**IN THE UNITED STATES BANKRUPTCY COURT**
**FOR THE DISTRICT OF DELAWARE**

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

**ARMSTRONG WORLD INDUSTRIES, INC. ASBESTOS PERSONAL INJURY SETTLEMENT TRUST'S NOTICE OF FILING OF ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2015**

Pursuant to Article 7.1 of the Fourth Amended Plan of Reorganization of Armstrong World Industries, Inc., 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, 2015 (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 2015 and 2014; 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, 2015 (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

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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 28, 2016

Respectfully submitted,

MORRIS JAMES LLP

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

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# Exhibit 1


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

## ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015 (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, 2015 and 2014 (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



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fairly, in all material respects, the financial position of the Trust as of December 31, 2014 and 2015, 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 2015, as well as in total since the Trust's inception through the end of 2015.

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 2015. The Audited Financial Statements separately set forth the amounts paid in fees and expenses to the Trustees during the year ended December 31, 2015 (the "**Reporting Period**").[1]

[1] *See* Audited Financial Statements at 17.



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### 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 during the Reporting Period.[2] 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.[3] 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 is currently the second largest shareholder of AWI. Prior to a March 2014 "block trade" transaction (discussed below) in which the Trust disposed of additional AWI shares to reduce its holdings below 20% of AWI's outstanding stock, the Trust's holdings in AWI were subject to certain restrictions contained in a Stockholder and Registration Rights Agreement and AWI's articles of incorporation (together, the "**Restrictions**").

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[2] *Id.*
[3] *Id.*



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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.

As previously reported, in 2012 and 2013, the Trust, together with TPG, sold stock of AWI in both secondary offerings and block trades.

In March 2014, the Trust and the TPG Funds effected another block trade. In this transaction, the Trust sold approximately $100 million of AWI stock and TPG Funds sold the remainder of the AWI stock held by them. As a result of this transaction, the Trust's holdings of AWI stock fell below 20%, ending the Restrictions on further disposals by the Trust. This transaction also resulted in the termination of the agreements with TPG Funds that resulted in the Trust having designated directors on the AWI Board of Directors. Since March 2014, the Trust has had no designated directors on the AWI Board of Directors.

Since mid 2014, the Trustees have ceased to attend AWI Board meetings as observers but have benefited from periodic meetings and dialogue with the Chair of the AWI Board of Directors.

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During the Reporting Period, the Trustees and their advisors devoted considerable time monitoring AWI's performance and exploring further monetization strategies for the Trust's AWI stock holdings. In May 2015, the Trust effected a further block trade selling 1,541,940 shares of AWI stock for gross proceeds of $86.4 million.

On April 1, 2016, AWI effected the spin off of its flooring business by means of a 1:2 stock dividend of shares of Armstrong Flooring, Inc. ("**AFI**"). The Trust owns 9.5% of the stock of each of AWI, now a pure-play building products (ceilings) business, and of AFI, a pure-play commercial and residential flooring business. The spin off transaction was pursuant to a provision of the Internal Revenue Code of 1986, as amended, Section 355, that imposes certain limitations on post-spin off transactions by stockholders in the stock of the distributing company (AWI) and of the spin off company (AFI) if the spin off is to remain a tax-free transaction.

The Trustees continue to confer regularly, on a weekly or more frequent basis, with the Trust's corporate counsel and its financial advisor, Perella Weinberg Partners ("**PWP**"), concerning various issues with respect to its holdings of AWI and AFI.

### 2. Reconsideration of the Payment Percentage

Under Section 4.2 of the Trust Distribution Procedures ("**TDP**"), the Trustees must re-determine the payment percentage no less frequently than once every three years.

During 2013, the actuarial consultants to the Trust, Analysis Research Planning Corporation ("**ARPC**"), began work on an updated 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 recommended an increase in the payment percentage from 20% to 35% for all claims. As previously reported, on December 11, 2013, the Trustees,


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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). During the Reporting Period, the Trust paid approximately $1,286,638.72 in supplemental claims payments.

During the Reporting Period, ARPC began its analysis of the re-determination of the payment percentage. ARPC will present its recommendations to the Trustees in 2016 as is required under the TDP.

### 3. Trust Investments

As of the end of the Reporting Period, the Trust had approximately $1,235,142,729 in fixed income investments, approximately $60,376,044 in marketable alternative strategies, and approximately $176,147,932 in equity investments, excluding its holdings in AWI stock and in cash. The total return on these investments (excluding AWI stock) was 1.2% in calendar year 2015.

