

# ARMSTRONG WORLD INDUSTRIES INC

## FORM 10-K (Annual Report)

Filed 03/30/05 for the Period Ending 12/31/04

Address	2500 COLUMBIA AVE LANCASTER, PA 17603
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Symbol	AWI
SIC Code	3089 - Plastics Products, Not Elsewhere Classified
Industry	Constr. - Supplies & Fixtures
Sector	Capital Goods
Fiscal Year	12/31

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# FORM 10-K

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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# ARMSTRONG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

000-50408  
Commission file  
number

23-3033414  
(I.R.S. Employer  
Identification No.)

P. O. Box 3001, Lancaster, Pennsylvania  
(Address of principal executive offices)

17604  
(Zip Code)

Registrant's telephone number, including area code (717) 397-0611

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Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Common Stock (\$1 par value)  
Preferred Stock Purchase Rights

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# ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

1-2116  
Commission file  
number

23-0366390  
(I.R.S. Employer  
Identification No.)

P. O. Box 3001, Lancaster, Pennsylvania  
(Address of principal executive offices)

17604  
(Zip Code)

Registrant's telephone number, including area code (717) 397-0611

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Securities registered pursuant to Section 12(b) of the Act: None

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the Common Stock of Armstrong Holdings, Inc. held by non-affiliates based on the closing price (\$1.33 per share) on the over-the-counter (OTC) Bulletin Board (trading symbol ACKHQ) on June 30, 2004, was approximately \$50.9 million. As of March 16, 2005, the number of shares outstanding of registrant's Common Stock was 40,668,892. This amount includes the 1,461,533 shares of Common Stock as of December 31, 2004, held by JPMorgan Chase Bank, as Trustee for the employee stock ownership accounts of the company's Retirement Savings and Stock Ownership Plan.

**Documents Incorporated by Reference**

None

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### **Cautionary Factors That May Affect Future Results**

This report and other written reports and oral statements made from time to time by the company may contain cautionary or “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995.

These statements can be identified by the use of words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words of similar meaning. In particular, these include statements relating to intentions, beliefs or current expectations concerning, among other things, future performance, results of operations, the outcome of contingencies such as legal proceedings, and financial conditions. Forward-looking statements give current expectations or forecasts of future events. They do not relate strictly to historical or current facts.

Any or all of the forward-looking statements made in this report and in any other public statements may turn out to be incorrect. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that actual future results of operations may vary materially from forward-looking statements. Any forward-looking statements made in this report speak only as of the date of such statement. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. However, you should consult any further disclosures we make on related subjects in Forms 10-Q, 8-K, 10-K or other reports filed with the Securities and Exchange Commission (“SEC”).

It is not possible to predict or identify all factors that could potentially cause actual results to differ materially from expected and historical results. Some such factors are:

#### Chapter 11

- Factors relating to Armstrong World Industries, Inc.’s (“AWI”) Chapter 11 Filing, such as: the possible disruption of relationships with creditors, customers, suppliers and employees; the ultimate size of AWI’s asbestos-related and other liabilities; the ability to confirm and implement a plan of reorganization; the availability of financing and refinancing for both AWI and its subsidiaries that are not parties to its Chapter 11 Filing; legislation that might affect AWI’s liabilities; and AWI’s ability to comply with covenants in its debtor-in-possession credit facility (the “DIP Facility”).
- Factors relating to AWI’s emergence from bankruptcy, such as emergence-related costs and AWI’s debt service costs for debt to be issued pursuant to the plan of reorganization. Debt service costs will affect net income and cash flow.
- Covenants in the agreements governing our anticipated, emergence-related debt may impose restrictions that limit operating and financial flexibility.

#### Business Environment

- Our business is cyclical in nature and is affected by the same economic factors that affect the residential, office, commercial and institutional renovation and construction industries in general, such as the availability of credit, consumer confidence, changes in interest rates, governmental budgets and general economic conditions. Despite our efforts to foresee and plan for the effects of changes in these circumstances, we cannot predict their impact with certainty. For example, economic weakness can lead customers to delay or cancel construction plans or could lead to further industry overcapacity. For more information on these matters, see the discussion of Market Risk in Item 7A of this report.

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- The major markets for our products, particularly in the renovation and construction industries, are highly competitive. Business combinations among our competitors or suppliers could affect our competitive position in any of our business units. Competition from foreign competitors who have lower cost structures than we have is a threat in the flooring business. Similarly, combinations or alliances among our major customers could increase their purchasing power in dealing with us. If we should enter into one or more business combinations, our business, finances and capital structure could be affected.
- The level of success of our new product introductions, as well as new patents, and those of our competitors will impact our competitive position.
- The extent to which we successfully achieve integration of and synergies from acquisitions as well as the impact of divestitures, plant closings, including the ability to derive cost savings, and other unusual items that may result from evolving business strategies and organizational restructuring will impact our results of operations.
- Changes in the stock and bond markets could adversely affect the valuation of assets and projected benefit obligations in the related accounting of, and the funding requirements for, our pension plans.

### Sales Environment

- We have several key customers and the loss of one of these customers could affect our financial performance. Although builders, dealers and other retailers represent other channels of distribution for our products, the loss of a significant portion of sales from a major customer would have a material adverse impact on our results of operations.
- Business decisions made by our major customers and business conditions that affect our major customers and distribution networks may adversely affect our business.
- Increased retail trade consolidation, especially in markets such as the United States, could make us more dependent upon key retailers whose relative bargaining strength may increase.
- We are affected by changes in the policies and marketing strategies of our retail trade customers, such as inventory shifts or fluctuations, limitations on access to shelf space and other conditions. Many of our customers, particularly major home center retailers, have engaged with us in continuous efforts to reduce their inventory levels and improve delivery fulfillment.
- Profitability can be affected by changes over time in consumer preferences for one type of product versus another. This may create a shift in demand from products with higher margins to those with lower margins or to products we do not sell.
- We may be unable to increase prices to our customers when our costs increase.

### International

- We face political, social and economic risks related to our international operations which can negatively affect our business, operating results, profitability and financial condition. The risk of war and terrorism may adversely affect the economy and the demand for our products.
- Various worldwide economic and political factors, such as changes in the competitive structures of the markets, credit risks in emerging markets, variations in residential and commercial construction rates, and economic growth rates in various areas of the world in which we do business could affect the end-use markets for our products.
- Profitability can be affected by margin erosion to the extent that sales shift to developing markets with lower profitability.

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- Changes in intellectual property legal protections and remedies, trade regulations, tariff classifications or duty rates, and procedures and actions affecting production, pricing and marketing of products, intergovernmental disputes, possible nationalization and unstable governments and legal systems could impact our business.
- Fluctuations in exchange rates can significantly affect our reported results from one period to the next. Tax inefficiencies and currency exchange controls in repatriating cash flow from non-U.S. subsidiaries could adversely affect us.

### Raw Materials and Sourced Products

- The availability of raw materials, energy, water and sourced products due to changes in conditions that impact our suppliers, including environmental conditions, laws and regulations, litigation involving our suppliers, transportation disruptions, force majeure events and/or business decisions made by our suppliers may have an adverse impact on our results of operations.
- We purchase a significant amount of certain raw materials, such as lumber, veneers, PVC resin, plasticizers, mineral fibers and natural gas. Prices of these raw materials, as well as transportation costs, can change dramatically and can have a significant adverse impact on our manufacturing costs.

### Labor Contracts

- A significant portion of our employees in production are represented under collective labor contracts, with a variety of unions both domestic and international, which are generally multi-year in nature and expire at varying dates. Renewal of collective labor agreements which are expiring involves negotiations, with a potential for work stoppages at affected plants. Should a work stoppage occur, it could adversely affect the results of operations, at least during the period of the event.

### Legal

- Claims of undetermined merit and amount have been asserted against us for various legal matters, including asbestos-related litigation and claims. We could face potential product liability or warranty claims relating to products we manufacture or distribute. For more information on these matters, see the discussion of Legal Proceedings in Part I, Item 3 in this report.
- We are subject to a wide variety of increasingly complex and stringent federal, state and local laws and regulations. Changes in laws and regulations, including accounting standards, taxation requirements, and environmental and safety regulations, that affect our business could lead to significant, unforeseen expenditures.

**PART I**

**ITEM 1. BUSINESS**

**General**

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Pennsylvania corporation and the publicly held parent holding company of AWI. Armstrong Holdings, Inc.’s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware Corporation), of all of the capital stock of AWI. We include separate financial statements for Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries in this report because both companies have public securities that are registered under the Securities Exchange Act of 1934 (the “Securities Exchange Act”). The difference between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries is primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and to employee compensation-related stock activity. Due to the lack of material differences in the financial statements, when we refer in this document to Armstrong Holdings, Inc. and its subsidiaries as “AHI,” “Armstrong,” “we,” “us,” and “ourselves,” we are also effectively referring to AWI and its subsidiaries. We use the term “AWI” when we are referring solely to Armstrong World Industries, Inc.

We maintain a website at <http://www.armstrong.com>. Information contained on our website is not incorporated into this document. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports and other information about us are available free of charge through this website as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission (“SEC”).

We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of residential, commercial and institutional buildings. Through our United States (“U.S.”) operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (resilient, wood, carpeting and sports flooring) and ceiling systems (primarily mineral fiber, fiberglass and metal), around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S.

Our business strategy focuses on product innovation, product quality and customer service. In our businesses, these factors are the primary determinants of market share gain or loss. Our objective is to ensure that anyone buying a floor or ceiling can find an Armstrong product that meets his or her needs. Our cabinet strategy is more focused – on stock cabinets in select geographic markets. In these segments, we have the same objectives: high quality, good customer service and products that meet our customers’ needs. Our markets are very competitive, which limits our pricing flexibility. This requires that we increase our productivity each year – both in our plants and in our administration of the businesses.

**Chapter 11 Proceeding**

On December 6, 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Also filing under Chapter 11 were two of AWI’s wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. The Chapter 11 cases are being jointly administered under case number 00-4471 (the “Chapter 11 Case”). AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. See Note 1 of the Consolidated Financial Statements for information on the Chapter 11 Case and Note 32 of the Consolidated Financial Statements for information on asbestos litigation.

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### Reportable Segments

*Resilient Flooring* — produces a broad range of floor coverings for homes and commercial and institutional buildings. Resilient Flooring products include vinyl sheet, vinyl tile, linoleum flooring and luxury vinyl tile. In addition, our Resilient Flooring segment sources and sells laminate flooring products, ceramic tile products, adhesives, installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs and colors. Many products offer reduced maintenance (no-wax). We sell these products to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

*Wood Flooring* — produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes solid wood (pre-finished or unfinished), engineered wood floors in various wood species (with oak being the primary species of choice) and related accessories. Virtually all of our Wood Flooring's sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce<sup>®</sup>, Hartco<sup>®</sup> and Robbins<sup>®</sup>.

*Textiles and Sports Flooring* (“TSF”) — produces carpeting and sports flooring products that are sold mainly in Europe. Carpeting products consist principally of carpet tiles and broadloom used in commercial applications and in the leisure and travel industry. Sports flooring products include artificial turf and other sports surfaces. Our TSF products are sold primarily through retailers, contractors, distributors and other industrial businesses.

*Building Products* — produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional and residential settings. In addition, our Building Products segment sources and sells wood ceiling systems. The products are available in numerous colors, performance characteristics and designs, and offer attributes such as acoustical control, rated fire protection and aesthetic appeal. Commercial ceiling materials and accessories are sold to ceiling systems contractors and to resale distributors. Residential ceiling products are sold through wholesalers and retailers (including large home centers), primarily in North America. Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

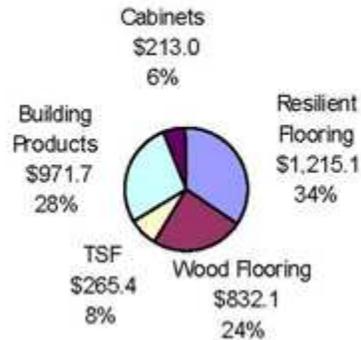
*Cabinets* — produces kitchen and bathroom cabinetry and related products, which are used primarily in the U.S. residential new construction and renovation markets. Through our system of company-owned and independent distribution centers and through direct sales to builders, our Cabinets segment provides design, fabrication and installation services to single and multi-family homebuilders, remodelers and consumers under the brand names Armstrong<sup>™</sup> and Bruce<sup>®</sup>.

*Unallocated Corporate* — includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred tax assets, cash and the U.S. prepaid pension cost. The most significant of the Unallocated Corporate expenses relates to asbestos charges as described in Note 32 of the Consolidated Financial Statements. Other expenses included in Unallocated Corporate are corporate departments' expenses that have not been allocated to other reportable segments, and the U.S. pension credit. Unallocated Corporate also includes assets and equity earnings related to a corporate equity investment in Interface Solutions, Inc. Expenses for our corporate departments (including computer services, human resources, legal, finance and other) are allocated to the reportable segments when the departments provide specific work to the reportable segment and the expense allocation can be based on known metrics, such as time reporting, headcount or square-footage. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

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The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2004 by segment:

**2004 Consolidated Net Sales by Segment**  
(in \$ millions)



See Note 3 of the Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for additional financial information on our reportable segments.

### **Markets**

The major markets in which we compete are:

*North American Residential markets*. The North American Residential markets account for nearly one-half of our total consolidated net sales. Our Resilient Flooring, Wood Flooring, Building Products and Cabinets segments sell products for use in the home. Homeowners have a multitude of finishing solution options for every room in their house. For flooring, they can choose from our vinyl and wood products, for which we are the market's largest provider, or from our laminate and ceramic products. We compete directly with other domestic and international suppliers of these products. Our flooring products also compete with carpet, which we do not offer in this market. Our ceiling products compete against mineral fiber and fiberglass products from other manufacturers, as well as drywall installations. In the kitchen and bath areas, we compete with thousands of other cabinet manufacturers that include large diversified corporations as well as small local craftsmen.

Our products are used in new home construction and existing home renovation work. Industry estimates are that existing home renovation (also known as replacement / remodel) work represents approximately two-thirds of the total North American residential market opportunity. Key U.S. statistics that indicate market opportunity include existing home sales (a key indicator for renovation opportunity), housing starts, housing completions, interest rates and consumer confidence. For our Resilient Flooring and Wood Flooring products, we believe there is some longer-term correlation between these statistics and our revenue, especially with the new construction statistics, after reflecting a lag period between change in construction activity and our operating results of approximately several months. However, we believe that consumers' preferences for product type, style, color, availability and affordability also significantly impact our revenue. Further, changes in inventory levels and product focus at national home centers, which are our largest customers, can also significantly impact our revenue. Sales of our ceiling products in this market appear to follow the trend of existing home sales, with a several month lag period between change in existing home sales and our operating results.

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*North American Commercial markets.* The North American Commercial markets account for approximately one-fourth of our total consolidated net sales. Many of our products, primarily ceilings and Resilient Flooring, are used in commercial and institutional buildings. Our revenue opportunities come from new construction as well as renovation of existing buildings. Renovation work is estimated to represent more than two-thirds of the total North American commercial market opportunity. We focus on four major segments of commercial building – office, education, retail and healthcare, as most of our revenue in these markets comes from these building segments. We monitor U.S. construction starts (an indicator of U.S. monthly construction activity that provides us a reasonable indication of upcoming opportunity) and follow new projects. We have found that our revenue from new construction can lag behind construction starts by as much as one year. We also monitor office vacancy rates and general employment levels, which can indicate movement in renovation and new construction opportunities. We believe that these statistics, taking into account the time-lag effect, provide a reasonable indication of our future revenue opportunity from these markets.

*Non-North American markets.* The non-North American markets account for approximately one-fourth of our total consolidated net sales. The vast majority of our revenues generated outside of North America are in Europe and are commercial in nature. For the countries in which we have significant revenue, we monitor various national statistics (such as GDP) as well as known new projects. Revenues come primarily from new construction and renovation work.

The following table provides an estimate of our segments' 2004 net sales, by major markets.

(Estimated percentages of individual segment's sales)	North American Residential	North American Commercial	Non-North American	Total
Resilient Flooring	50%	30%	20%	100%
Wood Flooring	95%	5%	—	100%
Textiles & Sports Flooring	—	5%	95%	100%
Building Products	10%	50%	40%	100%
Cabinets	100%	—	—	100%

## Geographic Areas

We sell our products in more than 80 countries. Approximately 73% of our 2004 revenue was derived from sales in the Americas, the vast majority of which came in North America (primarily the United States and Canada). The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2004 by region, based on where the sale was made:

### 2004 Consolidated Net Sales by Segment



See Note 3 of the Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for financial information by geographic areas.

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### Customers

We use our market positions and brand recognition to develop long-standing relationships with our customers. We principally sell products through building materials distributors, who re-sell our products to retailers, builders, contractors, installers and others. In the North American retail market, which sells to end-users in the light commercial and residential segments, we have important relationships with major national retailers such as The Home Depot, Inc. and Lowe's Companies, Inc. In the residential market, we have important relationships with major homebuilders and buying groups. In the commercial market, we sell to several contractors and subcontractors' alliances.

Net sales in excess of 10% of our consolidated net sales for 2004, 2003 and 2002 were:

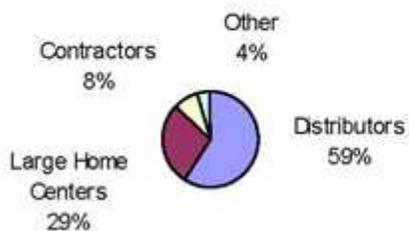
<u>Customer</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
The Home Depot, Inc.	\$393.4	\$400.0	\$380.3
Lowe's Companies, Inc.	(1)	318.7	(1)

(1) Net sales to Lowe's Companies, Inc. were less than 10% of consolidated net sales.

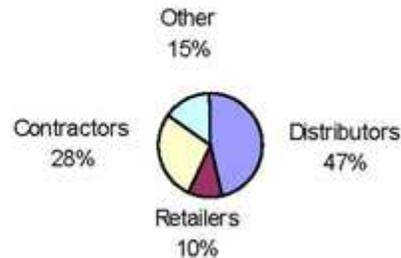
Net sales to these customers were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

The following charts illustrate the estimated breakdown of our 2004 consolidated net sales geographically by distribution channel:

2004 Americas Sale by Customer Type



2004 Non-Americas Sales by Customer Type



### Competition

There is strong competition in all of the reportable segments in which we do business. Principal methods of competition include product performance, product styling, service and price. Competition in the U.S. markets comes from both domestic manufacturers and international producers. Additionally, some of our products compete with alternative products in certain markets, such as our resilient, laminate and wood flooring products competing with carpet products, and our ceiling products competing with drywall. Over recent years, there has continued to be excess industry capacity in many geographic markets, which tends to increase price competition. The following companies are our primary competitors, none of which we view as dominant in their respective markets:

Flooring segments – Congoleum Corporation, Forbo Holding AG, Gerflor Group, Mannington Mills, Inc., Mohawk Industries, Inc., Pergo AB, Shaw Industries, Inc., Tarkett AG and Wilsonart International.

Building Products – Celotex Limited, Chicago Metallic Corporation, Knauf AMF GmbH & Co. KG, Odenwald Faserplattenwerk GmbH, Rockfon A/S and USG Corporation.

Cabinets – American Woodmark Corporation, Fortune Brands, Inc. and Masco Corporation.

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### Raw Materials

Raw materials essential to our businesses are purchased worldwide in the ordinary course of business from numerous suppliers. The principal raw materials used in each business include the following:

<u>Business</u>	<u>Principal Raw Materials</u>
Resilient Flooring	Polyvinylchloride (“PVC”) resins and films, plasticizers, backings, limestone, pigments, linseed oil, inks and stabilizers
Wood Flooring	Hardwood lumber, veneer, coatings, and stains
Textiles and Sports Flooring	Yarn, latex, bitumen and wool
Building Products	Mineral fibers, perlite, waste paper, clays, starches, and steel used in the production of metal ceilings and for our joint venture’s manufacturing of ceiling grids
Cabinets	Lumber, veneer, plywood, particleboard, fiberboard and components, such as doors and hardware

We also purchase significant amounts of packaging materials for all products and use substantial amounts of energy, such as electricity and natural gas, and water in our manufacturing operations.

In general, adequate supplies of raw materials are available to all of our businesses. However, availability can change for a number of reasons, including environmental conditions, laws and regulations, shifts in demand by other industries competing for the same materials, transportation disruptions and/or business decisions made by, or events that affect, our suppliers. There is no assurance that a significant shortage of raw materials will not occur.

Prices for certain high usage raw materials can fluctuate dramatically. Cost increases for these materials can have a significant adverse impact on our manufacturing costs. Given the competitiveness of our markets, we may not be able to recover the increased manufacturing costs through increasing selling prices to our customers.

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### **Sourced Products**

Some of the products that we sell are sourced from third parties. The primary sourced products include laminate, wood flooring, vinyl tile and ceramic products, specialized ceiling products, and installation-related products and accessories for some of our manufactured products. For certain sourced products, the majority of our purchases come from one supplier. Sales of sourced products represented between 10% and 15% of our total consolidated revenue in 2004, 2003 and 2002.

We purchase some of our sourced products from suppliers that are located outside of the U.S. The costs for these products are exposed to changes in foreign currency exchange rates, which can adversely affect our reported results from one period to the next. Our largest foreign currency exposure for sourced products is to the Euro.

In general, we believe we have adequate supplies of sourced products. We cannot guarantee that a significant shortage will not occur.

### **Hedging**

We use financial instruments to hedge currency exposures, for raw material and sourced product purchases and cross-currency intercompany loans, and commodity exposures for natural gas. We use derivative financial instruments as risk management tools and not for speculative trading purposes. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk of this Form 10-K for more information.

### **Patent and Intellectual Property Rights**

Patent protection is important to our business in the U.S. and other markets. Our competitive position has been enhanced by U.S. and foreign patents on products and processes developed or perfected within Armstrong or obtained through acquisitions and licenses. In addition, we also benefit from our trade secrets for certain products and processes.

Patent protection extends for varying periods according to the date of patent filing or grant and the legal term of a patent in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage, and the availability of legal remedies. Although we consider that, in the aggregate, our patents, licenses and trade secrets constitute a valuable asset of material importance to our business, we do not regard any of our businesses as being materially dependent upon any single patent or trade secret, or any group of related patents or trade secrets.

Certain of our trademarks, including without limitation, house marks  , Armstrong <sup>™</sup>, Bruce <sup>®</sup>, Hartco <sup>®</sup>, Robbins <sup>®</sup>, and DLW <sup>™</sup>, and product line marks Allwood <sup>™</sup>, Arteffects <sup>™</sup>, Cirrus <sup>®</sup>, Corlon <sup>®</sup>, Cortega <sup>®</sup>, Designer Solarian <sup>®</sup>, Excelon <sup>®</sup>, Fundamentals <sup>®</sup>, Medintech <sup>®</sup>, Natural Inspirations <sup>™</sup>, Nature's Gallery <sup>™</sup>, Second Look <sup>®</sup>, Solarian <sup>®</sup>, SuperLock <sup>™</sup>, ToughGuard <sup>®</sup> and Ultima <sup>™</sup> are important to our business because of their significant brand name recognition. Trademark protection continues in some countries as long as the mark is used, and continues in other countries, as long as the mark is registered. Registrations are generally for fixed, but renewable, terms.

### **Employees**

As of December 31, 2004, we had approximately 15,500 full-time and part-time employees worldwide, with approximately 10,900 employees located in the United States. Approximately 10,300 of the 15,500 are production and maintenance employees, of whom approximately 7,700 are located in the U.S. and 2,600 located outside the U.S. Approximately 70% of the production and maintenance employees in the U.S. are represented by labor unions. This percentage includes all production and maintenance employees at our plants and warehouses where labor unions exist, regardless of whether or not the employees actually pay union dues. Approximately 70% of our total international employees are represented by labor unions.

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### **Research & Development**

Research and development (“R&D”) activities are important and necessary in helping us improve our products’ competitiveness. Principal R&D functions include the development and improvement of products and manufacturing processes. We spent \$46.6 million in 2004, \$45.3 million in 2003 and \$50.1 million in 2002 on R&D activities worldwide.

### **Environmental Matters**

Most of our manufacturing and certain of our research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We have made, and intend to continue to make, necessary expenditures for compliance with applicable environmental requirements at our operating facilities.

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), and similar state “Superfund” laws at approximately 28 sites. We have also been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. Certain of AWI’s environmental liabilities are subject to discharge through its Chapter 11 Case while others are not. Those environmental obligations that AWI has with respect to property that it owns or operates are likely to be unaffected by the Chapter 11 Case. Therefore, AWI will be required to continue meeting its ongoing environmental compliance obligations at the properties that AWI owns or operates.

See Note 32 of the Consolidated Financial Statements for a full description of our environmental matters.

### **Information Filed With the Bankruptcy Court**

Under applicable bankruptcy law, AWI is required to file periodically with the Bankruptcy Court various documents, including certain financial information on an unconsolidated basis. This information includes statements, schedules, and monthly operating reports in forms prescribed by Federal Bankruptcy Law. We caution that such materials are prepared according to requirements under Federal Bankruptcy Law. While they accurately provide then-current information required under Federal Bankruptcy Law, they are nonetheless unconsolidated, unaudited, and are prepared in a format different from that used in our consolidated financial statements filed under the securities laws. Accordingly, we believe the substance and format do not allow meaningful comparison with our regular publicly disclosed consolidated financial statements. The materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to the stock of AHI or the debt securities of AWI, or for comparison with other financial information filed with the SEC.

Notwithstanding the foregoing, most of AWI’s filings with the Bankruptcy Court are available to the public at the office of the Clerk of the Bankruptcy Court. Those filings may also be obtained through private document retrieval services. We undertake no obligation to make any further public announcement with respect to the documents filed with the Bankruptcy Court or any matters referred to in them.

See Note 1 of the Consolidated Financial Statements for discussion of certain items filed with the Bankruptcy Court, and [www.armstrongplan.com](http://www.armstrongplan.com) for documents related to AWI’s Plan of Reorganization.

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### ITEM 2. PROPERTIES

Our world headquarters are in Lancaster, Pennsylvania. We own a 100-acre, multi-building campus comprising the site of our corporate headquarters, most operational headquarters, our U.S. R&D operations and marketing, and customer service headquarters. Altogether, our headquarters' operations occupy approximately one million square feet of floor space.

We produce and market Armstrong products and services throughout the world, operating 42 manufacturing plants in 12 countries as of December 31, 2004. Three of our plants are leased and the remaining 39 are owned. We have 24 plants located throughout the United States. In addition, Armstrong has an interest through its WAVE joint venture in seven additional plants in five countries.

<u>Business Segment</u>	<u>Number of Plants</u>	<u>Location of Principal Facilities</u>
Resilient Flooring	13	US: California, Illinois, Mississippi, Oklahoma, Pennsylvania and Australia, Canada, Germany, Sweden and the U.K.
Wood Flooring	9	US: Arkansas, Kentucky, Missouri, Tennessee, Texas and West Virginia
Textiles and Sports Flooring	3	Belgium, Germany and The Netherlands
Building Products	15	US: Alabama, Florida, Georgia, Oregon, Pennsylvania and China, France, Germany and the U.K.
Cabinets	2	US: Nebraska and Pennsylvania

Sales and administrative offices are leased and/or owned worldwide, and leased facilities are utilized to supplement our owned warehousing facilities.

For information on consolidation of production and related plant closures in 2004, see Note 15 of the Consolidated Financial Statements and "Cost Reduction Initiatives" in Item 7 - Management Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

Production capacity and the extent of utilization of our facilities are difficult to quantify with certainty. In any one facility, maximum capacity and utilization vary periodically depending upon demand for the product that is being manufactured. We believe our facilities are adequate and suitable to support the business. Additional incremental investments in plant facilities are made as appropriate to balance capacity with anticipated demand, improve quality and service, and reduce costs.

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**ITEM 3. LEGAL PROCEEDINGS**

See Note 32 of the Consolidated Financial Statements, which is incorporated herein by reference, for a full description of our legal proceedings.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of stockholders during the fourth quarter of 2004.

PART II

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

As a result of filing the POR on November 4, 2002, the New York Stock Exchange stopped trading on the Exchange of the common stock of AHI (traded under the ticker symbol "ACK"). As of November 14, 2002, Armstrong Holding's common stock trades on the over-the-counter (OTC) Bulletin Board under the ticker symbol (ACKHQ). As of March 16, 2005, there were approximately 6,882 holders of record of Armstrong Holding's Common Stock.

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total Year</u>
<u>2004</u>					
Price range of common stock—high	\$1.39	\$1.55	\$2.30	\$3.51	\$ 3.51
Price range of common stock—low	\$0.95	\$0.76	\$1.16	\$1.20	\$ 0.76
<u>2003</u>					
Price range of common stock—high	\$0.83	\$2.33	\$3.04	\$2.00	\$ 3.04
Price range of common stock—low	\$0.37	\$0.53	\$1.26	\$0.80	\$ 0.37

There were no dividends declared or paid during 2004 or 2003. The DIP Facility stipulates that AWI will not declare or pay any dividends either directly or indirectly and bankruptcy law bars dividends by companies in Chapter 11.

No Company securities were repurchased by the Company during 2004.

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### ITEM 6. SELECTED FINANCIAL DATA

The following data is presented for continuing operations.

(Dollars in millions except for per-share data)

	For Year	2004	2003	2002	2001	2000
<b>Income statement data</b>						
Net sales		\$ 3,497.3	\$ 3,259.0	\$ 3,172.3	\$3,138.7	\$3,248.9
Cost of goods sold		2,811.0	2,597.4	2,404.5	2,364.7	2,386.2
Selling, general and administrative expenses		635.0	612.1	630.8	596.6	595.3
Charge for asbestos liability, net		—	81.0	2,500.0	22.0	236.0
Goodwill impairment		108.4	—	—	—	—
Restructuring and reorganization charges, net		18.3	8.6	1.9	9.0	18.8
Goodwill amortization		—	—	—	22.8	23.9
Equity (earnings) from joint venture		(31.6)	(20.8)	(19.7)	(16.2)	(17.9)
Operating income (loss)		(43.8)	(19.3)	(2,345.2)	139.8	6.6
Interest expense		8.4	9.0	11.3	12.7	102.9
Other non-operating expense		3.1	5.7	3.6	10.3	3.7
Other non-operating (income)		(6.4)	(5.0)	(7.5)	(13.3)	(80.5)
Chapter 11 reorganization costs, net		6.9	9.4	23.5	12.5	103.3
Income tax expense (benefit)		24.6	(1.6)	(827.8)	43.2	(37.7)
Earnings (loss) from continuing operations before cumulative change in accounting principle		(80.4)	(36.8)	(1,548.3)	74.4	(85.1)
Per common share – basic (a)		\$ (1.99)	\$ (0.91)	\$ (38.23)	\$ 1.84	\$ (2.12)
Per common share – diluted (a)		\$ (1.99)	\$ (0.91)	\$ (38.23)	\$ 1.82	\$ (2.12)
Cumulative effect of a change in accounting principle, net of tax of \$2.2		—	—	(593.8)	—	—
Earnings (loss) from continuing operations		(80.4)	(36.8)	(2,142.1)	74.4	(85.1)
Earnings (loss) from discontinued operations		(0.4)	(2.5)	(0.7)	18.4	97.3
Net earnings (loss)		\$ (80.8)	\$ (39.3)	\$ (2,142.8)	\$ 92.8	\$ 12.2
Per common share – basic (a)		\$ (2.00)	\$ (0.97)	\$ (52.91)	\$ 2.29	\$ 0.30
Per common share – diluted (a)		\$ (2.00)	\$ (0.97)	\$ (52.91)	\$ 2.27	\$ 0.30
Dividends declared per share of common stock		—	—	—	—	\$ 1.44
	For Year	2004	2003	2002	2001	2000
Average number of common shares outstanding (in millions)		40.5	40.5	40.5	40.5	40.2
Average number of employees		15,400	15,800	16,700	16,800	16,500
<b>Balance sheet data (December 31)</b>						
Working capital		\$ 994.1	\$ 943.3	\$ 859.3	\$ 748.0	\$ 618.3
Total assets		4,609.4	4,647.8	4,504.8	4,038.1	4,005.2
Liabilities subject to compromise		4,866.2	4,858.5	4,861.1	2,357.6	2,385.2
Net long-term debt (b)		29.2	39.4	39.9	50.3	56.9
Shareholders' equity (deficit)		(1,411.7)	(1,330.2)	(1,346.7)	760.4	665.1

#### Notes:

- (a) See definition of basic and diluted earnings per share in Note 2 of the Consolidated Financial Statements.  
(b) Net long-term debt excludes debt subject to compromise for all periods presented.

Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 2 of the Consolidated Financial Statements.

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### **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Separate financial statements for AHI and AWI and its subsidiaries are included in this document because both have outstanding public securities. The difference between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries is primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and to employee compensation-related stock activity. Due to the lack of material differences in the financial statements, the following discussion and analysis pertains to both AHI and AWI and its subsidiaries.

This discussion should be read in conjunction with the financial statements and the accompanying notes included elsewhere in this Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation. This discussion contains forward-looking statements based on our current expectations, which are inherently subject to risks and uncertainties. Actual results and the timing of certain events may differ significantly from those referred to in such forward-looking statements. We undertake no obligation beyond what is required under applicable securities law to publicly update or revise any forward-looking statement to reflect current or future events or circumstances, including those set forth in the section entitled “Cautionary Factors” and elsewhere in this Form 10-K.

References to performance excluding the translation effect of changes in foreign exchange rates are non-GAAP measures. We believe that this information improves the comparability of business performance by excluding the impacts of changes in foreign exchange rates when translating comparable foreign currency amounts. We calculate the translation effect of foreign exchange rates by applying the current year’s foreign exchange rates to the equivalent period’s foreign currency amounts as reported in the prior year. Additionally, we reference operating income prior to the charge for asbestos liability, net and the goodwill impairment. We believe that this non-GAAP reference provides a clearer picture of our operating performance. Furthermore, management evaluates the performance of the businesses excluding these items.

### **OVERVIEW**

We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of residential, commercial and institutional buildings. Through our United States (“U.S.”) operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (resilient, wood, carpeting and sports flooring) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S. We own and operate 42 manufacturing plants in 12 countries, including 24 plants located throughout the United States. Through WAVE, our joint venture with Worthington Industries, Inc., we also have an interest in seven additional plants in five countries that produce suspension system (grid) products for our ceiling systems.

We report our financial results through the following segments: Resilient Flooring, Wood Flooring, Textiles and Sports Flooring, Building Products, Cabinets and Unallocated Corporate. See “Reportable Segment Results” for additional financial information on our segments.

On December 6, 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Also filing under Chapter 11 were two of AWI’s wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. The Chapter 11 cases are being jointly administered under case number 00-4471 (the “Chapter 11 Case”). AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. See Note 1 of the Consolidated Financial Statements for information on the Chapter 11 Case and Note 32 of the Consolidated Financial Statements for information on asbestos litigation.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

Our consolidated net sales for 2004 were approximately \$3.5 billion, which were approximately 7% greater than consolidated net sales in 2003. After excluding the translation effect of changes in foreign exchange rates, net sales in 2004 increased by approximately 4.5% from net sales in 2003. Operating income prior to non-cash goodwill impairment charges was approximately \$65 million in 2004, as compared to operating income prior to non-cash asbestos-related charges of approximately \$62 million in 2003. (For a reconciliation of non-GAAP measures, see "Results of Operations, 2004 Compared to 2003") Cash and cash equivalents increased by approximately \$32 million of cash in 2004, which was lower than the cash increase in 2003. In 2004:

- The U.S. commercial market strengthened, while the U.S. housing market remained strong.
- We made progress in improving product quality and customer service.
- We offset most of the significant cost increases incurred for certain items, such as the cost of lumber, PVC, resins, plasticizers and energy, by increasing selling prices.
- We benefited from the cost reduction initiatives implemented in 2003, and implemented new initiatives in 2004 to further improve our cost structure and enhance our competitive position.
- We increased capital investments in our manufacturing operations.

Our businesses experienced the following results in 2004:

- Building Products generated record results.
- Wood Flooring's operating income improved through increased sales and manufacturing efficiencies.
- Cabinet's results turned positive.
- Textiles and Sports Flooring generated less of an operating loss, primarily due to cost reduction initiatives implemented in 2003.
- Resilient Flooring incurred a significant operating loss, primarily from recording non-cash charges of \$108.4 million to impair goodwill and \$44.8 million to impair fixed assets in 2004 in Europe. Resilient Flooring also incurred additional expenses in 2004 related to cost reduction initiatives.

#### **Factors Affecting Revenues**

For an estimate of our segments' 2004 net sales by major markets, see "Markets" in Item 1. Business of this Form 10-K.

*Markets.* We compete in building material markets around the world. The majority of our sales opportunity is in the North American and European markets. During 2004, these markets experienced the following, according to U.S. Government and industry reports:

- In the North American residential market, housing construction remained very strong, with approximately 1.95 million housing units started in 2004 compared to approximately 1.85 million in 2003. However, housing starts in the fourth quarter of 2004 declined approximately 4% from starts in the fourth quarter of 2003 and declined slightly from the third quarter of 2004. Sales of existing homes were also very strong in 2004, with approximately 6.7 million homes sold in 2004 compared to approximately 6.1 million in 2003.

U.S. retail sales of building materials, garden equipment and supply stores (an indicator of home renovation activity) increased approximately 15% in 2004 over sales levels in 2003. This was partially due to strong sales of existing homes during the periods, after allowing for the usual lag for renovation-related expenditures.

### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

For several years, the amount of vinyl flooring products, measured as a percent of the total residential flooring market, has been declining, while laminate, ceramic and hardwood flooring products have increased. This trend of changing consumer preferences for flooring also continued in 2004. For 2005, we estimate the residential replacement markets will decline and that it is likely that new construction demand will decline from record 2004 levels. A key consideration in changes in market segments is that margins for products sold into new construction tend to be lower than those sold into the renovation segment. Further, we expect the category of vinyl products to continue to decline in units sold, while laminate, ceramic and hardwood flooring should continue to increase.

- The North American commercial market strengthened overall in 2004, with renovation improving in the office and education segments, and construction completions in the office, healthcare, retail and education segments increasing by approximately 6%, 10%, 5% and 3%, respectively. Industry statistics indicate that commercial starts will marginally improve in 2005, with improvements anticipated in office, education and health care, while the retail segment will decline slightly. Indications are for a further decline in office vacancy rates, which could also positively impact the renovation segment of this market.

Increased global demand for steel created a shortage in the U.S. The steel shortage increased raw material costs for our WAVE joint venture. This increase has been largely offset by price increases. An extended steel shortage could cause U.S. construction starts to be delayed or postponed, which could reduce our commercial sales. To-date, sales of our commercial products have not been impacted by the shortage.

- In Europe, we experienced mixed, but generally difficult, market conditions in the Western European countries. The economic environment adversely impacted both price and volume in some of our businesses. At the same time, we benefited from more favorable growth opportunities in Eastern Europe, particularly Russia. In 2005, we anticipate minimal growth in the Western Europe markets, but more promising growth conditions in Eastern Europe.
- In Asia Pacific, 2004 was a year of strong demand especially in China and India, and we expect strong demand to continue in 2005.

*Quality and Customer Service.* Our quality and customer service is a critical component of the total value proposition we offer our customers. In 2004, we experienced the following:

- Our performance in fulfilling orders for Wood Flooring products was less than satisfactory due in part to substantially higher orders and lower inventory levels during early 2004. We have been increasing our capacity and inventory in order to improve customer service performance levels.
- Two of our Building Products plants were damaged by Hurricane Ivan in September 2004. The plants were partially operational within a few days and fully operational in less than a week. We estimate that approximately \$2 million of sales were delayed from the third quarter into the fourth quarter as a result of the hurricane. Customer service was not adversely affected during this time.
- Production and research initiatives have enabled significant improvements in the quality of our Resilient Flooring in North American and Wood Flooring products. These improvements helped reduce the number of quality-related claims and helped increase customer satisfaction.
- One of our U.S. distributors of resilient and wood flooring products incurred significant order, shipment and invoice processing problems after converting to a new computer system. These problems caused customer service issues for independent retailers and home centers in early 2004. In April, the distributor resolved its problems. Our financial results were not materially affected by these problems.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

- In April 2004, a key U.S. supplier of PVC resins to Armstrong had a substantial portion of one of its plants destroyed in an explosion. PVC resins are a key raw material for manufacturing vinyl flooring, and this plant represented a sizeable portion of the capacity for these resins in the U.S. In January 2005, another supplier ceased producing PVC resins. For both events, we identified and qualified alternate suppliers. These additional suppliers, together with various manufacturing initiatives, allowed us to operate without significant disruptions to customer supply.

*Pricing Initiatives* . During 2004 and 2003, increased costs for raw materials, labor and labor-related expenses, energy and other areas caused us to initiate several price increases to our customers. These pricing initiatives increased net sales in 2004 compared to the 2003.

The most significant of these pricing initiatives affecting 2004 included:

- In Resilient Flooring, we announced a price increase in April for commercial vinyl composition tile products, effective later in the second quarter and third quarter. Additionally, in June and October, we announced price increases on selected residential and commercial vinyl flooring products, which became effective in the third quarter and fourth quarters, respectively.
- In Wood Flooring, we announced a price increase in April for selected solid wood products, which was effective in the second quarter. Additionally, in the second quarter, we lowered prices for selected engineered wood products in response to imported and domestic competitive products. In November, we announced a price increase on selected engineered wood products, to be effective in the first quarter of 2005.
- In Building Products, a price increase was announced in April for most commercial acoustical ceiling products in the U.S. market, effective July 1, 2004. In May and June, price increases were announced to our large home center customers and residential wholesalers, which were effective through the second half of 2004. In the fourth quarter, a price increase was announced for most commercial markets worldwide, effective during the first quarter of 2005.
- In Cabinets, we announced price increases to our retail, builder and distributor customers that became effective in June. We also announced an additional increase in November that became effective in the first quarter of 2005.

The most significant of these pricing initiatives affecting 2003 included:

- In Resilient Flooring, we implemented price increases for selected U.S. commercial products in July. We also implemented an increase on selected U.S. residential products in November.
- In Wood Flooring, we implemented a price increase on solid wood products in April. We also announced another increase on solid wood products that became effective in November 2003 and January 2004, depending on the customer channel.
- In Building Products, a price increase was announced for most commercial acoustical ceiling products in the North American markets, effective July 1. Price increases on certain products to our large home center customers in the U.S. were implemented in August and September. We also increased prices for certain U.S. residential-oriented products sold through distribution in July. An additional increase for most commercial products was announced in the fourth quarter of 2003, which became effective January 1, 2004.
- In Cabinets, we announced price increases in September to our retail customers depending on the market conditions in the different geographic areas. At the same time, we also increased prices to our builder customers.

In certain cases, price increases actually realized were less than the announced price increases, as we had to adjust to competitive actions and changing market conditions. Also, we made several price concessions in some of our segments and geographic regions, again to respond to competition and market conditions.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

We estimate that the various pricing actions provided a net increase to our total consolidated net sales in 2004 compared to 2003 by approximately \$62 million.

During 2005 thus far, the most significant pricing actions were:

- In Resilient Flooring, we announced an increase for selected residential and commercial vinyl products effective February 1, 2005.
- In Building Products, a price increase was announced to independent retailers for all ceiling products, effective February 1, 2005.

*Impact From Major Customers' Decisions.* Lowe's Companies, Inc., one of our largest customers, increased purchases of non-Armstrong laminate flooring products in the second quarter of 2004. Our second half total laminate flooring sales declined approximately 12% from 2003, as a result of their action. During the third quarter, Lowe's advised us that they will further reduce the number of laminate flooring products they purchase from us starting in the first quarter of 2005. We estimate that Lowe's action will reduce our sales to them in 2005, compared to 2004 levels, by approximately \$55 million and have a material adverse impact on operating income.

Certain national retailers dedicated less of their selling space to vinyl flooring products in 2004, as consumer demand for these products declined. This action contributed to the sales volume decline experienced in 2004 in our Resilient Flooring Americas business.

#### **Factors Affecting Operating Costs**

*Operating Expenses.* Our operating expenses consist of direct production (principally raw materials, labor and energy) and manufacturing overhead costs, costs to purchase sourced products and selling, general and administrative ("SG&A") expenses.

Our largest individual raw material expenditures are for lumber and veneers, PVC resins, backings for various flooring products and plasticizers. Fluctuations in the prices of these raw materials are generally beyond our control and have a direct impact on our financial results. In 2004, we experienced the following:

- Prices for hardwood lumber increased during 2003 and through the third quarter of 2004, as the availability of lumber for flooring decreased due to reductions in industry saw mill capacity, while demand for the lumber (for flooring and other products such as railroad ties and pallets) remained strong. We partially reduced the impact of the year-over-year increased costs through an improved procurement process. In the fourth quarter of 2004, lumber prices declined from prices in the third quarter of 2004. However, our cost for lumber in 2004 was approximately \$37 million greater than in 2003. Lumber costs for the year 2005 are expected to decline from 2004 levels.
- PVC is a widely used oil-based raw material. We experience cost pressures on PVC when energy prices increase and when industrial demand for the material increases. PVC resin, plasticizers and film prices increased cost of goods sold by approximately \$20 million in 2004 compared to 2003. We believe the cost for these oil-based raw materials in 2005 will exceed those in 2004, due to the expectation that the price of oil will remain high, and due to reduced suppliers' manufacturing capacity (see "Overview – Quality and Customer Service").
- Costs for natural gas have increased significantly over the past several years. In 2004, we incurred approximately \$7 million of additional costs for natural gas compared to 2003.

