without limitation, a balance sheet of the Asbestos PI Trust as of the end of such fiscal year and a statement of operations for such fiscal year) audited by a firm of independent certified public accountants selected by the Trustees and accompanied by an opinion of such firm as to the fairness of the financial statements’ presentation of the cash and investments available for the payment of claims and as to the conformity of the financial statements with generally accepted accounting principles.

Attached as Exhibit 1.A is a copy of the Armstrong World Industries, Inc. Asbestos PI Trust Financial Statements with Independent Auditors’ Report as of December 31, 2012 and 2013 (the “**Audited Financial Statements**”). As required, the Trust’s auditor, BKM Sowan Horan LLP, has conducted an audit of the Trust in accordance with auditing standards generally accepted in the United States, and has expressed an opinion that the Trust’s financial statements present

fairly, in all material respects, the financial position of the Trust as of December 31, 2012 and 2013, and that the results of the Trust's operations and its cash flows for the years then ended are in conformity with the special-purpose basis of accounting described in the notes to the Audited Financial Statements. The auditor's opinion expressly provides that it is intended for the use of this Court.

**B. Claims Summary**

Section 2.2(c)(ii) of the Trust Agreement requires the Annual Report to include "a summary regarding the number and type of claims disposed of during the period covered by the financial statements." Attached as Exhibit 1.B is a summary of claims filed and paid by the Trust in 2013, and in total from the Trust's inception through the end of 2013.

The Delaware Claims Processing Facility ("**DCPF**") processes asbestos personal injury claims for the Trust. DCPF is a claims processing facility jointly owned by the Trust and five other asbestos trusts. DCPF operates in such a way that each of the trust co-owners pays the *pro rata* cost of its usage of the facility. Trustee Anne Ferazzi sits on the board of DCPF and reports regularly to her fellow Trustees on issues relating to claims processing and the Trust's ownership interest in DCPF.

**C. Trustees' Fees**

Section 4.5(c) of the Trust Agreement provides that the Annual Report shall include a description of the amounts paid to the Trustees in 2013. The Audited Financial Statements separately set forth the amounts paid in fees and expenses to the Trustees during the year ended December 31, 2013 (the "**Reporting Period**").

**D. Trust Advisory Committee Fees**

Section 5.6 of the Trust Agreement provides that the Annual Report shall include a description of the amounts paid to the Trust Advisory Committee (“**TAC**”). The Audited Financial Statements separately set forth the amounts paid in fees and expenses to the TAC members during the Reporting Period. The members of the TAC are Russell Budd, John D. Cooney, Steven Kazan, Joseph F. Rice, and Perry Weitz.

**E. Future Claimants’ Representative Fees**

Section 6.5 of the Trust Agreement provides that the Annual Report shall include a description of the amounts paid to the Future Claimants’ Representative (“**FCR**”). The Audited Financial Statements separately set forth the amounts paid in fees and expenses to the FCR during the Reporting Period. The FCR is Dean M. Trafelet.

**F. Significant Events During the Reporting Period**

**1. AWI Stock Ownership**

At its inception, the Trust was funded with cash, insurance assets, and 36,981,480 shares of Armstrong World Industries, Inc. (“**AWI**”) stock. The AWI shares began to trade publicly on the New York Stock Exchange shortly after the Plan went effective. The Trust remains the largest shareholder of AWI. Prior to a March 2014 block trade transaction in which the Trust disposed of additional AWI shares to reduce its holdings below 20% of AWI’s outstanding stock, the Trust’s shareholdings in AWI were subject to certain restrictions contained in a Stockholder and Registration Rights Agreement and AWI’s articles of incorporation (together, the “**Restrictions**”).

As previously reported, on August 10, 2009, the Trust entered into a Purchase and Sale Agreement with certain Texas Pacific Group funds (“**TPG Funds**”), pursuant to which the Trust

agreed to sell to TPG Funds 7,000,000 shares of the stock of AWI. At the same time, the Trust and TPG Funds entered into a Prepaid Share Forward Confirmation, pursuant to which TPG Funds purchased from the Trust economic interests in the equivalent of an additional 1,039,777 shares of AWI stock. The aggregate consideration for the purchase of the shares and interests by TPG Funds was approximately \$180,000,000 in cash. The Trust reported these transactions on a Schedule 13D filed with the United States Securities and Exchange Commission on or about August 11, 2009. After the sale of stock to TPG Funds, the Trust owned approximately 51% of the stock of AWI.

After two secondary offerings of AWI stock in 2012, the Trustees and their advisors continued in 2013 to devote considerable time to monitoring AWI's performance and exploring further monetization strategies for the Trust's AWI stock holdings. The Trustees conferred regularly, on a weekly or more frequent basis, with the Trust's corporate counsel and its financial advisor, Perella Weinberg Partners ("PWP"). Moreover, the Trustees were in frequent contact with AWI management, both directly and through their professionals.

After consultation with PWP, TPG Funds, and the Trust's other financial and legal advisors, the Trustees determined that it was in the best interest of the Trust and its beneficiaries that the Trust and TPG Funds sell certain shares of AWI pursuant to a "block trade" sales transaction and a related share repurchase by AWI. PWP solicited bids for block trades from a group of banks, with Deutsche Bank providing the highest per share price and largest amount of proceeds for both the Trust and TPG Funds. On September 10, 2013, the Trustees accepted a \$51.41 price per share for a total secondary offering of 12,057,382 shares. The gross value of the transaction was \$480 million, with after-tax net proceeds of approximately \$340 million.