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 2015, including its holdings in AWI stock and cash, was 0.3% (8.5%


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annualized since inception). Advised by their financial professionals, the Trustees continue to actively monitor the Trust's investment portfolio.

**4. Amendment to TDP and Alternative Dispute Resolution Procedures**

On July 31, 2015, the Trustees, with the consent of the TAC and FCR, adopted the Second Amended and Restated TDP ("**Amended TDP**"). The primary revisions approved in the Amended TDP involve the inclusion of specific language addressing the Trust's review and processing of foreign claims. The Trust's Alternative Dispute Resolution Procedures ("**ADR Procedures**") were also amended and restated in conjunction with the Amended TDP. Again, the primary purpose of the revisions to the ADR Procedures, also effective as of July 31, 2015, was to address issues specific to the election of ADR by a foreign claimant.

**5. 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 through weekly conference calls and monthly in-person meetings.

**6. Office**

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

**7. 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.

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## 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.

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# Exhibit 1.A


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# ARMSTRONG WORLD INDUSTRIES, INC.
# ASBESTOS PERSONAL INJURY SETTLEMENT TRUST

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

Years Ended December 31, 2015 and 2014


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**ARMSTRONG WORLD INDUSTRIES, INC.**
**ASBESTOS PERSONAL INJURY SETTLEMENT TRUST**

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# REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying special-purpose financial statements of the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the Trust), which comprise the special-purpose statements of assets, liabilities, and net assets available for the payment of claims as of December 31, 2015 and 2014, 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 special-purpose 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 audits to obtain reasonable assurance about whether the special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the special-purpose 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 Trust's internal control. Accordingly, we express no such opinion.


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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 special-purpose 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, 2015 and 2014, 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.

***Basis of accounting***

We draw attention to Note 2 of the special-purpose financial statements which describes the basis of accounting. These financial statements were prepared on a special-purpose basis of accounting, which is a basis of accounting other than 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. Our opinion is not modified with respect to this matter.

***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 Sowan Horan, LLP

Certified Public Accountants
April 20, 2016


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**ARMSTRONG WORLD INDUSTRIES, INC.**
**ASBESTOS PERSONAL INJURY SETTLEMENT TRUST**

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

| | December 31, | |
|---|---|---|
| | **2015** | 2014 |
| **ASSETS** | | |
| Cash and cash equivalents | $ **82,972,539** | $ 40,226,255 |
| Investments, at fair market value | **1,680,220,207** | 1,752,959,080 |
| Interest and dividend income receivable | **14,248,150** | 13,690,614 |
| Prepaid expenses | **-** | 205,324 |
| Income tax receivable | **375,136** | 1,850,000 |
| Total assets | **1,777,816,032** | 1,808,931,273 |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | **1,695,054** | 1,013,382 |
| Accrued personal injury claims | **3,985,525** | 3,061,514 |
| Total liabilities | **5,680,579** | 4,074,896 |
| **Net assets available for the the payment of claims** | $ **1,772,135,453** | $ 1,804,856,377 |

See accompanying notes to special-purpose financial statements



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# ARMSTRONG WORLD INDUSTRIES, INC.
# ASBESTOS PERSONAL INJURY SETTLEMENT TRUST

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

| | Years Ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| **Additions** | | |
| Interest and dividend income, net of amortization | $ **28,577,797** | $ 30,892,135 |
| Insurance proceeds received | **154,000,000** | 3,406,843 |
| Net realized gain on investments | **80,393,987** | 37,821,117 |
| Total additions | **262,971,784** | 72,120,095 |
| **Deductions** | | |
| Personal injury claims expense | **115,317,143** | 98,567,939 |
| Net unrealized loss on investments, net | **100,341,556** | 80,254,116 |
| Operating expenses | **8,258,914** | 7,907,351 |
| Claims processing expenses | **7,254,230** | 5,901,914 |
| Federal income tax expense | **64,520,865** | 27,449,289 |
| Total deductions | **295,692,708** | 220,080,609 |
| Decrease in net assets available for the payment of claims | **(32,720,924)** | (147,960,514) |
| **Net assets available for the payment of claims:** | | |
| Beginning of year | **1,804,856,377** | 1,952,816,891 |
| End of year | $ **1,772,135,453** | $ 1,804,856,377 |

See accompanying notes to special-purpose financial statements



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**ARMSTRONG WORLD INDUSTRIES, INC.**
**ASBESTOS PERSONAL INJURY SETTLEMENT TRUST**