Year over year, we normally incur additional costs in production wages and non-production salaries due to wage and salary rate increases. This increased cost in 2004 compared to 2003 was approximately \$25 million.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") became law in the United States. Pursuant to accounting guidance on the Act issued in the second quarter of 2004, we elected to begin recording the effect of the Act in the second quarter. The Act was effective retroactive to January 1, 2004 and the 2004 benefit was \$7 million. This benefit was recorded in cost of goods sold (\$4 million) and SG&A expense (\$3 million).

*Cost Reduction Initiatives.* During 2004, we implemented several manufacturing and organizational changes to improve our cost structure and enhance our competitive position. Specifically:

- We ceased production of certain products at our Resilient Flooring manufacturing plant in Lancaster, Pennsylvania, transferring production to other Resilient Flooring plants. One of the products will continue to be produced in Lancaster until December 31, 2005.
- We recorded costs associated with the announcement that we will cease production at our Building Products plant in The Netherlands. Acceptance of the closure proposal was received from the local works council in the fourth quarter of 2004. The plant ceased production in the first quarter of 2005.
- We ceased production at our Cabinets plant in Morristown, Tennessee, transferring production to other Cabinets plants.
- We restructured the sales force and management structure in our North America flooring organization in response to changing market conditions.
- We ceased production at our Wood Flooring manufacturing plant in Searcy, Arkansas, transferring production to other Wood Flooring plants.

We incurred the following net expenses in 2004 due to implementing these cost reduction initiatives:

	Cost of Goods Sold	SG&A Expense/ (Gain)	Restructuring Charges/ (Reversals)	Total Net Expenses
Resilient Flooring	\$ 28.1	\$ 0.5	\$ 4.1	\$ 32.7
Wood Flooring	0.8	(1.1)	2.0	1.7
Textiles & Sports Flooring	0.1	(1.8)	0.4	(1.3)
Building Products	2.5	—	10.9	13.4
Cabinets	1.9	—	0.4	2.3
Corporate Unallocated	—	0.3	0.5	0.8
<b>Total Consolidated</b>	<b>\$ 33.4</b>	<b>\$ (2.1)</b>	<b>\$ 18.3</b>	<b>\$ 49.6</b>

Cost of goods sold includes \$18.9 million of fixed asset impairments, \$13.2 million of accelerated depreciation and \$1.3 million of other related costs.

We recorded gains of \$2.9 million in Wood Flooring and TSF related to sales of buildings that had previously been reserved as part of cost reduction initiatives.

See Note 15 of the Consolidated Financial Statements for more information on restructuring charges/(reversals).

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

During 2003, we recorded the following amounts related to cost reduction initiatives:

- We ceased production of our residential stencil product line in Lancaster, PA.
- We closed two Wood Flooring facilities that manufactured engineered wood floors, consolidating their production volume into another Wood Flooring facility.
- We closed a Textiles and Sports Flooring plant in The Netherlands as part of the continuing 2002 restructuring plan.
- We consolidated several sales, operational and administrative support organizations throughout our company to more effectively manage the business. This consolidation included integrating our Resilient Flooring and Wood Flooring organizations that manage the Americas markets.

We incurred the following expenses in 2003 due to implementing these cost reduction initiatives:

	Cost of Goods Sold	SG&A Expense	Restructuring Charges	Total Expenses
Resilient Flooring	\$ 8.8	\$ 3.1	\$ 1.4	\$ 13.3
Wood Flooring	23.4	4.0	0.8	28.2
Textiles & Sports Flooring	0.3	—	7.2	7.5
Building Products	0.2	1.9	—	2.1
Cabinets	—	0.8	—	0.8
Corporate Unallocated	—	2.8	(0.8)	2.0
<b>Total Consolidated</b>	<b>\$ 32.7</b>	<b>\$ 12.6</b>	<b>\$ 8.6</b>	<b>\$ 53.9</b>

Cost of goods sold includes \$0.8 million of fixed asset impairments, \$29.1 million of accelerated depreciation and \$2.8 million of other related costs. SG&A expense includes \$2.8 million of fixed asset impairments and \$9.8 million of other employee related costs.

See Note 15 of the Consolidated Financial Statements for more information on restructuring charges/(reversals).

We will incur additional expenses of approximately \$56 million in 2005 to implement the 2004 cost reduction initiatives. Once completely implemented, we believe that the incremental cost savings from our 2004 and 2003 initiatives will be approximately \$73 million. These projected incremental annual cost savings will not be fully realized until 2007. We will continue to evaluate additional cost reduction actions in 2005.

#### **Factors Affecting Cash Flow**

Historically, excluding the cash demands for asbestos-related claims in 2000 and prior years, we typically generate positive cash flow from our operating activities. The amount of cash generated in any one period is dependent on a number of factors, including the amount of operating profit generated and the amount of working capital (such as inventory, receivables and payables) required to operate our businesses. We typically invest in property, plant & equipment ("PP&E") and computer software.

During 2004, our cash and cash equivalents balance increased by \$31.6 million, which was \$72.7 million less than during 2003. The decrease compared to 2003 was primarily due to increasing capital spending for manufacturing operations and increasing inventory during 2004. The spending is intended to improve our production efficiencies and customer service.

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#### **Asbestos-Related Charges**

During 2003, we reduced our previously recorded insurance asset for asbestos-related personal injury claims by \$73 million, reflecting management's assessment of probable insurance recoveries based upon an unfavorable ruling in an alternative dispute resolution procedure. We also recorded an \$8 million charge in 2003 to reflect an agreement to settle claims from the Center for Claims Resolution and a surety bond insurance company. During 2002, we recorded a \$2.5 billion charge to increase our estimate of probable asbestos-related liability. All amounts are reflected as a charge to asbestos liability, net. See "Asbestos-Related Litigation" in Note 32 of the Consolidated Financial Statements for additional information.

#### **Employees**

As of December 31, 2004, we had approximately 15,500 full-time and part-time employees worldwide. This compares to approximately 15,200 employees as of December 31, 2003. The increase in employees in 2004 is primarily due to additional workforce in our Wood Flooring segment.

During 2004, we negotiated three collective bargaining agreements, with no locations experiencing a work stoppage. Throughout 2005, collective bargaining agreements covering certain employees at six plants will expire. As of the date of this filing, no employees are working under an expired contract.

Late in September 2004, our Hoogezand, The Netherlands plant (see "Cost Reduction Initiatives" and Note 15 of the Consolidated Financial Statements) experienced a 14 day work stoppage unrelated to a collective bargaining agreement, which delayed shipments of certain products. This work stoppage did not have a material impact on operations.

#### **CRITICAL ACCOUNTING POLICIES**

Many accounting entries require us to make estimates. These entries include asbestos-related liability and insurance assets, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers compensation, general liability and environmental claims. When preparing an entry that requires an estimate to be made, we determine what factors are most likely to affect the estimate. We gather information relevant to these factors from inside and outside the company. This information is evaluated and an estimate is made.

The following are the critical accounting policies that management believes could have a significant impact to the financial statements if the estimates and judgments used by management turn out to be incorrect. In addition, management has discussed the application of these critical accounting policies with our Audit Committee.

**Asbestos-related Estimates** – We record contingent liabilities, including asbestos-related liabilities, when a loss is probable and the amount of loss can be reasonably estimated. Prior to its Chapter 11 Filing, AWI estimated its probable asbestos-related personal injury liability based upon a variety of factors including historical settlement amounts, the incidence of past claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. As of September 30, 2000, AWI had recorded a liability of \$758.8 million for its asbestos-related personal injury liability that it determined was probable and estimable through 2006. Due to the increased uncertainty created as a result of the Filing, the only change made to the previously recorded liability through the third quarter of 2002 was to record October and November 2000 payments of \$68.2 million against the accrual. The asbestos-related personal injury liability balance recorded at December 31, 2001 was \$690.6 million, which was recorded in liabilities subject to compromise.

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AWI filed an initial POR and disclosure statement with respect to the POR during the fourth quarter of 2002. In March 2003, AWI filed an amended POR and disclosure statement. Based upon the foregoing, the discussions AWI had with the different creditors' committees and the hearings held before the Bankruptcy Court, management believed that it was reasonably likely that the asbestos-related personal injury liability would be satisfied substantially in the manner set forth in the POR. As a result, AWI concluded that it could reasonably estimate its probable liability for current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a \$2.5 billion charge to increase the liability in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). The recorded asbestos-related liability for personal injury claims of approximately \$3.2 billion at December 31, 2004 and 2003, which was treated as a liability subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and a recovery value percentage for the allowed claims of the Asbestos PI Trust that is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims. See "Asbestos-Related Litigation" in Note 32 of the Consolidated Financial Statements for further discussion on the Asbestos PI Trust and the treatment of asbestos-related claims under the POR.

In February of 2005, the U.S. District Court denied confirmation of the POR in its current form. AWI is currently in discussions with the different creditors' committees to decide how to respond to the District Court ruling. AWI is unable to predict when and if the POR will be confirmed and, if confirmed, when the POR will be implemented. See "Recent Developments and Next Steps in the Chapter 11 Process" in Note 1 of the Consolidated Financial Statements. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded asbestos-related personal injury liability are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

Additionally, AWI has a recorded asset of \$98.6 million as of December 31, 2004 representing estimated insurance recoveries related to its asbestos liability. Approximately \$79 million of the \$98.6 million asset is determined from agreed coverage in place. During the second quarter of 2003, AWI reduced its previously recorded insurance asset for asbestos-related personal injury claims by \$73 million reflecting management's current assessment of probable insurance recoveries in light of an unfavorable ruling in an alternative dispute resolution procedure. See "Asbestos-Related Litigation" in Note 32 of the Consolidated Financial Statements for further discussion.

The total amount of the estimated insurance recoveries asset recorded reflects the belief in the availability of insurance in this amount, based upon prior success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. In our opinion, such insurance is either available through settlement or probable of recovery through negotiation or litigation. Although AWI revised its recorded asbestos liability by \$2.5 billion in the fourth quarter of 2002, no increase has been recorded in the estimated insurance recovery asset. While we believe that the process of pursuing disputed insurance coverage may result in additional settlement amounts beyond those recorded, there has been no increase in the recorded amounts due to the uncertainties remaining in the process. The estimate of probable recoveries may be revised depending on the developments in the matters discussed above as well as events that occur in AWI's Chapter 11 Case.

**U.S. Pension Credit and Postretirement Benefit Costs** – We maintain pension and postretirement plans throughout the world, with the most significant plans located in the U.S. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. Our defined benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions, which are determined in accordance with generally accepted accounting principles ("GAAP"). Each assumption represents management's best estimate of the future. The assumptions that have the most significant impact on reported results are the discount rate, the estimated long-term return on plan assets and the estimated

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inflation in health care costs. These assumptions are updated annually at the beginning of the year and applied in the valuations recorded for that year.

The discount rate is used to determine retirement plan liabilities and to determine the interest cost component of net periodic pension and postretirement cost. Our actuary provides the expected modified duration of the liabilities. Management determines the appropriate discount rate by referencing the yield on investment grade fixed-income securities of a similar duration (14 years) to that of the expected liabilities, as well as the yield for Moody's AA-rated long-term corporate bonds. As of December 31, 2004, we assumed a discount rate of 5.75% compared with a discount rate of 6.00% as of December 31, 2003 for the U.S. plans. This decrease is consistent with the decline in U.S. corporate bond yields during the year. An additional one-quarter percentage point decrease in the discount rate to 5.50% would reduce 2005 operating income by \$0.3 million, while a one-quarter percentage point increase in the discount rate to 6.00% would increase 2005 operating income by \$0.3 million. The effects of the decreased discount rate, which increases our liabilities, will be amortized against earnings as described below.

Effective January 1, 2003, we updated the mortality table used in our U.S. pension and postretirement benefit cost calculations to reflect more current information. The new table (RP2000) is based upon actual 1990 to 1994 general population mortality rates, with improvements projected to 2003. The impact of this change was a \$4.7 million reduction in 2003 operating income, compared to 2002.

We have two U.S. defined benefit pension plans, a qualified funded plan and a nonqualified unfunded plan. For the funded plan, the expected long-term return on plan assets represents a long-term view of the future estimated investment return on plan assets. This estimate is determined based on the target allocation of plan assets among asset classes and input from investment professionals and academic sources on the expected performance of the equity and bond markets over 10 to 20 years. Over the last 10 years, the annualized return was approximately 11.5% compared to an average expected return of 8.7%. The expected long-term return on plan assets used in determining our 2004 U.S. pension credit was 8.00%. The actual return on plan assets achieved for 2004 was 12.8%. In accordance with GAAP, this excess will be amortized into earnings as described below. We do not expect to be required to make cash contributions to the qualified funded plan during 2005. We have assumed a return on plan assets during 2005 of 8.00%. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2005 operating income by approximately \$4.9 million. Contributions to the unfunded plan were \$3.3 million in 2004 and are made on a monthly basis to fund benefit payments. We estimate the contributions to be approximately \$3 million in 2005. See Note 18 of the Consolidated Financial Statements for more details.

The estimated inflation in health care costs represents a long-term view (5-10 years) of the expected inflation in our postretirement health care costs. We separately estimate expected health care cost increases for pre-65 retirees and post-65 retirees due to the influence of Medicare coverage at age 65, as illustrated below:

	Assumptions			Actual		
	Post 65	Pre 65	Overall	Post 65	Pre 65	Overall
2003	12%	10%	11%	7%	7%	7%
2004	11	9	10	6	11	7
2005	10	8	9			

In accordance with GAAP, the difference between the actual and expected health care costs is amortized into earnings as described below. The overall percentage of health care cost increases are estimated to decrease by 1 percentage point per year until 2008, after which it is constant at 6%. A one percentage point increase in the assumed health care cost trend rate would reduce 2005 operating income by \$2.9 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2005 operating income by \$2.4 million. See Note 18 of the Consolidated Financial Statements for more details.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

Actual results that differ from our estimates are captured as actuarial gains/losses and are amortized into future earnings over the expected remaining service period of plan participants, which ranges from 12 to 15 years depending on the participants in the plan, in accordance with GAAP. Changes in assumptions could have significant effects on earnings in future years.

We recorded U.S. pension credits of \$14.3 million, \$11.6 million and \$39.2 million in 2004, 2003 and 2002, respectively, reflecting the net overfunded status of our U.S. pension plans and the amortization into earnings of the difference between our actual results and the estimates used in the valuation process. We recorded U.S. postretirement benefit costs of \$30.3 million, \$36.8 million and \$45.1 million in 2004, 2003 and 2002, respectively.

**Impairments of Tangible and Intangible Assets** – We periodically review significant tangible and intangible assets, including goodwill, for impairment under the guidelines of the Financial Accounting Standards Board (“FASB”) Statement Nos. 142 – “Goodwill and Other Intangible Assets” (“FAS 142”) and 144 – “Accounting for the Impairment or Disposal of Long-Lived Assets” (“FAS 144”). In accordance with these Statements, we review our businesses for indicators of impairment such as operating losses and/or negative cash flows. If an indication of impairment exists, we estimate the fair value and compare it to the carrying value of the asset. If the fair value is less than the carrying value of the asset, we record an impairment equal to the difference between the fair value and carrying value of the asset. The cash flow estimates are based on management’s analysis of information available at the time of the estimate. Actual cash flows in the future that turn out to be lower than the estimate could lead to significant future impairments.

In the second quarter of 2002, we completed an assessment of goodwill and intangible assets in the Wood Flooring segment and recorded a non-cash transitional impairment charge of \$596.0 million (\$593.8 million, net of tax) as of January 1, 2002. From our initial FAS 142 transition charge through 2003, our assessments have indicated that goodwill and other intangible assets have not been impaired. In 2004, we recorded a total goodwill impairment charge for our European resilient flooring reporting unit of \$108.4 million. See Note 12 of the Consolidated Financial Statements for further information.

In 2004, we also recorded fixed asset impairment charges of \$64.7 million and accelerated depreciation of \$13.7 million, in cost of goods sold. See “Cost Reduction Initiatives” for further discussion. See Note 10 of the Consolidated Financial Statements for further discussion on the European resilient flooring fixed asset impairment. Following is a summary of the 2004 charges:

<u>Action</u>	<u>Segment</u>	<u>Impairment</u>	<u>Accelerated Depreciation</u>	<u>Total Fixed Asset Charges</u>
<b>Cost Reduction Initiatives:</b>				
Lancaster, PA	Resilient Flooring	\$ 17.7	\$ 10.3	\$ 28.0
Hoogezand, The Netherlands	Building Products	—	1.4	1.4
Morristown, TN	Cabinets	0.4	1.5	1.9
Adjustment to 2003 Building Held for Sale	Wood Flooring	0.8	—	0.8
European resilient flooring fixed asset Impairment	Resilient Flooring	44.8	—	44.8
Obsolete Equipment and Buildings	Resilient Flooring, Wood Flooring, Building Products	1.0	0.5	1.5
<b>Total</b>		<b>\$ 64.7</b>	<b>\$ 13.7</b>	<b>\$ 78.4</b>

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

In 2003, we recorded fixed asset impairment charges of \$10.5 million and accelerated depreciation of \$30.1 million, in cost of goods sold and fixed asset impairment charges of \$2.8 million in SG&A expense. See "Cost Reduction Initiatives" for further discussion. Following is a summary of the 2003 charges:

Action	Segment	Impairment	Accelerated Depreciation	Total Fixed Asset Charges
<b>Cost Reduction Initiatives:</b>				
Stencil Line, Lancaster, PA	Resilient Flooring	—	\$ 4.1	\$ 4.1
E-Beam Line, Kankakee, IL	Resilient Flooring	—	2.8	2.8
Baroda, India	Resilient Flooring	—	0.1	0.1
Port Gibson, MS	Wood Flooring	\$ 0.8	15.1	15.9
Warren, AK	Wood Flooring	—	6.7	6.7
Building held for sale, Addison, TX	Wood Flooring, Cabinets	2.8	—	2.8
Oss, The Netherlands	TSF	—	0.3	0.3
Obsolete Equipment	Building Products	3.8	—	3.8
	All other segments	3.1	1.0	4.1
<b>Total</b>		<b>\$ 10.5</b>	<b>\$ 30.1</b>	<b>\$ 40.6</b>

In 2002, accelerated depreciation of \$4.8 million in cost of goods sold and SG&A expense related primarily to management's evaluation of the useful lives of certain idle property, plant and equipment based on future intended use.

**Sales-related Accruals**— We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. Generally, the terms of these warranties range up to 25 years and provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historical amount of claims, the products involved, the amount of time between the warranty claims and the products' respective sales and the amount of current sales.

We also maintain numerous customer relationships that incorporate different sales incentive programs (primarily volume rebates and promotions). The rebates vary by customer and usually include tiered incentives based on the level of customers' purchases. Certain promotional allowances are also tied to customer purchase volumes. We estimate the amount of expected annual sales during the course of the year and use the projected sales amount to estimate the cost of the incentive programs. For sales incentive programs that are on the same calendar basis as our fiscal calendar, actual sales information is used in the year-end accruals.

The amount of actual experience related to these accruals could differ significantly from the estimated amounts during the year. If this occurs, we adjust our accruals accordingly. We maintained sales-related accruals of \$78.8 million and \$76.3 million as of December 31, 2004 and 2003, respectively. We record the costs of these accruals as a reduction of gross sales.

Management's Discussion and Analysis of Financial Condition and Results of Operations  
(dollar amounts in millions)

**NEW ACCOUNTING PRONOUNCEMENTS**

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", which requires all share-based payment transactions be recognized in the financial statements using a fair-value method of accounting. This Statement replaces FASB Statement No. 123 and supersedes APB Opinion No. 25. The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. The standard is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. While we are finalizing our review of this standard, adoption of this standard on July 1, 2005 is not expected to have a material impact on our consolidated results of operations or financial condition because all of our outstanding stock options are fully vested.

In November 2004, the FASB issued Statement of Financial Accounting Standard No. 151, "Inventory Costs". The new Statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. This statement is effective for fiscal years beginning after June 15, 2005. We have elected to adopt this standard as of January 1, 2005, as permitted. Adoption of this standard is not expected to have a material impact on our consolidated results of operations or financial condition.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

#### RESULTS OF OPERATIONS

Unless otherwise indicated, net sales in these results of operations are reported based upon the location where the sale was made. Certain prior year amounts have been reclassified to conform to the current year presentation. Please refer to Note 3 in the Consolidated Financial Statements for a reconciliation of operating income to consolidated income before income taxes, extraordinary items, discontinued operations, and cumulative effect of changes in accounting principles.

#### 2004 COMPARED TO 2003

#### CONSOLIDATED RESULTS

	2004	2003	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
Net Sales:				
Americas	\$2,543.0	\$2,390.8	6.4%	6.1%
Europe	841.0	778.8	8.0%	(1.6)%
Pacific	113.3	89.4	26.7%	19.9%
Total Consolidated Net Sales	\$3,497.3	\$3,259.0	7.3%	4.5%
Operating (Loss)	\$ (43.8)	\$ (19.3)	Unfavorable	Unfavorable
Goodwill Impairment	108.4	—		
Charge for Asbestos Liability, Net	—	81.0		
Operating Income, Prior to Goodwill Impairment and Charge for Asbestos Liability, Net	\$ 64.6	\$ 61.7	4.7%	1.1%

(1) Excludes favorable foreign exchange rate effect in translation of \$87.9 million on net sales and \$2.2 million on operating income.

Net sales in the Americas increased by approximately \$152 million, primarily as a result of sales volume and price increases of wood flooring and ceiling products. Sales for resilient flooring products in the Americas declined primarily due to lower sales to the U.S. residential market (see "Overview – Factors Affecting Revenue").

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets declined by 1.6%, primarily as a result of the weak economic conditions in our primary selling markets and volume decline for carpet and sports flooring products. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific area increased by approximately \$19 million, primarily as a result of stronger sales in China and Australia.

Cost of goods sold in 2004 was 80.4% of net sales, compared to 79.7% in 2003. The 0.7 percentage point increase was primarily due to the European resilient flooring fixed asset impairment of \$44.8 million (see Note 10 of the Consolidated Financial Statements) and higher raw material and energy costs of approximately \$72 million (see significant items in "Overview – Factors Affecting Operating Costs"), offset by the effects of sales price increases of approximately \$62 million and the benefit in 2004 from 2003 cost reduction initiatives.

SG&A expenses in 2004 were \$635.0 million, or 18.1% of net sales compared to \$612.1 million or 18.8% of net sales in 2003. Excluding the translation effect of changes in foreign exchange rates, SG&A expenses in 2004 increased by approximately \$1.9 million, primarily due to approximately \$21 million of higher incentive compensation costs, approximately \$9 million for increased selling and advertising expense and a \$5.0 million contribution to the Armstrong Foundation (a community giving program funded by Armstrong), partially offset by the \$3.1 million favorable impact of the Medicare Act, lower medical claim accruals, lower severance expenses and the benefit in 2004 from 2003 cost reduction initiatives.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

There were no asbestos-related charges in 2004. During 2003, we reduced our previously recorded insurance asset for asbestos-related personal injury claims by \$73 million, reflecting management's current assessment of probable insurance recoveries based upon an unfavorable ruling in an alternative dispute resolution procedure. We also recorded an \$8 million non-cash charge to reflect an agreement to settle claims from the Center for Claims Resolution and a surety bond insurance company. All amounts were reflected as a charge to asbestos liability, net. See "Asbestos-Related Litigation" in Note 32 of the Consolidated Financial Statements for additional information.

In the second quarter of 2004, we recorded a \$60.0 million non-cash goodwill impairment loss related to our European resilient flooring reporting unit based on a preliminary impairment assessment. During the fourth quarter of 2004, we recorded an additional \$48.4 million non-cash goodwill impairment loss based on the results of our annual impairment test. The goodwill impairment charges arose from the European resilient flooring reporting unit's fair value being lower than its carrying value. The fair value was negatively affected by lower operating profits and expected future cash flows determined in recent forecasting analyses. See Note 12 to the Consolidated Financial Statements for further details.

We recorded restructuring charges, net, of \$18.3 million in 2004, compared to \$8.6 million in 2003. See Note 15 of the Consolidated Financial Statements for a description of the restructuring actions. Once completely implemented, we believe that the incremental cost savings from our 2004 and 2003 initiatives will be approximately \$73 million. These projected incremental annual cost savings will not be fully realized until 2007.

Equity earnings from affiliates, from our WAVE joint venture, were \$31.6 million in 2004, as compared to \$20.8 million in 2003. The improvement in earnings resulted from improved market conditions, the ability to provide product during the global steel shortage and realized price increases ahead of recognized increased steel cost.

We recorded an operating loss of \$43.8 million in 2004, compared to an operating loss of \$19.3 million in 2003. Operating income prior to non-cash goodwill impairment and asbestos-related charges was \$64.6 million and \$61.7 million, respectively.

Interest expense was \$8.4 million in 2004, compared to \$9.0 million in 2003. The decrease in interest expense is due to lower fees on the renewed DIP Facility and lower average outstanding debt amounts at our non-Chapter 11 subsidiaries. In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was \$86.9 million in 2004 and \$95.1 million in 2003. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

Chapter 11 reorganization costs, net in 2004 were \$6.9 million, which was \$2.5 million less than the \$9.4 million amount recorded in 2003. The decrease was primarily due to lower professional fees resulting from less activity in the Chapter 11 process in 2004.

During 2004, income tax expense of \$24.6 million compared to an income tax benefit of \$1.6 million in 2003. The adjusted effective tax rate for 2004 was 25.3% based on adjusted pre-tax income from continuing operations of \$97.4 million, which excluded the non-cash goodwill impairments of \$108.4 million, which were nontaxable events, and European resilient flooring fixed asset impairments of \$44.8 million, which required a full valuation allowance on the related deferred tax asset. Excluding the \$81.0 million of asbestos-related charges, the adjusted effective tax rate for 2003 was 62.7%, based on adjusted pre-tax income from continuing operations of \$42.6 million. The lower 2004 tax rate was primarily due to the overall favorable settlement of tax audits in the U.S. and in Germany that combined to reduce tax expense by approximately \$19.4 million. In addition, the unfavorable impact in 2003 of relatively higher nondeductible Chapter 11 reorganization costs (prior to the tax audits in the U.S.) on a relatively lower base of taxable income resulted in a higher effective tax rate for that year.

A net loss of \$80.8 million was recorded for 2004, compared to a net loss of \$39.3 million for 2003.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

#### REPORTABLE SEGMENT RESULTS

##### Resilient Flooring

	2004	2003	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
<b>Net Sales:</b>				
Americas	\$ 924.6	\$ 935.0	(1.1)%	(1.5)%
Europe	238.5	205.2	16.2%	5.7%
Pacific	52.0	41.3	25.9%	17.1%
<b>Total Segment Net Sales</b>	<b>\$1,215.1</b>	<b>\$1,181.5</b>	<b>2.8%</b>	<b>0.5%</b>
Operating (Loss) Income	\$ (150.2)	\$ 56.2	Unfavorable	Unfavorable

(1) Excludes favorable foreign exchange rate effect in translation of \$27.6 million on net sales and \$0.8 million on operating income.

Net sales in the Americas decreased primarily due to an approximate 6% decline in laminate flooring sales, primarily as a result of a major customer's decision to increase purchases of non-Armstrong laminate flooring products in the second quarter of 2004. Sales of our vinyl products to the residential market decreased approximately 3%, primarily from the residential floor covering market shift away from vinyl products. Sales of our vinyl products to the commercial market increased by approximately 3%, primarily due to price increases on certain vinyl sheet and tile products, and new product introductions.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe increased by 5.7% due to higher volume, which was partially offset by price concessions due to competitive pressure. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific area increased by approximately \$8 million, primarily from strong sales in Australia and China.

Operating income in 2004 was negatively impacted by a \$108.4 million non-cash goodwill impairment charge and a \$44.8 million non-cash fixed asset impairment charge related to our European resilient flooring business. Operating results were also adversely impacted by lower laminate sales volume, increased costs to purchase PVC, wage and salary inflation increases and charges for the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs"). Partially offsetting the negative effects of these items were operating income gains from manufacturing efficiencies.

##### Wood Flooring

	2004	2003	Change is Favorable
Total Segment Net Sales <sup>(1)</sup>	\$832.1	\$738.6	12.7%
Operating Income (Loss)	\$ 51.4	\$ (4.0)	Favorable

(1) Virtually all Wood Flooring products are sold in the Americas, primarily in the U.S.

Net sales in 2004 increased by \$93.5 million. Units sold of pre-finished solid and engineered floors each increased by approximately 9%, primarily from the strong U.S. new home construction market. Net sales were also positively impacted by the price increases implemented on wood flooring products (see "Overview – Factors Affecting Revenues").

Operating results increased by \$55.4 million, due to higher selling prices and sales volume, lower expenses for implementing the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs") and lower manufacturing overhead resulting from those initiatives. Partially offsetting these were higher costs for lumber and increased production expenses in certain plants.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

#### Textiles and Sports Flooring ("TSF")

	2004	2003	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(2)</sup>
Total Segment Net Sales <sup>(1)</sup>	\$265.4	\$271.9	(2.4)%	(10.8)%
Operating (Loss)	\$ (7.1)	\$ (11.0)	Favorable	Favorable

(1) Primarily all of TSF products are sold in Europe.

(2) Excludes favorable/(unfavorable) foreign exchange rate effect in translation of \$25.8 million on net sales and \$(1.3) million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales decreased by 10.8%, primarily from volume declines in carpet flooring products due to weak economic conditions in our primary selling markets and loss of market share, caused by the lack of new product development. Net sales were also adversely affected by price concessions for Sports Flooring products that were required to meet competitive pressures.

The operating loss in 2004 was less than the loss in 2003, primarily due to the expense in 2003 of cost reduction initiatives and the benefit in 2004 of those cost reduction initiatives (see "Overview – Factors Affecting Operating Costs"). Partially offsetting these factors were the negative impact of lower sales volume and prices.

#### Building Products

	2004	2003	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
Net Sales:				
Americas	\$575.7	\$515.6	11.7%	11.0%
Europe	334.7	298.5	12.1%	2.1%
Pacific	61.3	48.1	27.4%	22.4%
Total Segment Net Sales	\$971.7	\$862.2	12.7%	8.4%
Operating Income	\$127.0	\$ 95.2	33.4%	28.7%

(1) Excludes favorable foreign exchange rate effect in translation of \$34.4 million on net sales and \$3.5 million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Americas increased approximately \$57 million. Unit volume to the U.S. Commercial markets increased by approximately 7%, primarily due to market conditions (see "Overview – Factors Affecting Revenues"). Complementing the impact from the higher volume were price increases started in July 2003 on most commercial products. Net sales also benefited from volume and price increases with the major national retailers in the U.S. Residential markets.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe increased by 2.1% from 2003. The volume of mineral fiber products, which constitute the majority of our European sales, increased by approximately 2%. The volume of mineral fiber product sold to Western European countries declined by approximately 1%, primarily due to lower commercial market activity in the Euro Zone, while volume sold to the emerging markets of Eastern Europe (primarily Russia) increased by approximately 7% due to construction growth in these markets. Products sold to the emerging markets tend to have lower margin than products sold in Western Europe. Excluding the translation effect of changes in foreign exchange rates, net sales of metal ceilings declined by approximately 1%, primarily from some loss of market share in Asia.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific area increased approximately \$11 million due to strong activity in the Chinese, Indian and Australian markets.

Excluding the translation effect of changes in foreign exchange rates, operating income increased 28.7%, as higher sales volume and prices, lower production expenses and increased equity earnings in WAVE were only partially offset by inflation in the cost of raw materials and energy, and higher selling expenses (see "Overview – Factors Affecting Operating Costs").

#### Cabinets

	2004	2003	Change is Favorable
Total Segment Net Sales <sup>(1)</sup>	\$213.0	\$204.8	4.0%
Operating Income (Loss)	\$ 1.4	\$ (11.1)	Favorable

<sup>(1)</sup> All Cabinet products are sold in the Americas, primarily in the U.S.

Net sales in 2004 increased approximately \$8 million from 2003, primarily due to selling price increases and sales of higher priced products, both enabled by improved customer service.

Operating results improved by \$12.5 million in 2004 from 2003, due to increased sales, manufacturing efficiencies and reduced SG&A expenses, partially offset by expenses for cost reduction initiatives.

#### Unallocated Corporate

Unallocated corporate expense of \$66.3 million in 2004 decreased from \$144.6 million in 2003. This decrease was primarily due to non-cash asbestos-related charges of \$81.0 million in 2003. The remaining \$2.7 million increase resulted primarily from increases of \$9.4 million in employee incentive compensation; a \$5.0 million contribution to the Armstrong Foundation (a community giving program funded by Armstrong); and \$4.2 million to increase certain environmental liabilities at non-operating locations. These increases were partially offset by a \$6.3 million write off of a note receivable in 2003 from a previous divestiture, \$4.5 million in lower medical claims, a \$2.9 million higher U.S. pension plan credit, and reduced expenses in corporate staff departments.

## FINANCIAL CONDITION AND LIQUIDITY

### Cash Flow

As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance increased by \$31.6 million in 2004, compared to a \$104.3 million increase in 2003.

Operating activities in 2004 provided \$142.8 million of net cash, or \$23.0 million less than the \$165.8 million provided in 2003. The decline in cash provided was primarily due to changes in inventories, receivables, and accounts payable and accrued expenses. In 2004, we increased inventories by \$61.7 million, compared to decreasing \$6.6 million in 2003, primarily as part of our efforts to improve customer service in Wood Flooring (see "Factors Affecting Revenues – Quality and Customer Service"). Receivables increased \$9.5 million in 2004, compared to decreasing \$40.6 million in 2003, primarily as a result of increased sales. Offsetting these two uses of cash was an increase in accounts payable and accrued expenses of \$61.1 million in 2004, primarily due to increased accruals for employee incentives and increased trade payables related primarily to increased capital expenditures and inventory.

Net cash used for investing activities was \$111.7 million in 2004, compared to \$57.2 million in 2003. In 2004, we increased our capital expenditures by \$55.9 million primarily to upgrade our manufacturing operations and improve production efficiencies. During the third quarter of 2004, WAVE successfully extended the term of their existing bank debt and we received a \$10 million distribution in the fourth quarter of 2004, while in 2003 we received \$16 million in distributions.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

Net cash totaling \$7.0 million was used for our financing activities in 2004, compared to \$14.1 million in 2003. The year-to-year change was due to certain subsidiaries that are not participating in our Chapter 11 Case increasing their short-term borrowing for working capital needs in 2004.

#### Balance Sheet and Liquidity

Changes in significant balance sheet accounts and groups of accounts from December 31, 2003 to December 31, 2004 are as follows:

	December 31, 2004	December 31, 2003	Increase
Cash and cash equivalents	\$ 515.9	\$ 484.3	\$ 31.6
Current assets, excluding cash and cash equivalents	966.3	874.5	91.8
Current assets	\$ 1,482.2	\$ 1,358.8	\$123.4

The increase in cash and cash equivalents was described above (see "Cash Flow"). The increase in current assets, excluding cash and cash equivalents was primarily due to the increase in accounts receivable from higher sales and the increase in inventory, primarily for Wood Flooring.

	December 31, 2004	December 31, 2003	(Decrease)
Property, plant and equipment, less accumulated depreciation and amortization ("PP&E")	\$ 1,208.8	\$ 1,267.3	\$ (58.5)

The decrease was primarily due to accelerated depreciation and impairments of \$78.4 million (see "Impairments of Tangible and Intangible Assets") and annual depreciation, partially offset by capital spending of \$124.0 million and the positive translation effects of changes in foreign exchange rates.

#### DIP Facility

AWI has a \$75 million debtor-in-possession credit facility that is currently limited to issuances of letters of credit. This facility was scheduled to mature on December 8, 2004, but the maturity date was extended to December 8, 2005 with approval of the Bankruptcy Court, granted on November 15, 2004. Obligations to reimburse drawings under the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. As of December 31, 2004 and 2003, under the DIP Facility, there were no outstanding borrowings; however, AWI had approximately \$40.6 million and \$22.8 million, respectively, in letters of credit outstanding. The DIP Facility also contains several covenants including, among other things, limits on asset sales and capital expenditures and a required ratio of debt to cash flow. We are in compliance with all of the DIP Facility covenants. The covenants have not impaired our operating ability. Upon AWI's emergence from Chapter 11, we expect to replace this facility with a new facility that would provide reorganized Armstrong with greater borrowing capacity and which will have debt covenants yet to be negotiated. In the event AWI has not emerged from Chapter 11 by December 8, 2005, we will pursue another extension of the facility.

#### Liquidity

Our liquidity needs for operations vary throughout the year. We retain lines of credit to facilitate our seasonal needs, if required. For certain international operations, we had lines of credit of \$54.4 million at December 31, 2004, of which \$15.9 million was used and \$38.5 million was available. However, these lines of credit are uncommitted, and poor operating results or credit concerns at the related foreign subsidiaries could result in the lines being withdrawn by the lenders. We have been able to maintain and, as needed, replace credit facilities to support our operations. Additionally, we have letter of credit issuance capabilities under the DIP Facility

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

(described above). We believe that cash on hand and generated from operations, together with lines of credit and the DIP Facility, will be adequate to address our foreseeable liquidity needs in the normal course of business operations and for cost reduction initiatives and scheduled non-filer debt obligations. Cash and liquidity needs will change significantly at the time of emergence, the timing of which remains uncertain. AWI's POR would provide a plan to meet these requirements (see Note 1 of the Consolidated Financial Statements).

#### 2003 COMPARED TO 2002

#### CONSOLIDATED RESULTS

	2003	2002	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
Net Sales:				
Americas	\$2,390.8	\$ 2,368.1	1.0%	0.6%
Europe	778.8	727.1	7.1%	(9.0)%
Pacific	89.4	77.1	16.0%	8.8%
Total Consolidated Net Sales	\$3,259.0	\$ 3,172.3	2.7%	(1.7)%
Operating (Loss)	\$ (19.3)	\$(2,345.2)	Favorable	Favorable
Charge for asbestos liability, net	81.0	2,500.0		
Operating Income, prior to charge for asbestos liability, net	\$ 61.7	\$ 154.8	(60.1)%	(60.7)%

(1) Excludes favorable foreign exchange rate effect in translation of \$142.5 million on net sales and \$2.3 million on operating income.

Net sales in the Americas increased by 1.0%, primarily as a result of sales increases of laminate flooring, amendments to agreements with independent U.S. resilient flooring distributors (see Resilient Flooring below) and price increases implemented on certain products. Despite the volume gains from laminate flooring, overall unit volume of our products declined, primarily due to lower activity in the U.S. commercial construction markets and the residential floor covering market shift away from vinyl products (see "Overview – Factors Affecting Revenue").

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets declined by 9.0%, primarily as a result of the weak economic conditions in our primary selling markets and the loss of market share for some of our resilient products due to customer service and pricing issues. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific area increased by \$7.2 million, primarily as a result of stronger sales in Australia and China.

Cost of goods sold in 2003 was 79.7% of net sales, compared to 75.8% in 2002. The 3.9 percentage point increase was primarily due to approximately \$58 million for increased raw material and energy costs, \$33 million of expenses related to our 2003 cost reduction initiatives, wage and salary inflation and approximately \$12 million from a decreased U.S. pension credit (see "Overview – Factors Affecting Operating Costs").

SG&A expenses in 2003 were \$612.1 million, or 18.8% of net sales compared to \$630.8 million, or 19.9% of net sales in 2002. Excluding the translation effect of changes in foreign exchange rates, SG&A expenses in 2003 declined by approximately \$57 million from 2002 SG&A expenses, primarily due to reductions in expenditures (principally in selling and advertising expenses and partially as a result of the 2002 and 2003 cost reduction initiatives) and by approximately \$22 million of lower incentive compensation costs, partially offset by approximately \$16 million from a reduced U.S. pension credit and by approximately \$12 million of expenses related to our 2003 cost reduction initiatives.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

During 2003, we reduced our previously recorded insurance asset for asbestos-related personal injury claims by \$73 million, reflecting management's current assessment of probable insurance recoveries based upon an unfavorable ruling in an alternative dispute resolution procedure. We also recorded an \$8 million charge to reflect an agreement to settle claims from the Center for Claims Resolution and a surety bond insurance company. During 2002, we recorded a \$2.5 billion charge to increase our estimate of probable asbestos-related liability. All amounts are reflected as a charge to asbestos liability, net. See "Asbestos-Related Litigation" in Note 32 of the Consolidated Financial Statements for additional information.

We recorded net restructuring charges of \$8.6 million in 2003, which included \$10.4 million for severance and other benefits for approximately 470 employees and a \$1.8 million reversal of previous restructuring charges for certain severance and lease obligation accruals that were no longer necessary. In 2002, we recorded net restructuring costs of \$1.9 million, which included \$2.7 million for severance benefits for approximately 130 employees and a \$0.8 million reversal of previous restructuring charges for certain severance accruals that were no longer necessary.

We incurred an operating loss of \$19.3 million in 2003, compared to an operating loss of \$2,345.2 million in 2002. Operating income prior to the non-cash asbestos-related charges for 2003 and 2002 was \$61.7 million and \$154.8 million, respectively.

Interest expense was \$9.0 million in 2003, compared to \$11.3 million in 2002. The decrease in interest expense is due to lower fees on the reduced DIP Facility and lower average outstanding debt amounts at our non-Chapter 11 subsidiaries. In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was \$95.1 million in 2003 and \$99.9 million in 2002. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

Chapter 11 reorganization costs, net in 2003 were \$9.4 million, which was \$14.1 million less than the \$23.5 million amount recorded in 2002. The decrease is primarily due to a \$12.1 million reduction to liabilities subject to compromise for the write down of a zero coupon note due to an agreement with the holder of the note that reduced the allowed amount of the note.

The effective tax benefit rate from continuing operations for 2003 was 4.2% versus 34.8% for 2002. The decreased tax benefit was primarily due to the impact of permanent differences (primarily Chapter 11 reorganization costs) on the significantly smaller amount of pre-tax loss in 2003, and higher overall foreign tax rates caused by increased valuation allowances for foreign losses generated during 2003.

A net loss of \$39.3 million was recorded for 2003, compared to a net loss of \$2,142.8 million for 2002.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

#### REPORTABLE SEGMENT RESULTS

##### Resilient Flooring

	2003	2002	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
<b>Net Sales:</b>				
Americas	\$ 935.0	\$ 914.8	2.2%	1.6%
Europe	205.2	202.4	1.4%	(13.7)%
Pacific	41.3	35.1	17.7%	7.8%
<b>Total Segment Net Sales</b>	<b>\$1,181.5</b>	<b>\$1,152.3</b>	<b>2.5%</b>	<b>(1.2)%</b>
Operating Income	\$ 56.2	\$ 64.6	(13.0)%	(13.1)%

(1) Excludes favorable foreign exchange rate effect in translation of \$43.9 million on net sales and \$0.1 million on operating income.

Net sales in the Americas increased primarily due to the effects of amendments to agreements with independent U.S. distributors, made in the fourth quarter of 2002, related to sales of certain products to large home centers. Sales are recorded under these agreements when the products are shipped from the distributor's location to the home center. Approximately \$19.2 million of revenue was recorded in 2003 for products shipped to these distributors during the fourth quarter of 2002, under the amended terms. Sales of our vinyl products to the residential market decreased by approximately 10%, primarily from the residential floor covering market shift away from vinyl products and from increased imports of competitive product from low cost producers. Sales of our vinyl products to the commercial market increased by approximately 3%, primarily due to a July price increase on certain vinyl sheet products, new product introductions and from sales of higher priced tile products. Laminate sales increased by approximately 37%, primarily from the strong laminate product category growth in the floor covering market.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe decreased by 13.7%. Significant market weakness in certain key countries, principally Germany, and loss of market share in some countries due to customer service issues and a reluctance to be price competitive accounted for the decrease. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific area increased by \$3.0 million, primarily from strong sales in Australia.

Operating income in 2003 declined from 2002, with lower sales volumes in the higher margin vinyl products and in the Western European markets, increased costs to purchase PVC, wage and salary inflation increases and certain European manufacturing inefficiencies being the primary contributors to the decrease. Additionally, charges for the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs") accounted for approximately \$11 million of the decrease. Partially offsetting the negative effects of these items were operating income gains from the increase in laminate sales, the effects of the amendments to agreements with independent U.S. distributors discussed above, and significant reductions in SG&A expenses in the U.S. and in Europe, which resulted from restructuring and cost reduction initiatives implemented in 2002 and 2003, and reduced spending on advertising.