In November 2013, another block trade of AWI stock worth \$304 million was accomplished by the Trust and TPG Funds. Following this transaction, the Trust owned 21% of AWI.

During the Reporting Period, the Trust continued to have two designees on the AWI Board of Directors. In 2013, the Trust's designees were Richard E. Wenz and Michael F. Johnston.

In addition to having designees on the AWI Board of Directors, the Trustees regularly attended AWI Board meetings as observers and benefitted from the continuing involvement of Trust representatives within the strategic planning process at AWI.

## **2. Reconsideration of the Payment Percentage**

Under Section 4.2 of the Trust Distribution Procedures, the Trustees must re-determine the Payment Percentage no less frequently than once every three years.

During the Reporting Period, ARPC began work on an updated future claims forecast to be used in conjunction with the reconsideration of the Payment Percentage as provided for in the TDP. ARPC worked with PWP and Trust counsel to identify a value for the Trust's AWI holdings for purposes of the Payment Percentage calculation. ARPC's final report contained a recommendation to increase the Payment Percentage from 20% to 35% for all claims. A notice dated November 5, 2013 was provided to all claimants and their counsel advising them of the Payment Percentage re-determination. On December 11, 2013, the Trustees, with the consent of the TAC and FCR, accepted the recommendation of ARPC and approved the increase of the Payment Percentage to 35%, effective immediately.

Section 4.2 of the TDP requires the Trustees to make supplemental payments to all claimants who previously liquidated their claims against the Trust and received payments based



on a lower Payment Percentage. The amount of any such supplemental payment shall be the liquidated value of the claim in question times the newly adjusted Payment Percentage, less all amounts previously paid to the claimant with respect to the claim (excluding the portion of such previously paid amounts that was attributable to any sequencing adjustment paid pursuant to Section 7.5 of the TDP). As of the end of the Reporting Period, the Trust had paid approximately \$523,965,000 of supplemental claims payments.<sup>1</sup>

### **3. Extension of Trustee Huge's Term**

On September 19, 2013, Trustees Ferazzi and Neville, with the consent of the TAC and FCR, elected Harry Huge to serve an additional five-year term as Trustee as provided for in the Trust Agreement.

### **4. Trust Investments**

As of the end of the Reporting Period, the Trust had approximately \$1,167,801,798 in fixed income investments and approximately \$144,289,025 in equity investments, excluding its holdings in AWI stock and Huntington cash. The total return on these investments (excluding AWI stock) was 1.2% in calendar year 2013.

Exhibit 1.C to this Report shows the asset allocation of the Trust's investment portfolio, as well as the Trust's equity ownership in AWI. The total return on the Trust's investment portfolio in calendar year 2013, including its holdings in AWI stock, was 4.2% (11.1% annualized since inception). Advised by their financial professionals, the Trustees continue to actively monitor the Trust's investment portfolio.

### **5. TDP Amendments**

On March 20, 2013, the Trustees, with the consent on the TAC and FCR, approved an amendment to TDP § 7.5 regarding the sequencing adjustment. This amendment changed the

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<sup>1</sup> See Audited Financial Statements at 16.

sequencing adjustment rate from a fixed rate to a floating rate. A complete copy of the TDP, as amended, is available at [www.armstrongworldasbestostrust.com](http://www.armstrongworldasbestostrust.com) under Popular Downloads/More Downloads.

**6. Meetings**

In fulfillment of the meeting requirements contained in the Trust Agreement, during the Reporting Period, the Trustees held quarterly meetings with the TAC and FCR. In addition, the Trustees conferred among themselves on weekly conference calls and at in-person monthly meetings.

**7. Office**

As previously reported, the Trust's office is located at 1105 North Market Street, Wilmington, Delaware.

**8. Officers**

The Trustees previously appointed Dr. B. Thomas Florence and Mr. John Brophy, Jr. of ARPC as the Trust's Executive Director and Assistant Executive Director, respectively. They serve as the only officers of the Trust, and they directed the day-to-day management of the Trust throughout the Reporting Period.

**G. Additional Information**

For additional information regarding the Trust's financials or operations, please contact its General Counsel, Keating Muething & Klekamp PLL, One East Fourth Street, Suite 1400, Cincinnati, Ohio 45202, attention: Kevin E. Irwin. For information on how to file a claim with the Trust, please visit the Trust's website: [www.armstrongworldasbestostrust.com](http://www.armstrongworldasbestostrust.com).

Exhibit 1.A

Audited Financial Statements

**ARMSTRONG WORLD INDUSTRIES, INC.  
ASBESTOS PI SETTLEMENT TRUST**

Special-Purpose Financial Statements  
and  
Supplemental Information  
with  
Report of Independent Auditors

Years Ended December 31, 2013 and 2012

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

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## REPORT OF INDEPENDENT AUDITORS

To the Trustees  
Armstrong World Industries, Inc. Asbestos PI Settlement Trust

We have audited the accompanying special-purpose financial statements of the Armstrong World Industries, Inc. Asbestos PI Settlement Trust (the Trust), which comprise the statements of assets, liabilities, and net assets available for the payment of claims as of December 31, 2013 and 2012, and the related special-purpose statements of changes in net assets available for the payment of claims and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the special-purpose accounting methods adopted by the Trust and its Trustees, as described in Note 2. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in conformity with the special-purpose basis of accounting described in Note 2.