Special-Purpose Statements of Cash Flows

| | Years Ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| **Cash flows from operating activities** | | |
| Decrease in net assets available for the payment of claims | $ **(32,720,924)** | $ (147,960,514) |
| Adjustments to reconcile decrease in net assets available for the payment of claims to net cash provided by (used in) operating activities: | | |
| Net unrealized loss on investments | **100,341,556** | 80,254,116 |
| Net realized gains on investments | **(80,393,987)** | (37,821,117) |
| Amortization of premiums | **22,451,968** | 21,358,151 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | **205,324** | (205,324) |
| Interest and dividend income receivable | **(557,536)** | (365,330) |
| Income tax receivable | **1,474,864** | (46,350,000) |
| Accounts payable and accrued expenses | **681,672** | (931,648) |
| Accrued personal injury claims | **924,011** | (46,352,203) |
| Net cash provided by (used in) operating activities | **12,406,948** | (178,373,869) |
| **Cash flows from investing activities** | | |
| Proceeds from and maturities of debt securities | **649,723,216** | 519,625,718 |
| Purchases of debt securities | **(759,683,268)** | (563,579,621) |
| Proceeds from equity securities | **253,544,182** | 105,534,516 |
| Purchases of equity securities | **(51,244,794)** | (10,835,416) |
| Purchases of hedge funds | **(62,000,000)** | - |
| Net cash provided by investing activities | **30,339,336** | 50,745,195 |
| Net increase (decrease) in cash and cash equivalents | **42,746,284** | (127,628,674) |
| **Cash and cash equivalents**, beginning of year | **40,226,255** | 167,854,929 |
| **Cash and cash equivalents**, end of year | $ **82,972,539** | $ 40,226,255 |

**See Note 7 for supplemental cash flow information.**

See accompanying notes to special-purpose financial statements



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**ARMSTRONG WORLD INDUSTRIES, INC.**
**ASBESTOS PERSONAL INJURY SETTLEMENT TRUST**

Notes to Special-Purpose Financial Statements

## Note 1 - Description of the Trust

***General***

The Armstrong World Industries, Inc. Asbestos Personal Injury 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) (Claims), and to use the Trust's assets and income to pay the holders of all Claims in accordance with the Trust Agreement (TA) and the Trust Distribution Procedures (TDP) in such a way that such holders of 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 TA and TDP that establish the framework and criteria for allowance and payment of asbestos-related claims by the Trust. The Trust reviews and determines Claims' eligibility 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 TA. The TA 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 investments, which, with the earnings (or losses) on such investments, are intended to be totally consumed by the allowance and payment of Claims and the 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 Claims and operational expenses of the Trust, on the one hand, and total assets and net earnings (or losses), on the other.



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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 Trustees, Trust Advisory Committee (TAC), and Future Claimant Representative (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, were paid a supplemental payment by the Trust. 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 TA and the Plan.

***Termination***

Section 7.2 of the TA 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 Claims duly filed with the Trust have been liquidated and paid to the extent provided in this TA 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 TA 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.




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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 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 as 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.



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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 income taxes both currently payable and changes in deferred taxes due to differences between financial reporting and tax bases of assets and liabilities. Additionally, GAAP requires all tax positions to be reviewed using a more likely than not threshold for financial statement recognition of tax assets, and a liability to be recorded for an uncertain tax 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 Trust for the asset in the market. Under GAAP, investments are recorded at fair value which 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, net of amortization of premiums 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. 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 among other disclosures.

***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 financial statements. The accompanying special-purpose financial statements consider events through April 20, 2016, the date which the special-purpose financial statements were available to be issued.



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

***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 as of the date of the special-purpose financial statements. Fair market value is based on quoted market prices. In some cases the Trust may hold investments such as hedge funds for which there is no active market. When determining the fair market value of such investments, the Trust relies upon the valuation by its managers and advisors. 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 the accrual basis. Premiums or discounts on debt securities are amortized or accreted on the effective interest method, and are included in interest and dividend income, net of amortization of premiums on the accompanying special-purpose statements of changes in net assets available for the payment of claims.

***Accounts payable and accrued expenses***

Accounts payable and accrued expenses consist of incurred but unpaid expenses associated with managing and operating the Trust.

***Accrued personal injury claims***

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

***Claims expense***

Amounts due to claimants for allowed claims are recorded when approved by Trustees and signed releases are received and accepted by the Trust. The ultimate number of 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, 2015 may or may not be sufficient to meet all future obligations of the Trust.

***Claims processing expense***

Claims processing expenses are recorded as incurred. See Note 5.