##### Wood Flooring

	2003	2002	Change is Favorable/ (Unfavorable)
Total Segment Net Sales <sup>(1)</sup>	\$738.6	\$719.3	2.7%
Operating (Loss) / Income	\$ (4.0)	\$ 53.0	Unfavorable

(1) Virtually all Wood Flooring products are sold in the Americas, primarily in the U.S.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

Net sales in 2003 increased by \$19.3 million. Units sold declined by approximately 3%, with unfinished solid floors declining by approximately 60% as we elected to limit our output of this product, and engineered floors declining by 2% due to certain quality issues experienced primarily early in 2003 and an increase of imports from low cost competitors. Units sold of pre-finished solid floors increased by approximately 8%, primarily from the strong U.S. new home construction market. Net sales were also positively impacted by the price increases implemented on the solid floor products (see "Overview – Factors Affecting Revenues").

Operating results declined by \$57.0 million. The increased cost for acquiring lumber, the expenses for implementing the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs") and improving quality, and other increases in manufacturing expenses were the primary reasons for the decline. Partially offsetting these increased expenses were gains from the selling price increases and reduced expenditures in SG&A expenses, the latter partially as an effect of the cost reduction initiatives.

#### Textiles and Sports Flooring ("TSF")

	2003	2002	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
Total Segment Net Sales	\$271.9	\$247.2	10.0%	(8.5)%
Operating (Loss)	\$(11.0)	\$(4.7)	Unfavorable	Unfavorable

(1) Excludes favorable/(unfavorable) foreign exchange rate effect in translation of \$49.8 million on net sales and \$(1.1) million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales decreased 8.5%, primarily from volume declines in our carpet products, due to weak economic conditions in our primary selling markets, and price concessions that were required to meet competitive pressures. Net sales of our sports flooring products increased by approximately 3%.

An operating loss in 2003 exceeded the loss in 2002, primarily due to reduced net sales (excluding the favorable translation effect of foreign exchange rates) and the expenses related to the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs"). Partially offsetting these factors were reduced manufacturing expenses and lower SG&A expenses.

#### Building Products

	2003	2002	Change is Favorable/(Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
Net Sales:				
Americas	\$515.6	\$511.8	0.7%	0.0%
Europe	298.5	272.8	9.4%	(5.6)%
Pacific	48.1	42.0	14.5%	9.6%
Total Segment Net Sales	\$862.2	\$826.6	4.3%	(1.5)%
Operating Income	\$95.2	\$96.5	(1.3)%	(5.4)%

(1) Excludes favorable foreign exchange rate effect in translation of \$48.9 million on net sales and \$4.1 million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Americas were virtually unchanged from 2002 levels. Unit volume to the U.S. Commercial markets declined by approximately 3%, primarily due to market conditions. Offsetting

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

the impact from the lower volume were price increases implemented in July 2003 on most commercial products. Net sales also benefited from price increases to the large home centers in the U.S. Residential markets.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe declined by 5.6% from 2002. Units sold of mineral fiber products, which constitute the majority of our European sales, declined approximately 1%. However, the volume of mineral fiber product sold to Western European countries declined by approximately 7%, primarily due to lower commercial market activity, while volume sold to the emerging markets of Eastern Europe (primarily Russia) increased by approximately 14% due to construction growth in these markets. Products sold to the emerging markets tend to have lower margin than products sold in Western Europe. Excluding the translation effect of changes in foreign exchange rates, net sales of metal ceilings declined by approximately 12%, primarily from weak market conditions in Switzerland and some loss of market share in Asia.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific area increased by \$4.2 million due to strong activity in Australia and growth in the China and India markets.

Excluding the translation effect of changes in foreign exchange rates, operating income declined by \$5.4 million, as lower sales volume, increased energy costs, wage and salary inflation, price concessions in Europe and expenses for cost reduction initiatives were only partially offset by the positive effects of the price increases in the U.S. and manufacturing cost improvements.

#### Cabinets

	<u>2003</u>	<u>2002</u>	<u>Change is</u> <u>(Unfavorable)</u>
Total Segment Net Sales <sup>(1)</sup>	\$204.8	\$226.9	(9.7)%
Operating (Loss)	\$(11.1)	\$ (3.9)	Unfavorable

<sup>(1)</sup> All Cabinet products are sold in the Americas, primarily in the U.S.

Net sales in 2003 declined from 2002, primarily due to customer service issues. Starting in the second half of 2002, we were unable to complete on time certain customers' orders due to shortages in sourced cabinet components. Consequently, we lost sales opportunities in 2003, as the customers decided to source their cabinets from other suppliers. During 2003, steps were taken to correct these inefficiencies, and incremental improvements were realized throughout the year. The reductions in volume were partially offset by a shift in customer preference to our higher priced plywood product and from the September 2003 price increase (see "Overview – Factors Affecting Revenues").

Operating results declined by \$7.2 million from 2002 to 2003. Included in the 2002 operating loss of \$3.9 million was \$6.8 million of charges for inventory write-downs. Excluding the 2002 write-downs, operating results declined by \$14.0 million from 2002 to 2003, primarily due to the effects of the lower net sales. Partially offsetting the decline were lower selling expenses.

#### Unallocated Corporate

Unallocated corporate expense of \$144.6 million in 2003 decreased from \$2,550.7 million in 2002. This decrease was primarily due to non-cash asbestos-related charges, with 2003 including \$81.0 million and 2002 including \$2.5 billion (see "Overview – Asbestos-Related Charges" and Note 32 of the Consolidated Financial Statements). Excluding these charges, unallocated corporate expense increased in 2003 by \$12.9 million, primarily from our U.S. pension credit decreasing by approximately \$28 million, by a \$6.3 million write off of a note receivable from a previous divestiture, by approximately \$4 million to increase a medical liability accrual, severances related to the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs") and by a \$2.5 million charge for certain environmental liabilities (see Note 32 of the Consolidated Financial Statements), partially offset by reductions in employee incentive compensation accruals, reduced expenditures in our corporate staff departments and gains in the value of insurance policies related to deferred compensation plans.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

#### **FINANCIAL CONDITION AND LIQUIDITY**

As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance increased by \$104.3 million in 2003, compared to a \$102.6 million increase in 2002. Versus 2002, the decline in net cash provided by operating activities in 2003 compared to 2002 was more than offset by less net cash used for investing and financing activities.

Operating activities in 2003 generated \$165.8 million of net cash, \$57.7 million less than 2002. Cash generated from net earnings, after adjusting for non-cash charges, restructuring and reorganization activities declined by \$68.3 million, primarily from the increased operating costs discussed above. Reductions in the amount of net operating assets and liabilities, primarily receivables, inventories and payables were greater than the reductions achieved in 2002 by \$10.6 million.

Net cash used for investing activities was \$57.2 million in 2003, compared to \$104.1 million in 2002, with the decrease due to reduced PP&E and computer software purchases. In consideration of both market conditions and cost reduction initiatives, we elected to defer or stop certain investments, resulting in approximately \$47 million less spending in 2003 than in 2002. We believe the decision to reduce our investing activities did not negatively impact our business.

Net cash used for financing activities was \$14.1 million in 2003, compared to \$23.8 million in 2002, with the decrease due primarily to lower short-term debt payment requirements in 2003 than in 2002.

#### **ACQUISITIONS AND DISPOSITIONS**

##### Discontinued Operations

On May 31, 2000, Armstrong completed its sale of all entities, assets and certain liabilities comprising its Insulation Products segment. During 2003 and 2002, AHI recorded net losses of \$2.4 million and \$0.7 million respectively, for the impairment of some note receivables and the settlement of certain tax contingencies related to this divestiture.

On December 29, 1995, Armstrong sold a furniture subsidiary, Thomasville Furniture Industries. During 2004 and 2003, AHI recorded net losses of \$0.4 million and \$0.1 million, respectively, for the environmental and tax indemnifications related to this divestiture.

In accordance with FAS 144, these adjustments were classified as part of discontinued operations since the original divestitures were reported as discontinued operations.

##### Divestiture

In July 2000, we sold our Installation Products Group to subsidiaries of the German company Ardex GmbH. During February 2003, we reached a settlement with Ardex on several open issues related to the sale and the ongoing supply agreement between Ardex and Armstrong. The settlement allowed for the payment of a pre-petition liability to Ardex with a discount, adjusted the pricing for our adhesives purchases, eliminated a minimum purchase requirement and resolved environmental remediation disputes. Under the settlement, Ardex filed a proof of claim related to environmental remediation in AWI's Chapter 11 Case, which has been treated as an allowed unsecured claim. This claim resulted in a fourth quarter 2002 charge of \$5.3 million, which was recorded in SG&A expenses.

##### Acquisition

On May 18, 2000, we acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a manufacturer and installer of metal ceilings, for \$6 million plus certain contingent consideration not to exceed \$25.5 million, based on results over the three year period ending December 31, 2002. In accordance with the purchase agreement, contingent consideration of \$3.0 million was paid to the former owners, with the final payment being made in the third quarter of 2004.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

The Gema acquisition was recorded under the purchase method of accounting. The purchase price was allocated to the assets acquired and the liabilities assumed based on the estimated fair market value at the date of acquisition. The fair market value of tangible and identifiable intangible net assets acquired exceeded the purchase price by \$24.2 million and this amount was recorded as a reduction of the fair value of property, plant and equipment. Contingent consideration of \$3.0 million was accounted for as additional purchase price.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

No disclosures are required pursuant to Item 303(a)(4) of Regulation S-K.

#### **CONTRACTUAL OBLIGATIONS**

As part of our normal operations, we enter into numerous contractual obligations that require specific payments during the term of the various agreements. The following table includes amounts ongoing under contractual obligations existing as of December 31, 2004. Only known payments that are dependent solely on the passage of time are included. Obligations under contracts that contain minimum payment amounts are shown at the minimum payment amount. Contracts that have variable payment structures without minimum payments are excluded. Purchase orders that are entered into in the normal course of business are also excluded because they are generally cancelable and not legally binding. Amounts are presented below based upon the currently scheduled payment terms. Actual future payments may differ from the amounts presented below due to changes in payment terms or events leading to payments in addition to the minimum contractual amounts.

	2005	2006	2007	2008	2009	Thereafter	Total
Long-Term Debt <sup>(1)</sup>	\$ 8.2	\$ 6.5	\$ 1.9	\$1.5	\$ 1.3	\$ 18.0	\$ 37.4
Capital Lease Obligations <sup>(2)</sup>	1.7	1.0	0.7	0.3	—	0.1	3.8
Operating Lease Obligations <sup>(2)</sup>	14.4	11.8	8.3	5.0	2.6	10.4	52.5
Unconditional Purchase Obligations <sup>(3)(4)</sup>	8.2	5.6	1.7	0.7	0.4	0.1	16.7
Other Long-Term Obligations <sup>(5)</sup>	17.6	0.3	0.2	0.1	0.1	—	18.3
<b>Total Contractual Obligations</b>	<b>\$50.1</b>	<b>\$25.2</b>	<b>\$12.8</b>	<b>\$7.6</b>	<b>\$ 4.4</b>	<b>\$ 28.6</b>	<b>\$128.7</b>

(1) Payments for long-term debt obligations exclude debt subject to compromise.

(2) Capital and operating lease obligations include the minimum lease payments due under existing lease agreements with noncancelable lease terms in excess of one year. We have issued financial guarantees to assure payment on behalf of our subsidiaries in the event of default on various debt and lease obligations in the table above. We have not issued any guarantees on behalf of joint-venture or unrelated businesses.

(3) Unconditional purchase obligations include (a) purchase contracts whereby we must make guaranteed minimum payments of a specified amount regardless of how little material is actually purchased ("take or pay" contracts) and (b) service agreements.

(4) Unconditional purchase obligations exclude contracts entered into during the normal course of business that are non-cancelable and have fixed per unit fees, but where the monthly commitment varies based upon usage. Cellular phone contracts are an example.

(5) Other long-term obligations include payments under employee service and severance agreements as well as retainer payments to advisors within the Chapter 11 Case.

As of December 31, 2004, we maintained an agreement with the lending institution of one of our distributors. Under this agreement, if the distributor were to default on its borrowings and the lender foreclosed on the assets, the bank could return a large part of any of our products still at the distributor (subject to certain quality and roll size minimums) for a refund of original cost. This agreement will expire in September 2005. At December 31, 2004, the amount of inventory held at the distributor was approximately \$3.2 million. Historically, no claim has been made under any of these types of agreements and we do not anticipate any such claims in the future. As such, no liability has been recorded for this agreement.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

We are party to supply agreements, some of which require the purchase of inventory remaining at the supplier upon termination of the agreement. The last such agreement will expire on April 5, 2006. Had these agreements terminated at December 31, 2004, Armstrong would have been obligated to purchase approximately \$10.3 million of inventory. Historically, due to production planning, we have not had to purchase material amounts of product at the end of similar contracts. Accordingly, no liability has been recorded for these guarantees.

As part of our executive compensation plan, certain current and former executives participate in a split-dollar insurance program where we are responsible for remitting the premiums. Since 1998, the program was closed to new participants. As of December 31, 2004, we carried a cash surrender value asset of \$6.5 million related to this program. Should we discontinue making premium payments, the insured executives have the right to the entire policy cash surrender value. In light of the Sarbanes-Oxley Act, we believe it is inappropriate to make the premium payments for three of the executives participating in this plan. As a result, beginning in 2003, we have required these three individuals to make the premium payments to continue the policy.

We utilize other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. Letters of credit are issued to third party suppliers, insurance and financial institutions and can only be drawn upon in the event of our failure to pay our obligations to the beneficiary. This table summarizes the commitments we have available for use. Letters of credit are currently arranged through AWI's DIP Facility, lead managed by JP Morgan Chase. Certain letters of credit arranged with Wachovia Bank prior to the Filing were renewed at their scheduled expiration date.

Other Commercial Commitments	Total Amounts Committed	Less Than 1 Year	1 - 3 Years	4 - 5 Years	Over 5 Years
Letters of Credit	\$ 73.6	\$72.7	\$0.9	—	—

In addition, we have lines of credit for certain international operations totaling \$54.4 million, of which \$15.9 million was used at December 31, 2004 and \$38.5 million was available to ensure funds are available to meet operating requirements.

In disposing of assets through mid 2000, AWI and some subsidiaries had entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, there is no way to estimate the potential maximum exposure under these contracts. As a debtor-in-possession, for those contracts that are still executory where AWI was the sole guarantor, AWI anticipates rejecting those contracts. Parties that timely file claims with respect to such contracts will have such claims addressed in AWI's Chapter 11 Case. AWI cannot estimate the value of any potential claims that will ultimately be allowed by the Bankruptcy Court. See Note 1 of the Consolidated Financial Statements regarding Proceedings under Chapter 11.

Subsidiaries that are not part of the Chapter 11 Filing also entered into certain contracts that included various indemnity provisions similar to those described above. Since these subsidiaries are not part of the Chapter 11 Filing, these contracts continue to be in effect. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, there is no way to estimate the potential maximum exposure under all these contracts. For contracts under which an indemnity claim has been received, a liability of \$2.1 million has been recorded as of December 31, 2004.

In September 1999, we sold our Textiles Products operations. As part of the divestiture agreement, we transferred certain liabilities and assets to the purchaser to cover pension payments earned by the work force as of the sale date. We also reimburse the purchaser for such pension payments that are not covered by the pension assets. In addition, we agreed to reimburse the purchaser for the

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

tax impact of our reimbursement of the pension payments. This agreement has no termination date. As of December 31, 2004, we maintained a \$2.9 million liability for this guarantee. As of December 31, 2004, the net present value of the maximum payments is approximately \$5 million, excluding any amounts to be paid for tax reimbursement.

See Notes 4 and 24 to the Consolidated Financial Statements for a discussion of the ESOP loan guarantee.

### **RELATED PARTIES**

See Note 31 of the Consolidated Financial Statements for a discussion of our relationships with WAVE and Interface Solutions, Inc. ("ISI").

See Note 7 of the Consolidated Financial Statements for a discussion of our relationship with Ardex.

Related party transactions with executives and outside directors are discussed in Item 13 - Certain Relationships and Related Transactions.

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### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use swap, forward and option contracts to hedge currency and commodity exposures. We regularly monitor developments in the capital markets and only enter into currency and swap transactions with established counterparties having investment-grade ratings. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible. Swap, forward and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. We use derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions and energy companies in order to manage our exposure to potential nonperformance on such instruments.

#### Interest Rate Sensitivity

Due to AWI's Chapter 11 Filing, all affected debt has been classified as liabilities subject to compromise. All such debt will be addressed in the Chapter 11 Case. While operating as a debtor-in-possession, AWI does not expect to pay any principal, interest or other payments on this debt unless approved by the Bankruptcy Court. However, we also have debt of entities that were not a part of the Chapter 11 Filing, which are being paid on schedule. The table below provides information about our long-term debt obligations as of December 31, 2004 and December 31, 2003, including payment requirements and related weighted-average interest rates by scheduled maturity dates. Weighted-average variable rates are based on implied forward rates in the yield curve at the reporting date. The information is presented in U.S. dollar equivalents, which is our reporting currency. The amounts below reflect only post-petition debt and debt of entities that are not a part of the Chapter 11 Filing.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>After 2010</u>	<u>Total</u>
Scheduled maturity date As of December 31, 2004							
Long-term debt:							
Fixed rate	\$ 7.9	\$ 6.2	\$ 1.6	\$ 1.2	\$ 1.0	\$ 7.6	\$25.5
Avg. interest rate	6.34%	6.25%	7.07%	6.89%	6.70%	6.71%	6.51%
Variable rate	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$10.4	\$11.9
Avg. interest rate	1.75%	1.75%	1.75%	1.75%	1.75%	2.10%	2.06%
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>After 2009</u>	<u>Total</u>
Scheduled maturity date As of December 31, 2003							
Long-term debt:							
Fixed rate	\$ 8.0	\$ 8.4	\$ 6.5	\$ 2.3	\$ 1.9	\$ 8.5	\$35.6
Avg. interest rate	6.00%	6.02%	5.93%	5.82%	5.44%	6.55%	6.08%
Variable rate	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$11.0	\$12.0
Avg. interest rate	0.88%	0.88%	0.88%	0.88%	0.88%	1.50%	1.44%

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### Exchange Rate Sensitivity

We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. At December 31, 2004, Armstrong's major foreign currency exposures are to the Euro, the Canadian dollar and the British pound.

We have used foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows, resulting from the sale of product to foreign customers and purchases from foreign suppliers, will be adversely affected by changes in exchange rates. These derivative instruments are used for firmly committed or forecasted transactions. These transactions allow us to further reduce our overall exposure to exchange rate movements, since the gains and losses on these contracts offset losses and gains on the transactions being hedged.

We also have used foreign currency forward exchange contracts to hedge exposures created by cross-currency inter-company loans.

The table below details our outstanding currency instruments as of December 31, 2004 and 2003. All the instruments outstanding as of December 31, 2004 have scheduled maturity before dates before March 31, 2006.

#### Forward contracts

	Maturing in:		
	2005	2006	Total
<b>As of December 31, 2004</b>			
Notional Amount	\$378.1	\$ 8.7	\$386.8
Fair Value (Liability)	\$ (13.9)	—	\$ (13.9)

	Maturing in:		
	2004	2005	Total
<b>As of December 31, 2003</b>			
Notional Amount	\$368.5	\$10.6	\$379.1
Fair Value (Liability)	\$ (1.0)	—	\$ (1.0)

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### Commodity Price Sensitivity

We purchase natural gas for use in the manufacture of ceiling tiles and other products, as well as to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of minimizing natural gas cost volatility through derivative instruments, including swap contracts, purchased call options and zero-cash collars. The table below provides information about our natural gas contracts as of December 31, 2004 and 2003 that are sensitive to changes in commodity prices. Notional amounts and price ranges are in millions of Btu's (MMBtu).

On balance sheet commodity related derivatives

	Maturing in:		
	2005	2006	Total
<b>As of December 31, 2004</b>			
Contract amounts (MMBtu)	5,230,000	1,630,000	6,860,000
Contract price range (\$/MMBtu)	\$4.46 -\$6.72	\$6.37 -\$8.10	\$4.46 -\$8.10
Assets at fair value (millions)	\$4.3	\$1.0	\$5.3
Maturing in:			
	2004	2005	Total
<b>As of December 31, 2003</b>			
Contract amounts (MMBtu)	5,180,000	1,730,000	6,910,000
Contract price range (\$/MMBtu)	\$3.68 -\$6.00	\$4.46 -\$5.95	\$3.68 -\$6.00
Assets at fair value (millions)	\$3.1	\$0.4	\$3.5

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**SUPPLEMENTARY DATA**

Quarterly Financial Information for the Years Ended December 31, 2004 and 2003 (Unaudited)

**ARMSTRONG HOLDINGS, INC. AND SUBSIDIARIES**

The following consolidated financial statements are filed as part of this Annual Report on Form 10-K:  
Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Balance Sheets as of December 31, 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Shareholders' Equity (Deficit) for the Years Ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

Schedule II - Valuation and Qualifying Reserves

**ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES**

The following consolidated financial statements are filed as part of this Annual Report on Form 10-K:  
Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Balance Sheets as of December 31, 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Shareholder's Equity (Deficit) for the Years Ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

Schedule II - Valuation and Qualifying Reserves

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### QUARTERLY FINANCIAL INFORMATION ARMSTRONG HOLDINGS, INC. (unaudited)

(millions except for per share data)	First	Second	Third	Fourth	Total year
<b>2004</b> Net sales	\$845.0	\$903.5	\$893.5	\$ 855.3	\$3,497.3
Gross profit	184.6	216.4	194.2	91.1	686.3
Net earnings (loss) from continuing operations	20.0	(14.5)	23.2	(109.1)	(80.4)
Per share of common stock:					
Basic	\$ 0.49	\$(0.36)	\$ 0.57	\$ (2.69)	\$ (1.99)
Diluted	\$ 0.49	\$(0.36)	\$ 0.57	\$ (2.69)	\$ (1.99)
Net earnings (loss)	19.6	(14.5)	23.2	(109.1)	(80.8)
Per share of common stock:					
Basic	\$ 0.48	\$(0.36)	\$ 0.57	\$ (2.69)	\$ (2.00)
Diluted	\$ 0.48	\$(0.36)	\$ 0.57	\$ (2.69)	\$ (2.00)
Price range of common stock—high	\$ 1.39	\$ 1.55	\$ 2.30	\$ 3.51	\$ 3.51
Price range of common stock—low	\$ 0.95	\$ 0.76	\$ 1.16	\$ 1.20	\$ 0.76
<b>2003</b> Net sales	\$774.9	\$826.9	\$851.4	\$ 805.8	\$3,259.0
Gross profit	166.5	180.4	174.0	140.7	661.6
Net earnings (loss) from continuing operations	1.8	(34.3)	(2.3)	(2.0)	(36.8)
Per share of common stock:					
Basic	\$ 0.04	\$(0.85)	\$(0.06)	\$(0.05)	\$(0.91)
Diluted	\$ 0.04	\$(0.85)	\$(0.06)	\$(0.05)	\$(0.91)
Net earnings (loss)	1.9	(34.3)	(4.7)	(2.2)	(39.3)
Per share of common stock:					
Basic	\$ 0.05	\$(0.85)	\$(0.12)	\$(0.05)	\$(0.97)
Diluted	\$ 0.05	\$(0.85)	\$(0.12)	\$(0.05)	\$(0.97)
Price range of common stock—high	\$ 0.83	\$ 2.33	\$ 3.04	\$ 2.00	\$ 3.04
Price range of common stock—low	\$ 0.37	\$ 0.53	\$ 1.26	\$ 0.80	\$ 0.37

There were no dividends paid in 2004 or 2003. The DIP Facility stipulates that AWI will not declare or pay any dividends either directly or indirectly and bankruptcy law bars dividends by companies in Chapter 11.

The second quarter net loss included a non-cash goodwill impairment loss of \$60.0 million. See Note 12.

Note: The net sales and gross profit amounts reported above are reported on a continuing operations basis and may differ from previously reported amounts due to reclassifications to conform with current presentation. The sum of the quarterly earnings per share data may not equal the total year amounts due to changes in the average shares outstanding and, for diluted data, the exclusion of the antidilutive effect in certain quarters.

#### Fourth Quarter 2004 Compared With Fourth Quarter 2003

Net sales of \$855.3 million in the fourth quarter of 2004 increased from net sales of \$805.8 million in the fourth quarter of 2003, an increase of 6.1%. Excluding the favorable effects of foreign exchange rates of \$18.4 million, net sales increased 3.8% primarily due to the positive effects of pricing initiatives. Resilient Flooring net sales increased 3.7% due to pricing initiatives, partially offset by lower volumes. Wood Flooring net sales increased by 2.5% due to pricing initiatives. Textiles and Sports Flooring decreased 2.2%, but excluding the favorable effects of foreign exchange rates of \$5.7 million, decreased 9.6% due to lower sales volume and pricing. Building Products net sales increased by 16.0% due to favorable effects of foreign exchange, increased volume and pricing initiatives. Cabinets increased by 4.1% due to pricing initiatives. Net sales increased 5.3% and 6.1% in the Americas and Europe, respectively,

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with the Pacific area increasing \$6.5 million. Excluding the favorable effects of foreign exchange rates of \$15.9 million, Europe net sales decreased 2.0%.

For the fourth quarter of 2004, the cost of goods sold was 89.3% of sales, compared to 82.5% in 2003. The 6.8 percentage point increase was primarily due to a \$44.8 million fixed asset impairment charge in our European resilient flooring business, \$31.1 million of charges related to 2004 cost reduction initiatives, and increased raw material and energy costs, partially offset by the favorable impacts of increased volumes, and cost reduction and pricing initiatives.

SG&A expenses for the fourth quarter of 2004 were \$172.4 million as compared to \$156.2 million for the fourth quarter of 2003. The increase is primarily due to increased selling expenses and a \$5.0 million contribution to Armstrong Foundation (a community giving program funded by Armstrong), partially offset by the favorable impacts of cost reduction initiatives implemented in prior periods.

A goodwill impairment charge of \$48.4 million was recorded in the fourth quarter of 2004 related to our European resilient flooring business. See Note 12 of the Consolidated Financial Statements.

Restructuring charges, net, were \$13.3 million in the fourth quarter of 2004 and \$1.3 million in the fourth quarter of 2003 primarily related to our Hoogezand and North American SG&A initiatives. See Note 15 of the Consolidated Financial Statements.

An operating loss from continuing operations of \$134.8 million in the fourth quarter of 2004 compared to an operating loss of \$12.1 million in the fourth quarter of 2003. The primary contributors to this increased loss include the goodwill impairment charge of \$48.4 million, the \$44.8 million fixed asset impairment charge and \$31.1 million of charges related to cost reduction initiatives.

Chapter 11 reorganization costs, net were expense of \$0.3 million in the fourth quarter of 2004 and income of \$6.8 million in the fourth quarter of 2003. The change is primarily due to a \$12.1 million write down in 2003 of a zero coupon note due to an agreement with the holder of the note that reduced the allowed claim amount of the note.

The effective tax benefit from continuing operations rate for the fourth quarter of 2004 was 19.6% compared to a tax benefit rate of 74.4% for the same period of 2003. The difference relates primarily to a tax benefit booked in 2003 related to reduced capitalized Chapter 11 reorganization costs for tax purposes and the release in the fourth quarter of 2004 of \$3.6 million in tax reserves related to state tax issues (net of Federal benefit) on which the statute of limitations expired and \$8.3 million for a favorable conclusion of a German tax audit. In addition, the \$48.4 million goodwill impairment recorded during the fourth quarter of 2004, which was a nontaxable event, and the \$44.8 million of European resilient flooring fixed asset impairments, which required a full valuation allowance on the related deferred tax asset, had an unfavorable impact on the 2004 tax rate.

As further explained in Note 16, we are evaluating a possible repatriation of foreign earnings to the U.S. in order to take advantage of a one-time deduction of 85% of certain foreign earnings that are repatriated, as defined in the American Jobs Creation Act ("the ACJA"). No deferred tax liability will be recorded for the possible repatriation until such time as we make an affirmative decision to repatriate said earnings.

Net loss of \$109.1 million in the fourth quarter of 2004 compared to net loss of \$2.2 million in the fourth quarter of 2003.

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### Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders,  
Armstrong Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Armstrong Holdings, Inc. and subsidiaries (“the Company”) as listed in the accompanying index on page 50. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index on page 50. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Holdings, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements and financial statement schedule have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 of the consolidated financial statements, three of the Company’s domestic subsidiaries, including Armstrong World Industries, Inc., the Company’s major operating subsidiary, filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court on December 6, 2000. Armstrong World Industries, Inc. has also defaulted on certain debt obligations. Although these operating subsidiaries are currently operating their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court, the continuation of their businesses as going concerns is contingent upon, among other things, the ability to formulate a plan of reorganization which will gain approval of the creditors and confirmation by the Bankruptcy Court. The filing under Chapter 11 and the resulting increased uncertainty regarding the Company’s potential asbestos liabilities, as discussed in Note 32 of the consolidated financial statements, raise substantial doubt about the Company’s ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 14, 2005

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Armstrong Holdings, Inc., and Subsidiaries  
Consolidated Statements of Earnings  
(amounts in millions, except per share amounts)

	Years Ended December 31,		
	2004	2003	2002
Net sales	\$3,497.3	\$3,259.0	\$ 3,172.3
Cost of goods sold	2,811.0	2,597.4	2,404.5
Gross profit	686.3	661.6	767.8
Selling, general and administrative expenses	635.0	612.1	630.8
Charge for asbestos liability, net	—	81.0	2,500.0
Goodwill impairment	108.4	—	—
Restructuring and reorganization charges, net	18.3	8.6	1.9
Equity (earnings) from joint venture	(31.6)	(20.8)	(19.7)
Operating (loss)	(43.8)	(19.3)	(2,345.2)
Interest expense (unrecorded contractual interest of \$86.9, \$95.1 and \$99.9, respectively)	8.4	9.0	11.3
Other non-operating expense	3.1	5.7	3.6
Other non-operating (income)	(6.4)	(5.0)	(7.5)
Chapter 11 reorganization costs, net	6.9	9.4	23.5
(Loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle	(55.8)	(38.4)	(2,376.1)
Income tax expense (benefit)	24.6	(1.6)	(827.8)
(Loss) from continuing operations before cumulative effect of a change in accounting principle	(80.4)	(36.8)	(1,548.3)
Cumulative effect of a change in accounting principle, net of tax of \$2.2	—	—	(593.8)
(Loss) from continuing operations	(80.4)	(36.8)	(2,142.1)
(Loss) from discontinued operations, net of tax of \$0.2, \$0.1 and \$0.0	(0.4)	(2.5)	(0.7)
Net (loss)	\$ (80.8)	\$ (39.3)	\$ (2,142.8)
(Loss) per share of common stock, continuing operations before cumulative effect of a change in accounting principle, basic and diluted:	\$ (1.99)	\$ (0.91)	\$ (38.23)
(Loss) per share of common stock, cumulative effect of a change in accounting principle, basic and diluted:	—	—	\$ (14.66)
(Loss) per share of common stock, discontinued operations, basic and diluted:	\$ (0.01)	\$ (0.06)	\$ (0.02)
Net (loss) per share of common stock, basic and diluted:	\$ (2.00)	\$ (0.97)	\$ (52.91)
Average number of common shares outstanding, basic and diluted:	40.5	40.5	40.5

See accompanying notes to consolidated financial statements beginning on page 58.

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Armstrong Holdings, Inc., and Subsidiaries  
Consolidated Balance Sheets  
(amounts in millions, except share data)

	December 31, 2004	December 31, 2003
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 515.9	\$ 484.3
Accounts and notes receivable, net	336.1	315.4
Inventories, net	529.2	454.4
Deferred income taxes	15.6	19.2
Income tax receivable	7.0	—
Other current assets	78.4	85.5
<b>Total current assets</b>	<b>1,482.2</b>	<b>1,358.8</b>
Property, plant and equipment, less accumulated depreciation and amortization of \$1,540.7 and \$1,434.8, respectively	1,208.8	1,267.3
Insurance receivable for asbestos-related liabilities, noncurrent	88.8	95.1
Prepaid pension costs	480.9	455.1
Investment in affiliates	72.5	48.9
Goodwill	136.0	244.1
Other intangibles, net	76.0	79.0
Deferred income taxes, noncurrent	941.6	988.3
Other noncurrent assets	122.6	111.2
<b>Total assets</b>	<b>\$ 4,609.4</b>	<b>\$ 4,647.8</b>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Short-term debt	\$ 11.1	\$ 3.9
Current installments of long-term debt	8.2	8.2
Accounts payable and accrued expenses	447.4	354.2
Income tax payable	20.3	45.9
Deferred income taxes	1.1	3.3
<b>Total current liabilities</b>	<b>488.1</b>	<b>415.5</b>
Liabilities subject to compromise	4,866.2	4,858.5
Long-term debt, less current installments	29.2	39.4
Postretirement and postemployment benefit liabilities	262.6	262.3
Pension benefit liabilities	258.9	216.4
Other long-term liabilities	87.6	81.2
Deferred income taxes, noncurrent	19.2	95.0
Minority interest in subsidiaries	9.3	9.7
<b>Total noncurrent liabilities</b>	<b>5,533.0</b>	<b>5,562.5</b>
Shareholders' equity (deficit):		
Common stock, \$1 par value per share Authorized 200 million shares; issued 51,878,910 shares	51.9	51.9
Capital in excess of par value	167.7	167.9
Reduction for ESOP loan guarantee	(142.2)	(142.2)
Accumulated deficit	(1,018.6)	(937.8)
Accumulated other comprehensive income	42.8	43.3
Less common stock in treasury, at cost 2004 and 2003 – 11,210,018 shares	(513.3)	(513.3)
<b>Total shareholders' (deficit)</b>	<b>(1,411.7)</b>	<b>(1,330.2)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,609.4</b>	<b>\$ 4,647.8</b>

See accompanying notes to consolidated financial statements beginning on page 58.

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Armstrong Holdings, Inc., and Subsidiaries  
Consolidated Statements of Shareholders' Equity  
(amounts in millions, except per share amounts)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Common stock, \$1 par value :</b>			
Balance at beginning and end of year	\$ 51.9	\$ 51.9	\$ 51.9
<b>Capital in excess of par value :</b>			
Balance at beginning of year	\$ 167.9	\$ 167.6	\$ 166.8
Stock issuances and other	(0.2)	0.3	0.8
Balance at end of year	\$ 167.7	\$ 167.9	\$ 167.6
<b>Reduction for ESOP loan guarantee :</b>			
Balance at beginning and end of year	\$ (142.2)	\$ (142.2)	\$ (142.2)
<b>Retained earnings (accumulated deficit) :</b>			
Balance at beginning of year	\$ (937.8)	\$ (898.5)	\$ 1,244.3
Net (loss) for year	(80.8)    \$(80.8)	(39.3)    \$(39.3)	(2,142.8)    \$(2,142.8)
Balance at end of year	\$(1,018.6)	\$ (937.8)	\$ (898.5)
<b>Accumulated other comprehensive income (loss) :</b>			
Balance at beginning of year	\$ 43.3	\$ (12.2)	\$ (47.1)
Foreign currency translation adjustments	22.4	56.8	37.7
Derivative gain (loss), net	0.3	(0.3)	6.9
Minimum pension liability adjustments	(23.2)	(1.0)	(9.7)
Total other comprehensive income (loss)	(0.5)    (0.5)	55.5    55.5	34.9    34.9
Balance at end of year	\$ 42.8	\$ 43.3	\$ (12.2)
<b>Comprehensive income (loss)</b>	<b>\$(81.3)</b>	<b>\$ 16.2</b>	<b>\$(2,107.9)</b>
<b>Less treasury stock at cost :</b>			
Balance at beginning and end of year	\$ (513.3)	\$ (513.3)	\$ (513.3)
<b>Total shareholders' (deficit)</b>	<b>\$(1,411.7)</b>	<b>\$(1,330.2)</b>	<b>\$(1,346.7)</b>

See accompanying notes to consolidated financial statements beginning on page 58.

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### Armstrong Holdings, Inc., and Subsidiaries Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2004	2003	2002
<b>Cash flows from operating activities:</b>			
Net (loss)	\$ (80.8)	\$ (39.3)	\$(2,142.8)
Adjustments to reconcile net (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net	—	—	593.8
Depreciation and amortization	151.0	163.1	136.7
Goodwill impairment	108.4	—	—
Fixed asset impairments	64.7	10.5	—
Deferred income taxes	(22.4)	(51.5)	(870.4)
Equity (earnings) from affiliates, net	(33.5)	(20.7)	(21.7)
Chapter 11 reorganization costs, net	6.9	9.4	23.5
Chapter 11 reorganization costs payments	(15.9)	(25.8)	(23.0)
Restructuring and reorganization charges, net of reversals	18.3	8.6	1.9
Restructuring and reorganization payments	(4.1)	(8.7)	(2.1)
Asbestos-related insurance recoveries	4.5	31.0	16.0
Payments for asbestos-related claims	—	(9.0)	—
Charge for asbestos liability, net	—	81.0	2,500.0
Cash effect of hedging activities	1.1	(27.0)	(22.0)
Increase (decrease) in cash from change in:			
Receivables	(9.5)	40.6	11.7
Inventories	(61.7)	6.6	18.1
Other current assets	11.8	(4.6)	(16.1)
Other noncurrent assets	(34.8)	(18.6)	(42.0)
Accounts payable and accrued expenses	61.1	(15.6)	29.0
Income taxes payable	(29.8)	21.9	0.2
Other long-term liabilities	3.5	4.0	11.9
Other, net	4.0	9.9	20.8
<b>Net cash provided by operating activities</b>	<b>142.8</b>	<b>165.8</b>	<b>223.5</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment and computer software	(134.0)	(78.1)	(125.1)
Distributions from equity affiliates	10.0	16.0	17.5
Proceeds from the sale of assets	12.3	4.9	3.5
<b>Net cash (used for) investing activities</b>	<b>(111.7)</b>	<b>(57.2)</b>	<b>(104.1)</b>
<b>Cash flows from financing activities:</b>			
Increase/(decrease) in short-term debt, net	4.0	(5.3)	(13.9)
Payments of long-term debt	(9.8)	(8.2)	(9.0)
Other, net	(1.2)	(0.6)	(0.9)
<b>Net cash (used for) financing activities</b>	<b>(7.0)</b>	<b>(14.1)</b>	<b>(23.8)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>7.5</b>	<b>9.8</b>	<b>7.0</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$ 31.6</b>	<b>\$104.3</b>	<b>\$ 102.6</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>\$ 484.3</b>	<b>\$380.0</b>	<b>\$ 277.4</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 515.9</b>	<b>\$484.3</b>	<b>\$ 380.0</b>

See accompanying notes to consolidated financial statements beginning on page 58.

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Armstrong Holdings, Inc., and Subsidiaries  
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(dollar amounts in millions, except share data)

### NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Pennsylvania corporation and the publicly held parent holding company of AWI. Armstrong Holdings, Inc.’s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware Corporation) of all of the capital stock of AWI. Due to the lack of material differences in the financial statements, when we refer in this document to AHI and its subsidiaries as “AHI,” “Armstrong,” “we,” “us,” and “ourselves,” we are also effectively referring to AWI and its subsidiaries. We use the term “AWI” when we are referring solely to Armstrong World Industries, Inc.

#### Proceedings under Chapter 11

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief (the “Filing”) under Chapter 11 of the U.S. Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) in order to use the court-supervised reorganization process to achieve a resolution of the AWI’s asbestos-related liability. Also filing under Chapter 11 were two of AWI’s wholly-owned subsidiaries, Nitram Liquidators, Inc. (“Nitram”) and Desseaux Corporation of North America, Inc. (“Desseaux”). The Chapter 11 cases are being jointly administered under case number 00-4471 (the “Chapter 11 Case”). Shortly after its commencement, the Chapter 11 Case was assigned to Judge Randall J. Newsome. His appointment as a visiting judge in the District of Delaware ended on December 31, 2003. On January 6, 2004, the Chapter 11 Case was reassigned to Judge Judith K. Fitzgerald.

AHI and all of AWI’s other direct and indirect subsidiaries, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (AWI’s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada, and Armstrong DLW AG, were not a part of the Filing and accordingly, except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI, the liabilities, including asbestos-related liability if any, of such companies will not be resolved in AWI’s Chapter 11 Case. See below under “The Asbestos Personal Injury Trust” and Note 32 under “Asbestos-Related Litigation”.

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Bankruptcy Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing unless specifically authorized by the Bankruptcy Court. In addition, as a debtor-in-possession, AWI has the right, subject to the Bankruptcy Court’s approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Some of these have been specifically assumed and others have been specifically rejected already in the course of the Chapter 11 Case. In the plan of reorganization which it has proposed, as described below, AWI has indicated the other executory contracts and unexpired leases that it intends to assume or reject upon consummation of the plan; any not specifically assumed under the plan will be rejected upon consummation of the plan. Parties having claims as a result of the rejection of a contract may file claims with the Bankruptcy Court, which will be dealt with as part of the Chapter 11 Case.

Three creditors’ committees, one representing asbestos personal injury claimants (the “Asbestos Personal Injury Claimants’ Committee”), one representing asbestos property damage claimants (the “Asbestos Property Damage Committee”), and the other representing other unsecured creditors (the “Unsecured Creditors’ Committee”), were appointed in the Chapter 11 Case. In addition, an individual was appointed to represent the interests of future asbestos personal injury claimants (the “Future Claimants’ Representative”). In accordance with the provisions of the Bankruptcy Code, these parties have the right to be heard on matters that come before the Bankruptcy Court in the Chapter 11 Case. Upon resolution of all asbestos property damage claims, the Asbestos Property Damage Committee was disbanded.

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### Armstrong Holdings, Inc., and Subsidiaries Notes to Condensed Consolidated Financial Statements (dollar amounts in millions, except share data)

#### Plan of Reorganization and Disclosure Statement

On November 4, 2002, AWI filed a Plan of Reorganization with the Bankruptcy Court. Subsequently, AWI filed several amendments to the plan, along with various exhibits. The Fourth Amended Plan of Reorganization, with certain exhibits, was filed on May 23, 2003 and, as so amended and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003 and December 3, 2004, is referred to in this report as the “POR”. The POR provides for AWI to continue to conduct its existing lines of business with a reorganized capital structure under which, among other things, its existing shares of stock will be cancelled and new common shares and notes will be issued to its unsecured creditors and to a trust, as further discussed below, to be established under the POR for the benefit of AWI’s current and future asbestos-related personal injury claimants, in full satisfaction of their claims against AWI. References in this report to “reorganized Armstrong” are to AWI as it would be reorganized under the POR, and its subsidiaries collectively. The POR excludes AWI’s Nitram and Desseaux subsidiaries, neither of which is material to Armstrong and which are pursuing separate resolutions of their Chapter 11 cases that are expected to result in the winding up of their affairs.

In connection with the vote of creditors on the POR, AWI was required to prepare a disclosure statement concerning its business and the POR, including certain projected financial information assuming an Effective Date of the POR as July 1, 2003, intended to demonstrate to the Bankruptcy Court the feasibility of the POR and AWI’s ability to continue operations upon its emergence from Chapter 11. On May 30, 2003, the Bankruptcy Court approved the disclosure statement for distribution to parties in interest in the Chapter 11 Case. The projected financial information included in the disclosure statement was updated in certain respects by information submitted to the Bankruptcy Court in connection with the Bankruptcy Court’s November 2003 hearing on confirmation of the POR. The projected financial information was prepared for the limited purposes of consideration by the Bankruptcy Court, creditors and other parties in interest in the Chapter 11 Case of matters pertinent to the case. As indicated in the disclosure statement, the projected financial information and various estimates of value therein provided should not be regarded as representations or warranties by AWI, AHI or any other person. There is no assurance that any such projection or valuation will be realized. The projected financial information and estimates of value were prepared by AWI and its financial advisors and have not been audited or reviewed by independent accountants. The projections will not be updated on an ongoing basis. At the time they were prepared in 2003, the projections reflected numerous assumptions concerning reorganized Armstrong’s anticipated future performance and with respect to prevailing and anticipated market and economic conditions, which were and remain beyond our control and which may not materialize. Projections are inherently subject to significant and numerous uncertainties and to a wide variety of significant business, economic and competitive risks and the assumptions underlying the projections may be wrong in a material respect. Actual results may vary significantly from those contemplated by the projections.

During 2003, the POR was submitted for a vote by AWI’s creditors for its approval. It was approved by each creditor class that was entitled to vote on the POR except the class of unsecured creditors. On November 17 and 18, 2003, the Bankruptcy Court held a hearing on confirmation of the Plan and on December 19, 2003, issued proposed findings of fact and conclusions of law and a proposed order confirming the POR, notwithstanding the rejection of the POR by the class of unsecured creditors. On December 29, 2003, the Unsecured Creditors’ Committee filed an objection to the Bankruptcy Court’s proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR.

In order for the POR to be confirmed, the U.S. District Court must also issue findings of fact and conclusions of law in support of confirmation of the POR, enter or affirm an order confirming the POR and issue the “524(g) injunction” which is part of the POR.