***Emphasis of Matter***

As described in Note 2 to the special-purpose financial statements, these financial statements were prepared on a special-purpose basis of accounting and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. The special-purpose basis of accounting has been used in order to communicate the amount of net assets presently available for current and future claimants to the Trust.

***Restriction of Use***

This report is intended for the information and use of the Trustees, management of the Trust, the Trust Advisory Committee, the Future Claimant Representative, and for filing with the United States Bankruptcy Court for the District of Delaware and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report, which, upon filing with the United States Bankruptcy Court for the District of Delaware, is a matter of public record.

*BKM Aouan Horan, LLP*

Certified Public Accountants

April 23, 2014

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Special-Purpose Statements of Assets, Liabilities and Net Assets  
Available for the Payment of Claims

	December 31,	
	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 167,854,929	\$ 194,605,003
Prepaid expenses	-	415,129
Investments:		
Equity securities, at fair market value	799,384,695	1,349,553,459
Debt securities, at fair market value	1,068,110,730	1,103,447,517
Equity securities under forward contract, net (Note 4)	-	23,197,425
Interest and dividend income receivable	13,325,284	13,083,179
Income tax receivable	-	4,262,898
Total assets	2,048,675,638	2,688,564,610
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	1,945,030	1,907,133
Income tax payable	44,500,000	10,110,000
Accrued personal injury claims	49,413,717	333,341
Advance payment on forward contract (Note 4)	-	23,197,425
Total liabilities	95,858,747	35,547,899
<b>Net assets available for the the payment of claims</b>	\$ 1,952,816,891	\$ 2,653,016,711

See accompanying notes to special-purpose financial statements



**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Special-Purpose Statements of Changes in Net Assets  
Available for the Payment of Claims

	Years Ended December 31,	
	<u>2013</u>	<u>2012</u>
<b>Additions</b>		
Interest and dividend income, net of amortization	\$ 30,809,026	\$ 27,697,039
Special dividend, net (Note 3)	-	247,451,561
Insurance proceeds received	10,089,166	5,695
Net realized gain on investments	188,931,639	69,350,891
Net unrealized gain on investments	-	139,489,631
	<u>229,829,831</u>	<u>483,994,817</u>
<b>Deductions</b>		
Personal injury claim expense	619,307,834	49,463,584
Net unrealized loss on investments	116,302,741	-
Operating expenses	9,699,636	8,995,850
Claim processing expenses (Note 5)	6,737,191	6,607,662
Federal income tax expense	177,982,249	45,088,600
	<u>930,029,651</u>	<u>110,155,696</u>
Increase (decrease) in net assets available for the payment of claims	(700,199,820)	373,839,121
<b>Net assets available for the payment of claims:</b>		
Beginning of year	<u>2,653,016,711</u>	<u>2,279,177,590</u>
End of year	<u>\$ 1,952,816,891</u>	<u>\$ 2,653,016,711</u>

See accompanying notes to special-purpose financial statements

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Special-Purpose Statements of Cash Flows

	Years Ended December 31,	
	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets available for the payment of claims	\$ (700,199,820)	\$ 373,839,121
Adjustments to reconcile increase (decrease) in net assets available for the payment of claims to net cash provided by (used in) operating activities:		
Net unrealized loss (gain) on investments	116,302,741	(139,489,631)
Net realized gains on investments	(188,931,639)	(69,350,891)
Amortization of premiums on bonds, net	22,384,684	16,066,191
Changes in operating assets and liabilities:		
Prepaid expenses	415,129	-
Interest and dividend income receivable	(242,105)	(3,310,237)
Income tax receivable	4,262,898	434,497
Accounts payable and accrued expenses	37,897	420,864
Income tax payable	34,390,000	10,110,000
Accrued personal injury claims	49,080,376	(159,947)
Net cash provided by (used in) operating activities	<u>(662,499,839)</u>	188,559,967
<b>Cash flows from investing activities</b>		
Proceeds and maturities from debt securities	546,142,548	430,422,839
Purchases of debt securities	(569,622,678)	(729,442,304)
Proceeds from equity securities	665,334,249	253,800,326
Purchases of equity securities	(6,104,354)	(23,403,038)
Net cash provided by (used in) investing activities	<u>635,749,765</u>	(68,622,177)
Net increase (decrease) in cash and cash equivalents	(26,750,074)	119,937,790
<b>Cash and cash equivalents, beginning of period</b>	<u>194,605,003</u>	<u>74,667,213</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 167,854,929</u>	<u>\$ 194,605,003</u>

See accompanying notes to special-purpose financial statements

**ARMSTRONG WORLD INDUSTRIES, INC.  
ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 1 - Description of the Trust**

***General***

The Armstrong World Industries, Inc. Asbestos PI Settlement Trust (the Trust) is a Qualified Settlement Fund (QSF) within the meaning of Treasury Department regulations issued pursuant to Section 468B of the Internal Revenue Code (the Code). The Trust was created on October 2, 2006, in connection with confirmation of the Fourth Amended Plan of Reorganization of Armstrong World Industries, Inc. (the Plan). The Plan was confirmed by an order (the Order) entered on August 18, 2006, by the United States District Court for the Eastern District of Pennsylvania.