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

***Federal income tax expense***

The Trust reports its income to the Internal Revenue Service (IRS) as a QSF, which is taxed at the highest rate applicable to trusts under Section 1(e) of the Code, which is 39.6% at December 31, 2015 and 2014. The Trust is subject to federal income taxes based on modified gross income, as defined by the Code. The funding received at the inception of the Trust as well as any subsequent funding received from insurers does not represent taxable income to the Trust. In addition, payments to claimants do not represent tax deductions of the Trust.

***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 to and deductions from 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 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 and 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 which 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.

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



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**ARMSTRONG WORLD INDUSTRIES, INC.**
**ASBESTOS PERSONAL INJURY SETTLEMENT TRUST**

Notes to Special-Purpose Financial Statements

## Note 3 - Investments

The TA 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 Trust's investment advisor, the Trust utilizes four fixed income managers and one U.S. equity manager for direct investment. During 2015, the Trust invested $62,000,000 with six different hedge fund managers. Investments consist of the following at December 31,

| | 2015 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| **AWI stock** | $ 187,878,651 | $ 52,260,281 | $ - | $ 240,138,932 |
| **Other equity securities** | 152,872,374 | 41,417,092 | (19,086,313) | 175,203,154 |
| **Total equity securities** | 340,751,025 | 93,677,373 | (19,086,313) | 415,342,085 |
| **Debt securities** | 1,178,051,719 | 27,404,020 | (953,661) | 1,204,502,078 |
| **Hedge funds** | 61,743,719 | - | (1,367,675) | 60,376,044 |
| | $ 1,580,546,463 | $ 121,081,393 | $ (21,407,649) | $ 1,680,220,207 |

| | 2014 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| AWI stock | $ 341,075,896 | $ 146,257,097 | $ - | $ 487,332,993 |
| Other equity securities | 118,134,695 | 43,529,395 | (9,988,300) | 151,675,790 |
| Total equity securities | 459,210,591 | 187,786,492 | (9,988,300) | 639,008,783 |
| Debt securities | 1,093,724, 948 | 26,735,749 | (6,510,400) | 1,113,950,297 |
| | $ 1,552,935,539 | $ 216,522,241 | $ (16,498,700) | $ 1,752,959,080 |



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## Note 4 - AWI Stock Transactions

In February 2015, the Trust was a selling shareholder in a secondary offering by AWI. The Trust sold 2,739,944 shares at a price of $55.64 per share before an underwriters discount and commission of $0.24 per share. The Trust has recorded a net realized gain on the sale of the AWI common stock of approximately $19.62 per share or $53,763,181.

Additionally, in May of 2015, the Trust was a selling shareholder in a secondary offering by AWI. The Trust sold 1,541,940 shares at a price of $56.53 per share before an underwriters discount and commission of $0.50 per share. The Trust has recorded a net realized gain on the sale of the AWI common stock of approximately $20.25 per share or $31,227,369.

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 $33,251,000.

At December 31, 2015 and 2014, the Trust is the beneficial owner of 5,251,234 and 9,533,118 shares of AWI common stock, respectively.

## Note 5 - Investment in Related Party

In November 2006, the Trust became an owner trust of Delaware Claims Processing Facility LLC (DCPF) for an initial capital contribution of $100. At December 31, 2015 and 2014, DCPF was owned by six equal member trusts.

In connection with their investment, the Trust entered into a Master Claims Processing Agreement (the Agreement) with DCPF. The Agreement expired on December 31, 2008, but automatically renews for additional one-year periods 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.

Under the Agreement, DCPF agrees to (a) process and pay claims under the terms of the TDP (b) provide electronic filing services, (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 pays its pro rata portion of expenses as calculated by the allocation methodology defined in the Agreement.



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

The Trust's expenses under the Agreement totaled approximately $5,800,000 and $4,500,000 for the years ended December 31, 2015 and 2014, 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 - Trust Advisory Committee and Future Claimant Representative

The TA sets forth the role and responsibility of the TAC and FCR. The members of the TAC serve in a fiduciary capacity representing all holders of present Claims (Current Claimants). The Trustees are required to consult with and/or obtain the consent of the TAC on certain matters identified in the TA 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 TA and the TDP.