#### Recent Developments and Next Steps in the Chapter 11 Process

Following procedural delays concerning the status of the prior U.S. District Court judge on AWI’s Chapter 11 Case, the AWI case was assigned to U.S. District Court Judge Eduardo C. Robreno in June 2004. A hearing was held before Judge Robreno on December 15, 2004 to consider the objections to confirmation of the POR. On February 23, 2005, Judge Robreno ruled that the POR could not be confirmed. In the court’s decision (which is available at [www.armstrongplan.com](http://www.armstrongplan.com)), the Judge found that, because the class of

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### Armstrong Holdings, Inc., and Subsidiaries Notes to Condensed Consolidated Financial Statements (dollar amounts in millions, except share data)

unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule.

AWI filed a Notice of Appeal to the United States Court of Appeals for the Third Circuit on March 4, 2005. On March 18, 2005, AWI filed a motion to expedite the appeal to the U.S. Court of Appeals. AWI is also reviewing other options to resolve its Chapter 11 Case. AWI is unable to predict whether the POR will be confirmed or when AWI would emerge from Chapter 11.

#### Asbestos Personal Injury Trust

A principal feature of the POR is the creation of a trust (the “Asbestos PI Trust”), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI’s personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI’s pre-Filing use of or other activities involving asbestos will be channeled to the Asbestos PI Trust.

In accordance with the “524(g) injunction” to be issued if the POR goes into effect various entities would be protected from such present and future AWI asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHI, AWI’s subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

However, although AWI’s domestic and foreign subsidiaries and other affiliates would be protected parties, asbestos-related personal injury claims against them would be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the pre-Filing manufacturing, installation, distribution or other activities of AWI, or AWI’s ownership of the subsidiaries or affiliates (as distinguished from independent activities of the subsidiaries or affiliates). See Note 32 under “Asbestos-Related Litigation.”

In addition, workers’ compensation claims brought against AWI or its subsidiaries or other affiliates would not be channeled to the Asbestos PI Trust and would remain subject to the workers’ compensation process. Workers’ compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Historically, workers’ compensation claims against AWI or its subsidiaries have not been significant in number or amount, and AWI has continued to honor its obligations with respect to such claims during the Chapter 11 Case. Currently, AWI has three pending workers’ compensation claims, and its UK subsidiary has five employer liability claims involving alleged asbestos exposure.

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes neither AWI nor its subsidiaries or other affiliates is subject to asbestos-related personal injury claims, that would not be channeled to the Asbestos PI Trust under the POR, which would be material in amount to reorganized Armstrong.

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### Consideration to Be Distributed under the POR (unaudited)

The Asbestos PI Trust and the holders of allowed unsecured claims would share in the following consideration to be distributed under the POR:

- AWI's "Available Cash," which is defined in the POR as:
  - Cash available on the effective date of the POR after reserving up to \$100 million (as determined by AWI) to fund ongoing operations and making provisions for certain required payments under the POR,
  - Any cash drawn, at AWI's sole discretion, under a credit facility to be established as provided by the POR for the purpose of funding distributions under the POR, and
  - Certain insurance proceeds related to environmental matters

However, proceeds received under any private offering of debt securities and/or secured term loan borrowings made, as permitted by the POR, in connection with consummation of the POR, and certain other amounts authorized or directed by the Court, would be excluded from the determination of Available Cash.

- Plan Notes of AWI as further described below or net cash proceeds from any private offerings of debt securities issued in lieu thereof, and
- Substantially all of the new common stock of AWI.

The total amount of Plan Notes would be the greater of (i) \$1.125 billion less Available Cash and (ii) \$775 million. However, AWI would use reasonable efforts to issue one or more private offerings of debt securities on, or as soon as practicable after, the Effective Date. These offerings are expected to yield net proceeds at least equal to the amount of the Plan Notes prescribed by the Plan. If the private offerings are successful, the Plan Notes would not be issued. If the offerings yield proceeds less than the amount of the Plan Notes prescribed by the Plan, Plan Notes equal to the difference will be issued. If only the Plan Notes are issued, reorganized Armstrong expects to issue an aggregate amount of \$775 million of Plan Notes. These Plan Notes would consist of (i) a tranche of notes with a seven-year maturity and a fixed interest rate, (ii) a tranche of notes with a ten-year maturity and a fixed interest rate and (iii) a tranche of floating rate notes with a maturity of not less than five years, but no more than ten years, structured in a manner similar to, and as liquid as, marketable bank debt which satisfy the requirements of the POR and are on terms and conditions that are satisfactory to AWI, the Asbestos Personal Injury Claimants' Committee, and the Future Claimants' Representative. To the extent Plan Notes of more than one type are issued, a pro rata share of each tranche would be issued to the Asbestos PI Trust and the holders of unsecured claims.

The POR provides that unsecured creditors, other than convenience creditors described below, would receive their pro rata share of:

- 34.43% of the new common stock of reorganized Armstrong,
- 34.43% of the first \$1.05 billion of all the cash and Plan Notes to be distributed under the POR to unsecured creditors (other than convenience creditors) and the Asbestos PI Trust, in the form of:
  - Up to \$300 million of Available Cash and
  - The balance in principal amount of Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes.
- 60% of the next \$50 million of Available Cash but, if such Available Cash is less than \$50 million, then 60% of the balance in Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes, and
- 34.43% of the remaining amount of any Available Cash and any Plan Notes up to the maximum amount of Plan Notes provided to be issued under the POR, or net cash proceeds from any private offerings of debt securities made in lieu of issuing such Plan Notes.

The remaining amount of new common stock of reorganized Armstrong, Available Cash and Plan Notes or net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes would be distributed to the Asbestos PI Trust.

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Under the POR, unsecured creditors whose claims (other than claims on debt securities) are less than \$10 thousand or who elect to reduce their claims to \$10 thousand would be treated as “convenience creditors” and would receive payment of 75% of their allowed claim amount in cash (which payments would reduce the amount of Available Cash).

Under the POR, the existing equity interests in AWI (including all of its outstanding shares of common stock) would be cancelled. The POR provides for the distribution of warrants to purchase shares of reorganized Armstrong (the “Warrants”) to the holders of AWI’s existing common stock. The terms of the Warrants are provided in an exhibit to the POR. The Warrants:

- would permit the purchase of 5% of the common stock of reorganized Armstrong on a fully diluted basis, upon exercise of all the Warrants;
- would be exercisable at any time during the seven years after the effective date of the POR; and
- would permit the purchase of shares at an exercise price of \$37.50, which is equal to 125% of the \$30.00 per share equity value of reorganized Armstrong, as agreed among the financial advisers for AWI, the Asbestos Personal Injury Claimants’ Committee, the Unsecured Creditors’ Committee, and the Future Claimants’ Representative, as set forth in the Bankruptcy Court-approved disclosure statement for the POR (as further described below).

Whether any value would be realized from the Warrants would depend on whether the market value of reorganized Armstrong’s new common stock reaches a value in excess of the exercise price of the Warrants during the period that they may be exercised.

AHI’s shareholders were not entitled to vote on the POR. However, AHI’s shareholders were sent the Disclosure Statement and POR. If the POR is implemented, the only value that would be available to AHI shareholders is their ratable share of the Warrants available upon the contemplated dissolution of AHI. See AHI’s Plan of Dissolution below. As discussed above, however, on February 23, 2005, the U.S. District Court entered an order denying confirmation of the POR. In the court’s decision (which is available at [www.armstrongplan.com](http://www.armstrongplan.com)), the Judge found that, because the class of unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule.

### Valuation of Consideration to be Distributed under the POR (unaudited)

Based upon many assumptions (see Disclosure Statement discussion above), to calculate the value of consideration to be distributed, AWI used \$2.7 billion as the value of reorganized Armstrong. This is the mid-point of the range of estimated values of \$2.4 billion and \$3.0 billion that was estimated by AWI and its financial advisors during the third quarter of 2003. AWI’s estimated value of the consideration to be distributed under the POR to the Asbestos PI Trust, holders of allowed unsecured claims and AWI’s existing common stock, is:

- New common stock at \$30 a share, which is the approximate mid-point of the range of estimated values of \$24.66 and \$35.30 per share, assuming a distribution of 56.4 million shares of new common stock to holders of unsecured claims and the Asbestos PI Trust;
- Plan Notes in the aggregate principal amount of \$775 million, that are worth their face value;
- Available Cash of approximately \$350 million that AWI expects to have; and
- Warrants with an estimated value of between \$35 million and \$40 million.

The total value of the consideration to be distributed to the Asbestos PI Trust, other than rights under asbestos non-product liability insurance policies, has been estimated to be approximately \$1.8 billion, and the total value of consideration to be distributed to holders of allowed unsecured claims (other than convenience claims) has been estimated to be approximately \$0.9 billion. Based upon the estimated value of the POR consideration, and upon AWI’s estimate that unsecured claims allowed by the Bankruptcy Court (other than convenience claims) would total approximately \$1.65 billion, AWI estimated that holders of allowed unsecured claims (other than convenience claims) would receive a recovery having a value equal to approximately 59.5% of their allowed claims.

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### AHI's Plan of Dissolution, Winding Up and Distribution ("Plan of Dissolution")

In connection with the implementation of the POR, the Warrants would be issued to AHI (or a wholly-owned subsidiary of AHI). The Board of Directors of AHI has determined that it is not practicable for AHI to continue in operation as an on-going business owning the Warrants, which would then be AHI's only asset. Accordingly, the Board of Directors of AHI approved and recommended to AHI shareholders the Plan of Dissolution, whereby AHI would voluntarily dissolve and wind up its affairs in accordance with Pennsylvania law and, subject to completion of AHI's winding up (including the satisfaction of any liabilities of AHI), distribute any remaining Warrants to the shareholders. At a special meeting of AHI shareholders on January 7, 2004, the Plan of Dissolution was approved. The POR provides that AWI would pay the costs and expenses incurred in connection with administering AHI's Plan of Dissolution.

### Common Stock and Debt Securities

As a result of AWI filing the Plan of Reorganization on November 4, 2002, the New York Stock Exchange stopped trading on the Exchange of the common stock of AHI (traded under the ticker symbol "ACK") and two debt securities of AWI (traded under the ticker symbols "AKK" and "ACK 08"). AHI's common stock resumed trading in the over-the-counter (OTC) Bulletin Board under the ticker symbol "ACKHQ" and one of AWI's debt securities resumed trading under the ticker symbol "AKKWQ".

### Bar Date for Filing Claims

The Bankruptcy Court established August 31, 2001 as the bar date for all claims against AWI except for asbestos-related personal injury claims and certain other specified claims. A bar date is the date by which claims against AWI must be filed if the claimants wish to participate in any distribution in the Chapter 11 Case. A bar date for asbestos-related personal injury claims (other than claims for contribution, indemnification, or subrogation) has been rendered unnecessary under the terms of the POR, which defers the filings of such claims until the Asbestos PI Trust is established to administer such claims.

Approximately 4,800 proofs of claim (including late-filed claims) totaling approximately \$6.3 billion, alleging a right to payment from AWI, were filed with the Bankruptcy Court in response to the August 31, 2001 bar date. The disposition of these claims under the POR is discussed below. AWI continues the process of investigating and resolving these claims. The Bankruptcy Court will ultimately determine the claims and related liability amounts that will be allowed as part of the Chapter 11 process if the parties cannot agree.

In its ongoing review of the filed claims, AWI to date has objected to approximately 2,200 claims totaling \$2.7 billion. The Bankruptcy Court disallowed these claims with prejudice.

During the first six months of 2003, AWI settled all of the approximately 460 remaining property damage claims that alleged damages of \$800 million, for approximately \$9 million. Payments to claimants were made during the third quarter of 2003 and were funded by insurance.

Approximately 1,100 proofs of claim totaling approximately \$1.3 billion are pending with the Bankruptcy Court that are associated with asbestos-related personal injury litigation, including direct personal injury claims, claims by co-defendants for contribution and indemnification, and claims relating to AWI's participation in the Center for Claims Resolution. As stated above, the bar date of August 31, 2001 did not apply to asbestos-related personal injury claims other than claims for contribution, indemnification, or subrogation. The POR contemplates that all AWI asbestos-related personal injury claims, including claims for contribution, indemnification, or subrogation, will be addressed in the future pursuant to the procedures relating to the Asbestos PI Trust developed in connection with the POR. See further discussion regarding AWI's liability for asbestos-related matters in Note 32.

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### Armstrong Holdings, Inc., and Subsidiaries Notes to Condensed Consolidated Financial Statements (dollar amounts in millions, except share data)

Approximately 1,100 claims totaling approximately \$1.6 billion alleging a right to payment for financing, environmental, trade debt and other claims remain. For these categories of claims, AWI has previously recorded approximately \$1.6 billion in liabilities.

AWI has recorded liability amounts for claims that can be reasonably estimated and which it does not contest or believes are probable of being allowed by the Bankruptcy Court. The final value of all the claims that will ultimately be allowed by the Bankruptcy Court is not known at this time. However, it is likely the value of the claims ultimately allowed by the Bankruptcy Court will be different than amounts presently recorded by AWI. This difference could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

#### Financing

AWI has a \$75.0 million debtor-in-possession credit facility that currently is limited to issuances of letters of credit. This facility was extended to December 8, 2005 with approval of the Bankruptcy Court, granted on November 15, 2004. As of December 31, 2004, AWI had approximately \$40.6 million in letters of credit, which were issued pursuant to the DIP Facility. As of December 31, 2004, AWI had \$308.7 million of cash and cash equivalents, excluding cash held by its non-debtor subsidiaries. AWI believes that cash on hand and generated from operations and dividends from its subsidiaries, together with subsidiary lines of credit and the DIP Facility, will be adequate to address its foreseeable liquidity needs. Obligations under the DIP Facility, including reimbursement of draws under the letters of credit, if any, constitute superpriority administrative expense claims in the Chapter 11 Case.

#### Accounting Impact

AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7") provides financial reporting guidance for entities that are reorganizing under the Bankruptcy Code. This guidance is implemented in the accompanying consolidated financial statements.

Pursuant to SOP 90-7, AWI is required to segregate pre-Filing liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2004 and December 31, 2003. Liabilities that may be affected by a plan of reorganization are recorded at the expected amount of the allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's pre-Filing debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of AWI subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's estimated liability for asbestos-related personal injury claims is also recorded in liabilities subject to compromise. See Note 32 for further discussion of AWI's asbestos liability.

Additional pre-Filing claims (liabilities subject to compromise) may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims.

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SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization costs, net. Accordingly, AWI recorded the following Chapter 11 reorganization activities during 2004, 2003 and 2002:

	2004	2003	2002
Professional fees	\$11.5	\$ 25.2	\$27.8
Interest income, post-Filing	(4.8)	(3.4)	(3.5)
Reductions to pre-Filing liabilities	—	(12.9)	(1.1)
Other expense directly related to bankruptcy, net	0.2	0.5	0.3
	<u>        </u>	<u>        </u>	<u>        </u>
Total Chapter 11 reorganization costs, net	\$ 6.9	\$ 9.4	\$23.5
	<u>        </u>	<u>        </u>	<u>        </u>

Professional fees represent legal and financial advisory fees and expenses directly related to the Filing.

Interest income is earned from short-term investments subsequent to the Filing.

Reductions to pre-Filing liabilities represent Bankruptcy Court approved settlements of prepetition liabilities. In 2003, AWI reached an agreement with the holder of a zero coupon note on the amount of its allowed claim. This agreement reduced the previously accrued liability by \$12.1 million.

As a result of the Filing, realization of assets and liquidation of liabilities are subject to uncertainty. While operating as a debtor-in-possession, AWI may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the condensed consolidated financial statements.

If and when the POR is confirmed and made effective, reorganized AWI's condensed consolidated financial statements will change materially in amounts and classifications through the implementation of the fresh start accounting rules of SOP 90-7.

### Conclusion

AWI is unable to predict whether the POR will be confirmed or when AWI would emerge from Chapter 11. Therefore, the timing and terms of a resolution of the Chapter 11 Case remain uncertain.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy. The consolidated financial statements and accompanying data in this report include the accounts of AHI and its majority-owned subsidiaries. The results of less than majority owned subsidiaries are accounted for under the equity method. All significant intercompany transactions have been eliminated from the consolidated financial statements.

Use of Estimates. These financial statements are prepared in accordance with generally accepted accounting principles and include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asbestos-related liabilities and insurance assets, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers compensation, general liability and environmental claims. When preparing an estimate, management determines the amount based upon considering relevant information. Management may confer with outside parties, including outside counsel. Actual results may differ from these estimates.

Reclassifications. Certain amounts in the prior years' consolidated financial statements and notes thereto have been reclassified to conform to the 2004 presentation. These reclassifications were made to the consolidated statements of earnings and primarily consisted of reclassifying 2003 and 2002 amounts from other non-operating income and other non-operating expense to selling, general and administrative ("SG&A") expense and discontinued operations.

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**Revenue Recognition.** We recognize revenue from the sale of products when persuasive evidence of an arrangement exists, title and risk of loss transfers to the customers, prices are fixed and determinable, and it is reasonably assured the related accounts receivable is collectable. Our sales terms primarily are FOB shipping point. We have some sales terms that are FOB destination. Our products are sold with normal and customary return provisions. Sales discounts are deducted immediately from the sales invoice. Provisions, which are recorded as a reduction of revenue, are made for the estimated cost of rebates and promotional programs. We defer recognizing revenue if special sales agreements, established at the time of sale, warrant this treatment.

**Sales Incentives.** Sales incentives are reflected as a reduction of net sales for all periods presented.

**Shipping and Handling Costs.** Shipping and handling costs are reflected in cost of goods sold for all periods presented.

**Advertising Costs.** We recognize advertising expenses as they are incurred.

**Pension and Postretirement Benefits.** We have benefit plans that provide for pension, medical and life insurance benefits to certain eligible employees when they retire from active service. Generally, our practice is to fund the actuarially determined current service costs and the amounts necessary to amortize prior service obligations over periods ranging up to 30 years, but not in excess of the funding limitations.

**Taxes.** The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

**Earnings (loss) per Common Share.** Basic earnings (loss) per share are computed by dividing the earnings (loss) by the weighted average number of shares of common stock outstanding during the year. Diluted earnings (loss) per common share reflect the potential dilution of securities that could share in the earnings (loss). The diluted earnings (loss) per share computations for all periods presented use the basic number of shares due to the loss from continuing operations.

**Cash and Cash Equivalents.** Cash and cash equivalents include cash on hand and short-term investments that have maturities of three months or less when purchased.

**Concentration of Credit.** We principally sell products to customers in the building products industries, in various geographic regions. Net sales in excess of 10% of our consolidated net sales for 2004, 2003 and 2002 were:

<u>Customer</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
The Home Depot, Inc.	\$393.4	\$400.0	\$380.3
Lowe's Companies, Inc.	(1)	318.7	(1)

(1) Net sales to Lowe's Companies, Inc. were less than 10% of consolidated net sales.

Net sales to these customers were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

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There are no significant concentrations of credit risk other than with two home center customers who represent 22% of our trade receivables as of December 31, 2004 and 2003. We monitor the creditworthiness of our customers and generally do not require collateral.

Receivables. We sell the vast majority of our products to select, pre-approved customers using customary trade terms that allow for payment in the future. Customer trade receivables, customer notes receivable and miscellaneous receivables (which include supply related rebates and claims to be received, unpaid insurance claims from litigation and other), net of allowances for doubtful accounts, are reported in accounts and notes receivable, net. Notes receivable from divesting certain businesses in prior years are included in other current assets and other non-current assets based upon the payment terms. Insurance receivables for asbestos-related liabilities are primarily non-current, with the current portion reported in other current assets.

We establish credit worthiness prior to extending credit. We estimate the recoverability of current and non-current receivables each period. This estimate is based upon triggering events and new information in the period, which can include the review of any available financial statements and forecasts, as well as discussions with legal counsel and the management of the debtor company. Periodic changes to the allowances for doubtful accounts and/or impairment charges are made to reflect our estimate.

Inventories. Inventories are valued at the lower of cost or market. Inventories also include certain resilient flooring samples used in ongoing sales and marketing activities.

Property and Depreciation. Property, plant and equipment values are stated at acquisition cost less accumulated depreciation and amortization. Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives. Machinery and equipment includes manufacturing equipment (depreciated over 3 to 20 years), computer equipment (3 to 5 years) and office furniture and equipment (5 to 10 years). Within manufacturing equipment, assets that are subject to quick obsolescence or wear out quickly, such as tooling and engraving equipment, are depreciated over shorter periods (3 to 7 years). Heavy production equipment, such as conveyors and production presses, are depreciated over longer periods (15 to 20 years). Buildings are depreciated over 20 to 40 years, depending on factors such as type of construction and use.

In accordance with Financial Accounting Standards Board (“FSAB”) Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” (“FAS 144”) effective January 1, 2002, impairment losses are recorded when indicators of impairment are present, such as operating losses and/or negative cash flows. For purposes of calculating any impairment, we estimate the fair value and compare it to the carrying value of the asset. If the fair value is less than the carrying value of the asset, we record an impairment equal to the difference between the fair value and carrying value of the asset. When assets are disposed of or retired, their costs and related depreciation are removed from the financial statements and any resulting gains or losses normally are reflected in SG&A expenses.

Costs of the construction of certain property include capitalized interest which is amortized over the estimated useful life of the related asset. There was no capitalized interest recorded in 2004, 2003 and 2002 due to the Chapter 11 Filing.

Goodwill and Other Intangibles. Effective January 1, 2002, we adopted FASB Statement No. 142, “Goodwill and Other Intangible Assets” (“FAS 142”), which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Our annual impairment test is performed in the fourth quarter. FAS 142 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment. See Note 12 for disclosure on goodwill and other intangibles.

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**Contingent Liabilities.** In the context of the Chapter 11 Case, contingent liabilities, including claims that became known after the Filing, are recorded on the basis of the expected amount of the allowed claim in accordance with SOP 90-7 as opposed to the amount for which a claim may be settled.

**Foreign Currency Transactions.** Assets and liabilities of our subsidiaries operating outside the United States, which account in a functional currency other than US dollars, are translated using the year end exchange rate. Revenues and expenses are translated at exchange rates effective during each month. Foreign currency translation gains or losses are included as a component of accumulated other comprehensive income (loss) within shareholders' equity. Gains or losses on foreign currency transactions are recognized through the statement of earnings.

**Financial Instruments and Derivatives.** From time to time, we use derivatives and other financial instruments to diversify or offset the effect of currency, interest rate and commodity price variability. See Note 20 for further discussion.

**Stock-based Employee Compensation.** At December 31, 2004, we had three stock-based employee compensation plans, which are described more fully in Note 25. No equity compensation has been granted since AWI filed for Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing. However, some previously granted restricted stock and options vested after that date. All outstanding options are vested as of December 31, 2004. We account for these plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-based Compensation," ("FAS 123") to stock-based employee compensation.

	2004	2003	2002
Net (loss), as reported	\$(80.8)	\$(39.3)	\$(2,142.8)
Add : Stock-based employee compensation expense included in reported net income, net of related tax effects	—	0.1	0.6
Deduct : Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	—	(0.2)	(1.1)
Pro forma net (loss)	\$(80.8)	\$(39.4)	\$(2,143.3)
Net (loss) per share:			
Basic and diluted – as reported	\$(2.00)	\$(0.97)	\$ (52.91)
Basic and diluted – pro forma	\$(2.00)	\$(0.97)	\$ (52.92)

**Fiscal Periods.** Prior to 2003, the fiscal years of the Wood Flooring and Cabinets segments ended on the Saturday closest to December 31, which was December 28, 2002. No events had occurred between these dates and December 31 materially affecting our financial position or results of operations. During 2003, the Wood Flooring and Cabinets segments transitioned to a calendar quarter and year end. The effect of this transition on our comparative financial information was immaterial.

### New Accounting Standards

In December 2003, the FASB issued Statement of Financial Accounting Standards (FAS) No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("FAS 132R"). This standard amends the disclosure requirements of FAS 132 to require additional disclosures about assets, obligations, cash flow and net periodic benefit cost. The revised standard was effective for fiscal years ending after December 15, 2003 for U.S. plans and for fiscal years ending after June 15, 2004 for foreign plans. The related disclosures have been included in Note 18.

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In December 2004, the FASB issued FASB Staff Position (“FSP”) FAS No. 109-1 “Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004”. This FSP, which became effective upon issuance, provides that the tax deduction for income with respect to qualified domestic production activities, as part of the American Jobs Creation Act of 2004 that was enacted on October 22, 2004, will be treated as a special deduction as described in FAS No. 109. As a result, this deduction has no effect on our deferred tax assets and liabilities existing at the date of enactment. Instead, the impact of this deduction, which is effective January 1, 2005, will be reported in the period in which the deduction is claimed on our income tax returns.

In December 2004, the FASB issued FSP FAS No. 109-2 “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004”. This FSP, which became effective upon issuance, allows an enterprise additional time beyond the financial reporting period of enactment of the American Jobs Creation Act of 2004 to evaluate the effect of this act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS No. 109. See Note 16, Income Taxes, for more information on the impact of adopting this FSP.

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### NOTE 3. NATURE OF OPERATIONS

#### Reportable Segments

*Resilient Flooring* — produces a broad range of floor coverings for homes and commercial and institutional buildings. Resilient Flooring products include vinyl sheet, vinyl tile, linoleum flooring and luxury vinyl tile. In addition, our Resilient Flooring segment sources and sells laminate flooring products, ceramic tile products, adhesives, installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs and colors. Many products offer reduced maintenance (no-wax). We sell these products to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

*Wood Flooring* — produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes solid wood (pre-finished or unfinished), engineered wood floors in various wood species (with oak being the primary species of choice) and related accessories. Virtually all of our Wood Flooring's sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce<sup>®</sup>, Hartco<sup>®</sup> and Robbins<sup>®</sup>.

*Textiles and Sports Flooring* (“TSF”) — produces carpeting and sports flooring products that are sold mainly in Europe. Carpeting products consist principally of carpet tiles and broadloom used in commercial applications and in the leisure and travel industry. Sports flooring products include artificial turf and other sports surfaces. Our TSF products are sold primarily through retailers, contractors, distributors and other industrial businesses.

*Building Products* — produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional and residential settings. In addition, our Building Products segment sources and sells wood ceiling systems. The products are available in numerous colors, performance characteristics and designs, and offer attributes such as acoustical control, rated fire protection and aesthetic appeal. Commercial ceiling materials and accessories are sold to ceiling systems contractors and to resale distributors. Residential ceiling products are sold through wholesalers and retailers (including large home centers), primarily in North America. Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

*Cabinets* — produces kitchen and bathroom cabinetry and related products, which are used primarily in the U.S. residential new construction and renovation markets. Through our system of company-owned and independent distribution centers and through direct sales to builders, our Cabinets segment provides design, fabrication and installation services to single and multi-family homebuilders, remodelers and consumers under the brand names Armstrong<sup>™</sup> and Bruce<sup>®</sup>.

*Unallocated Corporate* — includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred tax assets, cash and the U.S. prepaid pension cost. The most significant of the Unallocated Corporate expenses relates to asbestos charges as described in Note 32. Other expenses included in Unallocated Corporate are corporate departments' expenses that have not been allocated to other reportable segments, and the U.S. pension credit. Unallocated Corporate also includes assets and equity earnings related to a corporate equity investment in Interface Solutions, Inc. Expenses for our corporate departments (including computer services, human resources, legal, finance and other) are allocated to the reportable segments when the departments provide specific work to the reportable segment and the expense allocation can be based on known metrics, such as time reporting, headcount or square-footage. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

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	Textiles & Sports Building						Unallocated Corporate	Total
	Resilient Flooring	Wood Flooring	Flooring	Products	Cabinets			
<b>For the year ended 2004</b>								
Net sales to external customers	\$1,215.1	\$832.1	\$265.4	\$971.7	\$213.0	—	\$3,497.3	
Equity (earnings) from joint venture	—	—	—	(31.6)	—	—	(31.6)	
Segment operating income (loss) <sup>(1)</sup>	(150.2)	51.4	(7.1)	127.0	1.4	\$ (66.3)	(43.8)	
Restructuring and reorganization charges, net of reversals	4.5	1.6	0.4	10.9	0.4	0.5	18.3	
Segment assets	737.9	663.6	218.1	596.3	102.2	2,291.3	4,609.4	
Depreciation and amortization	62.6	18.1	5.6	35.2	3.8	25.7	151.0	
Fixed asset impairment loss	63.1	0.8	—	0.4	0.4	—	64.7	
Goodwill impairment	108.4	—	—	—	—	—	108.4	
Investment in affiliates	0.6	—	—	51.0	—	20.9	72.5	
Capital additions	33.8	33.7	3.9	44.5	1.4	16.7	134.0	
<b>For the year ended 2003</b>								
Net sales to external customers	\$1,181.5	\$738.6	\$271.9	\$862.2	\$204.8	—	\$3,259.0	
Equity (earnings) from joint venture	—	—	—	(20.8)	—	—	(20.8)	
Segment operating income (loss) <sup>(1)</sup>	56.2	(4.0)	(11.0)	95.2	(11.1)	\$ (144.6)	(19.3)	
Restructuring and reorganization charges, net of reversals	1.2	0.8	7.4	—	—	(0.8)	8.6	
Segment assets	915.3	576.6	207.1	551.5	102.3	2,295.0	4,647.8	
Depreciation and amortization	60.6	39.4	5.2	30.2	1.6	26.1	163.1	
Fixed asset impairment loss	1.1	3.4	—	3.8	1.6	0.6	10.5	
Investment in affiliates	0.6	—	—	29.5	—	18.8	48.9	
Capital additions	26.5	17.3	3.4	22.3	1.6	7.0	78.1	
<b>For the year ended 2002</b>								
Net sales to external customers	\$1,152.3	\$719.3	\$247.2	\$826.6	\$226.9	—	\$3,172.3	
Equity (earnings) from joint venture	—	—	—	(19.7)	—	—	(19.7)	
Segment operating income (loss) <sup>(1)</sup>	64.6	53.0	(4.7)	96.5	(3.9)	\$(2,550.7)	(2,345.2)	
Restructuring and reorganization charges, net of reversals	2.2	—	(0.3)	—	—	—	1.9	
Segment assets	890.7	619.7	203.4	544.6	116.6	2,129.8	4,504.8	
Depreciation and amortization	54.7	16.8	5.6	32.2	2.2	25.2	136.7	
Investment in affiliates	0.9	—	—	24.6	—	18.4	43.9	
Capital additions	39.0	22.9	4.1	28.5	6.0	24.6	125.1	

(1) Segment operating income is the measure of segment profit or loss reviewed by the chief operating decision maker. The sum of the segments' operating income equals the total consolidated operating income as reported on our income statement. The following reconciles our total consolidated operating income to income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. These items are only measured and managed on a consolidated basis:

	2004	2003	2002
Segment operating income (loss)	\$(43.8)	\$(19.3)	\$(2,345.2)
Interest expense	8.4	9.0	11.3
Other non-operating expense	3.1	5.7	3.6
Other non-operating (income)	(6.4)	(5.0)	(7.5)
Chapter 11 reorganization costs, net	6.9	9.4	23.5

(Loss) before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles	\$ (55.8)	\$ (38.4)	\$ (2,376.1)
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Accounting policies of the segments are the same as those described in the summary of significant accounting policies.

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The sales in the table below are allocated to geographic areas based upon the location of the customer.

### Geographic Areas

Net trade sales	2004	2003	2002
<b>Americas:</b>			
United States	\$2,338.9	\$2,210.9	\$2,197.0
Canada	177.6	162.2	152.6
Other Americas	31.8	24.8	26.4
<b>Total Americas</b>	<b>\$2,548.3</b>	<b>\$2,397.9</b>	<b>\$2,376.0</b>
<b>Europe:</b>			
Germany	\$ 181.2	\$ 178.2	\$ 172.6
England	148.0	125.5	129.8
Other Europe	478.1	439.3	387.9
<b>Total Europe</b>	<b>\$ 807.3</b>	<b>\$ 743.0</b>	<b>\$ 690.3</b>
<b>Total Pacific area</b>	<b>\$ 141.7</b>	<b>\$ 118.1</b>	<b>\$ 106.0</b>
<b>Total net trade sales</b>	<b>\$3,497.3</b>	<b>\$3,259.0</b>	<b>\$3,172.3</b>

Long-lived assets (property, plant and equipment), net at December 31	2004	2003
<b>Americas:</b>		
United States	\$ 823.6	\$ 848.5
Canada	14.8	15.0
<b>Total Americas</b>	<b>\$ 838.4</b>	<b>\$ 863.5</b>
<b>Europe:</b>		
Germany	\$ 191.3	\$ 224.0
Other Europe	150.8	150.8
<b>Total Europe</b>	<b>\$ 342.1</b>	<b>\$ 374.8</b>
<b>Total Pacific area</b>	<b>\$ 28.3</b>	<b>\$ 29.0</b>
<b>Total long-lived assets, net</b>	<b>\$1,208.8</b>	<b>\$1,267.3</b>

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### NOTE 4. LIABILITIES SUBJECT TO COMPROMISE

As a result of AWI's Chapter 11 Filing (see Note 1), pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of our subsidiaries that are not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 1 for further discussion on how the Chapter 11 process may address AWI's liabilities subject to compromise and Note 32 for further discussion of AWI's asbestos liability.

Liabilities subject to compromise at December 31, 2004 and December 31, 2003 are as follows:

	2004	2003
Debt (at face value)	\$1,388.6	\$1,388.6
Asbestos-related liability	3,190.6	3,190.6
Prepetition trade payables	58.9	58.9
Prepetition other payables and accrued interest	70.4	62.7
ESOP loan guarantee	157.7	157.7
<b>Total liabilities subject to compromise</b>	<b>\$4,866.2</b>	<b>\$4,858.5</b>

Additional prepetition claims (liabilities subject to compromise) may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims.

See Note 17 for detail of debt subject to compromise.

### NOTE 5. ACQUISITIONS

On May 18, 2000, we acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a manufacturer and installer of metal ceilings, for \$6 million plus certain contingent consideration not to exceed \$25.5 million, based on results over the three year period ending December 31, 2002. In accordance with the purchase agreement, contingent consideration of \$3.0 million was paid to the former owners, with the final payment being made in the third quarter of 2004.

The Gema acquisition was recorded under the purchase method of accounting. The purchase price was allocated to the assets acquired and the liabilities assumed based on the estimated fair market value at the date of acquisition. The fair market value of tangible and identifiable intangible net assets acquired exceeded the purchase price by \$24.2 million and this amount was recorded as a reduction of the fair value of property, plant and equipment. Contingent consideration of \$3.0 million was accounted for as additional purchase price.

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### NOTE 6. DISCONTINUED OPERATIONS

On May 31, 2000, Armstrong completed its sale of all entities, assets and certain liabilities comprising its Insulation Products segment. During 2003 and 2002, AHI recorded net losses of \$2.4 million and \$0.7 million respectively, for the impairment of some note receivables and the settlement of certain tax contingencies related to this divestiture.

On December 29, 1995, Armstrong sold a furniture subsidiary, Thomasville Furniture Industries. During 2004 and 2003, AHI recorded net losses of \$0.4 million and \$0.1 million, respectively, for the environmental and tax indemnification related to this divestiture.

In accordance with FAS 144, these adjustments were classified as discontinued operations since the original divestitures were reported as discontinued operations.

### NOTE 7. OTHER DIVESTITURES

In July 2000, we sold our Installation Products Group to subsidiaries of the German company Ardex GmbH. During February 2003, we reached a settlement with Ardex on several open issues related to the sale and the ongoing supply agreement between Ardex and Armstrong. The settlement allowed for the payment of a pre-petition liability to Ardex with a discount, adjusted the pricing for our adhesives purchases, eliminated a minimum purchase requirement and resolved environmental remediation disputes. Under the settlement, Ardex filed a proof of claim related to environmental remediation in AWI's Chapter 11 Case, which has been treated as an allowed unsecured claim. This claim resulted in a fourth quarter 2002 charge of \$5.3 million, which was recorded in SG&A expense.

### NOTE 8. ACCOUNTS AND NOTES RECEIVABLE

	<u>2004</u>	<u>2003</u>
Customer receivables	\$372.0	\$358.4
Customer notes	7.9	6.2
Miscellaneous receivables	14.7	17.0
Less allowance for discounts and losses	(58.5)	(66.2)
Net accounts and notes receivable	<u>\$336.1</u>	<u>\$315.4</u>

Generally, we sell our products to select, pre-approved customers whose businesses are affected by changes in economic and market conditions. We consider these factors and the financial condition of each customer when establishing our allowance for losses from doubtful accounts.

### NOTE 9. INVENTORIES

Following are the components of our inventories:

	<u>2004</u>	<u>2003</u>
Finished goods	\$362.9	\$330.7
Goods in process	49.3	40.6
Raw materials and supplies	206.9	165.3
Less LIFO and other reserves	(89.9)	(82.2)
Total inventories, net	<u>\$529.2</u>	<u>\$454.4</u>

Approximately 40% of our total inventory in 2004 and 2003 was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis by \$74.1 million at the end of 2004 and \$62.0 million at year-end 2003.

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The distinction between the use of different methods of inventory valuation is primarily based on geographical locations and/or legal entities rather than types of inventory. The following table summarizes the amount of inventory that is not accounted for under the LIFO method.

	2004	2003
International locations	\$173.0	\$162.0
U.S. Wood Flooring and Cabinets	119.4	100.9
U.S. sourced products	21.0	21.9
<b>Total</b>	<b>\$313.4</b>	<b>\$284.8</b>

Our international locations all use the FIFO method of inventory valuation primarily because either the LIFO method is not permitted for local tax and/or statutory reporting purposes, or the entities were part of various acquisitions that had adopted the FIFO method prior to our acquisition. In these situations, a conversion to LIFO would be highly complex and involve excessive cost and effort to achieve under local tax and/or statutory reporting requirements.

Several of the Wood Flooring and Cabinets entities were acquired by Triangle Pacific Corporation (“TPC”) prior to our acquisition of TPC in 1998. TPC had elected to retain the historical inventory valuation policies of the acquired companies and, on the basis of consistency and due to the excessive cost involved, we elected not to amend these policies.

The sourced products represent certain finished goods sourced from third party manufacturers of unique type, primarily from foreign suppliers.

### NOTE 10. PROPERTY, PLANT AND EQUIPMENT

	2004	2003
Land	\$ 77.0	\$ 105.4
Buildings	657.4	659.7
Machinery and equipment	1,937.3	1,893.7
Construction in progress	77.8	43.3
Less accumulated depreciation and amortization	(1,540.7)	(1,434.8)
<b>Net property, plant and equipment</b>	<b>\$ 1,208.8</b>	<b>\$ 1,267.3</b>

In the fourth quarter of 2004, we recorded a \$44.8 million fixed asset impairment charge in Resilient Flooring for our European resilient flooring business. This impairment charge reduced land by approximately \$29 million and buildings by approximately \$16 million and was reported in cost of goods sold. The fixed asset impairment charge was triggered by actual operating losses and negative cash flows incurred in the European resilient flooring business. The expectation is that the operating losses and negative cash flows will continue in the near future. The fixed asset fair values were determined by an independent appraisal firm.

### NOTE 11. EQUITY INVESTMENTS

Investments in affiliates were \$72.5 million at December 31, 2004, an increase of \$23.6 million, primarily reflecting the equity earnings of our 50% interest in our WAVE joint venture and our remaining 35% interest in Interface Solutions, Inc. (“ISI”).

Affiliate	Income Statement Classification	2004	2003	2002
WAVE	Equity earnings from joint venture	\$31.6	\$20.8	\$19.7
ISI	Other non-operating income	1.9	0.3	2.1
Other	Other non-operating expense	—	(0.4)	(0.1)

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Condensed financial data for WAVE, our joint venture accounted for under the equity method of accounting is summarized below:

	<u>2004</u>	<u>2003</u>	
Current assets	\$145.1	\$93.1	
Non-current assets	33.8	32.3	
Current liabilities	71.4	64.1	
Other non-current liabilities	5.1	4.0	
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net sales	\$278.6	\$213.8	\$201.4
Gross profit	86.3	61.7	59.2
Net earnings	63.2	41.7	39.2

See discussion in Note 31 for additional information on these related parties.

### NOTE 12. GOODWILL AND INTANGIBLE ASSETS

#### Goodwill

As of January 1, 2004, we had goodwill of approximately \$244 million. FAS 142 requires that goodwill be tested for impairment at least annually. We perform our annual assessment in the fourth quarter.

During the second quarter of 2004, we concluded that an indication of impairment existed for our European resilient flooring goodwill, which was based on an assessment of financial projections incorporated in our annual strategic plan process. Continuing price declines and volume shortfalls related to our European resilient flooring products are causing significant operating losses, and we revised our projections accordingly. We calculated a preliminary estimate of the European resilient flooring reporting unit's fair value using discounted cash flows. Based on this preliminary fair value calculation, we recorded a non-cash goodwill impairment loss of \$60.0 million in the second quarter of 2004. In the fourth quarter of 2004, we completed our annual assessment of goodwill as required by FAS 142 and determined that based upon a revised strategic plan, our European resilient flooring goodwill was fully impaired. Therefore, we recorded a \$48.4 million impairment charge. The goodwill impairment charges arose from the European resilient flooring reporting unit's fair value being lower than its carrying value. The fair value was negatively affected by lower operating profits and expected future cash flows determined in recent forecasting analyses. We calculated the reporting unit's fair value using discounted cash flows. No other goodwill impairment was identified in our annual assessment.

The following table represents the changes in goodwill during 2004.

<u>Goodwill by segment</u>	<u>January 1, 2004</u>	<u>Adjustments, net <sup>(1)</sup></u>	<u>Impairments</u>	<u>December 31, 2004</u>
Resilient Flooring	\$ 107.1	\$ 1.3	\$ (108.4)	—
Wood Flooring	110.4	(2.2)	—	\$ 108.2
Building Products	14.0	1.2	—	15.2
Cabinets	12.6	—	—	12.6
<b>Total consolidated goodwill</b>	<b>\$ 244.1</b>	<b>\$ 0.3</b>	<b>\$ (108.4)</b>	<b>\$ 136.0</b>

(1) Primarily consists of the effects of resolution of pre-acquisition tax contingencies and foreign exchange.

In the fourth quarter of 2003, we completed our annual assessment of goodwill as required by FAS 142 and determined there was no impairment.

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The following table represents the changes in goodwill during 2003.

Goodwill by segment	January 1, 2003	Adjustments, net <sup>(1)</sup>	Impairments	December 31, 2003
Resilient Flooring	\$ 89.3	\$ 17.8	\$ —	\$ 107.1
Wood Flooring	113.8	(3.4)	—	110.4
Building Products	11.9	2.1	—	14.0
Cabinets	12.6	—	—	12.6
<b>Total consolidated goodwill</b>	<b>\$ 227.6</b>	<b>\$ 16.5</b>	<b>\$ —</b>	<b>\$ 244.1</b>

(1) Primarily consists of the effects of foreign exchange and resolution of pre-acquisition tax contingencies.

In the second quarter of 2002, we completed our initial assessment of goodwill under FAS 142 and recorded a \$590.0 million non-cash transitional impairment charge related to the Wood Flooring segment. The impairment charge is presented in the income statement as a cumulative effect of a change in accounting principle as of January 1, 2002. The impairment charge arose from the Wood Flooring segment's fair value being lower than our carrying value. The Wood Flooring segment's fair value was determined using a combination of discounted cash flows, values implicit in precedent business combinations of similar companies in the building products industry and stock market multiples of publicly-traded flooring companies. The fair value was negatively affected by lower operating profits and cash flows than were assumed at the time of the acquisition in 1998. The shortfalls were caused by a combination of lower sales plus higher manufacturing costs. Under previous accounting rules, no goodwill impairment would have been recorded at January 1, 2002.

### Intangible Assets

The following table details amounts related to our intangible assets as of December 31, 2004 and 2003.

	December 31, 2004		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	<b>Amortizing intangible assets</b>			
Computer software	\$ 109.8	\$ 66.4	\$ 104.1	\$ 57.7
Land use rights and other	4.4	1.0	4.4	0.9
<b>Total</b>	<b>\$ 114.2</b>	<b>\$ 67.4</b>	<b>\$ 108.5</b>	<b>\$ 58.6</b>
<b>Non-amortizing intangible assets</b>				
Trademarks and brand names	29.2		29.1	
<b>Total intangible assets</b>	<b>\$ 143.4</b>		<b>\$ 137.6</b>	
<b>Aggregate Amortization Expense</b>				
For the year ended December 31	\$ 15.4		\$ 15.5	

Amortization charges for computer software are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally 3 to 7 years.

The annual amortization expense expected for the years 2005 through 2009 is as follows:

2005	\$15.1
2006	11.8
2007	6.2
2008	\$ 5.0
2009	2.8

In connection with our adoption of FAS 142 in 2002, it was determined that the fair value of one of Wood Flooring's trademarks was lower than its carrying value. The fair value of the trademark was estimated using a discounted cash flow methodology. Accordingly, a non-cash

transitional impairment charge of \$6.0 million (\$3.8 million, net of tax) was calculated and is presented in the income statement as a cumulative effect of a change in accounting principle as of January 1, 2002.