The purpose of the Trust is to assume the liabilities of Armstrong World Industries, Inc. (AWI), its predecessors and successors in interest, for all Asbestos Personal Injury Claims (as defined in the Plan), and to use the Trust's assets and income to pay the holders of all Asbestos Personal Injury Claims in accordance with the Trust Agreement and the Trust Distribution Procedures in such a way that such holders of Asbestos Personal Injury Claims are treated fairly, equitably, and reasonably in light of the limited assets available to satisfy such claims, and to otherwise comply in all respects with the requirements of a trust set forth in section 524(g)(2)(B) of the Bankruptcy Code.

The Trust is governed by a Trust Agreement and Trust Distribution Procedures (TDP) that establish the framework and criteria for allowance and payment of asbestos-related claims by the Trust. The Trust reviews and determines Asbestos Claims in accordance with the TDP. The TDP provides for processing, allowing or disallowing, liquidating and paying all Asbestos Claims as required by the Plan and the Trust Agreement. The Trust Agreement and TDP were approved by the United States District Court as part of the Plan. There are eight disease levels specified in the TDP. Each claimant who meets the medical and exposure requirements of the TDP for a particular disease level may apply for expedited review and a specified payment amount. Claimants also have an alternative, under the TDP, to submit additional documentation and request a more expansive review of their claim (TDP - 5.3b Individual Review Process) in which case claims may be paid within a range of amounts.

The Trust's assets consist primarily of cash and cash equivalents and investment securities, which, with the earnings (or losses) on such investments, are intended to be totally consumed by the allowance and payment of claims and operation of the Trust. The percentage of the amount of each allowed claim that will actually be paid will be determined by projections of total allowed Asbestos Claims and operational expenses of the Trust, on the one hand, and total assets and net earnings (or losses), on the other.

**ARMSTRONG WORLD INDUSTRIES, INC.  
ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 1 - Description of the Trust - (Continued)**

***General - continued***

Pursuant to the TDP, the initial payment percentage was established at 20 percent. During 2013, the payment percentage was increased to 35 percent. See Note 7. The Trustees are fiduciaries to the beneficiaries of the Trust and are responsible for administering the Trust and the Trust's assets in accordance with the Trust Agreement and the Plan.

***Termination***

Section 7.2 of the Trust Agreement provides that the Trust shall automatically terminate on the date (the Termination Date) ninety (90) days after the first to occur of the following events:

- the Trustees decide to terminate the Trust because (A) they deem it unlikely that new asbestos claims will be filed against the Trust, (B) all Asbestos Personal Injury Claims duly filed with the Trust have been liquidated and paid to the extent provided in this Trust Agreement and the TDP or disallowed by a final, non-appealable order, to the extent possible based upon the funds available through the Plan, and (C) twelve (12) consecutive months have elapsed during which no new asbestos claim has been filed with the Trust; or
- if the Trustees have procured and have in place irrevocable insurance policies and have established claims handling agreements and other necessary arrangements with suitable third parties adequate to discharge all expected remaining obligations and expenses of the Trust in a manner consistent with this Trust Agreement and the TDP, the date on which the Bankruptcy Court enters an order approving such insurance and other arrangements and such order becomes a final order; or
- to the extent that any rule against perpetuities shall be deemed applicable to the Trust, twenty-one (21) years less ninety-one (91) days pass after the death of the last survivor of all of the descendants of the late Joseph P. Kennedy, Sr., father of the late President John F. Kennedy, living on October 2, 2006.

On the Termination Date, after payment of all the Trust's liabilities have been provided for, any remaining assets of the Trust shall be applied to such charitable purposes as the Trustees in their reasonable discretion shall determine, which charitable purposes, if practicable, shall be related to the treatment of, research regarding, or payment of claims related to, asbestos-caused disorders.

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 2 - Summary of Significant Accounting Policies**

***Basis of presentation***

The Trust's financial statements are prepared using special-purpose accounting methods adopted by the Trust and its Trustees, which differ from accounting principles generally accepted in the United States of America (GAAP). The special-purpose accounting methods were adopted in order to communicate to the beneficiaries of the Trust the net assets available for the payment of claims and the related operating expenses of the Trust. Since the accompanying special-purpose financial statements and transactions are not based upon GAAP, accounting treatment by other parties for these same transactions may differ as to timing and amount. The special-purpose accounting methods include the following:

- Assets are recorded when they are received by the Trust and are available for the payment of asbestos claims. Under GAAP, assets are recorded when they can be estimated and collection is assured.
- Future fixed liabilities under contractual obligations and other agreements entered into by the Trust are recorded as deductions in the same period that such contractual obligations or agreements are signed. Under GAAP, liabilities and contractual obligations are recorded over the period that is benefited by the underlying contract or agreement.
- The full amounts of claims are expensed in the period in which the confirmed claims are settled. A settled claim is a claim that has been allowed by the Trust and accepted by the claimant, with an approved release. Under GAAP, a liability would be recorded for an estimate of the amount to be paid for claims that have been incurred but not yet reported, and for those claims that have been submitted but not yet approved for payment by the Trust.
- Payments for services to be received over an extended period in the future are expensed as paid because these amounts are no longer available for the payment of claims. Under GAAP, an asset would be recorded and amortized over the period in which the related benefits are received.
- Payments for property and equipment are expensed as incurred. Under GAAP, payments for property and equipment are capitalized and depreciated over the useful lives of the assets. To date, the Trust has incurred no expense related to purchases of property and equipment.