## Note 7 - Taxation

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

| | 2015 | 2014 |
|---|---|---|
| Estimated net taxable income | $ 163,621,000 | $ 69,711,000 |
| Tax rate | 39.6% | 39.6% |
| Federal income tax expense | 64,793,916 | 27,605,556 |
| Benefit for refund from change in tax position | (337,941) | - |
| True up of prior year estimates | 64,890 | (156,267) |
| | $ 64,520,865 | $ 27,449,289 |
| Net cash paid for income tax | $ 63,046,001 | $ 73,799,289 |




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## Note 7 - Taxation – (Continued)

The difference between financial statement income and federal taxable income is due primarily to the differences between the Trust's tax and book basis in the AWI stock. In prior years, certain special dividends from AWI 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.

The tax years subsequent to December 31, 2011 remain open for examination. The Trust amended the 2012, 2013, and 2014 tax returns for a change in the estimate of deductible expenses. The effect is shown as a benefit for refund from change in tax position.

## Note 8 - 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, the TAC and FCR.



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# SUPPLEMENTAL INFORMATION

## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

To the Trustees
Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust:

We have audited the special-purpose financial statements of the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the Trust) as of and for the years ended December 31, 2015 and 2014, and our report thereon dated April 20, 2016, which expressed an unmodified opinion on those financial statements, appears on pages one and two. 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 special-purpose 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 Sowan Horan, LLP

April 20, 2016
Addison, Texas


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**ARMSTRONG WORLD INDUSTRIES, INC.**
**ASBESTOS PERSONAL INJURY SETTLEMENT TRUST**

Supplemental Schedules of Operating Expenses

| | Years Ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| Investment management and bank fees and expenses | $ **4,669,502** | $ 4,399,845 |
| Legal fees and expenses | **1,851,567** | 1,371,496 |
| Trustee fees and expenses | **909,595** | 849,404 |
| Trust liability insurance | **461,340** | 486,340 |
| Accounting, audit, and tax fees and expenses | **179,643** | 135,473 |
| Trust advisory committee fees and expenses | **128,105** | 108,455 |
| Future claimants representative fees and expenses | **41,390** | 519,365 |
| Miscellaneous operating expenses | **17,772** | 36,973 |
| Total operating expenses | $ **8,258,914** | $ 7,907,351 |

See report of independent auditors on supplemental information



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# Exhibit 1.B


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# Armstrong World Industries Asbestos Trust

FY2015 Annual Report Information

**Period: 1-1-2015 through 12-31-2015**

| | # of Claims Received | # of Claims Paid | | Claims Paid $ | |
|---|---|---|---|---|---|
| | | Malignant | Non-Malignant | Malig | Non-Malig |
| TDP Claims | 23,595 | 3,567 | 10,408 | $113,284,167 | |
| Pre-Petition Liquidated Claims | | 45 | 113 | $809,522 | |

**Period: Inception through 12-31-2015**

| | # of Claims Received | # of Claims Paid | | Claims Paid $ | |
|---|---|---|---|---|---|
| | | Malignant | Non-Malignant | Malig | Non-Malig |
| TDP Claims | 603,053 | 43,306 | 196,963 | $1,713,692,470 | |
| Pre-Petition Liquidated Claims | | 150 | 1,244 | $11,601,679 See Note 1 | |

Note 1. 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.



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# Exhibit 1.C


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**Armstrong World Industries, Inc. Asbestos Settlement Trust**
**Asset Allocation & Asset Class Returns (Net)**
**As of December 31, 2015**

| Asset Class | Assets $ | % of Managed Assets | % of Total Assets | Total Return 12/31/14-12/31/15 |
|---|---|---|---|---|
| U.S. Equity | 92,862,361.42 | 6.3% | 5.3% | 1.3% |
| Non-U.S. Equity | 83,285,570.51 | 5.7% | 4.8% | -8.0% |
| Marketable Alternative Strategies | 60,376,043.71 | 4.1% | 3.5% | -2.6%[1] |
| Intermediate Term Municipal Bonds | 672,921,961.36 | 45.7% | 38.5% | 3.4% |
| Short Term Municipal Bonds | 562,220,767.20 | 38.2% | 32.2% | 0.5% |
| **Total Managed Assets** | **1,471,666,704.20** | **100.0%** | **84.2%** | **1.2%** |
| AWI Stock | 240,138,930.80 | | 13.7% | -10.5% |
| Cash and Equivalents | 35,711,185.26 | | 2.0% | --- |
| **Total Assets** | **1,747,516,820.26** | | **100.0%** | **0.3%** |

[1] Marketable Alternative Strategies Total Return is shown for the period from May 1, 2015 through December 31, 2015

**Armstrong World Industries, Inc. Asbestos Settlement Trust Asset Allocation as of December 31, 2015**