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### NOTE 13. OTHER NON-CURRENT ASSETS

	2004	2003
Cash surrender value of company owned life insurance policies	\$ 66.8	\$ 62.1
Long term notes receivable	31.8	27.9
Other	24.0	21.2
<b>Total other non-current assets</b>	<b>\$122.6</b>	<b>\$111.2</b>

### NOTE 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2004	2003
Payables, trade and other	\$259.8	\$221.9
Employment costs	65.7	41.8
Restructuring severance expenses	18.0	3.4
Other	103.9	87.1
<b>Total accounts payable and accrued expenses</b>	<b>\$447.4</b>	<b>\$354.2</b>

Certain other accounts payable and accrued expenses have been categorized as liabilities subject to compromise (see Note 4).

### NOTE 15. RESTRUCTURING AND REORGANIZATION CHARGES

#### 2004 Restructuring Activities

Net restructuring charges of \$18.3 million were recorded in 2004. The following table summarizes these charges:

Action Title	Net Charge/ (Reversal)	(unaudited) Number of Employees Impacted	Segment
Hoogezand	\$ 10.9	130	Building Products
North America SG&A	5.3	250	Resilient Flooring, Wood Flooring, Corporate
Lancaster Plant	1.0	450	Resilient Flooring
Searcy	0.8	230	Wood Flooring
Oss	0.7	70	Textiles & Sports Flooring
Morristown	0.4	100	Cabinet Products
European consolidation	(0.8)		Resilient Flooring, Textiles & Sports Flooring
<b>Total</b>	<b>\$ 18.3</b>		

**Hoogezand**: The charge is related to the first quarter 2004 decision to close the manufacturing facility and is comprised of severance and related costs. Closure of the plant was completed in the first quarter of 2005. The production will be transferred to another Building Products location in Münster, Germany and will result in a net reduction of approximately 72 positions. We have incurred \$10.9 million of restructuring charges to-date and expect to incur an additional \$7.7 million, which will be in 2005. Additionally, we recorded \$1.4 million of accelerated depreciation and \$1.1 million of other related costs in cost of goods sold.

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North America SG&A : The charge of \$5.3 million (\$4.0 million in Resilient Flooring, \$0.8 million in Wood Flooring, and \$0.5 million in Corporate) was recorded related to severance and related costs due to a restructuring of the sales force and management structure in North America in response to changing market conditions. This initiative was announced in the fourth quarter of 2004 and is expected to be completed by the second quarter of 2005. We have incurred \$5.3 million of restructuring charges to-date and do not expect to incur any additional charges.

Lancaster Plant : The charge related to the fourth quarter 2004 decision to end commercial flooring production at Lancaster in 2006. Commercial flooring production requirements will be serviced by other facilities around the world. Of the \$1.0 million charge, \$0.6 million is a non-cash charge related to termination benefits to be paid through the U.S. pension plan. We expect to incur an additional \$38 million of restructuring charges for severance between 2005 and 2008, with the majority of charges incurred in 2005. Additionally, we recorded \$17.7 million of fixed asset impairments and \$10.3 million of accelerated depreciation, both in cost of goods sold. We have incurred \$1.0 million of severance related restructuring charges to-date.

Searcy : The charge is related to the fourth quarter 2004 decision to close a solid hardwood flooring location in Arkansas in the first quarter of 2005 and is comprised of estimated severance benefits and related costs. We will continue to manufacture solid wood flooring at other plants across the United States. We have incurred \$0.8 million of restructuring charges to-date and expect to incur an additional \$0.2 million, which will be in 2005.

Oss : The charge was recorded to reflect shutdown costs related to a plant closure in The Netherlands. The related severance charges were recorded during the third quarter of 2003 when the plant closure was announced. We will continue to manufacture carpet at other plants across Europe. We have incurred \$4.7 million of restructuring charges to-date and expect to incur an additional \$0.2 million, which will be in 2005.

Morristown : The charge related to the fourth quarter 2004 decision to close a plant in Tennessee in the first quarter of 2005. Manufacturing will be consolidated at two existing plants in the United States. We have incurred \$0.4 million of severance related restructuring charges to-date and expect to incur an additional \$0.4 million, which will be in 2005. Additionally, we recorded \$1.5 million of accelerated depreciation and \$0.4 million of fixed asset impairments, both in cost of goods sold.

European consolidation : The net reversals comprised certain severance accruals that were no longer necessary in the remaining accruals from the 2003 and 2002 charges in the Textiles and Sports Flooring (\$0.3 million) and Resilient Flooring (\$0.5 million) segments.

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### 2003 Restructuring Activities

Net restructuring charges of \$8.6 million were recorded in 2003. These charges are summarized in the following table:

<u>Action Title</u>	<u>Net Charge/ (Reversal)</u>	<u>Number of Employees Impacted</u>	<u>Segment</u>
European consolidation	\$ 4.4	60	Resilient Flooring, Textiles & Sports Flooring
Oss	4.0	70	Textiles & Sports Flooring
Port Gibson	0.5	150	Wood Flooring
Warren	0.3	120	Wood Flooring
Baroda	0.2	70	Resilient Flooring
U.K. lease	(0.8)		Corporate
<b>Total</b>	<b>\$ 8.6</b>		

European consolidation : The charge related to severance and retirement benefits for employees in the Textiles and Sports Flooring (\$3.4 million) and Resilient Flooring (\$1.0 million) segments, as part of the restructuring plan to consolidate certain functions in the European flooring business. This consolidation was completed in 2004.

Oss : The charge related primarily to severance benefits for employees at a plant in The Netherlands, which was closed by the end of 2004. The closure was part of the 2002 restructuring plan to consolidate certain functions in the European flooring business. Of the \$4.0 million, \$0.3 million represented a non-cash charge for retirement benefits, which was accounted for as a reduction of the prepaid pension asset. Additionally, we recorded \$0.3 million of accelerated depreciation in cost of goods sold.

Port Gibson : The charge was for severance benefits related to a manufacturing location in Mississippi, which was closed effective September 2003 due to excess production capacity. The production was transferred to another Wood Flooring location. Additionally, we recorded \$15.1 million of accelerated depreciation and \$0.8 million of fixed asset impairments, both in cost of goods sold.

Warren : The charge related to the closing of a manufacturing location in Arkansas. This location was closed in the fourth quarter of 2003. Additionally, we recorded \$6.7 million of accelerated depreciation in cost of goods sold.

Baroda : The charge related to the closing of a plant in India. This plant was closed in the fourth quarter of 2003. Additionally, we recorded \$0.1 million of accelerated depreciation in cost of goods sold.

U.K. lease : A portion of the remaining reserve related to a noncancelable operating lease in the U.K. was reversed as a result of reaching agreement with outside parties on future rent increases and disputed rent payments by a sublessee. This lease extends through 2017.

In 2002, we recorded restructuring charges, net, of \$1.9 million, primarily related to \$2.2 million of European resilient flooring and reversals of some TSF accruals that were no longer necessary.

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The following table summarizes activity in the reorganization and restructuring accruals for 2004 and 2003. The net amount of charges and reversals in the table does not agree to the income statement due to non-cash charges for enhanced retirement benefits that did not affect the restructuring accrual accounts.

	Beginning Balance	Cash Payments	Charges	Reversals	Other	Ending Balance
2004	\$ 10.0	\$ (4.1)	\$ 18.6	\$ (0.9)	\$ 1.2	\$ 24.8
2003	9.1	(8.7)	10.1	(1.8)	1.3	10.0

The amount in “other” for 2004 and 2003 is primarily related to foreign currency translation.

Of the 2004 and 2003 ending balances, \$1.3 million is reported in liabilities subject to compromise.

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2004 relates to severance for terminated employees with extended payouts, the majority of which will be paid in 2005 and 2006, and a noncancelable operating lease, which extends through 2017.

### NOTE 16. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets, except for certain state and foreign net operating loss carryforwards and other basis adjustments for which we have provided a valuation allowance of \$265.5 million. We have \$1,387.8 million of state net operating loss carryforwards with expirations between 2005 and 2024, and \$298.7 million of foreign net operating loss carryforwards, which will be carried forward indefinitely. The decrease in the deferred tax asset related to state net operating losses was primarily due to the expiration of state net operating loss carryforwards and management’s detailed analysis of state net operating losses available. The valuation allowance increased by \$43.1 million in 2004 primarily due to management’s detailed analysis of state deferred tax assets and liabilities and the addition of new foreign net operating losses generated by current year operations offset by the expiration of state net operating loss carryforwards.

Deferred income tax assets (liabilities)	2004	2003
Postretirement and postemployment benefits	\$ 116.0	\$ 91.0
Chapter 11 reorganization costs and restructuring costs	21.5	16.4
Asbestos-related liabilities	1,352.7	1,153.9
Foreign tax credit carryforward	—	2.3
Net operating losses	139.0	211.2
Other	193.8	135.4
<b>Total deferred tax assets</b>	<b>1,823.0</b>	<b>1,610.2</b>
Valuation allowance	(265.5)	(222.4)
<b>Net deferred tax assets</b>	<b>1,557.5</b>	<b>1,387.8</b>
Accumulated depreciation	(199.1)	(200.6)
Pension credit	(182.6)	(144.1)
Insurance for asbestos-related liabilities	(38.3)	(33.2)
Tax on unremitted earnings	(28.8)	(27.0)
Other	(171.8)	(73.7)
<b>Total deferred income tax liabilities</b>	<b>(620.6)</b>	<b>(478.6)</b>
<b>Net deferred income tax assets</b>	<b>\$ 936.9</b>	<b>\$ 909.2</b>

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Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset – current	\$ 15.6	\$ 19.2
Deferred income tax asset – non-current	941.6	988.3
Deferred income tax liability – current	(1.1)	(3.3)
Deferred income tax liability – non-current	(19.2)	(95.0)
	<u>          </u>	<u>          </u>
Net deferred income tax assets	\$936.9	\$909.2
	<u>          </u>	<u>          </u>

Details of taxes	2004	2003	2002
<b>Earnings (loss) from continuing operations before income taxes:</b>			
Domestic	\$ 79.1	\$(53.7)	\$(2,398.0)
Foreign	(130.8)	20.0	21.9
Eliminations	(4.1)	(4.7)	—
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total</b>	<b>\$ (55.8)</b>	<b>\$(38.4)</b>	<b>\$(2,376.1)</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Income tax provision (benefit):</b>			
<b>Current:</b>			
Federal	\$ 33.1	\$ 25.2	\$ 35.2
Foreign	14.5	20.8	10.6
State	(0.9)	3.9	1.4
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total current</b>	<b>46.7</b>	<b>49.9</b>	<b>47.2</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Deferred:</b>			
Federal	(15.6)	(41.5)	(874.1)
Foreign	(6.2)	(9.3)	(1.6)
State	(0.3)	(0.7)	0.7
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total deferred</b>	<b>(22.1)</b>	<b>(51.5)</b>	<b>(875.0)</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total income taxes (benefit)</b>	<b>\$ 24.6</b>	<b>\$ (1.6)</b>	<b>\$ (827.8)</b>
	<u>          </u>	<u>          </u>	<u>          </u>

At December 31, 2004, unremitted earnings of subsidiaries outside the U.S. were \$342.6 million. We expect to repatriate \$82.2 million of earnings for which \$1.8 million of U.S. taxes were provided in 2004 and \$27.0 million in 2000. No U.S. taxes have been provided on the remaining unremitted earnings as our intention is to invest these earnings permanently. If such earnings were to be remitted, approximately \$30.3 million in net taxes would be payable in the U.S. in addition to \$5.8 million of non-U.S. withholding taxes. On October 22, 2004, the American Jobs Creation Act (“the AJCA”) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. We may elect to apply this provision to qualifying earnings repatriations in 2005. We have started an evaluation of the effects of the repatriation provision; however, we do not expect to be able to complete this evaluation until after Congress or the U.S. Treasury Department provides additional clarifying language on key elements of the provision. We expect to complete our evaluation of the effects of the repatriation provision following the publication of the additional clarifying language or by the end of 2005 since the AJCA requires that qualifying dividends need to be paid to the U.S. before the close of the 2005 tax year. The range of possible amounts that we are considering for repatriation under this provision is between zero and \$250 million. The related potential range of income tax expense is between zero and \$15 million.

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The 2004, 2003 and 2002 tax provisions reflect the reversal of certain federal, state and foreign tax accruals no longer required due to the completion of tax audits and expiration of statutes of limitation partially offset by certain nondeductible expenses.

<u>Reconciliation to U.S. statutory tax rate</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Continuing operations tax (benefit) at statutory rate	\$(19.5)	\$(13.4)	\$(831.6)
State income taxes, net of federal benefit	(2.8)	0.4	1.7
Foreign losses and change in valuation allowance	18.4	7.8	7.2
Tax on foreign and foreign-source income	(3.4)	(5.8)	(16.2)
Goodwill impairment	37.9	—	—
Bankruptcy reorganization expense	(5.1)	9.0	9.6
Permanent book/tax differences	(2.7)	0.4	1.5
Net tax on unremitted earnings	1.8	—	—
<b>Tax expense (benefit) at effective rate</b>	<b>\$ 24.6</b>	<b>\$ (1.6)</b>	<b>\$(827.8)</b>
<u>Other taxes</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Payroll taxes	\$81.5	\$78.0	\$76.1
Property, franchise and capital stock taxes	17.8	15.8	12.6

### NOTE 17. DEBT

(See Note 4 regarding treatment of prepetition debt.)

	<u>2004</u>	<u>Average year-end interest rate</u>	<u>2003</u>	<u>Average year-end interest rate</u>
Borrowings under lines of credit	\$ 450.0	7.18%	\$ 450.0	7.18%
Commercial paper	50.0	6.75%	50.0	6.75%
Foreign banks	11.1	3.68%	3.9	3.62%
Bank loans due 2004-2015	24.7	6.04%	34.1	5.65%
9.00% medium-term notes due 2001	7.5	9.00%	7.5	9.00%
6.35% senior notes due 2003	200.0	6.35%	200.0	6.35%
6.50% senior notes due 2005	150.0	6.50%	150.0	6.50%
9.75% debentures due 2008	125.0	9.75%	125.0	9.75%
7.45% senior notes due 2029	200.0	7.45%	200.0	7.45%
7.45% senior quarterly interest bonds due 2038	180.0	7.45%	180.0	7.45%
Industrial development bonds	21.0	4.13%	21.0	3.85%
Capital lease obligations	2.7	7.63%	3.3	7.63%
Other	15.1	8.61%	15.3	8.56%
<b>Subtotal</b>	<b>1,437.1</b>	<b>7.21%</b>	<b>1,440.1</b>	<b>7.20%</b>
Less debt subject to compromise	1,388.6	7.29%	1,388.6	7.29%
Less current portion and short-term debt	19.3	4.74%	12.1	5.13%
<b>Total long-term debt, less current portion</b>	<b>\$ 29.2</b>	<b>4.80%</b>	<b>\$ 39.4</b>	<b>4.72%</b>

Approximately \$35.7 million of the \$48.5 million of total debt not subject to compromise outstanding as of December 31, 2004 was secured with buildings and other assets. Approximately \$37.0 million of the \$51.5 million of total debt not subject to compromise outstanding as of December 31, 2003 was secured with buildings and other assets.

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Scheduled payments of long-term debt, excluding debt subject to compromise :

2005	\$8.2
2006	6.5
2007	1.9
2008	\$1.5
2009	1.3

Debt from the table above included in liabilities subject to compromise consisted of the following at December 31, 2004 and 2003.

	2004	2003
Borrowings under lines of credit	\$ 450.0	\$ 450.0
Commercial paper	50.0	50.0
9.00% medium-term notes due 2001	7.5	7.5
6.35% senior notes due 2003	200.0	200.0
6.50% senior notes due 2005	150.0	150.0
9.75% debentures due 2008	125.0	125.0
7.45% senior notes due 2029	200.0	200.0
7.45% senior quarterly interest bonds due 2038	180.0	180.0
Industrial development bonds	11.0	11.0
Other	15.1	15.1
<b>Total debt subject to compromise</b>	<b>\$1,388.6</b>	<b>\$1,388.6</b>

In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was \$86.9 million, \$95.1 million and \$99.9 million for 2004, 2003 and 2002, respectively. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

On November 15, 2004, the Bankruptcy Court announced it had approved AWI's motion to extend the maturity date from December 8, 2004, to December 8, 2005, on its \$75 million DIP Facility that is limited to issuances of letters of credit. Obligations under the DIP Facility to reimburse drawings under the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. As of December 31, 2004 and 2003, AWI had approximately \$40.6 million and \$22.8 million, respectively, in letters of credit that were issued under the DIP Facility.

In addition, certain foreign subsidiaries have approximately \$38.5 million of unused short-term lines of credit available from banks. The credit lines are subject to immaterial annual commitment fees.

### NOTE 18. PENSION AND OTHER BENEFIT PROGRAMS

We have defined benefit pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. We also have defined-contribution pension plans for eligible employees. Benefits from defined benefit pension plans, which cover substantially all employees worldwide, are based primarily on an employee's compensation and years of service. We fund our pension plans when appropriate. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. We fund postretirement benefits on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions. We announced in 1989 and 1990 a 15-year phase-out of health care benefits for certain future retirees. These future retirees include parent company nonunion employees and some union employees.

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### Medicare Act

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“The Act”) became law in the United States. The Act provides employers currently sponsoring prescription drug programs for Medicare-eligible participants with a range of options for coordinating with the new government-sponsored program. These options include supplementing the government program on a secondary payor basis or accepting a direct subsidy from the government to support a portion of the cost of the employer’s program.

Pursuant to guidance issued in the second quarter of 2004 by the FASB, we elected to begin recording the effect of the Act in the second quarter of 2004, retroactive to January 1, 2004. The Act affects both operating income and balance sheet liabilities over time. The total year benefit of \$7.0 million was recorded in cost of goods sold (\$3.9 million) and SG&A (\$3.1 million). The reduction in the accumulated postretirement benefit obligation related to the Medicare benefit was \$52.4 million, reflected in actuarial (gain)/loss in the table below.

### UNITED STATES PLANS

The following tables summarize the balance sheet impact of the pension and postretirement benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions. The pension benefits disclosures include both the Retirement Income Plan (RIP) and the Retirement Benefit Equity Plan, which is a nonqualified, unfunded plan designed to provide pension benefits in excess of the limits defined under Sections 415 and 401(a)(17) of the Internal Revenue Code.

We use a December 31 measurement date for our U.S. defined benefit plans.

<u>U.S. defined-benefit plans</u>	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2004	2003	2004	2003
Change in benefit obligation:				
Benefit obligation as of January 1	\$1,570.8	\$1,423.4	\$ 436.6	\$ 458.2
Service cost	23.2	21.8	3.4	3.4
Interest cost	91.3	91.8	22.3	26.2
Plan participants’ contributions	—	—	5.7	4.6
Plan amendments	0.9	20.2	—	(60.0)
Effect of special termination benefits	0.6	—	—	—
Actuarial (gain)/loss	50.9	111.2	(37.0)	38.0
Benefits paid	(100.3)	(97.6)	(34.3)	(33.8)
	<u>\$1,637.4</u>	<u>\$1,570.8</u>	<u>\$ 396.7</u>	<u>\$ 436.6</u>
Benefit obligation as of December 31				
Change in plan assets:				
Fair value of plan assets as of January 1	\$1,882.9	\$1,603.6	—	—
Actual return on plan assets – gain	224.5	373.7	—	—
Employer contribution	3.3	3.2	\$ 28.6	\$ 29.2
Plan participants’ contributions	—	—	5.7	4.6
Benefits paid	(100.3)	(97.6)	(34.3)	(33.8)
	<u>\$2,010.4</u>	<u>\$1,882.9</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>
Fair value of plan assets as of December 31				
Funded status of the plans	\$ 373.0	\$ 312.1	\$ (396.7)	\$ (436.6)
Unrecognized net actuarial (gain)/loss	(46.4)	(19.0)	193.2	240.3
Unrecognized prior service cost	117.7	134.2	(40.7)	(45.9)
	<u>\$ 444.3</u>	<u>\$ 427.3</u>	<u>\$ (244.2)</u>	<u>\$ (242.2)</u>
Net asset/(liability) recognized				

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U.S. defined-benefit plans	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2004	2003	2004	2003
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	6.00%	6.50%	6.00%	6.50%
Expected return on plan assets	8.00%	8.00%	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

### Investment Policies

The RIP's primary investment objective is to increase the ratio of RIP assets to liabilities by maximizing the long-term return on investments while minimizing the likelihood of cash contributions over the next 5-10 years. This is to be achieved by (a) investing primarily in publicly-traded equities, (b) limiting return volatility by diversifying investments among additional asset classes with differing expected rates of return and return correlations, and (c) investing a portion of RIP assets in a bond portfolio whose duration is roughly equal to the duration of RIP liabilities. Derivatives may be used either to implement investment positions efficiently or to hedge risk but not to create investment leverage.

Each asset class utilized by the RIP has a targeted asset allocation. The table below shows the asset allocation target and the December 31, 2004 and 2003 position for each asset class:

Asset Class	Target Weight at December 31, 2004	Position at December 31,	
		2004	2003
Domestic equity	41%	40%	43%
International equity	22%	25%	25%
High yield bonds	5%	6%	6%
Long duration bonds	25%	24%	22%
Real estate	7%	1%	1%
Other fixed income	0%	4%	3%

Domestic equity included AHI common stock in the amount of \$1.6 million (0.08% of total RIP assets) at December 31, 2003. No AHI common stock was held at December 31, 2004.

### Basis of Rate-of-Return Assumption

Long-term asset class return assumptions are determined based on input from investment professionals and academic sources on the expected performance of the equity and bond markets over 10 to 20 years. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. An incremental component was added for the expected return from active management based both on the RIP's experience and on historical information obtained from the RIP's investment consultants. These forecast gross returns were reduced by estimated management fees and expenses, yielding a long-term return forecast of 8.00% per annum.

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Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2004	2003	2004	2003
Prepaid pension costs	\$465.1	\$445.8		
Pension benefit liabilities	(41.2)	(38.3)	\$ (244.2)	\$ (242.2)
Intangible asset	0.5	0.8	—	—
Other comprehensive income	19.9	19.0	—	—
<b>Net asset/(liability) recognized</b>	<b>\$444.3</b>	<b>\$427.3</b>	<b>\$ (244.2)</b>	<b>\$ (242.2)</b>

The accumulated benefit obligation for the U.S. defined benefit pension plans was \$1,551.0 million and \$1,464.1 million at December 31, 2004 and 2003, respectively.

U.S. pension plans with benefit obligations in excess of assets	Pension Benefits	
	2004	2003
Projected benefit obligation, December 31	\$ 46.1	\$ 43.4
Accrued benefit obligation, December 31	41.2	38.3
Fair value of plan assets, December 31	—	—

The above table relates to the Retirement Benefit Equity Plan, which is a nonqualified, unfunded plan designed to provide pension benefits in excess of the limits defined under Sections 415 and 401(a)(17) of the Internal Revenue Code.

The components of pension credit are as follows:

U.S. defined-benefit plans	Pension Benefits		
	2004	2003	2002
Service cost of benefits earned during the year	\$ 23.2	\$ 21.8	\$ 17.2
Interest cost on projected benefit obligation	91.3	91.8	89.1
Expected return on plan assets	(147.7)	(144.5)	(154.4)
Amortization of transition asset	—	—	(2.1)
Amortization of prior service cost	17.4	17.9	17.6
Amortization of net actuarial loss/(gain)	1.5	1.4	(6.6)
<b>Net periodic pension credit</b>	<b>\$ (14.3)</b>	<b>\$ (11.6)</b>	<b>\$ (39.2)</b>

In addition, we recorded a separate charge in 2004 of \$0.6 million within restructuring expense for special termination benefits related to the closure of certain operations at a manufacturing plant in Lancaster. See Note 15 for further information.

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The components of postretirement benefits cost are as follows:

<u>U.S. defined-benefit plans</u>	<b>Retiree Health and Life Insurance Benefits</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Service cost of benefits earned during the year	\$ 3.4	\$ 3.4	\$ 5.6
Interest cost on accumulated postretirement benefit obligation	22.3	26.2	28.1
Amortization of prior service cost (benefit)	(5.1)	(5.1)	0.2
Amortization of net actuarial loss	9.7	12.3	11.2
<b>Net periodic postretirement benefit cost</b>	<b>\$30.3</b>	<b>\$36.8</b>	<b>\$45.1</b>

For measurement purposes, an average rate of 9% annual increase in the per capita cost of covered health care benefits was assumed for 2005, decreasing 1% per year to an ultimate rate of 6%. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<u>U.S. retiree health and life insurance benefit plans</u>	<b>One percentage point</b>	
	<b>Increase</b>	<b>Decrease</b>
Effect on total of service and interest cost components	\$ 1.5	\$ (1.3)
Effect on postretirement benefit obligation	22.8	(19.4)

We expect to contribute \$3.3 million to our U.S. defined benefit pension plans and \$28.0 million to our U.S. postretirement benefit plans in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years for our U.S. plans:

	<b>Pension Benefits</b>	<b>Retiree Health and Life Insurance Benefits</b>
2005	\$ 98.0	\$ 28.0
2006	96.7	26.6
2007	95.9	27.3
2008	95.9	27.7
2009	96.0	28.1
2010-2014	505.6	143.3

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### NON-U.S. PLANS

We have defined benefit pension plans covering employees in a number of foreign countries that utilize assumptions which are consistent with, but not identical to, those of the U.S. plans. The following tables summarize the balance sheet impact of foreign pension benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions.

We use a December 31 measurement date for most of our non-U.S. defined benefit plans.

<u>Non-U.S. defined-benefit plans</u>	<u>Pension Benefits</u>	
	<u>2004</u>	<u>2003</u>
Change in benefit obligation:		
Benefit obligation as of January 1	\$ 403.8	\$ 340.1
Service cost	9.3	8.2
Interest cost	21.2	19.4
Plan participants' contributions	3.6	2.8
Plan amendments	0.2	(5.7)
Effect of settlements and curtailments	—	(0.9)
Foreign currency translation adjustment	37.1	57.1
Actuarial loss	33.1	2.4
Benefits paid	(20.3)	(19.6)
	<u>          </u>	<u>          </u>
Benefit obligation as of December 31	\$ 488.0	\$ 403.8
	<u>          </u>	<u>          </u>
Change in plan assets:		
Fair value of plan assets as of January 1	\$ 200.4	\$ 153.7
Actual return on plan assets gain	17.7	19.4
Employer contributions	28.3	19.4
Plan participants' contributions	3.6	2.8
Foreign currency translation adjustment	18.5	24.7
Benefits paid	(20.3)	(19.6)
	<u>          </u>	<u>          </u>
Fair value of plan assets as of December 31	\$ 248.2	\$ 200.4
	<u>          </u>	<u>          </u>
Funded status of the plans	\$(239.8)	\$(203.4)
Unrecognized net actuarial loss	89.3	53.0
Unrecognized transition obligation	(0.3)	(0.1)
Unrecognized prior service benefit	(0.7)	(0.5)
	<u>          </u>	<u>          </u>
Net liability recognized	\$(151.5)	\$(151.0)
	<u>          </u>	<u>          </u>

The funded status of non-U.S. defined-benefit plans was determined using the following assumptions:

<u>Non-U.S. defined-benefit plans</u>	<u>Pension Benefits</u>	
	<u>2004</u>	<u>2003</u>
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.80%	5.40%
Rate of compensation increase	3.20%	3.40%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	5.40%	5.50%
Expected return on plan assets	6.40%	6.40%
Rate of compensation increase	3.40%	3.40%

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### Investment Policies

Each of the funded non-US pension plan's primary investment objective is to earn sufficient long-term returns on investments both to increase the ratio of the assets to liabilities in order for the plans to meet their benefits obligations, and to minimize required cash contributions to the plans. This is to be achieved by (a) investing in publicly-traded equities, (b) limiting return volatility by diversifying investments among additional asset classes with differing expected rates of return and return correlations, and (c) utilizing long duration bonds to limit the volatility of the plans' asset/liability ratios.

Each asset class utilized has a targeted asset allocation. The table below shows the asset allocation target and the December 31, 2004 and 2003 position for each asset class:

Asset Class	Target Weight at December 31, 2004	Position at December 31,	
		2004	2003
Equities	49%	49%	50%
Long duration bonds	17%	17%	17%
Other fixed income	34%	34%	33%

### Basis of Rate-of-Return Assumption

Long-term asset class return forecasts were obtained from investment professionals. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. These forecast asset class returns were weighted by the plans' target asset class weights, yielding a long-term return forecast of 6.4% per annum.

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits	
	2004	2003
Prepaid pension cost	\$ 15.8	\$ 9.3
Pension benefit liabilities	(217.7)	(178.1)
Intangible asset	3.4	3.5
Other comprehensive income	47.0	14.3
Net liability recognized	<u>\$(151.5)</u>	<u>\$(151.0)</u>

The accumulated benefit obligation for the non-U.S. defined benefit pension plans was \$449.0 million and \$363.2 million at December 31, 2004 and 2003, respectively.

Non-U.S. pension plans with benefit obligations in excess of assets	Pension Benefits	
	2004	2003
Projected benefit obligation, December 31	\$402.0	\$335.0
Accrued benefit obligation, December 31	370.3	300.6
Fair value of plan assets, December 31	161.8	131.2

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The components of pension cost are as follows:

Non-U.S. defined-benefit plans	2004	2003	2002
Service cost of benefits earned during the year	\$ 9.3	\$ 8.2	\$ 8.1
Interest cost on projected benefit obligation	21.2	19.4	15.9
Expected return on plan assets	(14.8)	(12.8)	(11.2)
Amortization of transition obligation	0.2	0.3	0.1
Amortization of prior service cost	0.2	0.6	0.6
Amortization of net actuarial loss	0.5	0.5	0.2
<b>Net periodic pension cost</b>	<b>\$ 16.6</b>	<b>\$ 16.2</b>	<b>\$ 13.7</b>

In addition, we recorded a separate charge in 2003 of \$0.3 million within restructuring expense for a curtailment loss related to the closure of certain operations at a manufacturing plant in Oss, the Netherlands. See Note 15 for further information.

Costs for other non-U.S. defined contribution benefit plans and multiemployer pension plans were \$11.0 million in 2004, \$11.3 million in 2003, and \$9.9 million in 2002.

We expect to contribute \$22.7 million to our non-U.S. defined benefit pension plans in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years:

	Pension Benefits
2005	\$ 21.3
2006	22.3
2007	23.2
2008	25.5
2009	26.6
2010-2014	154.7

### NOTE 19. FINANCIAL INSTRUMENTS

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Assets/(Liabilities):</b>				
Debt subject to compromise	\$(1,388.6)	\$(982.8)	\$(1,388.6)	\$(752.2)
Long-term debt, including current portion	(37.4)	(37.4)	(47.6)	(47.6)
Foreign currency contract obligations	(13.9)	(13.9)	(1.0)	(1.0)
Natural gas contracts	5.3	5.3	3.5	3.5

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, short-term debt and current installments of long-term debt approximate fair value because of the short-term maturity of these instruments. The fair value estimates of long-term debt were based upon quotes from major financial institutions taking into consideration current rates offered to us for debt of the same remaining maturities. The fair value estimates of foreign currency contract obligations are estimated from national exchange quotes. The fair values of natural gas contracts are estimated by obtaining quotes from major financial institutions and energy companies.

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We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2004, our foreign subsidiaries had available lines of credit totaling \$54.4 million, of which \$15.9 million was used, leaving \$38.5 million of unused lines of credit for borrowing on December 31, 2004.

On December 31, 2004, we had outstanding letters of credit totaling \$73.6 million, of which \$40.6 million was issued under the DIP Facility. The DIP Facility had \$34.4 million that remained available for issuance of letters of credit as of December 31, 2004. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AHI's failure to pay its obligations to the beneficiary. We also have several commercial letters of credit whereby vendors are paid directly via the letter of credit. Letters of credit are currently arranged through AWI's DIP Facility with JP Morgan Chase. Certain letters of credit arranged with Wachovia Bank, N.A. prior to the Filing remain outstanding.

### NOTE 20. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use swap, forward and option contracts to hedge currency and commodity exposures. We regularly monitor developments in the capital markets and only enter into currency and swap transactions with established counter-parties having investment grade ratings. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible. Swap, forward and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. We use derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions and energy companies in order to manage our exposure to nonperformance on such instruments.

Interest Rate Risk - Due to AWI's Chapter 11 Filing, all affected debt was classified as liabilities subject to compromise and there were no open interest rate derivatives as of December 31, 2004 and 2003.

Currency Rate Risk - We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. At December 31, 2004, our major foreign currency exposures are to the Euro, the Canadian dollar and the British pound.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows, resulting from the sale of product to foreign customers and purchases from foreign suppliers, will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. These transactions allow us to further reduce our overall exposure to exchange rate movements, since the gains and losses on these contracts offset losses and gains on the transactions being hedged. Gains and losses on these instruments are deferred in other comprehensive income until the underlying transaction is recognized in earnings. The net fair value of these instruments at December 31, 2004 was an asset of \$3.3 million, all of which is expected to be taken to earnings in the next twelve months. The earnings impact is reported in either net sales or cost of goods sold to match the underlying transaction being hedged. The earnings impact of these hedges was a gain of \$1.3 million during 2004.

We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency inter-company loans. The underlying inter-company loans are classified as short-term and translation adjustments related to these loans are recorded in other income. The related derivative contracts are classified as fair value hedges and the offsetting gains and losses on these contracts are also recorded in other income. The fair value of these instruments at December 31, 2004 was a \$17.1 million liability, all of which is

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expected to be charged to earnings in the next twelve months. During 2004, the net earnings impact of these hedges was a loss of \$0.7 million, recorded in other non-operating income/expense, which was comprised of a loss of approximately \$17.7 million from the foreign currency forward exchange contracts substantially offset by the 2004 translation adjustment of approximately \$17.0 million for the underlying inter-company loans.

**Commodity Price Risk** - We purchase natural gas for use in the manufacture of ceiling tiles and other products and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of minimizing cost volatility by purchasing natural gas forward contracts, purchased call options and zero-cash collars. These instruments are designated as cash flow hedges. The mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of goods sold in the period during which the underlying products are sold. The mark-to-market gains or losses on ineffective portions of hedges are recognized in cost of goods sold immediately. The fair value of these instruments at December 31, 2004 was a \$5.3 million asset, of which \$4.3 million is expected to be taken to earnings in the next twelve months. The earnings impact of hedges that matured during 2004, recorded in cost of goods sold, was \$5.8 million of income. The earnings impact of the ineffective portion of these hedges was not material during 2004.

### NOTE 21. GUARANTEES

As of December 31, 2004, we maintained an agreement with the lending institution of one of our distributors. Under this agreement, if the distributor were to default on its borrowings and the lender foreclosed on the assets, the bank could return a large part of any of our products still at the distributor (subject to certain quality and roll size minimums) for a refund of original cost. This agreement will expire in September 2005. At December 31, 2004, the amount of inventory held at the distributor was approximately \$3.2 million. Historically, no claim has been made under any of these types of agreements and we do not anticipate any such claim in the future. As such, no liability has been recorded for this agreement.

In disposing of assets through mid 2000, AWI and some subsidiaries had entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. As a debtor-in-possession, for those contracts that are still executory where AWI was the sole guarantor, AWI anticipates rejecting those contracts. Parties that timely file claims with respect to such contracts will have such claims addressed in AWI's Chapter 11 Case. AWI cannot estimate the value of any potential claims that will ultimately be allowed by the Bankruptcy Court. See Item 1 - Business regarding Proceedings under Chapter 11.

Subsidiaries that are not part of the Chapter 11 Filing also entered into certain contracts that included various indemnity provisions similar to those described above. Since these subsidiaries are not part of the Chapter 11 Filing, these contracts continue to be in effect. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under all these contracts. For contracts under which an indemnity claim has been received, a liability of \$2.1 million has been recorded as of December 31, 2004. See Note 32 of the Consolidated Financial Statements for additional information.

In September 1999, we sold our Textiles Products operations. As part of the divestiture agreement, we transferred certain liabilities and assets to the purchaser to cover pension payments earned by the work force as of the sale date. We also reimburse the purchaser for such pension payments that are not covered by the pension assets. In addition, we agreed to reimburse the purchaser for the tax impact of our reimbursement of the pension payments. This agreement has no termination date. As of December 31, 2004, we maintained a \$2.9 million liability for this guarantee. As of December 31, 2004, the net present value of the maximum payments is approximately \$5 million, excluding any amounts paid for tax reimbursement.

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See Notes 4 and 24 for a discussion of the ESOP loan guarantee.

### NOTE 22. PRODUCT WARRANTIES

We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. Generally, the terms of these warranties range up to 25 years and provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historic amount of claims, the products involved, the amount of time between the warranty claims and their respective sales and the amount of current sales. The following table summarizes the activity for the accrual of product warranties for 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 25.5	\$ 22.3
Reductions for payments	(39.0)	(38.9)
Current year warranty accruals	37.3	40.6
Preexisting warranty accrual changes	(1.8)	(0.3)
Effects of foreign exchange translation	0.6	1.8
	<u>          </u>	<u>          </u>
Balance at end of year	\$ 22.6	\$ 25.5

### NOTE 23. OTHER LONG-TERM LIABILITIES

	<u>2004</u>	<u>2003</u>
Long-term deferred compensation arrangements	\$40.6	\$41.1
Environmental liabilities not subject to compromise	9.4	8.4
Other	37.6	31.7
	<u>          </u>	<u>          </u>
Total other long-term liabilities	\$87.6	\$81.2

### NOTE 24. RETIREMENT SAVINGS AND STOCK OWNERSHIP PLAN (RSSOP)

In 1989, we established an Employee Stock Ownership Plan (“ESOP”) that borrowed \$270 million from banks and insurance companies, repayable over 15 years and guaranteed by AWI. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of convertible preferred stock issued by Armstrong. In 1996, the ESOP was merged with the Retirement Savings Plan for salaried employees (a defined-contribution pension plan) to form the Retirement Savings and Stock Ownership Plan (“RSSOP”). On July 31, 1996, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock at a one-for-one ratio.

The number of shares released for allocation to participant accounts has been based on the proportion of principal and interest paid to the total amount of debt service remaining to be paid over the life of the borrowings. Through December 31, 2004, the RSSOP allocated 2,152,000 shares to participants that remain outstanding, participants retired 2,272,000 shares, AHI contributed an additional 437,000 shares from its treasury and the trustee purchased 243,000 shares on the open market to allocate to employees. During 2004 the RSSOP sold 450,000 unallocated shares on the open market. The proceeds from the sale remain in the RSSOP and are expected to be allocated to participants no later than when the RSSOP debt is addressed in AWI’s Chapter 11 proceedings. As of December 31, 2004, there were approximately 1,462,000 shares in the RSSOP that had yet to be allocated to participants.

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The RSSOP is a qualified defined contribution plan that also includes a 401(k) elective deferral component. A substantial portion of U.S. employees are eligible and participate. We recorded costs for the RSSOP of \$5.8 million in 2004, \$5.6 million in 2003 and \$4.5 million in 2002, which related to company cash matching contributions.

All RSSOP shares are considered outstanding for earnings per share calculations. Historically, dividends on allocated shares were credited to employee accounts while dividends on unallocated shares were used to satisfy debt service payments.

See Note 32 for information regarding an audit of the RSSOP by the U.S. Department of Labor.

The RSSOP currently covers parent company nonunion employees, some parent company union employees, Wood Flooring salaried employees, and Cabinets salaried employees.

On November 22, 2000, AWI failed to repay \$50 million in commercial paper that was due. Subsequently, the remaining ESOP bond principal balance of \$142.2 million became immediately payable along with a \$15.5 million interest and tax make-whole premium. ESOP debt service payments have not been made since June 2000. As a result of the Chapter 11 Filing, AWI's guarantee of these ESOP loan obligations of \$157.7 million is now classified as a liability subject to compromise.

### NOTE 25. STOCK-BASED COMPENSATION PLANS

Awards under the 1993 Long-Term Stock Incentive Plan ("1993 Plan") were made in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. No additional awards may be issued under the 1993 Plan.

During 1999, we adopted the 1999 Long-Term Incentive Plan ("1999 Plan") which replaced the 1993 Plan. The 1999 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock may be issued under the 1999 Plan, and no more than 300,000 of the shares may be awarded in the form of performance restricted shares, restricted stock awards or stock awards. The 1999 Plan does not allow awards to be granted after April 25, 2009. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans.

During 2000, we adopted the Stock Award Plan ("2000 Plan") to enable stock awards and restricted stock awards to officers, key employees and non-employee directors. No more than 750,000 treasury shares may be awarded under the 2000 Plan. The 2000 Plan will remain in effect until the earlier of the grant of all the shares allowed under the plan or termination of the plan by the Board of Directors.

All of the three plans discussed above would be terminated upon the effective date of AWI's POR. No equity based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing.

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Options were granted to purchase shares at prices not less than the closing market price of the shares on the dates the options were granted. The options generally became exercisable in one to three years and expire 10 years from the date of grant.

Changes in option shares outstanding (thousands except for share price)	2004	2003	2002
Option shares at beginning of year	2,376.9	2,508.8	2,682.6
Options granted	—	—	—
Option shares exercised	—	—	—
Options cancelled	(112.9)	(131.9)	(173.8)
Option shares at end of year	2,264.0	2,376.9	2,508.8
Option shares exercisable at end of year	2,264.0	2,343.6	1,963.5
Shares available for grant	4,538.7	4,425.8	4,285.6
Weighted average price per share:			
Options outstanding	\$ 29.75	\$ 30.62	\$ 30.52
Options exercisable	\$ 29.75	\$ 31.01	34.50

The table below summarizes information about stock options outstanding at December 31, 2004.

(thousands except for life and share price)

Range of exercise prices	Options outstanding and exercisable		
	Number outstanding and exercisable at 12/31/04	Weighted- average remaining contractual life	Weighted- average exercise price
\$1.19 - \$18.00	300.0	5.9	\$ 7.05
\$18.01 - \$19.50	1,235.3	5.2	19.44
\$19.51 - \$46.00	243.9	0.4	45.02
\$46.01 - \$60.00	305.6	2.3	56.10
\$60.01 - \$83.06	179.2	2.9	73.14
	<u>2,264.0</u>		

Restricted stock awards can be used for the purposes of recruitment, special recognition and retention of key employees. No award of restricted stock shares was granted in 2004, 2003 or 2002. At the end of 2004, there were 121,313 restricted shares of common stock outstanding with 1,026 accumulated dividend equivalent shares.

FAS 123, permits entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings and pro forma earnings per share disclosures. Had compensation costs for these plans been determined consistent with FAS 123, our net earnings and earnings per share would have been reduced to the following pro forma amounts.

	2004	2003	2002
<b>Net (loss):</b>			
As reported	\$(80.8)	\$(39.3)	\$(2,142.8)
Pro forma	\$(80.8)	\$(39.4)	\$(2,143.3)
<b>Basic and diluted (loss) per share:</b>			
As reported	\$(2.00)	\$(0.97)	\$ (52.91)
Pro forma	\$(2.00)	\$(0.97)	\$ (52.92)

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The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model. There were no stock options granted in 2004, 2003 or 2002.

### NOTE 26. EMPLOYEE COMPENSATION

Employee compensation is presented in the table below. Charges for severance costs and early retirement incentives to terminated employees (otherwise recorded as restructuring charges) have been excluded.

Employee compensation cost	2004	2003	2002
Wages and salaries	\$778.5	\$718.9	\$713.3
Payroll taxes	81.5	78.0	76.1
Pension expense (credits), net	13.3	15.9	(15.6)
Insurance and other benefit costs	96.0	112.2	106.7
Stock-based compensation	—	0.2	0.9
<b>Total</b>	<b>\$969.3</b>	<b>\$925.2</b>	<b>\$881.4</b>

The decreases in insurance and other benefit costs is primarily related to decreased medical benefit costs from favorable experience and fewer covered lives plus the favorable impact of the Medicare Act of \$7.0 million.

### NOTE 27. LEASES

We rent certain real estate and equipment. Several leases include options for renewal or purchase, and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. As part of the Chapter 11 Case, AWI must decide whether to assume, assume and assign, or reject prepetition unexpired leases and other prepetition executory contracts. AWI has been granted an extension through and including the date on which an order confirming the Plan is entered by the U.S. District Court for the District of Delaware to make these decisions with respect to prepetition unexpired leases of real property. With respect to prepetition executory contracts and unexpired leases not related to real estate, AWI has until confirmation of a reorganization plan to make these decisions unless such time is shortened by the Bankruptcy Court. The accompanying financial statements do not reflect any adjustment related to assumption or rejection of such agreements.