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 2 - Summary of Significant Accounting Policies – (Continued)**

***Basis of presentation - continued***

- Income tax expense (benefit) is estimated and recorded as incurred in the period in which certain income and expense items affect current federal income taxes. Under GAAP, the provision for income taxes is recorded based upon income (loss) reported for financial statement purposes, which includes federal and state income taxes both currently payable and changes in deferred taxes due to differences between financial reporting and tax bases of assets and liabilities. In addition, GAAP requires all tax positions to be reviewed using a more likely than not threshold for financial statement recognition, and a liability to be recorded for a position taken or expected to be taken beyond this threshold.
  
- Asbestos insurance recoveries are not recorded until the funds are received from the insurance carriers. Under GAAP, asbestos insurance recoveries are recorded upon settlement and assurance of collectability.
  
- Investments are recorded at fair market value which is defined as the value or price that would be paid by the entity for the asset in the market. Under GAAP, fair value is defined as the exit price and not the purchase price that would be paid at the measurement date by an external party. All interest and dividend income, net of interest expenses, are included in interest and dividend income in the accompanying special-purpose statements of changes in net assets available for the payment of claims. The net realized and unrealized gains or losses on investments are recorded on the special-purpose statements of changes in net assets available for payment of claims. Under GAAP, unrealized gains and losses are recorded as other comprehensive income or loss, with the accumulated balance disclosed separately on the special-purpose statements of assets, liabilities and net assets available for the payment of claims. Finally, GAAP requires additional disclosure including the classification of investments into a hierarchy of levels, the basis for those levels, and a schedule outlining movement between the levels.
  
- The equity securities subject to the agreement with certain Texas Pacific Group Funds (TPG Funds) discussed in the Note 4 were recorded at fair market value less an unrealized loss. The unrealized loss represents the difference between the fair market value of the equity securities and the advance payment under the forward contract.

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 2 - Summary of Significant Accounting Policies – (Continued)**

***Basis of presentation – continued***

- This treatment recognized that any future economic value of these shares, including changes in fair market value, had been transferred to TPG Funds. Under GAAP, the equity securities would be recorded at fair market value and the advance payment on the forward contract would be accounted for as security loan whose value would fluctuate based on changes in the fair market value of underlying equity securities through the settlement date.

***Subsequent events***

The Trust has evaluated events and transactions subsequent to the date of the special-purpose financial statements for matters requiring recognition or disclosure in the special-purpose final statements. The accompanying special-purpose financial statements consider events through April 23, 2014, the date which the special-purpose financial statements were available to be issued. See Note 4.

***Cash and cash equivalents***

The Trust considers all highly liquid debt instruments purchased with an original maturity of three (3) months or less to be cash equivalents. Cash equivalents are carried at cost.

***Investments***

Investments are stated at estimated fair market value based on quoted market prices as of the date of the special-purpose financial statements. Changes in fair market value are recorded as increases or decreases to net assets available for the payment of claims. Realized gains and losses are calculated based on the specific identification method. The Trust records transactions on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest is recorded on an accrual basis.

***Accounts payable and accrued expenses***

Accounts payable and accrued expenses consist of accruals and outstanding invoices associated with managing and operating the Trust.

***Accrued personal injury claims***

Accrued personal injury claims consist of certain personal injury claims that are settled but unpaid at year end. See Note 7.

**ARMSTRONG WORLD INDUSTRIES, INC.  
ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 2 - Summary of Significant Accounting Policies – (Continued)**

***Claims expense***

Amounts due to claimants for allowed claims are recorded when approved by Trustees and signed releases are received. The ultimate number of Asbestos PI Trust Claims to be filed and the liability for all such claims are not determinable at this time. The net assets available for the payment of claims at December 31, 2013 may or may not be sufficient to meet all future obligations of the Trust.

***Claims processing expense***

Claim processing expenses are recorded as incurred. See Note 5 and 7.

***Federal income tax expense***

The Trust reports its income to the Internal Revenue Service (IRS) as a qualified settlement fund, which is taxed at the highest rate applicable to trusts under Section 1(e) of the Code, which rate is 39.6% and 35% at December 31, 2013 and 2012, respectively. The Trust is subject to federal income taxes based on modified gross income, as defined by the Code.

***Use of estimates***

The preparation of the special-purpose financial statements requires the Trustees and management of the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the special-purpose financial statements, and the reported amounts of additions and deductions to the net assets available for the payment of claims during the reporting periods. Significant items subject to such estimates and assumptions include the fair market value of investments and the estimation of current income taxes. Actual results could differ from these estimates and such differences could have a material effect on the net assets available for the payment of claims.