Rental expense was \$22.4 million in 2004, \$21.3 million in 2003 and \$22.7 million in 2002. Future minimum payments at December 31, 2004, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments	Capital Leases	Operating Leases
2005	\$ 1.7	\$ 14.4
2006	1.0	11.8
2007	0.7	8.3
2008	0.3	5.0
2009	—	2.6
Thereafter	0.1	10.4
<b>Total</b>	<b>\$ 3.8</b>	<b>\$ 52.5</b>

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Assets under capital leases are included in the consolidated balance sheets as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 3.8	\$ 3.8
Building	4.1	4.1
Machinery	26.7	25.8
Less accumulated amortization	(14.8)	(11.6)
<b>Net assets</b>	<b>\$ 19.8</b>	<b>\$ 22.1</b>

### NOTE 28. SHAREHOLDERS' EQUITY

Treasury share changes for 2004, 2003 and 2002 are as follows:

<u>Years ended December 31 (in thousands)</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Common shares			
Balance at beginning of year	11,210.0	11,201.3	11,176.6
Stock purchases and other	—	8.7	24.7
<b>Balance at end of year</b>	<b>11,210.0</b>	<b>11,210.0</b>	<b>11,201.3</b>

Stock purchases and other represent shares received under stock-based compensation plan forfeitures and share tax withholding transactions.

The balance of each component of accumulated other comprehensive income as of December 31, 2004 and 2003 is presented in the table below.

	<u>2004</u>	<u>2003</u>
Foreign currency translation adjustments	\$ 84.3	\$ 61.9
Derivative gain, net	3.6	3.3
Minimum pension liability adjustments	(45.1)	(21.9)
<b>Accumulated other comprehensive income</b>	<b>\$ 42.8</b>	<b>\$ 43.3</b>

The related tax effects allocated to each component of other comprehensive income for 2004 are presented in the table below.

	<u>Pre-tax Amount</u>	<u>Tax Expense (Benefit)</u>	<u>After tax Amount</u>
Foreign currency translation adjustments	\$ 22.4	\$ —	\$ 22.4
Derivative gain, net	0.5	(0.2)	0.3
Minimum pension liability adjustments	(33.6)	10.4	(23.2)
<b>Total other comprehensive income</b>	<b>\$(10.7)</b>	<b>\$ 10.2</b>	<b>\$ (0.5)</b>

The change in the minimum pension liability adjustment between 2004 and 2003 was primarily due to the reduction of discount rates related to our plans.

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### NOTE 29. SUPPLEMENTAL FINANCIAL INFORMATION

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Selected operating expenses</u>			
Maintenance and repair costs	\$114.7	\$107.8	\$110.7
Research and development costs	46.6	45.3	50.1
Advertising costs	29.6	32.7	41.2
<u>Other non-operating expense</u>			
Foreign currency translation loss, net of hedging activity	\$ 1.3	\$ 3.8	\$ 2.2
Other	1.8	1.9	1.4
<b>Total</b>	<b>\$ 3.1</b>	<b>\$ 5.7</b>	<b>\$ 3.6</b>
<u>Other non-operating income</u>			
Interest income	\$ 4.0	\$ 3.5	\$ 4.8
Equity earnings in ISI	1.9	0.3	2.1
Interest on asbestos receivable payment	—	1.1	—
Other	0.5	0.1	0.6
<b>Total</b>	<b>\$ 6.4</b>	<b>\$ 5.0</b>	<b>\$ 7.5</b>

### NOTE 30. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest paid	\$ 2.2	\$ 2.8	\$ 3.4
Income taxes paid, net of refunds	77.3	27.5	44.4

### NOTE 31. RELATED PARTIES

We sold 65% of our ownership in our gasket products subsidiary, (now known as Interface Solutions, Inc. or "ISI") on June 30, 1999. We still retain 35% ownership of this business as of December 31, 2004. As part of the divestiture, we agreed to continue to purchase a portion of the felt products used in the manufacturing of resilient flooring from ISI for an initial term of eight years. Currently, we are required to purchase at least 75% of our felt requirements from ISI. The sale agreement also stipulated quarterly felt price adjustments that are based upon changing market prices for the felt. In October 2002, the agreement was amended to include a cap on increases for 2003 and 2004. We can purchase felt products from another supplier if ISI's prices are more than 10% higher than another supplier's prices. Our purchases of felt products from ISI for 2004, 2003 and 2002 were \$27.5 million, \$26.9 million and \$29.2 million, respectively. The amounts due to ISI for these purchases were \$1.7 million and \$1.6 million at the end of 2004 and 2003. Armstrong and ISI are contractually required to cooperate in product reformulation and new product development, but we are free to seek alternatives to felt products. Additionally, we receive nominal monthly payments from ISI for some logistics and administrative services. The amounts outstanding from ISI at the end of 2004 and 2003 for the logistics and administrative services we provide them were less than \$0.1 million. ISI had filed a proof of claim in Armstrong's Chapter 11 Case requesting payment for our prepetition obligations. This matter was settled in November 2002 with ISI agreeing to withdraw its proof of claim upon the consummation of the POR, subject to certain terms and conditions. See Note 11 for additional information.

We purchase grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately \$60 million, \$51 million and \$41 million for the years ended December 31, 2004, 2003 and 2002, respectively. We also provide certain selling, promotional and administrative processing services to WAVE for which we receive reimbursement. Those services amounted to \$11.8 million, \$9.8 million and \$10.0 million for the years ended December 31, 2004, 2003 and 2002, respectively. The net amounts due from us to WAVE for these relationships were \$4.0 million and \$1.8 million at the end of 2004 and 2003. See Note 11 for additional information.

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See discussion of Ardex in Note 7.

### NOTE 32. LITIGATION AND RELATED MATTERS

#### ASBESTOS-RELATED LITIGATION

Prior to December 6, 2000, AWI, the major operating subsidiary of AHI, had been named as a defendant in personal injury cases and property damage cases related to asbestos-containing products. On December 6, 2000, AWI filed a voluntary petition for relief (“the Filing”) under Chapter 11 of the U.S. Bankruptcy Code to use the court-supervised reorganization process to achieve a resolution of AWI’s asbestos-related liability.

Two of AWI’s domestic subsidiaries also commenced Chapter 11 proceedings at the time of the Filing. AHI and all of AWI’s other direct and indirect subsidiaries, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (Armstrong’s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada and Armstrong DLW AG were not a part of the Filing and accordingly the liabilities, including asbestos-related liability if any, of such companies arising out of their own activities will not be resolved in AWI’s Chapter 11 Case except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI.

#### Asbestos-Related Personal Injury Claims

Prior to the Filing, AWI was a member of the Center for Claims Resolution (the “CCR”), which handled the defense and settlement of asbestos-related personal injury claims on behalf of its members. The CCR pursued broad-based settlements of asbestos-related personal injury claims under the Strategic Settlement Program (“SSP”) and had reached agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant.

Due to the Filing, holders of asbestos-related personal injury claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against AWI. In addition, AWI ceased making payments to the CCR with respect to asbestos-related personal injury claims, including payments pursuant to the outstanding SSP agreements. A creditors’ committee representing the interests of asbestos-related personal injury claimants and an individual representing the interests of future claimants have been appointed in the Chapter 11 Case. AWI’s present and future asbestos-related liability will be addressed in its Chapter 11 Case. See Note 1 regarding AWI’s Chapter 11 proceeding.

During 2003, AWI and the other parties in its Chapter 11 Case reached agreement on a plan of reorganization that addresses how all of AWI’s pre-Filing liabilities are to be settled. Several amendments to the plan of reorganization were filed, culminating in the Fourth Amended Plan of Reorganization filed with the Bankruptcy Court on May 23, 2003, which was modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, and December 3, 2004, and is referred to in this report as the “POR”.

Before the POR may be implemented, it must be confirmed by order of the Bankruptcy Court and the U.S. District Court. In addition, consummation of the POR is subject to the satisfaction after confirmation of certain conditions, as provided by the POR. On February 23, 2005, the U.S. District Court Judge Eduardo C. Robreno ruled that the POR, in its current form, could not be confirmed. AWI filed a Notice of Appeal to the U.S. Court of Appeals for the Third Circuit on March 4, 2005. On March 18, 2005, AWI filed a motion to expedite the appeal to the U.S. Court of Appeals. AWI is also reviewing other options to resolve its Chapter 11 Case. See Note 1 for further discussion of AWI’s Chapter 11 process.

A principal feature of the POR is the creation of a trust (the “Asbestos PI Trust”), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI’s personal injury (including wrongful death) asbestos-related liability. All present and future

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asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI's pre-Filing use of or other activities involving asbestos would be channeled to the Asbestos PI Trust.

In accordance with the 524(g) injunction if the POR goes into effect, various entities would be protected from such present and future asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHL, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

However, although AWI's domestic and foreign subsidiaries and other affiliates would be protected parties, asbestos-related personal injury claims against them would be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the manufacturing, installation, distribution or other activities of AWI or are based solely on AWI's ownership of the subsidiaries or other affiliates (as distinguished from independent activities of the subsidiaries or affiliates). Currently, three asbestos-related personal injury litigations against subsidiaries of AWI allegedly arising out of such independent activities are pending. These claims would not be channeled to the Asbestos PI Trust under the POR inasmuch as they do not involve activities of AWI. The cases have several defendants. The subsidiaries deny liability and are aggressively defending the matters. AWI has not recorded any liability for these matters. Management does not expect that any sum that may have to be paid in connection with these matters will be material to Armstrong.

In addition, workers' compensation claims brought against AWI or its subsidiaries or other affiliates would not be channeled to the Asbestos PI Trust and would remain subject to the workers' compensation process. Historically, workers' compensation claims against AWI and its subsidiaries have not been significant in number or amount and AWI has continued to honor its obligations with respect to such claims during the Chapter 11 Case. Workers' compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Currently, AWI has three pending workers' compensation claims, and its UK subsidiary has five employer liability claims involving alleged asbestos exposure.

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that neither AWI nor any of its subsidiaries or other affiliates is subject to any asbestos-related personal injury claims that would not be channeled to the Asbestos PI Trust and that are of a magnitude that, individually or collectively, would be material to reorganized Armstrong.

#### Asbestos-Related Liability

Based upon events through early March 2003, primarily the parties' agreement on the basic terms of the POR's treatment of AWI's asbestos-related liabilities, management concluded that it could reasonably estimate its probable liability for AWI's current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a \$2.5 billion charge to increase the balance sheet liability. The recorded asbestos-related liability for personal injury claims of approximately \$3.2 billion at December 31, 2004 and 2003, which was treated as subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos PI Trust is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims.

AWI is unable to predict whether the POR will be confirmed or when AWI would emerge from Chapter 11. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded

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asbestos-related liability are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

#### Insurance Recovery Proceedings

A substantial portion of AWI's primary and remaining excess insurance asset is nonproducts (general liability) insurance for personal injury claims. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure was commenced against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits.

During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR, which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the first quarter of 2001, a new trial judge was selected for the ADR. The new trial judge conducted hearings in 2001 and determined not to rehear matters decided by the previous judge. In the first quarter of 2002, the trial judge concluded the ADR trial proceeding with findings in favor of AWI on substantially all key issues. Liberty Mutual, the only insurer that is still a party to the ADR, appealed that final judgment. Appellate argument was held on March 11, 2003. On July 30, 2003, the appellate arbitrators ruled that AWI's claims against certain Liberty Mutual policies were barred by the statute of limitations. The ruling did not address the merits of any of the other issues Liberty Mutual raised in its appeal. Based on that unfavorable ruling, AWI concluded that insurance assets of \$73 million were no longer probable of recovery. AWI was also ordered to reimburse Liberty Mutual for certain costs and administration fees that Liberty Mutual incurred during the ADR. The \$1.6 million claimed for these costs and fees is in dispute. Based upon an AWI request, the appellate panel held a rehearing on November 21, 2003. In January 2004, the appellate panel upheld its initial ruling. On February 4, 2004, AWI filed a motion in the U.S. District Court for the Eastern District of Pennsylvania to vacate the rulings of the appellate panel.

In July 2002, AWI filed a lawsuit against Liberty Mutual in the U.S. District Court for the Eastern District of Pennsylvania seeking, among other things, a declaratory judgment with respect to certain policy issues not subject to binding ADR. The U.S. District Court has not yet set a schedule to hear this matter.

On June 13, 2003, the New Hampshire Insurance Department placed The Home Insurance Company ("Home") under an order of liquidation. Less than \$10 million of AWI's recorded insurance asset is based on policies with Home, which management believes is probable of recovery. AWI filed a proof of claim against Home during June 2004. It is uncertain when AWI will receive proceeds from Home under these insurance policies.

#### Insurance Asset

An insurance asset in respect of asbestos claims in the amount of \$98.6 million was recorded as of December 31, 2004 compared to \$103.1 million recorded as of December 31, 2003. The total amount recorded reflects AWI's belief that insurance proceeds will be recovered in this amount, based upon AWI's success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. Such insurance, in our opinion, is either available through settlement or probable of recovery through negotiation or litigation. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS (the former AWI insulation contracting subsidiary that was sold in August 1969 and which filed for relief under Chapter 11 of the Bankruptcy Code in September 2002) and the financial condition of the insurers, AWI may revise its estimate of probable insurance recoveries. Approximately \$79 million of the \$98.6 million asset is determined from agreed coverage in place. Of the \$98.6 million, \$9.8 million has been recorded as a current asset as of December 31, 2004 reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

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Many uncertainties remain in the insurance recovery process; therefore, AWI did not increase the estimated insurance recovery asset in the fourth quarter of 2004.

### Cash Flow Impact

As a result of the Chapter 11 Filing, AWI has not made any payments for asbestos-related personal injury claims since the fourth quarter of 2000. During 2004, 2003 and 2002, AWI received asbestos-related insurance recoveries of \$4.5 million, \$22.0 million and \$16.0 million, respectively. During the third quarter of 2003, AWI paid \$9.0 million for asbestos-related property damage claims and received \$9.0 million of insurance proceeds related to these claims. During the pendency of the Chapter 11 Case, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI expects to continue to receive insurance proceeds under the terms of various settlement agreements. Management estimates that the timing of future cash recoveries of the recorded asset may extend beyond 10 years.

### Potential Legislation

On February 7, 2005 Senator Arlen Specter submitted into the Congressional Record and distributed to the Senate Judiciary Committee a discussion draft of asbestos reform legislation. Members of the Senate are currently reviewing the draft bill. There is uncertainty as to whether any asbestos reform proposal will become law, and what impact there might be on AWI's asbestos liability and/or AWI's Chapter 11 Case.

### Conclusion

Many uncertainties continue to exist about the matters impacting AWI's asbestos-related liability and insurance asset. These uncertainties include when and if the POR will be confirmed by the U.S. District Court, the impact of any potential legislation, and the financial condition of AWI's insurance carriers.

Additionally, if the POR is confirmed, AWI is unable to predict when it will be implemented. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded liability and insurance asset are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability and insurance asset in light of future developments in the Chapter 11 Case and make changes to the recorded amounts if and when it is appropriate.

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### ENVIRONMENTAL MATTERS

#### Environmental Expenditures

Most of our manufacturing and certain of our research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at our operating facilities. We incurred expenditures of approximately \$5.5 million in 2004, \$3.7 million in 2003, and \$4.5 million in 2002 associated with environmental compliance and control facilities.

As a result of continuous changes in regulatory requirements, we cannot predict with certainty future expenditures associated with compliance with environmental requirements. The United States Environmental Protection Agency (“EPA”) has recently promulgated a new regulation pursuant to the Clean Air Act that may impact our domestic manufacturing operations. That regulation, The National Emission Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heaters Act, became effective in November, 2004, and requires compliance by September 13, 2007. While we are finalizing our review of this regulation, adoption of this regulation is not expected to have a material impact on our consolidated results of operations or financial condition.

#### Environmental Remediation

##### *Summary*

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), and similar state “Superfund” laws at 28 sites. In most cases, we are one of many potentially responsible parties (“PRPs”) which have potential liability for the required investigation and remediation of each site and which, in some cases, have agreed to jointly fund that required investigation and remediation. With regard to some sites, however, we dispute the liability, the proposed remedy or the proposed cost allocation among the PRPs. We may have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

We have also been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. Estimates of our future environmental liability at the Superfund sites and current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as our activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at Superfund sites, our contribution to the remediation of these sites is expected to be limited by the number of other companies also identified as potentially liable for site remediation. As a result, our estimated liability reflects only our expected share. In determining the probability of contribution, we consider the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. Additionally, the Chapter 11 Case also may affect the ultimate amount of such contributions.

##### *Effects of Chapter 11*

Certain of AWI’s environmental liabilities are subject to discharge through its Chapter 11 Case while others are not. AWI’s payments and remediation work on such sites for which AWI is a PRP is under review in light of the Chapter 11 Filing. The bar date for claims from the EPA expired during the third quarter of 2003. AWI received an unliquidated proof of claim from the EPA. Those environmental obligations that AWI has with respect to property that it owns or operates are likely to be unaffected by the Chapter 11 Case. Therefore, AWI will be required to continue meeting its on-going environmental compliance obligations at the properties that AWI owns or operates. AWI will also be required to address the effects of any contamination at those sites, even if the contamination predated Chapter 11 Filing. In addition, AWI may be obligated to remedy the off-site impact of activities that occurred on the properties it owns and operates.

Monetary claims with respect to properties that AWI does not own or operate (such as formerly owned sites, or landfills to which AWI’s waste was taken) may be discharged in AWI’s Chapter 11 Case.

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Accordingly, claims brought by a federal or state agency alleging that AWI should reimburse the claimant for money that it spent cleaning up a site which AWI does not own or operate would be subject to discharge, provided the claimant received proper notice of the bankruptcy and bar date. The same would be true for monetary claims by private parties, such as other PRPs with respect to sites with multiple PRPs. Under the POR, the Superfund sites at which AWI is alleged to be a PRP are being treated as unsecured liabilities subject to compromise. Other Superfund sites relate to entities that are not part of AWI's Chapter 11 Case and therefore will not be discharged.

In addition to the right to sue for reimbursement of the money it spends, CERCLA also gives the federal government the right to sue for an injunction compelling a defendant to perform a cleanup. Several state statutes give similar injunctive rights to those States. While we believe such rights do not survive Chapter 11, there does not appear to be controlling judicial precedent that these injunctive rights are dischargeable. Thus, according to some cases, while a governmental agency's right to require AWI to reimburse it for the costs of cleaning up a site may be dischargeable, the same governmental agency's right to compel us to spend our money cleaning up the same site may not be dischargeable even though the financial impact to AWI would be the same in both instances.

#### *Specific Events*

AWI has been working to resolve as many of its environmental liabilities through its Chapter 11 Case as possible. AWI has negotiated a global environmental settlement with the Department of Justice and the EPA with respect to CERCLA liability at 37 sites. Pursuant to the proposed Settlement Agreement, the federal government would covenant not to sue AWI for either monetary or injunctive relief under CERCLA at 19 of these sites, in exchange for an allowed claim amount in the bankruptcy with respect to known claims concerning sites that AWI does not own or operate. Under the Settlement, AWI would have contribution protection under CERCLA with respect to private party claims at the sites at which the government receives an allowed claim. Additionally, AWI has the benefit of discharge both at the 19 sites for which the government receives an allowed claim and at an additional 18 sites identified in the Settlement Agreement. At an additional site, AWI would continue to participate in the cleanup under a previously approved Consent Decree. Upon this global settlement becoming effective, the EPA proof of claim will be amended to assert a claim in the amount of \$8.7 million. This amount includes the \$7.8 million that AWI and EPA agreed upon with respect to the Peterson Puritan site. Notice of the Settlement was published in the Federal Register on February 10, 2005, soliciting comment for 30 days. Following the conclusion of the public comment period, the government may reconsider the Settlement Agreement on the basis of any comments. If the government decides to go forward with the Settlement Agreement, the parties will file a motion with the bankruptcy court seeking approval.

AWI is subject to a unilateral order by the Oregon Department of Environmental Quality ("DEQ") to conduct a remedial investigation and feasibility study and any necessary remedial design and action at its St. Helens, Oregon facility, as well as the adjacent Scappoose Bay. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. Other potentially responsible parties who are not yet subject to orders by the DEQ include former site owners Owens Corning ("OC") and Kaiser Gypsum Company, Inc. ("Kaiser"). AWI has entered into an agreement with Kaiser for the sharing of costs and responsibilities with respect to the remedial investigation, feasibility study and remedy selection at the site. OC has entered into a settlement with the DEQ. Pursuant to the settlement, OC has made a lump sum payment to the DEQ in exchange for contribution protection (including protection against common law and statutory contribution claims by AWI against OC) and a covenant not to sue. AWI has reached an agreement with the DEQ as to how these funds will be made available for the investigation and remediation of the site. AWI has recorded an environmental liability with respect to the investigation and feasibility study at its St. Helen's facility, but not for Scappoose Bay because AWI continues to dispute responsibility for contamination of Scappoose Bay.

#### *Summary of Financial Position*

Liabilities of \$28.0 million and \$21.2 million at December 31, 2004 and December 31, 2003, respectively were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. The

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### Armstrong Holdings, Inc., and Subsidiaries Notes to Condensed Consolidated Financial Statements (dollar amounts in millions, except share data)

majority of this increase relates to developments in the Peterson Puritan site described in “*Specific Events*” above. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liabilities is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, \$18.6 million of the December 31, 2004 and \$12.8 million of the December 31, 2003 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, the Chapter 11 process does not preserve company assets for such prepetition liabilities.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. Such recoveries, where probable, have been recorded as an asset in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation. The amount of the recorded asset for estimated recoveries was \$2.4 million and \$2.5 million at December 31, 2004 and December 31, 2003, respectively.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we believe that any sum we may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on our financial condition, or liquidity, although the recording of future costs may be material to earnings in such future period. For the years ended December 31, 2004, 2003 and 2002, our net expense, recorded in the income statement, was \$7.2 million, less than \$0.1 million, and \$4.5 million, respectively.

#### PATENT INFRINGEMENT CLAIMS

We are a defendant in two lawsuits claiming patent infringement related to some of our laminate flooring products. The plaintiffs have claimed unspecified monetary damages. We are being defended and indemnified by our supplier for all costs and potential damages related to the litigation.

#### FORMER EMPLOYEES CLAIM

Former Armstrong employees that were separated from the company in two business divestitures in 2000 brought two purported class actions against the Retirement Committee of AWI, certain current and former members of the Retirement Committee, the Retirement Savings and Stock Ownership Plan (RSSOP), AHI and the trustee bank of the RSSOP. Plaintiffs alleged breach of Employee Retirement Income Security Act (ERISA) fiduciary duties and other violations of ERISA pertaining to losses in their RSSOP accounts, which were invested in Armstrong common stock.

In 2003, an agreement was reached to settle this matter. Contributors to the settlement were AWI, its insurer and the trustee bank of the RSSOP. The full amount of the settlement was allocated in December 2003 among approximately 370 former employees. AWI’s portion of the settlement is \$1.0 million, which will be treated as convenience claims in the Chapter 11 Case. The settlement was approved by the Bankruptcy Court on March 31, 2003 and by the United States District Court (Eastern District of PA) on June 16, 2003. Based upon the Bankruptcy Court’s approval of the settlement, AWI recorded a \$1.0 million charge in the first quarter of 2003 in SG&A expense.

#### DEPARTMENT OF LABOR SETTLEMENT

Subsequent to an audit by the United States Department of Labor (“DOL”), we were informed that the DOL was challenging the validity of the use of certain contributions, in the approximate aggregate amount of \$33.4 million, to fund debt payments made by the Armstrong Employee Stock Ownership Plan (“ESOP”), as provided for by that plan. We reached a settlement with the DOL to resolve this matter with a funding to the ESOP of \$1.5 million, which was distributed to plan participants in accordance with terms of the agreement in February 2004. Insurance and third parties funded \$0.9 million of the settlement. Both the accrual of \$1.5 million expense and \$0.9 million insurance receivable were recorded in the third quarter of 2003 in SG&A expense.

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Armstrong Holdings, Inc., and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(dollar amounts in millions, except share data)

### OTHER CLAIMS

Additionally, we are involved in various other claims and legal actions involving product liability, patent infringement, breach of contract, distributor termination, employment law issues and other actions arising in the ordinary course of business. While complete assurance cannot be given to the outcome of these claims, we do not expect that any sum that may have to be paid in connection with these matters will have a materially adverse effect on our consolidated financial position or liquidity, however it could be material to the results of operations in the particular period in which a matter is resolved.

### NOTE 33. EARNINGS PER SHARE

The diluted loss per share is calculated using basic common shares outstanding since using diluted common shares would be anti-dilutive. The difference between the average number of basic and diluted common shares outstanding is due to contingently issuable shares. Earnings per share components may not add due to rounding.

### NOTE 34. PREFERRED STOCK PURCHASE RIGHTS PLAN

AHI has a shareholder rights plan under a Rights Agreement dated as of March 14, 2000 and in connection therewith distributed one right for each share of its common stock outstanding. In general, the rights become exercisable at \$300 per right for a fractional share of a new series of Class A preferred stock 10 days after a person or group, other than certain affiliates of AHI either acquires beneficial ownership of shares representing 20% or more of the voting power of AHI or announces a tender or exchange offer that could result in such person or group beneficially owning shares representing 28% or more of the voting power of AHI. Currently, one right is attached to each share of common stock and trades automatically with the share of common stock. When exercisable, the rights may trade separately from the common stock. If thereafter any person or group becomes the beneficial owner of 28% or more of the voting power of AHI, or if AHI is the surviving company in a merger with a person or group that owns 20% or more of the voting power of AHI, then each owner of a right (other than such 20% shareholder) would be entitled to purchase shares of company common stock having a value equal to twice the exercise price of the right. Should AHI be acquired in a merger or other business combination, or sell 50% or more of its assets or earnings power, each right would entitle the holder to purchase, at the exercise price, common shares of the acquirer having a value of twice the exercise price of the right. The exercise price was determined on the basis of the Board's view of the long-term value of AHI's common stock. The rights have no voting power nor do they entitle a holder to receive dividends. At AHI's option, the rights are redeemable prior to becoming exercisable at five cents per right. The rights expire on March 21, 2006, unless extended or earlier redeemed by the AHI Board of Directors. If the POR discussed in Note 1 would be approved and become effective, and the proposed dissolution of AHI is effected, the rights will be cancelled along with the related shares of AHI common stock.

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### Report of Independent Registered Public Accounting Firm

The Board of Directors,  
Armstrong World Industries, Inc.:

We have audited the accompanying consolidated financial statements of Armstrong World Industries, Inc. and subsidiaries (“the Company”) as listed in the accompanying index on page 50. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index on page 50. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong World Industries, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements and financial statement schedule have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 of the consolidated financial statements, the Company and two of its domestic subsidiaries filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court on December 6, 2000. The Company has also defaulted on certain debt obligations. Although the Company and these operating subsidiaries are currently operating their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court, the continuation of their businesses as going concerns is contingent upon, among other things, the ability to formulate a plan of reorganization which will gain approval of the creditors and confirmation by the Bankruptcy Court. The filing under Chapter 11 and the resulting increased uncertainty regarding the Company’s potential asbestos liabilities, as discussed in Note 32 of the consolidated financial statements, raise substantial doubt about the Company’s ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 14, 2005

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Armstrong World Industries, Inc., and Subsidiaries  
Consolidated Statements of Earnings  
(amounts in millions)

	Years Ended December 31,		
	2004	2003	2002
Net sales	\$3,497.3	\$3,259.0	\$ 3,172.3
Cost of goods sold	2,811.0	2,597.4	2,404.5
Gross profit	686.3	661.6	767.8
Selling, general and administrative expenses	633.4	612.1	630.8
Charge for asbestos liability, net	—	81.0	2,500.0
Goodwill impairment	108.4	—	—
Restructuring and reorganization charges, net	18.3	8.6	1.9
Equity (earnings) from joint venture	(31.6)	(20.8)	(19.7)
Operating (loss)	(42.2)	(19.3)	(2,345.2)
Interest expense (unrecorded contractual interest of \$86.9, \$95.1 and \$99.9, respectively)	8.4	9.0	11.3
Other non-operating expense	3.1	5.7	3.6
Other non-operating (income)	(6.4)	(5.0)	(7.5)
Chapter 11 reorganization costs, net	6.9	9.4	23.5
(Loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle	(54.2)	(38.4)	(2,376.1)
Income tax expense (benefit)	25.1	(1.6)	(827.8)
(Loss) from continuing operations before cumulative effect of a change in accounting principle	(79.3)	(36.8)	(1,548.3)
Cumulative effect of a change in accounting principle, net of tax of \$2.2	—	—	(593.8)
(Loss) from continuing operations	(79.3)	(36.8)	(2,142.1)
(Loss) from discontinued operations, net of tax of \$0.2, \$0.1 and \$0.0	(0.4)	(2.5)	(0.7)
Net (loss)	\$ (79.7)	\$ (39.3)	\$(2,142.8)

See accompanying notes to consolidated financial statements beginning on page 113.

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Armstrong World Industries, Inc., and Subsidiaries  
Consolidated Balance Sheets  
(amounts in millions, except share data)

	December 31, 2004	December 31, 2003
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 515.9	\$ 484.3
Accounts and notes receivable, net	336.1	315.4
Inventories, net	529.2	454.4
Deferred income taxes	15.6	19.2
Income tax receivable	7.0	—
Other current assets	78.4	85.5
	<u>1,482.2</u>	<u>1,358.8</u>
Total current assets	1,482.2	1,358.8
Property, plant and equipment, less accumulated depreciation and amortization of \$1,540.7 and \$1,434.8, respectively	1,208.8	1,267.3
Insurance receivable for asbestos-related liabilities, noncurrent	88.8	95.1
Prepaid pension costs	480.9	455.1
Investment in affiliates	72.5	48.9
Goodwill	136.0	244.1
Other intangibles, net	76.0	79.0
Deferred income taxes, noncurrent	941.6	988.3
Other noncurrent assets	122.6	111.2
	<u>4,609.4</u>	<u>4,647.8</u>
Total assets	\$ 4,609.4	\$ 4,647.8
<u>Liabilities and Shareholder's Equity</u>		
Current liabilities:		
Short-term debt	\$ 11.1	\$ 3.9
Current installments of long-term debt	8.2	8.2
Accounts payable and accrued expenses	447.4	354.2
Short term amounts due to affiliates	13.3	10.0
Income tax payable	15.3	45.9
Deferred income taxes	1.1	3.3
	<u>496.4</u>	<u>425.5</u>
Total current liabilities	496.4	425.5
Liabilities subject to compromise	4,870.9	4,863.2
Long-term debt, less current installments	29.2	39.4
Postretirement and postemployment benefit liabilities	262.6	262.3
Pension benefit liabilities	258.9	216.4
Other long-term liabilities	87.6	81.2
Deferred income taxes, noncurrent	19.8	95.1
Minority interest in subsidiaries	9.3	9.7
	<u>5,538.3</u>	<u>5,567.3</u>
Total noncurrent liabilities	5,538.3	5,567.3
Shareholder's equity (deficit):		
Common stock, \$1 par value per share Authorized 200 million shares; issued 51,878,910 shares	51.9	51.9
Capital in excess of par value	172.6	172.7
Reduction for ESOP loan guarantee	(142.2)	(142.2)
Accumulated deficit	(1,021.9)	(942.2)
Accumulated other comprehensive income	42.8	43.3
Less common stock in treasury, at cost 2004 and 2003 – 11,393,170 shares	(528.5)	(528.5)
	<u>(1,425.3)</u>	<u>(1,345.0)</u>
Total shareholder's (deficit)	(1,425.3)	(1,345.0)
Total liabilities and shareholder's equity	\$ 4,609.4	\$ 4,647.8

See accompanying notes to consolidated financial statements beginning on page 113.

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Armstrong World Industries, Inc., and Subsidiaries  
Consolidated Statements of Shareholder's Equity  
(amounts in millions, except per share amounts)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Common stock, \$1 par value:</b>			
Balance at beginning and end of year	\$ 51.9	\$ 51.9	\$ 51.9
<b>Capital in excess of par value:</b>			
Balance at beginning of year	\$ 172.7	\$ 172.9	\$ 173.2
Stock issuances and other	(0.1)	(0.2)	(0.3)
Balance at end of year	\$ 172.6	\$ 172.7	\$ 172.9
<b>Reduction for ESOP loan guarantee:</b>			
Balance at beginning and end of year	\$ (142.2)	\$ (142.2)	\$ (142.2)
<b>Retained earnings (accumulated deficit):</b>			
Balance at beginning of year	\$ (942.2)	\$ (902.9)	\$ 1,239.9
Net (loss) for year	(79.7)    \$(79.7)	(39.3)    \$(39.3)	(2,142.8)    \$(2,142.8)
Balance at end of year	\$(1,021.9)	\$ (942.2)	\$ (902.9)
<b>Accumulated other comprehensive income (loss):</b>			
Balance at beginning of year	\$ 43.3	\$ (12.2)	\$ (47.1)
Foreign currency translation adjustments	22.4	56.8	37.7
Derivative gain (loss), net	0.3	(0.3)	6.9
Minimum pension liability adjustments	(23.2)	(1.0)	(9.7)
Total other comprehensive income (loss)	(0.5)    (0.5)	55.5    55.5	34.9    34.9
Balance at end of year	\$ 42.8	\$ 43.3	\$ (12.2)
<b>Comprehensive income (loss)</b>	<b>\$(80.2)</b>	<b>\$ 16.2</b>	<b>\$(2,107.9)</b>
<b>Less treasury stock at cost:</b>			
Balance at beginning and end of year	\$ (528.5)	\$ (528.5)	\$ (528.5)
<b>Total shareholder's (deficit)</b>	<b>\$(1,425.3)</b>	<b>\$(1,345.0)</b>	<b>\$(1,361.0)</b>

See accompanying notes to consolidated financial statements beginning on page 113.

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### Armstrong World Industries, Inc., and Subsidiaries Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2004	2003	2002
<b>Cash flows from operating activities:</b>			
Net (loss)	\$ (79.7)	\$ (39.3)	\$(2,142.8)
Adjustments to reconcile net (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net	—	—	593.8
Depreciation and amortization	151.0	163.1	136.7
Goodwill impairment	108.4	—	—
Fixed asset impairments	64.7	10.5	—
Deferred income taxes	(21.9)	(51.5)	(870.4)
Equity (earnings) from affiliates, net	(33.5)	(20.7)	(21.7)
Chapter 11 reorganization costs, net	6.9	9.4	23.5
Chapter 11 reorganization costs payments	(15.9)	(25.8)	(23.0)
Restructuring and reorganization charges, net of reversals	18.3	8.6	1.9
Restructuring and reorganization payments	(4.1)	(8.7)	(2.1)
Asbestos-related insurance recoveries	4.5	31.0	16.0
Payments for asbestos-related claims	—	(9.0)	—
Charge for asbestos liability, net	—	81.0	2,500.0
Cash effect of hedging activities	1.1	(27.0)	(22.0)
Increase (decrease) in cash from change in:			
Receivables	(9.5)	40.6	11.7
Inventories	(61.7)	6.6	18.1
Other current assets	11.8	(4.6)	(16.1)
Other noncurrent assets	(34.8)	(18.6)	(42.0)
Accounts payable and accrued expenses	61.1	(15.6)	29.0
Income taxes payable	(31.4)	21.9	0.2
Other long-term liabilities	3.5	4.0	11.9
Other, net	4.0	9.9	20.8
<b>Net cash provided by operating activities</b>	<b>142.8</b>	<b>165.8</b>	<b>223.5</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment and computer software	(134.0)	(78.1)	(125.1)
Distributions from equity affiliates	10.0	16.0	17.5
Proceeds from the sale of assets	12.3	4.9	3.5
<b>Net cash (used for) investing activities</b>	<b>(111.7)</b>	<b>(57.2)</b>	<b>(104.1)</b>
<b>Cash flows from financing activities:</b>			
Increase/(decrease) in short-term debt, net	4.0	(5.3)	(13.9)
Payments of long-term debt	(9.8)	(8.2)	(9.0)
Other, net	(1.2)	(0.6)	(0.9)
<b>Net cash (used for) financing activities</b>	<b>(7.0)</b>	<b>(14.1)</b>	<b>(23.8)</b>
Effect of exchange rate changes on cash and cash equivalents	7.5	9.8	7.0
<b>Net increase in cash and cash equivalents</b>	<b>\$ 31.6</b>	<b>\$104.3</b>	<b>\$ 102.6</b>
Cash and cash equivalents at beginning of year	\$ 484.3	\$380.0	\$ 277.4
<b>Cash and cash equivalents at end of year</b>	<b>\$ 515.9</b>	<b>\$484.3</b>	<b>\$ 380.0</b>

See accompanying notes to consolidated financial statements beginning on page 113.

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Armstrong World Industries, Inc., and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(dollar amounts in millions, except share data)

### NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Pennsylvania corporation and the publicly held parent holding company of AWI. Armstrong Holdings, Inc.’s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware Corporation) of all of the capital stock of AWI. Due to the lack of material differences in the financial statements, when we refer in this document to AHI and its subsidiaries as “AHI,” “Armstrong,” “we,” “us,” and “ourselves,” we are also effectively referring to AWI and its subsidiaries. We use the term “AWI” when we are referring solely to Armstrong World Industries, Inc.

#### Proceedings under Chapter 11

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief (the “Filing”) under Chapter 11 of the U.S. Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) in order to use the court-supervised reorganization process to achieve a resolution of the AWI’s asbestos-related liability. Also filing under Chapter 11 were two of AWI’s wholly-owned subsidiaries, Nitram Liquidators, Inc. (“Nitram”) and Desseaux Corporation of North America, Inc. (“Desseaux”). The Chapter 11 cases are being jointly administered under case number 00-4471 (the “Chapter 11 Case”). Shortly after its commencement, the Chapter 11 Case was assigned to Judge Randall J. Newsome. His appointment as a visiting judge in the District of Delaware ended on December 31, 2003. On January 6, 2004, the Chapter 11 Case was reassigned to Judge Judith K. Fitzgerald.

AHI and all of AWI’s other direct and indirect subsidiaries, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (AWI’s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada, and Armstrong DLW AG, were not a part of the Filing and accordingly, except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI, the liabilities, including asbestos-related liability if any, of such companies will not be resolved in AWI’s Chapter 11 Case. See below under “The Asbestos Personal Injury Trust” and Note 32 under “Asbestos-Related Litigation”.

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Bankruptcy Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing unless specifically authorized by the Bankruptcy Court. In addition, as a debtor-in-possession, AWI has the right, subject to the Bankruptcy Court’s approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Some of these have been specifically assumed and others have been specifically rejected already in the course of the Chapter 11 Case. In the plan of reorganization which it has proposed, as described below, AWI has indicated the other executory contracts and unexpired leases that it intends to assume or reject upon consummation of the plan; any not specifically assumed under the plan will be rejected upon consummation of the plan. Parties having claims as a result of the rejection of a contract may file claims with the Bankruptcy Court, which will be dealt with as part of the Chapter 11 Case.

Three creditors’ committees, one representing asbestos personal injury claimants (the “Asbestos Personal Injury Claimants’ Committee”), one representing asbestos property damage claimants (the “Asbestos Property Damage Committee”), and the other representing other unsecured creditors (the “Unsecured Creditors’ Committee”), were appointed in the Chapter 11 Case. In addition, an individual was appointed to represent the interests of future asbestos personal injury claimants (the “Future Claimants’ Representative”). In accordance with the provisions of the Bankruptcy Code, these parties have the right to be heard on matters that come before the Bankruptcy Court in the Chapter 11 Case. Upon resolution of all asbestos property damage claims, the Asbestos Property Damage Committee was disbanded.

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### Armstrong World Industries, Inc., and Subsidiaries Notes to Condensed Consolidated Financial Statements (dollar amounts in millions, except share data)

#### Plan of Reorganization and Disclosure Statement

On November 4, 2002, AWI filed a Plan of Reorganization with the Bankruptcy Court. Subsequently, AWI filed several amendments to the plan, along with various exhibits. The Fourth Amended Plan of Reorganization, with certain exhibits, was filed on May 23, 2003 and, as so amended and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003 and December 3, 2004, is referred to in this report as the “POR”. The POR provides for AWI to continue to conduct its existing lines of business with a reorganized capital structure under which, among other things, its existing shares of stock will be cancelled and new common shares and notes will be issued to its unsecured creditors and to a trust, as further discussed below, to be established under the POR for the benefit of AWI’s current and future asbestos-related personal injury claimants, in full satisfaction of their claims against AWI. References in this report to “reorganized Armstrong” are to AWI as it would be reorganized under the POR, and its subsidiaries collectively. The POR excludes AWI’s Nitram and Desseaux subsidiaries, neither of which is material to Armstrong and which are pursuing separate resolutions of their Chapter 11 cases that are expected to result in the winding up of their affairs.

In connection with the vote of creditors on the POR, AWI was required to prepare a disclosure statement concerning its business and the POR, including certain projected financial information assuming an Effective Date of the POR as July 1, 2003, intended to demonstrate to the Bankruptcy Court the feasibility of the POR and AWI’s ability to continue operations upon its emergence from Chapter 11. On May 30, 2003, the Bankruptcy Court approved the disclosure statement for distribution to parties in interest in the Chapter 11 Case. The projected financial information included in the disclosure statement was updated in certain respects by information submitted to the Bankruptcy Court in connection with the Bankruptcy Court’s November 2003 hearing on confirmation of the POR. The projected financial information was prepared for the limited purposes of consideration by the Bankruptcy Court, creditors and other parties in interest in the Chapter 11 Case of matters pertinent to the case. As indicated in the disclosure statement, the projected financial information and various estimates of value therein provided should not be regarded as representations or warranties by AWI, AHI or any other person. There is no assurance that any such projection or valuation will be realized. The projected financial information and estimates of value were prepared by AWI and its financial advisors and have not been audited or reviewed by independent accountants. The projections will not be updated on an ongoing basis. At the time they were prepared in 2003, the projections reflected numerous assumptions concerning reorganized Armstrong’s anticipated future performance and with respect to prevailing and anticipated market and economic conditions, which were and remain beyond our control and which may not materialize. Projections are inherently subject to significant and numerous uncertainties and to a wide variety of significant business, economic and competitive risks and the assumptions underlying the projections may be wrong in a material respect. Actual results may vary significantly from those contemplated by the projections.

During 2003, the POR was submitted for a vote by AWI’s creditors for its approval. It was approved by each creditor class that was entitled to vote on the POR except the class of unsecured creditors. On November 17 and 18, 2003, the Bankruptcy Court held a hearing on confirmation of the Plan and on December 19, 2003, issued proposed findings of fact and conclusions of law and a proposed order confirming the POR, notwithstanding the rejection of the POR by the class of unsecured creditors. On December 29, 2003, the Unsecured Creditors’ Committee filed an objection to the Bankruptcy Court’s proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR.

In order for the POR to be confirmed, the U.S. District Court must also issue findings of fact and conclusions of law in support of confirmation of the POR, enter or affirm an order confirming the POR and issue the “524(g) injunction” which is part of the POR.

#### Recent Developments and Next Steps in the Chapter 11 Process

Following procedural delays concerning the status of the prior U.S. District Court judge on AWI’s Chapter 11 Case, the AWI case was assigned to U.S. District Court Judge Eduardo C. Robreno in June 2004. A hearing was held before Judge Robreno on December 15, 2004 to consider the objections to confirmation of the POR. On February 23, 2005, Judge Robreno ruled that the POR could not be confirmed. In the court’s decision (which is available at [www.armstrongplan.com](http://www.armstrongplan.com)), the Judge found that, because the class of

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unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule.

AWI filed a Notice of Appeal to the United States Court of Appeals for the Third Circuit on March 4, 2005. On March 18, 2005, AWI filed a motion to expedite the appeal to the U.S. Court of Appeals. AWI is also reviewing other options to resolve its Chapter 11 Case. AWI is unable to predict whether the POR will be confirmed or when AWI would emerge from Chapter 11.

#### Asbestos Personal Injury Trust

A principal feature of the POR is the creation of a trust (the “Asbestos PI Trust”), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI’s personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI’s pre-Filing use of or other activities involving asbestos will be channeled to the Asbestos PI Trust.

In accordance with the “524(g) injunction” to be issued if the POR goes into effect various entities would be protected from such present and future AWI asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHI, AWI’s subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

However, although AWI’s domestic and foreign subsidiaries and other affiliates would be protected parties, asbestos-related personal injury claims against them would be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the pre-Filing manufacturing, installation, distribution or other activities of AWI, or AWI’s ownership of the subsidiaries or affiliates (as distinguished from independent activities of the subsidiaries or affiliates). See Note 32 under “Asbestos-Related Litigation.”

In addition, workers’ compensation claims brought against AWI or its subsidiaries or other affiliates would not be channeled to the Asbestos PI Trust and would remain subject to the workers’ compensation process. Workers’ compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Historically, workers’ compensation claims against AWI or its subsidiaries have not been significant in number or amount, and AWI has continued to honor its obligations with respect to such claims during the Chapter 11 Case. Currently, AWI has three pending workers’ compensation claims, and its UK subsidiary has five employer liability claims involving alleged asbestos exposure.

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes neither AWI nor its subsidiaries or other affiliates is subject to asbestos-related personal injury claims, that would not be channeled to the Asbestos PI Trust under the POR, which would be material in amount to reorganized Armstrong.