***Concentration of credit risk***

Financial instruments which potentially subject the Trust to concentrations of credit risk consist primarily of cash, cash equivalents, and investments. The Trust maintains cash and cash equivalents at financial institutions it considers to be of high credit quality. At times, the Trust may have cash deposits in banks that exceed federally insured limits. The Trust has not experienced any losses in such accounts and does not believe it is exposed to any significant risk of loss related to cash.



**ARMSTRONG WORLD INDUSTRIES, INC.  
ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

**Note 2 - Summary of Significant Accounting Policies - (Continued)**

***Concentration of credit risk - continued***

The Trust's investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the value of the Trust's portfolio.

**Note 3 - Investments**

The Trust Agreement provides general guidelines for the investments of the Trust. The Trustees selected Mellon Bank as the Trust's permanent custodian. In accordance with the asset allocation model proposed by Cambridge Associates, the investment advisor, the Trust utilizes three fixed income managers, one U.S. equity manager, and one non-U.S. equity manager for direct investment. The account with the non-U.S. equity manager was liquidated during 2012. Investments consist of the following:

	<b>December 31, 2013</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>
<b>AWI stock</b>	\$ 407,087,128	248,407,575	-	\$ 655,494,703
<b>Debt securities</b>	1,067,765,672	16,359,226	(16,014,168)	1,068,110,730
<b>Equity securities</b>	112,365,047	37,123,128	(5,598,183)	143,889,992
	<u>\$ 1,587,217,847</u>	<u>301,889,929</u>	<u>(21,612,351)</u>	<u>\$ 1,867,495,425</u>

**ARMSTRONG WORLD INDUSTRIES, INC.  
ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

**Note 3 – Investments – (Continued)**

		December 31, 2012		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
AWI stock	\$ 870,222,319	363,674,999	-	\$ 1,233,897,318
Debt securities	1,078,016,263	32,204,556	(6,773,302)	1,103,447,517
Equity securities	108,182,272	15,673,216	(8,199,347)	115,656,141
	<u>\$ 2,056,420,854</u>	<u>411,552,771</u>	<u>(14,972,649)</u>	<u>\$ 2,453,000,976</u>

On March 30, 2012 the Trust received a special dividend of \$8.55 on each of the Trust's beneficially owned shares (29,981,480) of Armstrong World Industries, Inc. for a total of approximately \$256,342,000. Approximately \$8,890,000 of this dividend was paid to TPG Funds in connection with the pledged 1,039,777 shares discussed in Note 4.

**Note 4 - AWI Stock Transactions**

***TPG Funds Transaction***

The Trust and certain Texas Pacific Group funds (TPG Funds) entered into a Purchase and Sale Agreement, dated August 10, 2009 (the Purchase and Sale Agreement), pursuant to which the Trust agreed to sell to TPG Funds 7,000,000 shares of AWI Common Stock (the Initial Shares) at a price of \$22.31 per share in cash (the Per Share Price). Simultaneously with the purchase and sale of the Initial Shares, the Trust and the TPG Funds entered into a Prepaid Share Forward Confirmation (the Confirmation) pursuant to which the TPG Funds purchased from the Trust the economic interest in the equivalent of an additional 1,039,777 shares of AWI Common Stock (the Initial Interests together with the Initial Shares, the Initial Investment) at the Per Share Price, subject to the terms and conditions of a ISDA 2002 Master Agreement and the related Collateral Annex, by and between the Trust and the TPG Funds, (the Collateral Annex) pursuant to which the Trust pledged 1,039,777 shares of AWI Common Stock as collateral for its obligations under the Confirmation.

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 4 - Sales of AWI Stock - (Continued)**

***TPG Funds Transaction - continued***

The Confirmation provided that the Initial Interests were to be cash-settled, absent an election by the Trust to physically settle through the delivery of shares, on the third currency business day following the 20th scheduled trading day beginning on November 4, 2013.

Simultaneously with the purchase and sale of the Initial Investment on August 28, 2009, the Trust and TPG Funds entered into a Shareholders' Agreement (as amended, the Shareholders Agreement), which provides for certain rights and obligations between the parties thereto. Under the Shareholders' Agreement, the Trust and the TPG Funds have agreed, subject to certain conditions regarding the ownership of shares by the TPG Funds, to take all necessary actions to cause the AWI Board of Directors to consist of 11 directors including two directors designated by the Trust, two directors designated by TPG Funds, AWI's Chief Executive Officer and six independent directors (as defined in AWI's articles of incorporation) mutually agreed upon by the Trust and TPG Funds. In addition, the Trust and TPG Funds agreed to recommend to the Board of Directors of the Company that they each be permitted an observer with the right to attend Board meetings with a voice but not a vote and to receive Board meeting materials.

The Shareholders' Agreement includes certain reciprocal rights and obligations, including tag-along rights in the event of certain sales to third parties. The Trust transferred to TPG Funds its registration rights under an existing agreement with AWI to the extent they relate to the Initial Shares and any shares of AWI Common Stock delivered to TPG Funds from the Trust in the event of physical settlement under the Confirmation.

The Confirmation shares were accounted for on the Trust's December 31, 2012, special-purpose financial statements at fair market value at the date the transaction occurred less an unrealized loss of approximately \$14,006,000. The unrealized loss represents the difference between the fair market value of the Confirmation shares on the date of the transaction and the advance payment under the forward contract. This treatment recognized that any future economic value of these shares, including changes in fair market value, had been transferred to TPG Funds. In March 2012, TPG Funds received a special dividend on the confirmation shares of approximately \$8,890,000. See Note 3.

During November 2013, the Trust physically settled its obligation under the Confirmation by delivering 1,039,777 shares of AWI Common Stock to TPG Funds, and terminated the Agreement with TPG. As of the settlement, no additional gain or loss is reflected in the Statements of Changes in Net Assets Available for Payment of Claims.

**ARMSTRONG WORLD INDUSTRIES, INC.  
ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 4 - Sales of AWI Stock – (Continued)**

***Sale of AWI Common Stock***

In November 2013, the Trust was a selling shareholder in a secondary offering by AWI. The Trust sold 3,631,735 shares at a price of \$51.54 per share before an underwriters discount and commission of \$0.87 per share. The Trust has recorded a net realized gain on the sale of the AWI common stock of approximately \$14.89 per share or \$54,084,000.

Additionally, in September 2013, the Trust was a selling shareholder in a secondary offering by AWI. The Trust sold 9,312,957 shares at a price of \$52.35 per share before an underwriters discount and commission of 0.94 per share. The Trust has recorded a net realized gain on the sale of the AWI common stock of approximately \$15.63 per share or \$145,580,000.

In November and December 2012, the Trust was a selling shareholder in a secondary offering by AWI. The Trust sold 4,618,870 shares at a price of \$51.00 per share before an underwriters discount and commission of \$2.04 per share. The Trust has recorded a net realized gain on the sale of the AWI common stock of approximately \$13.18 per share or \$60,886,000.

At December 31, 2013 and 2012, the Trust is the beneficial owner of 11,378,141 and 25,362,610 shares of AWI common stock, respectively.

In March 2014, the Trust was a selling shareholder in a secondary offering by AWI. The Trust sold 1,845,023 shares at a price of \$54.32 per share before an underwriters discount and commission of 0.52 per share. The Trust has recorded a net realized gain on the sale of the AWI common stock of approximately \$18.02 per share or \$33,247,000.

**Note 5 - Investment in Related Party**

In November 2006, the Trust became one of five equal owner trusts of Delaware Claims Processing Facility LLC (DCPF). Each of the five trusts owns 100 member units. The Trust was required to make an initial capital contribution of \$100.

In connection with the investment, the Trust entered into a Master Claims Processing Agreement (the Agreement) with DCPF. The Agreement expired on December 31, 2008, but will automatically renew for an additional one-year period on the same terms unless either party to the Agreement provides written notice to the other at least six months prior to the end of the current term.

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 5 - Investment in Related Party – (Continued)**

Under the Agreement, DCPF agrees to (a) process and pay claims under the terms of the TDP, (b) provide electronic filing services through its proprietary electronic filing systems, (c) provide claims-related document and data storage, and (d) provide bookkeeping and accounting support services, meeting planning, and administrative support services, if requested. In exchange for the services provided, the Trust will pay its pro rata portion of expenses on the agreed upon allocation methodology as defined in the Agreement.

The Trust's expenses under this agreement totaled approximately \$4,400,000 and \$4,900,000 for the years ended December 31, 2013 and 2012, respectively, and are included in claim processing expenses on the special-purpose statements of changes in net assets available for the payment of claims.

**Note 6 - Trustees' Advisory Committee and Future Claimant Representative**

The Trust Agreement sets forth the role and responsibility of the Trust Advisory Committee (TAC) and Future Claimant Representative (FCR). The members of the TAC serve in a fiduciary capacity representing all holders of present Asbestos Claims (Current Claimants). The Trustees are required to consult with and/or obtain the consent of the TAC on certain matters identified in the Trust Agreement and TDP. The TAC is comprised of attorneys who are engaged by Current Claimants.

The FCR serves in a fiduciary capacity, representing the interests of the future Asbestos Claimants, for the purpose of protecting the rights of persons who might subsequently assert future and unknown demands. The Trustees must consult with and/or obtain the consent of the FCR on certain matters identified in the Trust Agreement and the TDP.

**Note 7 – Accrued Personal Injury Claims**

During 2013, the Trustees, TAC, and FCR approved an increase in payment percentage from 20 percent to 35 percent. As a result of this increase, all historical paid claims, subject to certain limitations, are to be paid a supplemental payment by the Trust. As of December 31, 2013, the Trust has paid approximately \$523,965,000 of supplemental claims payments. Additionally, the Trust has accrued approximately \$44,488,000 of supplemental claims payments at December 31, 2013.

**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Notes To Special-Purpose Financial Statements

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**Note 8 – Taxation**

The Trust's current estimated federal income tax is comprised of the following as of and for the years ending December 31:

	<u>2013</u>	<u>2012</u>
Net taxable income	\$ 449,680,000	\$ 127,200,000
Federal income taxes due	178,070,000	45,089,000
Income tax refunds received	4,263,000	-
Cash paid for income tax	143,710,000	34,400,000

The difference between financial statement income and federal taxable income is due primarily to the difference in the Trust's basis in AWI stock. As discussed in Note 4, certain special dividends were not completely taxable to the Trust as the dividend paid was greater than the amount of earnings and profits of AWI. The portion of these special dividends in excess of the earnings and profits have reduced the Trust's tax basis in their AWI stock holdings. In addition, in 2012, the Trust fully utilized the capital loss carryforward of approximately \$99,400,000 and operating loss carryforward of approximately \$12,875,000.