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### Consideration to Be Distributed under the POR (unaudited)

The Asbestos PI Trust and the holders of allowed unsecured claims would share in the following consideration to be distributed under the POR:

- AWI's "Available Cash," which is defined in the POR as:
  - Cash available on the effective date of the POR after reserving up to \$100 million (as determined by AWI) to fund ongoing operations and making provisions for certain required payments under the POR,
  - Any cash drawn, at AWI's sole discretion, under a credit facility to be established as provided by the POR for the purpose of funding distributions under the POR, and
  - Certain insurance proceeds related to environmental matters

However, proceeds received under any private offering of debt securities and/or secured term loan borrowings made, as permitted by the POR, in connection with consummation of the POR, and certain other amounts authorized or directed by the Court, would be excluded from the determination of Available Cash.

- Plan Notes of AWI as further described below or net cash proceeds from any private offerings of debt securities issued in lieu thereof, and
- Substantially all of the new common stock of AWI.

The total amount of Plan Notes would be the greater of (i) \$1.125 billion less Available Cash and (ii) \$775 million. However, AWI would use reasonable efforts to issue one or more private offerings of debt securities on, or as soon as practicable after, the Effective Date. These offerings are expected to yield net proceeds at least equal to the amount of the Plan Notes prescribed by the Plan. If the private offerings are successful, the Plan Notes would not be issued. If the offerings yield proceeds less than the amount of the Plan Notes prescribed by the Plan, Plan Notes equal to the difference will be issued. If only the Plan Notes are issued, reorganized Armstrong expects to issue an aggregate amount of \$775 million of Plan Notes. These Plan Notes would consist of (i) a tranche of notes with a seven-year maturity and a fixed interest rate, (ii) a tranche of notes with a ten-year maturity and a fixed interest rate and (iii) a tranche of floating rate notes with a maturity of not less than five years, but no more than ten years, structured in a manner similar to, and as liquid as, marketable bank debt which satisfy the requirements of the POR and are on terms and conditions that are satisfactory to AWI, the Asbestos Personal Injury Claimants' Committee, and the Future Claimants' Representative. To the extent Plan Notes of more than one type are issued, a pro rata share of each tranche would be issued to the Asbestos PI Trust and the holders of unsecured claims.

The POR provides that unsecured creditors, other than convenience creditors described below, would receive their pro rata share of:

- 34.43% of the new common stock of reorganized Armstrong,
- 34.43% of the first \$1.05 billion of all the cash and Plan Notes to be distributed under the POR to unsecured creditors (other than convenience creditors) and the Asbestos PI Trust, in the form of:
  - Up to \$300 million of Available Cash and
  - The balance in principal amount of Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes.
- 60% of the next \$50 million of Available Cash but, if such Available Cash is less than \$50 million, then 60% of the balance in Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes, and
- 34.43% of the remaining amount of any Available Cash and any Plan Notes up to the maximum amount of Plan Notes provided to be issued under the POR, or net cash proceeds from any private offerings of debt securities made in lieu of issuing such Plan Notes.

The remaining amount of new common stock of reorganized Armstrong, Available Cash and Plan Notes or net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes would be distributed to the Asbestos PI Trust.

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Under the POR, unsecured creditors whose claims (other than claims on debt securities) are less than \$10 thousand or who elect to reduce their claims to \$10 thousand would be treated as “convenience creditors” and would receive payment of 75% of their allowed claim amount in cash (which payments would reduce the amount of Available Cash).

Under the POR, the existing equity interests in AWI (including all of its outstanding shares of common stock) would be cancelled. The POR provides for the distribution of warrants to purchase shares of reorganized Armstrong (the “Warrants”) to the holders of AWI’s existing common stock. The terms of the Warrants are provided in an exhibit to the POR. The Warrants:

- would permit the purchase of 5% of the common stock of reorganized Armstrong on a fully diluted basis, upon exercise of all the Warrants;
- would be exercisable at any time during the seven years after the effective date of the POR; and
- would permit the purchase of shares at an exercise price of \$37.50, which is equal to 125% of the \$30.00 per share equity value of reorganized Armstrong, as agreed among the financial advisers for AWI, the Asbestos Personal Injury Claimants’ Committee, the Unsecured Creditors’ Committee, and the Future Claimants’ Representative, as set forth in the Bankruptcy Court-approved disclosure statement for the POR (as further described below).

Whether any value would be realized from the Warrants would depend on whether the market value of reorganized Armstrong’s new common stock reaches a value in excess of the exercise price of the Warrants during the period that they may be exercised.

AHI’s shareholders were not entitled to vote on the POR. However, AHI’s shareholders were sent the Disclosure Statement and POR. If the POR is implemented, the only value that would be available to AHI shareholders is their ratable share of the Warrants available upon the contemplated dissolution of AHI. See AHI’s Plan of Dissolution below. As discussed above, however, on February 23, 2005, the U.S. District Court entered an order denying confirmation of the POR. In the court’s decision (which is available at [www.armstrongplan.com](http://www.armstrongplan.com)), the Judge found that, because the class of unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule.

### Valuation of Consideration to be Distributed under the POR (unaudited)

Based upon many assumptions (see Disclosure Statement discussion above), to calculate the value of consideration to be distributed, AWI used \$2.7 billion as the value of reorganized Armstrong. This is the mid-point of the range of estimated values of \$2.4 billion and \$3.0 billion that was estimated by AWI and its financial advisors during the third quarter of 2003. AWI’s estimated value of the consideration to be distributed under the POR to the Asbestos PI Trust, holders of allowed unsecured claims and AWI’s existing common stock, is:

- New common stock at \$30 a share, which is the approximate mid-point of the range of estimated values of \$24.66 and \$35.30 per share, assuming a distribution of 56.4 million shares of new common stock to holders of unsecured claims and the Asbestos PI Trust;
- Plan Notes in the aggregate principal amount of \$775 million, that are worth their face value;
- Available Cash of approximately \$350 million that AWI expects to have; and
- Warrants with an estimated value of between \$35 million and \$40 million.

The total value of the consideration to be distributed to the Asbestos PI Trust, other than rights under asbestos non-product liability insurance policies, has been estimated to be approximately \$1.8 billion, and the total value of consideration to be distributed to holders of allowed unsecured claims (other than convenience claims) has been estimated to be approximately \$0.9 billion. Based upon the estimated value of the POR consideration, and upon AWI’s estimate that unsecured claims allowed by the Bankruptcy Court (other than convenience claims) would total approximately \$1.65 billion, AWI estimated that holders of allowed unsecured claims (other than convenience claims) would receive a recovery having a value equal to approximately 59.5% of their allowed claims.

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### AHI's Plan of Dissolution, Winding Up and Distribution ("Plan of Dissolution")

In connection with the implementation of the POR, the Warrants would be issued to AHI (or a wholly-owned subsidiary of AHI). The Board of Directors of AHI has determined that it is not practicable for AHI to continue in operation as an on-going business owning the Warrants, which would then be AHI's only asset. Accordingly, the Board of Directors of AHI approved and recommended to AHI shareholders the Plan of Dissolution, whereby AHI would voluntarily dissolve and wind up its affairs in accordance with Pennsylvania law and, subject to completion of AHI's winding up (including the satisfaction of any liabilities of AHI), distribute any remaining Warrants to the shareholders. At a special meeting of AHI shareholders on January 7, 2004, the Plan of Dissolution was approved. The POR provides that AWI would pay the costs and expenses incurred in connection with administering AHI's Plan of Dissolution.

### Common Stock and Debt Securities

As a result of AWI filing the Plan of Reorganization on November 4, 2002, the New York Stock Exchange stopped trading on the Exchange of the common stock of AHI (traded under the ticker symbol "ACK") and two debt securities of AWI (traded under the ticker symbols "AKK" and "ACK 08"). AHI's common stock resumed trading in the over-the-counter (OTC) Bulletin Board under the ticker symbol "ACKHQ" and one of AWI's debt securities resumed trading under the ticker symbol "AKKWQ".

### Bar Date for Filing Claims

The Bankruptcy Court established August 31, 2001 as the bar date for all claims against AWI except for asbestos-related personal injury claims and certain other specified claims. A bar date is the date by which claims against AWI must be filed if the claimants wish to participate in any distribution in the Chapter 11 Case. A bar date for asbestos-related personal injury claims (other than claims for contribution, indemnification, or subrogation) has been rendered unnecessary under the terms of the POR, which defers the filings of such claims until the Asbestos PI Trust is established to administer such claims.

Approximately 4,800 proofs of claim (including late-filed claims) totaling approximately \$6.3 billion, alleging a right to payment from AWI, were filed with the Bankruptcy Court in response to the August 31, 2001 bar date. The disposition of these claims under the POR is discussed below. AWI continues the process of investigating and resolving these claims. The Bankruptcy Court will ultimately determine the claims and related liability amounts that will be allowed as part of the Chapter 11 process if the parties cannot agree.

In its ongoing review of the filed claims, AWI to date has objected to approximately 2,200 claims totaling \$2.7 billion. The Bankruptcy Court disallowed these claims with prejudice.

During the first six months of 2003, AWI settled all of the approximately 460 remaining property damage claims that alleged damages of \$800 million, for approximately \$9 million. Payments to claimants were made during the third quarter of 2003 and were funded by insurance.

Approximately 1,100 proofs of claim totaling approximately \$1.3 billion are pending with the Bankruptcy Court that are associated with asbestos-related personal injury litigation, including direct personal injury claims, claims by co-defendants for contribution and indemnification, and claims relating to AWI's participation in the Center for Claims Resolution. As stated above, the bar date of August 31, 2001 did not apply to asbestos-related personal injury claims other than claims for contribution, indemnification, or subrogation. The POR contemplates that all AWI asbestos-related personal injury claims, including claims for contribution, indemnification, or subrogation, will be addressed in the future pursuant to the procedures relating to the Asbestos PI Trust developed in connection with the POR. See further discussion regarding AWI's liability for asbestos-related matters in Note 32.

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Approximately 1,100 claims totaling approximately \$1.6 billion alleging a right to payment for financing, environmental, trade debt and other claims remain. For these categories of claims, AWI has previously recorded approximately \$1.6 billion in liabilities.

AWI has recorded liability amounts for claims that can be reasonably estimated and which it does not contest or believes are probable of being allowed by the Bankruptcy Court. The final value of all the claims that will ultimately be allowed by the Bankruptcy Court is not known at this time. However, it is likely the value of the claims ultimately allowed by the Bankruptcy Court will be different than amounts presently recorded by AWI. This difference could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

### Financing

AWI has a \$75.0 million debtor-in-possession credit facility that currently is limited to issuances of letters of credit. This facility was extended to December 8, 2005 with approval of the Bankruptcy Court, granted on November 15, 2004. As of December 31, 2004, AWI had approximately \$40.6 million in letters of credit, which were issued pursuant to the DIP Facility. As of December 31, 2004, AWI had \$308.7 million of cash and cash equivalents, excluding cash held by its non-debtor subsidiaries. AWI believes that cash on hand and generated from operations and dividends from its subsidiaries, together with subsidiary lines of credit and the DIP Facility, will be adequate to address its foreseeable liquidity needs. Obligations under the DIP Facility, including reimbursement of draws under the letters of credit, if any, constitute superpriority administrative expense claims in the Chapter 11 Case.

### Accounting Impact

AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7") provides financial reporting guidance for entities that are reorganizing under the Bankruptcy Code. This guidance is implemented in the accompanying consolidated financial statements.

Pursuant to SOP 90-7, AWI is required to segregate pre-Filing liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2004 and December 31, 2003. Liabilities that may be affected by a plan of reorganization are recorded at the expected amount of the allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's pre-Filing debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of AWI subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's estimated liability for asbestos-related personal injury claims is also recorded in liabilities subject to compromise. See Note 32 for further discussion of AWI's asbestos liability.

Additional pre-Filing claims (liabilities subject to compromise) may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims.

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SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization costs, net. Accordingly, AWI recorded the following Chapter 11 reorganization activities during 2004, 2003 and 2002:

	2004	2003	2002
Professional fees	\$11.5	\$ 25.2	\$27.8
Interest income, post-Filing	(4.8)	(3.4)	(3.5)
Reductions to pre-Filing liabilities	—	(12.9)	(1.1)
Other expense directly related to bankruptcy, net	0.2	0.5	0.3
<b>Total Chapter 11 reorganization costs, net</b>	<b>\$ 6.9</b>	<b>\$ 9.4</b>	<b>\$23.5</b>

Professional fees represent legal and financial advisory fees and expenses directly related to the Filing.

Interest income is earned from short-term investments subsequent to the Filing.

Reductions to pre-Filing liabilities represent Bankruptcy Court approved settlements of prepetition liabilities. In 2003, AWI reached an agreement with the holder of a zero coupon note on the amount of its allowed claim. This agreement reduced the previously accrued liability by \$12.1 million.

As a result of the Filing, realization of assets and liquidation of liabilities are subject to uncertainty. While operating as a debtor-in-possession, AWI may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the condensed consolidated financial statements.

If and when the POR is confirmed and made effective, reorganized AWI's condensed consolidated financial statements will change materially in amounts and classifications through the implementation of the fresh start accounting rules of SOP 90-7.

### Conclusion

AWI is unable to predict whether the POR will be confirmed or when AWI would emerge from Chapter 11. Therefore, the timing and terms of a resolution of the Chapter 11 Case remain uncertain.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy. The consolidated financial statements and accompanying data in this report include the accounts of AHI and its majority-owned subsidiaries. The results of less than majority owned subsidiaries are accounted for under the equity method. All significant intercompany transactions have been eliminated from the consolidated financial statements.

Use of Estimates. These financial statements are prepared in accordance with generally accepted accounting principles and include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asbestos-related liabilities and insurance assets, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers compensation, general liability and environmental claims. When preparing an estimate, management determines the amount based upon considering relevant information. Management may confer with outside parties, including outside counsel. Actual results may differ from these estimates.

Reclassifications. Certain amounts in the prior years' consolidated financial statements and notes thereto have been reclassified to conform to the 2004 presentation. These reclassifications were made to the consolidated statements of earnings and primarily consisted of reclassifying 2003 and 2002 amounts from other non-operating income and other non-operating expense to selling, general and administrative ("SG&A") expense and discontinued operations.

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**Revenue Recognition:** We recognize revenue from the sale of products when persuasive evidence of an arrangement exists, title and risk of loss transfers to the customers, prices are fixed and determinable, and it is reasonably assured the related accounts receivable is collectable. Our sales terms primarily are FOB shipping point. We have some sales terms that are FOB destination. Our products are sold with normal and customary return provisions. Sales discounts are deducted immediately from the sales invoice. Provisions, which are recorded as a reduction of revenue, are made for the estimated cost of rebates and promotional programs. We defer recognizing revenue if special sales agreements, established at the time of sale, warrant this treatment.

**Sales Incentives.** Sales incentives are reflected as a reduction of net sales for all periods presented.

**Shipping and Handling Costs.** Shipping and handling costs are reflected in cost of goods sold for all periods presented.

**Advertising Costs.** We recognize advertising expenses as they are incurred.

**Pension and Postretirement Benefits.** We have benefit plans that provide for pension, medical and life insurance benefits to certain eligible employees when they retire from active service. Generally, our practice is to fund the actuarially determined current service costs and the amounts necessary to amortize prior service obligations over periods ranging up to 30 years, but not in excess of the funding limitations.

**Taxes.** The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

**Cash and Cash Equivalents.** Cash and cash equivalents include cash on hand and short-term investments that have maturities of three months or less when purchased.

**Concentration of Credit.** We principally sell products to customers in the building products industries, in various geographic regions. Net sales in excess of 10% of our consolidated net sales for 2004, 2003 and 2002 were:

<u>Customer</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
The Home Depot, Inc.	\$393.4	\$400.0	\$380.3
Lowe's Companies, Inc.	(1)	318.7	(1)

(1) Net sales to Lowe's Companies, Inc. were less than 10% of consolidated net sales.

Net sales to these customers were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

There are no significant concentrations of credit risk other than with two home center customers who represent 22% of our trade receivables as of December 31, 2004 and 2003. We monitor the creditworthiness of our customers and generally do not require collateral.

**Receivables.** We sell the vast majority of our products to select, pre-approved customers using customary trade terms that allow for payment in the future. Customer trade receivables, customer notes receivable and miscellaneous receivables (which include supply related rebates and claims to be received, unpaid insurance claims from litigation and other), net of allowances for doubtful accounts,

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are reported in accounts and notes receivable, net. Notes receivable from divesting certain businesses in prior years are included in other current assets and other non-current assets based upon the payment terms. Insurance receivables for asbestos-related liabilities are primarily non-current, with the current portion reported in other current assets.

We establish credit worthiness prior to extending credit. We estimate the recoverability of current and non-current receivables each period. This estimate is based upon triggering events and new information in the period, which can include the review of any available financial statements and forecasts, as well as discussions with legal counsel and the management of the debtor company. Periodic changes to the allowances for doubtful accounts and/or impairment charges are made to reflect our estimate.

Inventories. Inventories are valued at the lower of cost or market. Inventories also include certain resilient flooring samples used in ongoing sales and marketing activities.

Property and Depreciation. Property, plant and equipment values are stated at acquisition cost less accumulated depreciation and amortization. Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives. Machinery and equipment includes manufacturing equipment (depreciated over 3 to 20 years), computer equipment (3 to 5 years) and office furniture and equipment (5 to 10 years). Within manufacturing equipment, assets that are subject to quick obsolescence or wear out quickly, such as tooling and engraving equipment, are depreciated over shorter periods (3 to 7 years). Heavy production equipment, such as conveyors and production presses, are depreciated over longer periods (15 to 20 years). Buildings are depreciated over 20 to 40 years, depending on factors such as type of construction and use.

In accordance with Financial Accounting Standards Board (“FSAB”) Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” (“FAS 144”) effective January 1, 2002, impairment losses are recorded when indicators of impairment are present, such as operating losses and/or negative cash flows. For purposes of calculating any impairment, we estimate the fair value and compare it to the carrying value of the asset. If the fair value is less than the carrying value of the asset, we record an impairment equal to the difference between the fair value and carrying value of the asset. When assets are disposed of or retired, their costs and related depreciation are removed from the financial statements and any resulting gains or losses normally are reflected in SG&A expenses.

Costs of the construction of certain property include capitalized interest which is amortized over the estimated useful life of the related asset. There was no capitalized interest recorded in 2004, 2003 and 2002 due to the Chapter 11 Filing.

Goodwill and Other Intangibles. Effective January 1, 2002, we adopted FASB Statement No. 142, “Goodwill and Other Intangible Assets” (“FAS 142”), which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Our annual impairment test is performed in the fourth quarter. FAS 142 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment. See Note 12 for disclosure on goodwill and other intangibles.

Contingent Liabilities. In the context of the Chapter 11 Case, contingent liabilities, including claims that became known after the Filing, are recorded on the basis of the expected amount of the allowed claim in accordance with SOP 90-7 as opposed to the amount for which a claim may be settled.

Foreign Currency Transactions. Assets and liabilities of our subsidiaries operating outside the United States, which account in a functional currency other than US dollars, are translated using the year end exchange rate. Revenues and expenses are translated at exchange rates effective during each month.

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Foreign currency translation gains or losses are included as a component of accumulated other comprehensive income (loss) within shareholders' equity. Gains or losses on foreign currency transactions are recognized through the statement of earnings.

Financial Instruments and Derivatives. From time to time, we use derivatives and other financial instruments to diversify or offset the effect of currency, interest rate and commodity price variability. See Note 20 for further discussion.

Stock-based Employee Compensation. At December 31, 2004, we had three stock-based employee compensation plans, which are described more fully in Note 25. No equity compensation has been granted since AWI filed for Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing. However, some previously granted restricted stock and options vested after that date. All outstanding options are vested as of December 31, 2004. We account for these plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The following table illustrates the effect on net income if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-based Compensation," ("FAS 123") to stock-based employee compensation.

	2004	2003	2002
Net (loss), as reported	\$(80.8)	\$(39.3)	\$(2,142.8)
Add : Stock-based employee compensation expense included in reported net income, net of related tax effects	—	0.1	0.6
Deduct : Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	—	(0.2)	(1.1)
Pro forma net (loss)	\$(80.8)	\$(39.4)	\$(2,143.3)

Fiscal Periods. Prior to 2003, the fiscal years of the Wood Flooring and Cabinets segments ended on the Saturday closest to December 31, which was December 28, 2002. No events had occurred between these dates and December 31 materially affecting our financial position or results of operations. During 2003, the Wood Flooring and Cabinets segments transitioned to a calendar quarter and year end. The effect of this transition on our comparative financial information was immaterial.

### New Accounting Standards

In December 2003, the FASB issued Statement of Financial Accounting Standards (FAS) No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("FAS 132R"). This standard amends the disclosure requirements of FAS 132 to require additional disclosures about assets, obligations, cash flow and net periodic benefit cost. The revised standard was effective for fiscal years ending after December 15, 2003 for U.S. plans and for fiscal years ending after June 15, 2004 for foreign plans. The related disclosures have been included in Note 18.

In December 2004, the FASB issued FASB Staff Position ("FSP") FAS No. 109-1 "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004". This FSP, which became effective upon issuance, provides that the tax deduction for income with respect to qualified domestic production activities, as part of the American Jobs Creation Act of 2004 that was enacted on October 22, 2004, will be treated as a special deduction as described in FAS No. 109. As a result, this deduction has no effect on our deferred tax assets and liabilities existing at the date of enactment. Instead, the impact of this deduction, which is effective January 1, 2005, will be reported in the period in which the deduction is claimed on our income tax returns.

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In December 2004, the FASB issued FSP FAS No. 109-2 “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004”. This FSP, which became effective upon issuance, allows an enterprise additional time beyond the financial reporting period of enactment of the American Jobs Creation Act of 2004 to evaluate the effect of this act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS No. 109. See Note 16, Income Taxes, for more information on the impact of adopting this FSP.

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### NOTE 3. NATURE OF OPERATIONS

#### Reportable Segments

*Resilient Flooring* — produces a broad range of floor coverings for homes and commercial and institutional buildings. Resilient Flooring products include vinyl sheet, vinyl tile, linoleum flooring and luxury vinyl tile. In addition, our Resilient Flooring segment sources and sells laminate flooring products, ceramic tile products, adhesives, installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs and colors. Many products offer reduced maintenance (no-wax). We sell these products to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

*Wood Flooring* — produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes solid wood (pre-finished or unfinished), engineered wood floors in various wood species (with oak being the primary species of choice) and related accessories. Virtually all of our Wood Flooring's sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce<sup>®</sup>, Hartco<sup>®</sup> and Robbins<sup>®</sup>.

*Textiles and Sports Flooring* (“TSF”) — produces carpeting and sports flooring products that are sold mainly in Europe. Carpeting products consist principally of carpet tiles and broadloom used in commercial applications and in the leisure and travel industry. Sports flooring products include artificial turf and other sports surfaces. Our TSF products are sold primarily through retailers, contractors, distributors and other industrial businesses.

*Building Products* — produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional and residential settings. In addition, our Building Products segment sources and sells wood ceiling systems. The products are available in numerous colors, performance characteristics and designs, and offer attributes such as acoustical control, rated fire protection and aesthetic appeal. Commercial ceiling materials and accessories are sold to ceiling systems contractors and to resale distributors. Residential ceiling products are sold through wholesalers and retailers (including large home centers), primarily in North America. Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

*Cabinets* — produces kitchen and bathroom cabinetry and related products, which are used primarily in the U.S. residential new construction and renovation markets. Through our system of company-owned and independent distribution centers and through direct sales to builders, our Cabinets segment provides design, fabrication and installation services to single and multi-family homebuilders, remodelers and consumers under the brand names Armstrong<sup>™</sup> and Bruce<sup>®</sup>.

*Unallocated Corporate* — includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred tax assets, cash and the U.S. prepaid pension cost. The most significant of the Unallocated Corporate expenses relates to asbestos charges as described in Note 32. Other expenses included in Unallocated Corporate are corporate departments' expenses that have not been allocated to other reportable segments, and the U.S. pension credit. Unallocated Corporate also includes assets and equity earnings related to a corporate equity investment in Interface Solutions, Inc. Expenses for our corporate departments (including computer services, human resources, legal, finance and other) are allocated to the reportable segments when the departments provide specific work to the reportable segment and the expense allocation can be based on known metrics, such as time reporting, headcount or square-footage. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

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For the year ended 2004	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	\$1,215.1	\$832.1	\$265.4	\$971.7	\$213.0	—	\$3,497.3
Equity (earnings) from joint venture	—	—	—	(31.6)	—	—	(31.6)
Segment operating income (loss) <sup>(1)</sup>	(150.2)	51.4	(7.1)	127.0	1.4	\$ (66.3)	(43.8)
Restructuring and reorganization charges, net of reversals	4.5	1.6	0.4	10.9	0.4	0.5	18.3
Segment assets	737.9	663.6	218.1	596.3	102.2	2,291.3	4,609.4
Depreciation and amortization	62.6	18.1	5.6	35.2	3.8	25.7	151.0
Fixed asset impairment loss	63.1	0.8	—	0.4	0.4	—	64.7
Goodwill impairment	108.4	—	—	—	—	—	108.4
Investment in affiliates	0.6	—	—	51.0	—	20.9	72.5
Capital additions	33.8	33.7	3.9	44.5	1.4	16.7	134.0

For the year ended 2003	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	\$1,181.5	\$738.6	\$271.9	\$862.2	\$204.8	—	\$3,259.0
Equity (earnings) from joint venture	—	—	—	(20.8)	—	—	(20.8)
Segment operating income (loss) <sup>(1)</sup>	56.2	(4.0)	(11.0)	95.2	(11.1)	\$ (144.6)	(19.3)
Restructuring and reorganization charges, net of reversals	1.2	0.8	7.4	—	—	(0.8)	8.6
Segment assets	915.3	576.6	207.1	551.5	102.3	2,295.0	4,647.8
Depreciation and amortization	60.6	39.4	5.2	30.2	1.6	26.1	163.1
Fixed asset impairment loss	1.1	3.4	—	3.8	1.6	0.6	10.5
Investment in affiliates	0.6	—	—	29.5	—	18.8	48.9
Capital additions	26.5	17.3	3.4	22.3	1.6	7.0	78.1

For the year ended 2002	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	\$1,152.3	\$719.3	\$247.2	\$826.6	\$226.9	—	\$3,172.3
Equity (earnings) from joint venture	—	—	—	(19.7)	—	—	(19.7)
Segment operating income (loss) <sup>(1)</sup>	64.6	53.0	(4.7)	96.5	(3.9)	\$(2,550.7)	(2,345.2)
Restructuring and reorganization charges, net of reversals	2.2	—	(0.3)	—	—	—	1.9
Segment assets	890.7	619.7	203.4	544.6	116.6	2,129.8	4,504.8
Depreciation and amortization	54.7	16.8	5.6	32.2	2.2	25.2	136.7
Investment in affiliates	0.9	—	—	24.6	—	18.4	43.9
Capital additions	39.0	22.9	4.1	28.5	6.0	24.6	125.1

- (1) Segment operating income is the measure of segment profit or loss reviewed by the chief operating decision maker. The sum of the segments' operating income equals the total consolidated operating income as reported on our income statement. The following reconciles our total consolidated operating income to income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. These items are only measured and managed on a consolidated basis:

	2004	2003	2002
Segment operating income (loss)	\$(43.8)	\$(19.3)	\$(2,345.2)
Interest expense	8.4	9.0	11.3
Other non-operating expense	3.1	5.7	3.6
Other non-operating (income)	(6.4)	(5.0)	(7.5)
Chapter 11 reorganization costs, net	6.9	9.4	23.5

(Loss) before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles	<u>\$(55.8)</u>	<u>\$(38.4)</u>	<u>\$(2,376.1)</u>
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Accounting policies of the segments are the same as those described in the summary of significant accounting policies.

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The sales in the table below are allocated to geographic areas based upon the location of the customer.

### Geographic Areas

<u>Net trade sales</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Americas:			
United States	\$2,338.9	\$2,210.9	\$2,197.0
Canada	177.6	162.2	152.6
Other Americas	31.8	24.8	26.4
Total Americas	<u>\$2,548.3</u>	<u>\$2,397.9</u>	<u>\$2,376.0</u>
Europe:			
Germany	\$ 181.2	\$ 178.2	\$ 172.6
England	148.0	125.5	129.8
Other Europe	478.1	439.3	387.9
Total Europe	<u>\$ 807.3</u>	<u>\$ 743.0</u>	<u>\$ 690.3</u>
Total Pacific area	<u>\$ 141.7</u>	<u>\$ 118.1</u>	<u>\$ 106.0</u>
Total net trade sales	<u>\$3,497.3</u>	<u>\$3,259.0</u>	<u>\$3,172.3</u>
<u>Long-lived assets (property, plant and equipment), net at December 31</u>		<u>2004</u>	<u>2003</u>
Americas:			
United States		\$ 823.6	\$ 848.5
Canada		14.8	15.0
Total Americas		<u>\$ 838.4</u>	<u>\$ 863.5</u>
Europe:			
Germany		\$ 191.3	\$ 224.0
Other Europe		150.8	150.8
Total Europe		<u>\$ 342.1</u>	<u>\$ 374.8</u>
Total Pacific area		<u>\$ 28.3</u>	<u>\$ 29.0</u>
Total long-lived assets, net		<u>\$1,208.8</u>	<u>\$1,267.3</u>

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### NOTE 4. LIABILITIES SUBJECT TO COMPROMISE

As a result of AWI's Chapter 11 Filing (see Note 1), pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of our subsidiaries that are not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 1 for further discussion on how the Chapter 11 process may address AWI's liabilities subject to compromise and Note 32 for further discussion of AWI's asbestos liability.

Liabilities subject to compromise at December 31, 2004 and December 31, 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Debt (at face value)	\$1,388.6	\$1,388.6
Asbestos-related liability	3,190.6	3,190.6
Prepetition trade payables	58.9	58.9
Prepetition other payables and accrued interest	70.4	62.7
Amounts due to affiliates	4.7	4.7
ESOP loan guarantee	157.7	157.7
<b>Total liabilities subject to compromise</b>	<b><u>\$4,870.9</u></b>	<b><u>\$4,863.2</u></b>

Additional prepetition claims (liabilities subject to compromise) may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims.

See Note 17 for detail of debt subject to compromise.

### NOTE 5. ACQUISITIONS

On May 18, 2000, we acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a manufacturer and installer of metal ceilings, for \$6 million plus certain contingent consideration not to exceed \$25.5 million, based on results over the three year period ending December 31, 2002. In accordance with the purchase agreement, contingent consideration of \$3.0 million was paid to the former owners, with the final payment being made in the third quarter of 2004.

The Gema acquisition was recorded under the purchase method of accounting. The purchase price was allocated to the assets acquired and the liabilities assumed based on the estimated fair market value at the date of acquisition. The fair market value of tangible and identifiable intangible net assets acquired exceeded the purchase price by \$24.2 million and this amount was recorded as a reduction of the fair value of property, plant and equipment. Contingent consideration of \$3.0 million was accounted for as additional purchase price.

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### NOTE 6. DISCONTINUED OPERATIONS

On May 31, 2000, Armstrong completed its sale of all entities, assets and certain liabilities comprising its Insulation Products segment. During 2003 and 2002, AHI recorded net losses of \$2.4 million and \$0.7 million respectively, for the impairment of some note receivables and the settlement of certain tax contingencies related to this divestiture.

On December 29, 1995, Armstrong sold a furniture subsidiary, Thomasville Furniture Industries. During 2004 and 2003, AHI recorded net losses of \$0.4 million and \$0.1 million, respectively, for the environmental and tax indemnification related to this divestiture.

In accordance with FAS 144, these adjustments were classified as discontinued operations since the original divestitures were reported as discontinued operations.

### NOTE 7. OTHER DIVESTITURES

In July 2000, we sold our Installation Products Group to subsidiaries of the German company Ardex GmbH. During February 2003, we reached a settlement with Ardex on several open issues related to the sale and the ongoing supply agreement between Ardex and Armstrong. The settlement allowed for the payment of a pre-petition liability to Ardex with a discount, adjusted the pricing for our adhesives purchases, eliminated a minimum purchase requirement and resolved environmental remediation disputes. Under the settlement, Ardex filed a proof of claim related to environmental remediation in AWI's Chapter 11 Case, which has been treated as an allowed unsecured claim. This claim resulted in a fourth quarter 2002 charge of \$5.3 million, which was recorded in SG&A expense.

### NOTE 8. ACCOUNTS AND NOTES RECEIVABLE

	<u>2004</u>	<u>2003</u>
Customer receivables	\$372.0	\$358.4
Customer notes	7.9	6.2
Miscellaneous receivables	14.7	17.0
Less allowance for discounts and losses	(58.5)	(66.2)
Net accounts and notes receivable	<u>\$336.1</u>	<u>\$315.4</u>

Generally, we sell our products to select, pre-approved customers whose businesses are affected by changes in economic and market conditions. We consider these factors and the financial condition of each customer when establishing our allowance for losses from doubtful accounts.

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### NOTE 9. INVENTORIES

Following are the components of our inventories:

	<u>2004</u>	<u>2003</u>
Finished goods	\$362.9	\$330.7
Goods in process	49.3	40.6
Raw materials and supplies	206.9	165.3
Less LIFO and other reserves	(89.9)	(82.2)
<b>Total inventories, net</b>	<b>\$529.2</b>	<b>\$454.4</b>

Approximately 40% of our total inventory in 2004 and 2003 was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis by \$74.1 million at the end of 2004 and \$62.0 million at year-end 2003.

The distinction between the use of different methods of inventory valuation is primarily based on geographical locations and/or legal entities rather than types of inventory. The following table summarizes the amount of inventory that is not accounted for under the LIFO method.

	<u>2004</u>	<u>2003</u>
International locations	\$173.0	\$162.0
U.S. Wood Flooring and Cabinets	119.4	100.9
U.S. sourced products	21.0	21.9
<b>Total</b>	<b>\$313.4</b>	<b>\$284.8</b>

Our international locations all use the FIFO method of inventory valuation primarily because either the LIFO method is not permitted for local tax and/or statutory reporting purposes, or the entities were part of various acquisitions that had adopted the FIFO method prior to our acquisition. In these situations, a conversion to LIFO would be highly complex and involve excessive cost and effort to achieve under local tax and/or statutory reporting requirements.

Several of the Wood Flooring and Cabinets entities were acquired by Triangle Pacific Corporation ("TPC") prior to our acquisition of TPC in 1998. TPC had elected to retain the historical inventory valuation policies of the acquired companies and, on the basis of consistency and due to the excessive cost involved, we elected not to amend these policies.

The sourced products represent certain finished goods sourced from third party manufacturers of unique type, primarily from foreign suppliers.

### NOTE 10. PROPERTY, PLANT AND EQUIPMENT

	<u>2004</u>	<u>2003</u>
Land	\$ 77.0	\$ 105.4
Buildings	657.4	659.7
Machinery and equipment	1,937.3	1,893.7
Construction in progress	77.8	43.3
Less accumulated depreciation and amortization	(1,540.7)	(1,434.8)
<b>Net property, plant and equipment</b>	<b>\$ 1,208.8</b>	<b>\$ 1,267.3</b>

In the fourth quarter of 2004, we recorded a \$44.8 million fixed asset impairment charge in Resilient Flooring for our European resilient flooring business. This impairment charge reduced land by approximately \$29 million and buildings by approximately \$16 million and was reported in cost of goods sold. The fixed asset impairment charge was triggered by actual operating losses and negative cash flows incurred in the European resilient flooring business. The expectation is that the operating losses and negative cash flows will continue in the near future. The fixed asset fair values were determined by an independent appraisal firm.

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### NOTE 11. EQUITY INVESTMENTS

Investments in affiliates were \$72.5 million at December 31, 2004, an increase of \$23.6 million, primarily reflecting the equity earnings of our 50% interest in our WAVE joint venture and our remaining 35% interest in Interface Solutions, Inc. ("ISI").

<u>Affiliate</u>	<u>Income Statement Classification</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
WAVE	Equity earnings from joint venture	\$31.6	\$20.8	\$19.7
ISI	Other non-operating income	1.9	0.3	2.1
Other	Other non-operating expense	—	(0.4)	(0.1)

Condensed financial data for WAVE, our joint venture accounted for under the equity method of accounting is summarized below:

	<u>2004</u>	<u>2003</u>
Current assets	\$145.1	\$93.1
Non-current assets	33.8	32.3
Current liabilities	71.4	64.1
Other non-current liabilities	5.1	4.0

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net sales	\$278.6	\$213.8	\$201.4
Gross profit	86.3	61.7	59.2
Net earnings	63.2	41.7	39.2

See discussion in Note 31 for additional information on these related parties.

### NOTE 12. GOODWILL AND INTANGIBLE ASSETS

#### Goodwill

As of January 1, 2004, we had goodwill of approximately \$244 million. FAS 142 requires that goodwill be tested for impairment at least annually. We perform our annual assessment in the fourth quarter.

During the second quarter of 2004, we concluded that an indication of impairment existed for our European resilient flooring goodwill, which was based on an assessment of financial projections incorporated in our annual strategic plan process. Continuing price declines and volume shortfalls related to our European resilient flooring products are causing significant operating losses, and we revised our projections accordingly. We calculated a preliminary estimate of the European resilient flooring reporting unit's fair value using discounted cash flows. Based on this preliminary fair value calculation, we recorded a non-cash goodwill impairment loss of \$60.0 million in the second quarter of 2004. In the fourth quarter of 2004, we completed our annual assessment of goodwill as required by FAS 142 and determined that based upon a revised strategic plan, our European resilient flooring goodwill was fully impaired. Therefore, we recorded a \$48.4 million impairment charge. The goodwill impairment charges arose from the European resilient flooring reporting unit's fair value being lower than its carrying value. The fair value was negatively affected by lower operating profits and expected future cash flows determined in recent forecasting analyses. We calculated the reporting unit's fair value using discounted cash flows. No other goodwill impairment was identified in our annual assessment.

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The following table represents the changes in goodwill during 2004.

Goodwill by segment	January 1, 2004	Adjustments, net <sup>(1)</sup>	Impairments	December 31, 2004
Resilient Flooring	\$ 107.1	\$ 1.3	\$ (108.4)	—
Wood Flooring	110.4	(2.2)	—	\$ 108.2
Building Products	14.0	1.2	—	15.2
Cabinets	12.6	—	—	12.6
<b>Total consolidated goodwill</b>	<b>\$ 244.1</b>	<b>\$ 0.3</b>	<b>\$ (108.4)</b>	<b>\$ 136.0</b>

<sup>(1)</sup> Primarily consists of the effects of resolution of pre-acquisition tax contingencies and foreign exchange.

In the fourth quarter of 2003, we completed our annual assessment of goodwill as required by FAS 142 and determined there was no impairment.

The following table represents the changes in goodwill during 2003.

Goodwill by segment	January 1, 2003	Adjustments, net <sup>(1)</sup>	Impairments	December 31, 2003
Resilient Flooring	\$ 89.3	\$ 17.8	\$ —	\$ 107.1
Wood Flooring	113.8	(3.4)	—	110.4
Building Products	11.9	2.1	—	14.0
Cabinets	12.6	—	—	12.6
<b>Total consolidated goodwill</b>	<b>\$ 227.6</b>	<b>\$ 16.5</b>	<b>\$ —</b>	<b>\$ 244.1</b>

<sup>(1)</sup> Primarily consists of the effects of foreign exchange and resolution of pre-acquisition tax contingencies.

In the second quarter of 2002, we completed our initial assessment of goodwill under FAS 142 and recorded a \$590.0 million non-cash transitional impairment charge related to the Wood Flooring segment. The impairment charge is presented in the income statement as a cumulative effect of a change in accounting principle as of January 1, 2002. The impairment charge arose from the Wood Flooring segment's fair value being lower than our carrying value. The Wood Flooring segment's fair value was determined using a combination of discounted cash flows, values implicit in precedent business combinations of similar companies in the building products industry and stock market multiples of publicly-traded flooring companies. The fair value was negatively affected by lower operating profits and cash flows than were assumed at the time of the acquisition in 1998. The shortfalls were caused by a combination of lower sales plus higher manufacturing costs. Under previous accounting rules, no goodwill impairment would have been recorded at January 1, 2002.

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### Intangible Assets

The following table details amounts related to our intangible assets as of December 31, 2004 and 2003.

	December 31, 2004		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortizing intangible assets</b>				
Computer software	\$ 109.8	\$ 66.4	\$ 104.1	\$ 57.7
Land use rights and other	4.4	1.0	4.4	0.9
<b>Total</b>	<b>\$ 114.2</b>	<b>\$ 67.4</b>	<b>\$ 108.5</b>	<b>\$ 58.6</b>
<b>Non-amortizing intangible assets</b>				
Trademarks and brand names	29.2		29.1	
<b>Total intangible assets</b>	<b>\$ 143.4</b>		<b>\$ 137.6</b>	
<b>Aggregate Amortization Expense</b>				
For the year ended December 31	\$ 15.4		\$ 15.5	

Amortization charges for computer software are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally 3 to 7 years.

The annual amortization expense expected for the years 2005 through 2009 is as follows:

2005	\$15.1
2006	11.8
2007	6.2
2008	\$5.0
2009	2.8

In connection with our adoption of FAS 142 in 2002, it was determined that the fair value of one of Wood Flooring's trademarks was lower than its carrying value. The fair value of the trademark was estimated using a discounted cash flow methodology. Accordingly, a non-cash transitional impairment charge of \$6.0 million (\$3.8 million, net of tax) was calculated and is presented in the income statement as a cumulative effect of a change in accounting principle as of January 1, 2002.

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### NOTE 13. OTHER NON-CURRENT ASSETS

	2004	2003
Cash surrender value of company owned life insurance policies	\$ 66.8	\$ 62.1
Long term notes receivable	31.8	27.9
Other	24.0	21.2
<b>Total other non-current assets</b>	<b>\$122.6</b>	<b>\$111.2</b>

### NOTE 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2004	2003
Payables, trade and other	\$259.8	\$221.9
Employment costs	65.7	41.8
Restructuring severance expenses	18.0	3.4
Other	103.9	87.1
<b>Total accounts payable and accrued expenses</b>	<b>\$447.4</b>	<b>\$354.2</b>

Certain other accounts payable and accrued expenses have been categorized as liabilities subject to compromise (see Note 4).

### NOTE 15. RESTRUCTURING AND REORGANIZATION CHARGES

#### 2004 Restructuring Activities

Net restructuring charges of \$18.3 million were recorded in 2004. The following table summarizes these charges:

Action Title	Net Charge/ (Reversal)	(unaudited) Number of Employees Impacted	Segment
Hoogezand	\$ 10.9	130	Building Products
North America SG&A	5.3	250	Resilient Flooring, Wood Flooring, Corporate
Lancaster Plant	1.0	450	Resilient Flooring
Searcy	0.8	230	Wood Flooring
Oss	0.7	70	Textiles & Sports Flooring
Morristown	0.4	100	Cabinet Products
European consolidation	(0.8)		Resilient Flooring, Textiles & Sports Flooring
<b>Total</b>	<b>\$ 18.3</b>		

**Hoogezand**: The charge is related to the first quarter 2004 decision to close the manufacturing facility and is comprised of severance and related costs. Closure of the plant was completed in the first quarter of 2005. The production will be transferred to another Building Products location in Münster, Germany and will result in a net reduction of approximately 72 positions. We have incurred \$10.9 million of restructuring charges to-date and expect to incur an additional \$7.7 million, which will be in 2005.

Additionally, we recorded \$1.4 million of accelerated depreciation and \$1.1 million of other related costs in cost of goods sold.

**North America SG&A**: The charge of \$5.3 million (\$4.0 million in Resilient Flooring, \$0.8 million in Wood Flooring, and \$0.5 million in Corporate) was recorded related to severance and related costs due to a restructuring of the sales force and management structure in North America in response to changing market conditions. This initiative was announced in the fourth quarter of 2004 and is expected to be completed by the second quarter of 2005. We have incurred \$5.3 million of restructuring charges to-date and do not expect to incur any additional charges.

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Lancaster Plant : The charge related to the fourth quarter 2004 decision to end commercial flooring production at Lancaster in 2006. Commercial flooring production requirements will be serviced by other facilities around the world. Of the \$1.0 million charge, \$0.6 million is a non-cash charge related to termination benefits to be paid through the U.S. pension plan. We expect to incur an additional \$38 million of restructuring charges for severance between 2005 and 2008, with the majority of charges incurred in 2005. Additionally, we recorded \$17.7 million of fixed asset impairments and \$10.3 million of accelerated depreciation, both in cost of goods sold. We have incurred \$1.0 million of severance related restructuring charges to-date.

Searcy : The charge is related to the fourth quarter 2004 decision to close a solid hardwood flooring location in Arkansas in the first quarter of 2005 and is comprised of estimated severance benefits and related costs. We will continue to manufacture solid wood flooring at other plants across the United States. We have incurred \$0.8 million of restructuring charges to-date and expect to incur an additional \$0.2 million, which will be in 2005.