The Trust's income tax receivable as of December 31, 2012 was created from net operating losses that were carried back to prior years. These carryback claims were examined by the Internal Revenue Service and subsequently closed without change in 2012. The refund claims were received in March 2013. The tax years subsequent to December 31, 2010 remain open for examination.

**Note 9 - Commitments and Contingencies**

The Plan Documents (as defined in the Confirmed Plan) subject the Trust to certain reimbursement and indemnification obligations that may result in future claims against the Trust. The probability of such claims cannot be reasonably determined. Accordingly, no associated liability has been recorded in the accompanying special-purpose financial statements. Such claims, if any, are not expected to be material. The Trust has obtained insurance for purposes of supporting its obligation to indemnify the Trustees.

## **SUPPLEMENTAL INFORMATION**

**REPORT OF INDEPENDENT AUDITORS**  
**ON SUPPLEMENTARY INFORMATION**

To the Trustees

Armstrong World Industries, Inc. Asbestos PI Settlement Trust:

We have audited the special-purpose financial statements of the Armstrong World Industries, Inc. Asbestos PI Settlement Trust (the Trust) as of and for the years ended December 31, 2013 and 2012, and our report thereon dated April 23, 2014, which expressed an unmodified opinion on those financial statements, appears on pages two and three. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental material included in the following section is presented for purposes of additional analysis and is not a required part of the basic special-purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose financial statements as a whole.

*BKM Aowan Horan, LLP*

April 23, 2014



**ARMSTRONG WORLD INDUSTRIES, INC.**  
**ASBESTOS PI SETTLEMENT TRUST**

Supplemental Schedule of Operating Expenses

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	Years Ended December 31,	
	<u>2013</u>	<u>2012</u>
Investment management and bank fees and expenses	\$ <b>5,159,616</b>	\$ 4,716,869
Legal fees and expenses	<b>2,136,457</b>	2,113,039
Trustee fees and expenses	<b>1,010,339</b>	949,199
Trust liability insurance	<b>491,260</b>	492,260
Future claimants representative fees and expenses	<b>469,620</b>	328,383
Accounting, audit, and tax fees and expenses	<b>150,664</b>	182,757
Trust advisory committee fees and expenses	<b>147,277</b>	91,071
Miscellaneous operating expenses	<b>134,403</b>	122,272
	<hr/>	<hr/>
Total operating expenses	\$ <b><u>9,699,636</u></b>	\$ <b><u>8,995,850</u></b>

See report of independent auditors on supplemental information

Exhibit 1.B

Claims Information

## Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust

FY2013 Annual Report Claims Information

Period: 1-1-2013 through 12-31-2013

	# of Claims Received	# of Claims Paid		Claims Paid \$	
		Malignant	Non-Malignant	Malignant	Non-Malignant
TDP Claims	24,152	2,159	5,979	\$569,382,644 <i>See Note 1</i>	
Pre-Petition Liquidated Claims		28	21	\$471,241 <i>See Note 1</i>	

Period: Inception through 12-31-2013

	# of Claims Received	# of Claims Paid		Claims Paid \$	
		Malignant	Non-Malignant	Malignant	Non-Malignant
TDP Claims	562,511	36,910	178,462	\$1,457,270,628	
Pre-Petition Liquidated Claims		62	978	\$9,786,060 <i>See Note 2</i>	

Note 1. Includes supplemental payments made to holders of previously paid claims pursuant to Section 4.2 of the Trust Distribution Procedures

Note 2. Includes payment made to the Center for Claims Resolution under a Settlement Agreement with AWI, Inc. approved by the United States Bankruptcy Court for the District of Delaware.

Exhibit 1.C

Asset Allocation & Asset Class Returns (Net)  
as of December 31, 2013

**Armstrong World Industries, Inc. Asbestos Settlement Trust**  
**Asset Allocation & Asset Class Returns (Net)**  
**As of December 31, 2013**

Asset Class	Assets \$	% of Managed Assets	% of Total Assets	Total Return 12/31/12- 12/31/13
U.S. Equity	79,210,376.88	6.0%	3.9%	32.2%
Non-U.S. Equity	65,078,647.88	5.0%	3.2%	15.1%
Short Term Municipal Bonds	541,695,219.69	41.3%	26.4%	0.6%
Intermediate Term Municipal Bonds	626,106,578.74	47.7%	30.6%	-2.3%
<b>Total Managed Assets</b>	<b>1,312,090,823.19</b>	<b>100.0%</b>	<b>64.1%</b>	<b>1.2%</b>
AWI Stock	655,494,703.00		32.0%	13.6%
Cash and Equivalents	80,437,296.00		3.9%	---
<b>Total Assets</b>	<b>2,048,022,822.19</b>		<b>100.0%</b>	<b>4.2%</b>

**Armstrong World Industries, Inc. Asbestos Settlement Trust Asset Allocation as of December 31, 2013**