Oss : The charge was recorded to reflect shutdown costs related to a plant closure in The Netherlands. The related severance charges were recorded during the third quarter of 2003 when the plant closure was announced. We will continue to manufacture carpet at other plants across Europe. We have incurred \$4.7 million of restructuring charges to-date and expect to incur an additional \$0.2 million, which will be in 2005.

Morristown : The charge related to the fourth quarter 2004 decision to close a plant in Tennessee in the first quarter of 2005. Manufacturing will be consolidated at two existing plants in the United States. We have incurred \$0.4 million of severance related restructuring charges to-date and expect to incur an additional \$0.4 million, which will be in 2005. Additionally, we recorded \$1.5 million of accelerated depreciation and \$0.4 million of fixed asset impairments, both in cost of goods sold.

European consolidation : The net reversals comprised certain severance accruals that were no longer necessary in the remaining accruals from the 2003 and 2002 charges in the Textiles and Sports Flooring (\$0.3 million) and Resilient Flooring (\$0.5 million) segments.

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### 2003 Restructuring Activities

Net restructuring charges of \$8.6 million were recorded in 2003. These charges are summarized in the following table:

<u>Action Title</u>	<u>Net Charge/ (Reversal)</u>	<u>Number of Employees Impacted</u>	<u>Segment</u>
European consolidation	\$ 4.4	60	Resilient Flooring, Textiles & Sports Flooring
Oss	4.0	70	Textiles & Sports Flooring
Port Gibson	0.5	150	Wood Flooring
Warren	0.3	120	Wood Flooring
Baroda	0.2	70	Resilient Flooring
U.K. lease	(0.8)		Corporate
<b>Total</b>	<b>\$ 8.6</b>		

European consolidation : The charge related to severance and retirement benefits for employees in the Textiles and Sports Flooring (\$3.4 million) and Resilient Flooring (\$1.0 million) segments, as part of the restructuring plan to consolidate certain functions in the European flooring business. This consolidation was completed in 2004.

Oss : The charge related primarily to severance benefits for employees at a plant in The Netherlands, which was closed by the end of 2004. The closure was part of the 2002 restructuring plan to consolidate certain functions in the European flooring business. Of the \$4.0 million, \$0.3 million represented a non-cash charge for retirement benefits, which was accounted for as a reduction of the prepaid pension asset. Additionally, we recorded \$0.3 million of accelerated depreciation in cost of goods sold.

Port Gibson : The charge was for severance benefits related to a manufacturing location in Mississippi, which was closed effective September 2003 due to excess production capacity. The production was transferred to another Wood Flooring location. Additionally, we recorded \$15.1 million of accelerated depreciation and \$0.8 million of fixed asset impairments, both in cost of goods sold.

Warren : The charge related to the closing of a manufacturing location in Arkansas. This location was closed in the fourth quarter of 2003. Additionally, we recorded \$6.7 million of accelerated depreciation in cost of goods sold.

Baroda : The charge related to the closing of a plant in India. This plant was closed in the fourth quarter of 2003. Additionally, we recorded \$0.1 million of accelerated depreciation in cost of goods sold.

U.K. lease : A portion of the remaining reserve related to a noncancelable operating lease in the U.K. was reversed as a result of reaching agreement with outside parties on future rent increases and disputed rent payments by a sublessee. This lease extends through 2017.

In 2002, we recorded restructuring charges, net, of \$1.9 million, primarily related to \$2.2 million of European resilient flooring and reversals of some TSF accruals that were no longer necessary.

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The following table summarizes activity in the reorganization and restructuring accruals for 2004 and 2003. The net amount of charges and reversals in the table does not agree to the income statement due to non-cash charges for enhanced retirement benefits that did not affect the restructuring accrual accounts.

	Beginning Balance	Cash Payments	Charges	Reversals	Other	Ending Balance
2004	\$ 10.0	\$ (4.1)	\$ 18.6	\$ (0.9)	\$ 1.2	\$ 24.8
2003	9.1	(8.7)	10.1	(1.8)	1.3	10.0

The amount in “other” for 2004 and 2003 is primarily related to foreign currency translation.

Of the 2004 and 2003 ending balances, \$1.3 million is reported in liabilities subject to compromise.

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2004 relates to severance for terminated employees with extended payouts, the majority of which will be paid in 2005 and 2006, and a noncancelable operating lease, which extends through 2017.

### NOTE 16. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets, except for certain state and foreign net operating loss carryforwards and other basis adjustments for which we have provided a valuation allowance of \$265.5 million. We have \$1,387.8 million of state net operating loss carryforwards with expirations between 2005 and 2024, and \$298.7 million of foreign net operating loss carryforwards, which will be carried forward indefinitely. The decrease in the deferred tax asset related to state net operating losses was primarily due to the expiration of state net operating loss carryforwards and management’s detailed analysis of state net operating losses available. The valuation allowance increased by \$43.1 million in 2004 primarily due to management’s detailed analysis of state deferred tax assets and liabilities and the addition of new foreign net operating losses generated by current year operations offset by the expiration of state net operating loss carryforwards.

Deferred income tax assets (liabilities)	2004	2003
Postretirement and postemployment benefits	\$ 116.0	\$ 91.0
Chapter 11 reorganization costs and restructuring costs	21.5	16.4
Asbestos-related liabilities	1,352.7	1,153.9
Foreign tax credit carryforward	—	2.3
Net operating losses	139.0	211.2
Other	193.8	135.3
<b>Total deferred tax assets</b>	<b>1,823.0</b>	<b>1,610.1</b>
Valuation allowance	(265.5)	(222.4)
<b>Net deferred tax assets</b>	<b>1,557.5</b>	<b>1,387.7</b>
Accumulated depreciation	(199.1)	(200.6)
Pension credit	(182.6)	(144.1)
Insurance for asbestos-related liabilities	(38.3)	(33.2)
Tax on unremitted earnings	(28.8)	(27.0)
Other	(172.4)	(73.7)
<b>Total deferred income tax liabilities</b>	<b>(621.2)</b>	<b>(478.6)</b>
<b>Net deferred income tax assets</b>	<b>\$ 936.3</b>	<b>\$ 909.1</b>

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Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset – current	\$ 15.6	\$ 19.2
Deferred income tax asset – non-current	941.6	988.3
Deferred income tax liability – current	(1.1)	(3.3)
Deferred income tax liability – non-current	(19.8)	(95.1)
Net deferred income tax assets	<u>\$936.3</u>	<u>\$909.1</u>

Details of taxes	2004	2003	2002
<b>Earnings (loss) from continuing operations before income taxes:</b>			
Domestic	\$ 77.5	\$(53.7)	\$(2,398.0)
Foreign	(130.8)	20.0	21.9
Eliminations	(4.1)	(4.7)	—
<b>Total</b>	<u>\$ (54.2)</u>	<u>\$(38.4)</u>	<u>\$(2,376.1)</u>
<b>Income tax provision (benefit):</b>			
<b>Current:</b>			
Federal	\$ 33.1	\$ 25.2	\$ 35.2
Foreign	14.5	20.8	10.6
State	(0.9)	3.9	1.4
<b>Total current</b>	<u>46.7</u>	<u>49.9</u>	<u>47.2</u>
<b>Deferred:</b>			
Federal	(15.1)	(41.5)	(874.1)
Foreign	(6.2)	(9.3)	(1.6)
State	(0.3)	(0.7)	0.7
<b>Total deferred</b>	<u>(21.6)</u>	<u>(51.5)</u>	<u>(875.0)</u>
<b>Total income taxes (benefit)</b>	<u>\$ 25.1</u>	<u>\$ (1.6)</u>	<u>\$ (827.8)</u>

At December 31, 2004, unremitted earnings of subsidiaries outside the U.S. were \$342.6 million. We expect to repatriate \$82.2 million of earnings for which \$1.8 million of U.S. taxes were provided in 2004 and \$27.0 million in 2000. No U.S. taxes have been provided on the remaining unremitted earnings as our intention is to invest these earnings permanently. If such earnings were to be remitted, approximately \$30.3 million in net taxes would be payable in the U.S. in addition to \$5.8 million of non-U.S. withholding taxes. On October 22, 2004, the American Jobs Creation Act (“the AJCA”) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. We may elect to apply this provision to qualifying earnings repatriations in 2005. We have started an evaluation of the effects of the repatriation provision; however, we do not expect to be able to complete this evaluation until after Congress or the U.S. Treasury Department provides additional clarifying language on key elements of the provision. We expect to complete our evaluation of the effects of the repatriation provision following the publication of the additional clarifying language or by the end of 2005 since the AJCA requires that qualifying dividends need to be paid to the U.S. before the close of the 2005 tax year. The range of possible amounts that we are considering for repatriation under this provision is between zero and \$250 million. The related potential range of income tax expense is between zero and \$15 million.

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The 2004, 2003 and 2002 tax provisions reflect the reversal of certain federal, state and foreign tax accruals no longer required due to the completion of tax audits and expiration of statutes of limitation partially offset by certain nondeductible expenses.

<u>Reconciliation to U.S. statutory tax rate</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	
Continuing operations tax (benefit) at statutory rate	\$(19.0)	\$(13.4)	\$(831.6)	
State income taxes, net of federal benefit	(2.8)	0.4	1.7	
Foreign losses and change in valuation allowance	18.4	7.8	7.2	
Tax on foreign and foreign-source income	(3.4)	(5.8)	(16.2)	
Goodwill impairment	37.9	—	—	
Bankruptcy reorganization expense	(5.1)	9.0	9.6	
Permanent book/tax differences	(2.7)	0.4	1.5	
Net tax on unremitted earnings	1.8	—	—	
	<u>          </u>	<u>          </u>	<u>          </u>	
Tax expense (benefit) at effective rate	\$ 25.1	\$ (1.6)	\$(827.8)	
	<u>          </u>	<u>          </u>	<u>          </u>	
 <u>Other taxes</u>		<u>2004</u>	<u>2003</u>	<u>2002</u>
Payroll taxes		\$81.5	\$78.0	\$76.1
Property, franchise and capital stock taxes		17.8	15.8	12.6

### NOTE 17. DEBT

(See Note 4 regarding treatment of prepetition debt.)

	<u>2004</u>	<u>Average year-end interest rate</u>	<u>2003</u>	<u>Average year-end interest rate</u>
Borrowings under lines of credit	\$ 450.0	7.18%	\$ 450.0	7.18%
Commercial paper	50.0	6.75%	50.0	6.75%
Foreign banks	11.1	3.68%	3.9	3.62%
Bank loans due 2004-2015	24.7	6.04%	34.1	5.65%
9.00% medium-term notes due 2001	7.5	9.00%	7.5	9.00%
6.35% senior notes due 2003	200.0	6.35%	200.0	6.35%
6.50% senior notes due 2005	150.0	6.50%	150.0	6.50%
9.75% debentures due 2008	125.0	9.75%	125.0	9.75%
7.45% senior notes due 2029	200.0	7.45%	200.0	7.45%
7.45% senior quarterly interest bonds due 2038	180.0	7.45%	180.0	7.45%
Industrial development bonds	21.0	4.13%	21.0	3.85%
Capital lease obligations	2.7	7.63%	3.3	7.63%
Other	15.1	8.61%	15.3	8.56%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Subtotal	1,437.1	7.21%	1,440.1	7.20%
Less debt subject to compromise	1,388.6	7.29%	1,388.6	7.29%
Less current portion and short-term debt	19.3	4.74%	12.1	5.13%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total long-term debt, less current portion	\$ 29.2	4.80%	\$ 39.4	4.72%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Approximately \$35.7 million of the \$48.5 million of total debt not subject to compromise outstanding as of December 31, 2004 was secured with buildings and other assets. Approximately \$37.0 million of the \$51.5 million of total debt not subject to compromise outstanding as of December 31, 2003 was secured with buildings and other assets.

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Scheduled payments of long-term debt, excluding debt subject to compromise :

2005	\$8.2
2006	6.5
2007	1.9
2008	\$1.5
2009	1.3

Debt from the table above included in liabilities subject to compromise consisted of the following at December 31, 2004 and 2003.

	2004	2003
Borrowings under lines of credit	\$ 450.0	\$ 450.0
Commercial paper	50.0	50.0
9.00% medium-term notes due 2001	7.5	7.5
6.35% senior notes due 2003	200.0	200.0
6.50% senior notes due 2005	150.0	150.0
9.75% debentures due 2008	125.0	125.0
7.45% senior notes due 2029	200.0	200.0
7.45% senior quarterly interest bonds due 2038	180.0	180.0
Industrial development bonds	11.0	11.0
Other	15.1	15.1
<b>Total debt subject to compromise</b>	<b>\$1,388.6</b>	<b>\$1,388.6</b>

In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was \$86.9 million, \$95.1 million and \$99.9 million for 2004, 2003 and 2002, respectively. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

On November 15, 2004, the Bankruptcy Court announced it had approved AWI's motion to extend the maturity date from December 8, 2004, to December 8, 2005, on its \$75 million DIP Facility that is limited to issuances of letters of credit. Obligations under the DIP Facility to reimburse drawings under the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. As of December 31, 2004 and 2003, AWI had approximately \$40.6 million and \$22.8 million, respectively, in letters of credit that were issued under the DIP Facility.

In addition, certain foreign subsidiaries have approximately \$38.5 million of unused short-term lines of credit available from banks. The credit lines are subject to immaterial annual commitment fees.

### NOTE 18. PENSION AND OTHER BENEFIT PROGRAMS

We have defined benefit pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. We also have defined-contribution pension plans for eligible employees. Benefits from defined benefit pension plans, which cover substantially all employees worldwide, are based primarily on an employee's compensation and years of service. We fund our pension plans when appropriate. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. We fund postretirement benefits on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions. We announced in 1989 and 1990 a 15-year phase-out of health care benefits for certain future retirees. These future retirees include parent company nonunion employees and some union employees.

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### Medicare Act

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“The Act”) became law in the United States. The Act provides employers currently sponsoring prescription drug programs for Medicare-eligible participants with a range of options for coordinating with the new government-sponsored program. These options include supplementing the government program on a secondary payor basis or accepting a direct subsidy from the government to support a portion of the cost of the employer’s program.

Pursuant to guidance issued in the second quarter of 2004 by the FASB, we elected to begin recording the effect of the Act in the second quarter of 2004, retroactive to January 1, 2004. The Act affects both operating income and balance sheet liabilities over time. The total year benefit of \$7.0 million was recorded in cost of goods sold (\$3.9 million) and SG&A (\$3.1 million). The reduction in the accumulated postretirement benefit obligation related to the Medicare benefit was \$52.4 million, reflected in actuarial (gain)/loss in the table below.

### UNITED STATES PLANS

The following tables summarize the balance sheet impact of the pension and postretirement benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions. The pension benefits disclosures include both the Retirement Income Plan (RIP) and the Retirement Benefit Equity Plan, which is a nonqualified, unfunded plan designed to provide pension benefits in excess of the limits defined under Sections 415 and 401(a)(17) of the Internal Revenue Code.

We use a December 31 measurement date for our U.S. defined benefit plans.

U.S. defined-benefit plans	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2004	2003	2004	2003
<b>Change in benefit obligation:</b>				
Benefit obligation as of January 1	\$1,570.8	\$1,423.4	\$ 436.6	\$ 458.2
Service cost	23.2	21.8	3.4	3.4
Interest cost	91.3	91.8	22.3	26.2
Plan participants’ contributions	—	—	5.7	4.6
Plan amendments	0.9	20.2	—	(60.0)
Effect of special termination benefits	0.6	—	—	—
Actuarial (gain)/loss	50.9	111.2	(37.0)	38.0
Benefits paid	(100.3)	(97.6)	(34.3)	(33.8)
<b>Benefit obligation as of December 31</b>	<b>\$1,637.4</b>	<b>\$1,570.8</b>	<b>\$ 396.7</b>	<b>\$ 436.6</b>
<b>Change in plan assets:</b>				
Fair value of plan assets as of January 1	\$1,882.9	\$1,603.6	—	—
Actual return on plan assets – gain	224.5	373.7	—	—
Employer contribution	3.3	3.2	\$ 28.6	\$ 29.2
Plan participants’ contributions	—	—	5.7	4.6
Benefits paid	(100.3)	(97.6)	(34.3)	(33.8)
<b>Fair value of plan assets as of December 31</b>	<b>\$2,010.4</b>	<b>\$1,882.9</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>
<b>Funded status of the plans</b>	<b>\$ 373.0</b>	<b>\$ 312.1</b>	<b>\$ (396.7)</b>	<b>\$ (436.6)</b>
Unrecognized net actuarial (gain)/loss	(46.4)	(19.0)	193.2	240.3
Unrecognized prior service cost	117.7	134.2	(40.7)	(45.9)
<b>Net asset/(liability) recognized</b>	<b>\$ 444.3</b>	<b>\$ 427.3</b>	<b>\$ (244.2)</b>	<b>\$ (242.2)</b>

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U.S. defined-benefit plans	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2004	2003	2004	2003
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	6.00%	6.50%	6.00%	6.50%
Expected return on plan assets	8.00%	8.00%	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

### Investment Policies

The RIP's primary investment objective is to increase the ratio of RIP assets to liabilities by maximizing the long-term return on investments while minimizing the likelihood of cash contributions over the next 5-10 years. This is to be achieved by (a) investing primarily in publicly-traded equities, (b) limiting return volatility by diversifying investments among additional asset classes with differing expected rates of return and return correlations, and (c) investing a portion of RIP assets in a bond portfolio whose duration is roughly equal to the duration of RIP liabilities. Derivatives may be used either to implement investment positions efficiently or to hedge risk but not to create investment leverage.

Each asset class utilized by the RIP has a targeted asset allocation. The table below shows the asset allocation target and the December 31, 2004 and 2003 position for each asset class:

Asset Class	Target Weight at December 31, 2004	Position at December 31,	
		2004	2003
Domestic equity	41%	40%	43%
International equity	22%	25%	25%
High yield bonds	5%	6%	6%
Long duration bonds	25%	24%	22%
Real estate	7%	1%	1%
Other fixed income	0%	4%	3%

Domestic equity included AHI common stock in the amount of \$1.6 million (0.08% of total RIP assets) at December 31, 2003. No AHI common stock was held at December 31, 2004.

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### Basis of Rate-of-Return Assumption

Long-term asset class return assumptions are determined based on input from investment professionals and academic sources on the expected performance of the equity and bond markets over 10 to 20 years. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. An incremental component was added for the expected return from active management based both on the RIP's experience and on historical information obtained from the RIP's investment consultants. These forecast gross returns were reduced by estimated management fees and expenses, yielding a long-term return forecast of 8.00% per annum.

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2004	2003	2004	2003
Prepaid pension costs	\$465.1	\$445.8		
Pension benefit liabilities	(41.2)	(38.3)	\$ (244.2)	\$ (242.2)
Intangible asset	0.5	0.8	—	—
Other comprehensive income	19.9	19.0	—	—
<b>Net asset/(liability) recognized</b>	<b>\$444.3</b>	<b>\$427.3</b>	<b>\$ (244.2)</b>	<b>\$ (242.2)</b>

The accumulated benefit obligation for the U.S. defined benefit pension plans was \$1,551.0 million and \$1,464.1 million at December 31, 2004 and 2003, respectively.

U.S. pension plans with benefit obligations in excess of assets	Pension Benefits	
	2004	2003
Projected benefit obligation, December 31	\$ 46.1	\$ 43.4
Accrued benefit obligation, December 31	41.2	38.3
Fair value of plan assets, December 31	—	—

The above table relates to the Retirement Benefit Equity Plan, which is a nonqualified, unfunded plan designed to provide pension benefits in excess of the limits defined under Sections 415 and 401(a)(17) of the Internal Revenue Code.

The components of pension credit are as follows:

U.S. defined-benefit plans	Pension Benefits		
	2004	2003	2002
Service cost of benefits earned during the year	\$ 23.2	\$ 21.8	\$ 17.2
Interest cost on projected benefit obligation	91.3	91.8	89.1
Expected return on plan assets	(147.7)	(144.5)	(154.4)
Amortization of transition asset	—	—	(2.1)
Amortization of prior service cost	17.4	17.9	17.6
Amortization of net actuarial loss/(gain)	1.5	1.4	(6.6)
<b>Net periodic pension credit</b>	<b>\$ (14.3)</b>	<b>\$ (11.6)</b>	<b>\$ (39.2)</b>

In addition, we recorded a separate charge in 2004 of \$0.6 million within restructuring expense for special termination benefits related to the closure of certain operations at a manufacturing plant in Lancaster. See Note 15 for further information.

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The components of postretirement benefits cost are as follows:

<u>U.S. defined-benefit plans</u>	<u>Retiree Health and Life Insurance Benefits</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Service cost of benefits earned during the year	\$ 3.4	\$ 3.4	\$ 5.6
Interest cost on accumulated postretirement benefit obligation	22.3	26.2	28.1
Amortization of prior service cost (benefit)	(5.1)	(5.1)	0.2
Amortization of net actuarial loss	9.7	12.3	11.2
<b>Net periodic postretirement benefit cost</b>	<b>\$30.3</b>	<b>\$36.8</b>	<b>\$45.1</b>

For measurement purposes, an average rate of 9% annual increase in the per capita cost of covered health care benefits was assumed for 2005, decreasing 1% per year to an ultimate rate of 6%. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<u>U.S. retiree health and life insurance benefit plans</u>	<u>One percentage point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components	\$ 1.5	\$ (1.3)
Effect on postretirement benefit obligation	22.8	(19.4)

We expect to contribute \$3.3 million to our U.S. defined benefit pension plans and \$28.0 million to our U.S. postretirement benefit plans in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years for our U.S. plans:

	<u>Pension Benefits</u>	<u>Retiree Health and Life Insurance Benefits</u>
2005	\$ 98.0	\$ 28.0
2006	96.7	26.6
2007	95.9	27.3
2008	95.9	27.7
2009	96.0	28.1
2010-2014	505.6	143.3

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### NON-U.S. PLANS

We have defined benefit pension plans covering employees in a number of foreign countries that utilize assumptions which are consistent with, but not identical to, those of the U.S. plans. The following tables summarize the balance sheet impact of foreign pension benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions.

We use a December 31 measurement date for most of our non-U.S. defined benefit plans.

Non-U.S. defined-benefit plans	Pension Benefits	
	2004	2003
<b>Change in benefit obligation:</b>		
Benefit obligation as of January 1	\$ 403.8	\$ 340.1
Service cost	9.3	8.2
Interest cost	21.2	19.4
Plan participants' contributions	3.6	2.8
Plan amendments	0.2	(5.7)
Effect of settlements and curtailments	—	(0.9)
Foreign currency translation adjustment	37.1	57.1
Actuarial loss	33.1	2.4
Benefits paid	(20.3)	(19.6)
<b>Benefit obligation as of December 31</b>	<b>\$ 488.0</b>	<b>\$ 403.8</b>
<b>Change in plan assets:</b>		
Fair value of plan assets as of January 1	\$ 200.4	\$ 153.7
Actual return on plan assets gain	17.7	19.4
Employer contributions	28.3	19.4
Plan participants' contributions	3.6	2.8
Foreign currency translation adjustment	18.5	24.7
Benefits paid	(20.3)	(19.6)
<b>Fair value of plan assets as of December 31</b>	<b>\$ 248.2</b>	<b>\$ 200.4</b>
<b>Funded status of the plans</b>	<b>\$(239.8)</b>	<b>\$(203.4)</b>
Unrecognized net actuarial loss	89.3	53.0
Unrecognized transition obligation	(0.3)	(0.1)
Unrecognized prior service benefit	(0.7)	(0.5)
<b>Net liability recognized</b>	<b>\$(151.5)</b>	<b>\$(151.0)</b>

The funded status of non-U.S. defined-benefit plans was determined using the following assumptions:

Non-U.S. defined-benefit plans	Pension Benefits	
	2004	2003
<b>Weighted-average assumptions used to determine benefit obligations at December 31:</b>		
Discount rate	4.80%	5.40%
Rate of compensation increase	3.20%	3.40%
<b>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:</b>		
Discount rate	5.40%	5.50%
Expected return on plan assets	6.40%	6.40%
Rate of compensation increase	3.40%	3.40%

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### Investment Policies

Each of the funded non-US pension plan's primary investment objective is to earn sufficient long-term returns on investments both to increase the ratio of the assets to liabilities in order for the plans to meet their benefits obligations, and to minimize required cash contributions to the plans. This is to be achieved by (a) investing in publicly-traded equities, (b) limiting return volatility by diversifying investments among additional asset classes with differing expected rates of return and return correlations, and (c) utilizing long duration bonds to limit the volatility of the plans' asset/liability ratios.

Each asset class utilized has a targeted asset allocation. The table below shows the asset allocation target and the December 31, 2004 and 2003 position for each asset class:

Asset Class	Target Weight at December 31, 2004	Position at December 31,	
		2004	2003
Equities	49%	49%	50%
Long duration bonds	17%	17%	17%
Other fixed income	34%	34%	33%

### Basis of Rate-of-Return Assumption

Long-term asset class return forecasts were obtained from investment professionals. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. These forecast asset class returns were weighted by the plans' target asset class weights, yielding a long-term return forecast of 6.4% per annum.

### Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits	
	2004	2003
Prepaid pension cost	\$ 15.8	\$ 9.3
Pension benefit liabilities	(217.7)	(178.1)
Intangible asset	3.4	3.5
Other comprehensive income	47.0	14.3
Net liability recognized	\$(151.5)	\$(151.0)

The accumulated benefit obligation for the non-U.S. defined benefit pension plans was \$449.0 million and \$363.2 million at December 31, 2004 and 2003, respectively.

Non-U.S. pension plans with benefit obligations in excess of assets	Pension Benefits	
	2004	2003
Projected benefit obligation, December 31	\$402.0	\$335.0
Accrued benefit obligation, December 31	370.3	300.6
Fair value of plan assets, December 31	161.8	131.2

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The components of pension cost are as follows:

<u>Non-U.S. defined-benefit plans</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Service cost of benefits earned during the year	\$ 9.3	\$ 8.2	\$ 8.1
Interest cost on projected benefit obligation	21.2	19.4	15.9
Expected return on plan assets	(14.8)	(12.8)	(11.2)
Amortization of transition obligation	0.2	0.3	0.1
Amortization of prior service cost	0.2	0.6	0.6
Amortization of net actuarial loss	0.5	0.5	0.2
<b>Net periodic pension cost</b>	<b>\$ 16.6</b>	<b>\$ 16.2</b>	<b>\$ 13.7</b>

In addition, we recorded a separate charge in 2003 of \$0.3 million within restructuring expense for a curtailment loss related to the closure of certain operations at a manufacturing plant in Oss, the Netherlands. See Note 15 for further information.

Costs for other non-U.S. defined contribution benefit plans and multiemployer pension plans were \$11.0 million in 2004, \$11.3 million in 2003, and \$9.9 million in 2002.

We expect to contribute \$22.7 million to our non-U.S. defined benefit pension plans in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years:

	<u>Pension Benefits</u>
2005	\$ 21.3
2006	22.3
2007	23.2
2008	25.5
2009	26.6
2010-2014	154.7

### NOTE 19. FINANCIAL INSTRUMENTS

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Carrying amount</u>	<u>Estimated fair value</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>
<b>Assets/(Liabilities):</b>				
Debt subject to compromise	\$(1,388.6)	\$(982.8)	\$(1,388.6)	\$(752.2)
Long-term debt, including current portion	(37.4)	(37.4)	(47.6)	(47.6)
Foreign currency contract obligations	(13.9)	(13.9)	(1.0)	(1.0)
Natural gas contracts	5.3	5.3	3.5	3.5

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, short-term debt and current installments of long-term debt approximate fair value because of the short-term maturity of these instruments. The fair value estimates of long-term debt were based upon quotes from major financial institutions taking into consideration current rates offered to us for debt of the same remaining maturities. The fair value estimates of foreign currency contract obligations are estimated from national exchange quotes. The fair values of natural gas contracts are estimated by obtaining quotes from major financial institutions and energy companies.

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We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2004, our foreign subsidiaries had available lines of credit totaling \$54.4 million, of which \$15.9 million was used, leaving \$38.5 million of unused lines of credit for borrowing on December 31, 2004.

On December 31, 2004, we had outstanding letters of credit totaling \$73.6 million, of which \$40.6 million was issued under the DIP Facility. The DIP Facility had \$34.4 million that remained available for issuance of letters of credit as of December 31, 2004. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AHI's failure to pay its obligations to the beneficiary. We also have several commercial letters of credit whereby vendors are paid directly via the letter of credit. Letters of credit are currently arranged through AWI's DIP Facility with JP Morgan Chase. Certain letters of credit arranged with Wachovia Bank, N.A. prior to the Filing remain outstanding.

### NOTE 20. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use swap, forward and option contracts to hedge currency and commodity exposures. We regularly monitor developments in the capital markets and only enter into currency and swap transactions with established counter-parties having investment grade ratings. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible. Swap, forward and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. We use derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions and energy companies in order to manage our exposure to nonperformance on such instruments.

Interest Rate Risk - Due to AWI's Chapter 11 Filing, all affected debt was classified as liabilities subject to compromise and there were no open interest rate derivatives as of December 31, 2004 and 2003.

Currency Rate Risk - We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. At December 31, 2004, our major foreign currency exposures are to the Euro, the Canadian dollar and the British pound.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows, resulting from the sale of product to foreign customers and purchases from foreign suppliers, will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. These transactions allow us to further reduce our overall exposure to exchange rate movements, since the gains and losses on these contracts offset losses and gains on the transactions being hedged. Gains and losses on these instruments are deferred in other comprehensive income until the underlying transaction is recognized in earnings. The net fair value of these instruments at December 31, 2004 was an asset of \$3.3 million, all of which is expected to be taken to earnings in the next twelve months. The earnings impact is reported in either net sales or cost of goods sold to match the underlying transaction being hedged. The earnings impact of these hedges was a gain of \$1.3 million during 2004.

We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency inter-company loans. The underlying inter-company loans are classified as short-term and translation adjustments related to these loans are recorded in other income. The related derivative contracts are classified as fair value hedges and the offsetting gains and losses on these contracts are also recorded in other income. The fair value of these instruments at December 31, 2004 was a \$17.1 million liability, all of which is

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expected to be charged to earnings in the next twelve months. During 2004, the net earnings impact of these hedges was a loss of \$0.7 million, recorded in other non-operating income/expense, which was comprised of a loss of approximately \$17.7 million from the foreign currency forward exchange contracts substantially offset by the 2004 translation adjustment of approximately \$17.0 million for the underlying inter-company loans.

**Commodity Price Risk** - We purchase natural gas for use in the manufacture of ceiling tiles and other products and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of minimizing cost volatility by purchasing natural gas forward contracts, purchased call options and zero-cash collars. These instruments are designated as cash flow hedges. The mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of goods sold in the period during which the underlying products are sold. The mark-to-market gains or losses on ineffective portions of hedges are recognized in cost of goods sold immediately. The fair value of these instruments at December 31, 2004 was a \$5.3 million asset, of which \$4.3 million is expected to be taken to earnings in the next twelve months. The earnings impact of hedges that matured during 2004, recorded in cost of goods sold, was \$5.8 million of income. The earnings impact of the ineffective portion of these hedges was not material during 2004.

### NOTE 21. GUARANTEES

As of December 31, 2004, we maintained an agreement with the lending institution of one of our distributors. Under this agreement, if the distributor were to default on its borrowings and the lender foreclosed on the assets, the bank could return a large part of any of our products still at the distributor (subject to certain quality and roll size minimums) for a refund of original cost. This agreement will expire in September 2005. At December 31, 2004, the amount of inventory held at the distributor was approximately \$3.2 million. Historically, no claim has been made under any of these types of agreements and we do not anticipate any such claim in the future. As such, no liability has been recorded for this agreement.

In disposing of assets through mid 2000, AWI and some subsidiaries had entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. As a debtor-in-possession, for those contracts that are still executory where AWI was the sole guarantor, AWI anticipates rejecting those contracts. Parties that timely file claims with respect to such contracts will have such claims addressed in AWI's Chapter 11 Case. AWI cannot estimate the value of any potential claims that will ultimately be allowed by the Bankruptcy Court. See Item 1 - Business regarding Proceedings under Chapter 11.

Subsidiaries that are not part of the Chapter 11 Filing also entered into certain contracts that included various indemnity provisions similar to those described above. Since these subsidiaries are not part of the Chapter 11 Filing, these contracts continue to be in effect. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under all these contracts. For contracts under which an indemnity claim has been received, a liability of \$2.1 million has been recorded as of December 31, 2004. See Note 32 of the Consolidated Financial Statements for additional information.

In September 1999, we sold our Textiles Products operations. As part of the divestiture agreement, we transferred certain liabilities and assets to the purchaser to cover pension payments earned by the work force as of the sale date. We also reimburse the purchaser for such pension payments that are not covered by the pension assets. In addition, we agreed to reimburse the purchaser for the tax impact of our reimbursement of the pension payments. This agreement has no termination date. As of December 31, 2004, we maintained a \$2.9 million liability for this guarantee. As of December 31, 2004, the net present value of the maximum payments is approximately \$5 million, excluding any amounts paid for tax reimbursement.

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See Notes 4 and 24 for a discussion of the ESOP loan guarantee.

### NOTE 22. PRODUCT WARRANTIES

We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. Generally, the terms of these warranties range up to 25 years and provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historic amount of claims, the products involved, the amount of time between the warranty claims and their respective sales and the amount of current sales. The following table summarizes the activity for the accrual of product warranties for 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 25.5	\$ 22.3
Reductions for payments	(39.0)	(38.9)
Current year warranty accruals	37.3	40.6
Preexisting warranty accrual changes	(1.8)	(0.3)
Effects of foreign exchange translation	0.6	1.8
	<u>          </u>	<u>          </u>
Balance at end of year	\$ 22.6	\$ 25.5
	<u>          </u>	<u>          </u>

### NOTE 23. OTHER LONG-TERM LIABILITIES

	<u>2004</u>	<u>2003</u>
Long-term deferred compensation arrangements	\$40.6	\$41.1
Environmental liabilities not subject to compromise	9.4	8.4
Other	37.6	31.7
	<u>          </u>	<u>          </u>
Total other long-term liabilities	\$87.6	\$81.2
	<u>          </u>	<u>          </u>

### NOTE 24. RETIREMENT SAVINGS AND STOCK OWNERSHIP PLAN (RSSOP)

In 1989, we established an Employee Stock Ownership Plan (“ESOP”) that borrowed \$270 million from banks and insurance companies, repayable over 15 years and guaranteed by AWI. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of convertible preferred stock issued by Armstrong. In 1996, the ESOP was merged with the Retirement Savings Plan for salaried employees (a defined-contribution pension plan) to form the Retirement Savings and Stock Ownership Plan (“RSSOP”). On July 31, 1996, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock at a one-for-one ratio.

The number of shares released for allocation to participant accounts has been based on the proportion of principal and interest paid to the total amount of debt service remaining to be paid over the life of the borrowings. Through December 31, 2004, the RSSOP allocated 2,152,000 shares to participants that remain outstanding, participants retired 2,272,000 shares, AHI contributed an additional 437,000 shares from its treasury and the trustee purchased 243,000 shares on the open market to allocate to employees. During 2004 the RSSOP sold 450,000 unallocated shares on the open market. The proceeds from the sale remain in the RSSOP and are expected to be allocated to participants no later than when the RSSOP debt is addressed in AWI’s Chapter 11 proceedings. As of December 31, 2004, there were approximately 1,462,000 shares in the RSSOP that had yet to be allocated to participants.

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The RSSOP is a qualified defined contribution plan that also includes a 401(k) elective deferral component. A substantial portion of U.S. employees are eligible and participate. We recorded costs for the RSSOP of \$5.8 million in 2004, \$5.6 million in 2003 and \$4.5 million in 2002, which related to company cash matching contributions.

All RSSOP shares are considered outstanding for earnings per share calculations. Historically, dividends on allocated shares were credited to employee accounts while dividends on unallocated shares were used to satisfy debt service payments.

See Note 32 for information regarding an audit of the RSSOP by the U.S. Department of Labor.

The RSSOP currently covers parent company nonunion employees, some parent company union employees, Wood Flooring salaried employees, and Cabinets salaried employees.

On November 22, 2000, AWI failed to repay \$50 million in commercial paper that was due. Subsequently, the remaining ESOP bond principal balance of \$142.2 million became immediately payable along with a \$15.5 million interest and tax make-whole premium. ESOP debt service payments have not been made since June 2000. As a result of the Chapter 11 Filing, AWI's guarantee of these ESOP loan obligations of \$157.7 million is now classified as a liability subject to compromise.

### NOTE 25. STOCK-BASED COMPENSATION PLANS

Awards under the 1993 Long-Term Stock Incentive Plan ("1993 Plan") were made in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. No additional awards may be issued under the 1993 Plan.

During 1999, we adopted the 1999 Long-Term Incentive Plan ("1999 Plan") which replaced the 1993 Plan. The 1999 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock may be issued under the 1999 Plan, and no more than 300,000 of the shares may be awarded in the form of performance restricted shares, restricted stock awards or stock awards. The 1999 Plan does not allow awards to be granted after April 25, 2009. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans.

During 2000, we adopted the Stock Award Plan ("2000 Plan") to enable stock awards and restricted stock awards to officers, key employees and non-employee directors. No more than 750,000 treasury shares may be awarded under the 2000 Plan. The 2000 Plan will remain in effect until the earlier of the grant of all the shares allowed under the plan or termination of the plan by the Board of Directors.

All of the three plans discussed above would be terminated upon the effective date of AWI's POR. No equity based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing.

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Options were granted to purchase shares at prices not less than the closing market price of the shares on the dates the options were granted. The options generally became exercisable in one to three years and expire 10 years from the date of grant.

Changes in option shares outstanding (thousands except for share price)	2004	2003	2002
Option shares at beginning of year	2,376.9	2,508.8	2,682.6
Options granted	—	—	—
Option shares exercised	—	—	—
Options cancelled	(112.9)	(131.9)	(173.8)
Option shares at end of year	2,264.0	2,376.9	2,508.8
Option shares exercisable at end of year	2,264.0	2,343.6	1,963.5
Shares available for grant	4,538.7	4,425.8	4,285.6
Weighted average price per share:			
Options outstanding	\$ 29.75	\$ 30.62	\$ 30.52
Options exercisable	\$ 29.75	\$ 31.01	34.50

The table below summarizes information about stock options outstanding at December 31, 2004. (thousands except for life and share price)

Range of exercise prices	Options outstanding and exercisable		
	Number outstanding and exercisable at 12/31/04	Weighted- average remaining contractual life	Weighted- average exercise price
\$1.19 - \$18.00	300.0	5.9	\$ 7.05
\$18.01 - \$19.50	1,235.3	5.2	19.44
\$19.51 - \$46.00	243.9	0.4	45.02
\$46.01 - \$60.00	305.6	2.3	56.10
\$60.01 - \$83.06	179.2	2.9	73.14
	2,264.0		

Restricted stock awards can be used for the purposes of recruitment, special recognition and retention of key employees. No award of restricted stock shares was granted in 2004, 2003 or 2002. At the end of 2004, there were 121,313 restricted shares of common stock outstanding with 1,026 accumulated dividend equivalent shares.

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FAS 123, permits entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings disclosures. Had compensation costs for these plans been determined consistent with FAS 123, our net earnings would have been reduced to the following pro forma amounts.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Net (loss) :</b>			
As reported	\$(80.8)	\$(39.3)	\$(2,142.8)
Pro forma	\$(80.8)	\$(39.4)	\$(2,143.3)

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model. There were no stock options granted in 2004, 2003 or 2002.

### NOTE 26. EMPLOYEE COMPENSATION

Employee compensation is presented in the table below. Charges for severance costs and early retirement incentives to terminated employees (otherwise recorded as restructuring charges) have been excluded.

<u>Employee compensation cost</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Wages and salaries	\$778.5	\$718.9	\$713.3
Payroll taxes	81.5	78.0	76.1
Pension expense (credits), net	13.3	15.9	(15.6)
Insurance and other benefit costs	96.0	112.2	106.7
Stock-based compensation	—	0.2	0.9
<b>Total</b>	<u>\$969.3</u>	<u>\$925.2</u>	<u>\$881.4</u>

The decreases in insurance and other benefit costs is primarily related to decreased medical benefit costs from favorable experience and fewer covered lives plus the favorable impact of the Medicare Act of \$7.0 million.

### NOTE 27. LEASES

We rent certain real estate and equipment. Several leases include options for renewal or purchase, and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. As part of the Chapter 11 Case, AWI must decide whether to assume, assume and assign, or reject prepetition unexpired leases and other prepetition executory contracts. AWI has been granted an extension through and including the date on which an order confirming the Plan is entered by the U.S. District Court for the District of Delaware to make these decisions with respect to prepetition unexpired leases of real property. With respect to prepetition executory contracts and unexpired leases not related to real estate, AWI has until confirmation of a reorganization plan to make these decisions unless such time is shortened by the Bankruptcy Court. The accompanying financial statements do not reflect any adjustment related to assumption or rejection of such agreements.

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Rental expense was \$22.4 million in 2004, \$21.3 million in 2003 and \$22.7 million in 2002. Future minimum payments at December 31, 2004, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

<u>Scheduled minimum lease payments</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2005	\$ 1.7	\$ 14.4
2006	1.0	11.8
2007	0.7	8.3
2008	0.3	5.0
2009	—	2.6
Thereafter	0.1	10.4
<b>Total</b>	<b>\$ 3.8</b>	<b>\$ 52.5</b>

Assets under capital leases are included in the consolidated balance sheets as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 3.8	\$ 3.8
Building	4.1	4.1
Machinery	26.7	25.8
Less accumulated amortization	(14.8)	(11.6)
<b>Net assets</b>	<b>\$ 19.8</b>	<b>\$ 22.1</b>

### NOTE 28. SHAREHOLDERS' EQUITY

Treasury share were unchanged at 11,393,170 for 2004, 2003 and 2002.

Stock purchases and other represent shares received under stock-based compensation plan forfeitures and share tax withholding transactions.

The balance of each component of accumulated other comprehensive income as of December 31, 2004 and 2003 is presented in the table below.

	<u>2004</u>	<u>2003</u>
Foreign currency translation adjustments	\$ 84.3	\$ 61.9
Derivative gain, net	3.6	3.3
Minimum pension liability adjustments	(45.1)	(21.9)
<b>Accumulated other comprehensive income</b>	<b>\$ 42.8</b>	<b>\$ 43.3</b>

The related tax effects allocated to each component of other comprehensive income for 2004 are presented in the table below.

	<u>Pre-tax Amount</u>	<u>Tax Expense (Benefit)</u>	<u>After tax Amount</u>
Foreign currency translation adjustments	\$ 22.4	\$ —	\$ 22.4
Derivative gain, net	0.5	(0.2)	0.3
Minimum pension liability adjustments	(33.6)	10.4	(23.2)
<b>Total other comprehensive income</b>	<b>\$(10.7)</b>	<b>\$ 10.2</b>	<b>\$ (0.5)</b>

The change in the minimum pension liability adjustment between 2004 and 2003 was primarily due to the reduction of discount rates related to our plans.

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### NOTE 29. SUPPLEMENTAL FINANCIAL INFORMATION

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Selected operating expenses</b>			
Maintenance and repair costs	\$114.7	\$107.8	\$110.7
Research and development costs	46.6	45.3	50.1
Advertising costs	29.6	32.7	41.2
<b>Other non-operating expense</b>			
Foreign currency translation loss, net of hedging activity	\$ 1.3	\$ 3.8	\$ 2.2
Other	1.8	1.9	1.4
<b>Total</b>	<u>\$ 3.1</u>	<u>\$ 5.7</u>	<u>\$ 3.6</u>
<b>Other non-operating income</b>			
Interest income	\$ 4.0	\$ 3.5	\$ 4.8
Equity earnings in ISI	1.9	0.3	2.1
Interest on asbestos receivable payment	—	1.1	—
Other	0.5	0.1	0.6
<b>Total</b>	<u>\$ 6.4</u>	<u>\$ 5.0</u>	<u>\$ 7.5</u>

### NOTE 30. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest paid	\$ 2.2	\$ 2.8	\$ 3.4
Income taxes paid, net of refunds	77.3	27.5	44.4

### NOTE 31. RELATED PARTIES

We sold 65% of our ownership in our gasket products subsidiary, (now known as Interface Solutions, Inc. or "ISI") on June 30, 1999. We still retain 35% ownership of this business as of December 31, 2004. As part of the divestiture, we agreed to continue to purchase a portion of the felt products used in the manufacturing of resilient flooring from ISI for an initial term of eight years. Currently, we are required to purchase at least 75% of our felt requirements from ISI. The sale agreement also stipulated quarterly felt price adjustments that are based upon changing market prices for the felt. In October 2002, the agreement was amended to include a cap on increases for 2003 and 2004. We can purchase felt products from another supplier if ISI's prices are more than 10% higher than another supplier's prices. Our purchases of felt products from ISI for 2004, 2003 and 2002 were \$27.5 million, \$26.9 million and \$29.2 million, respectively. The amounts due to ISI for these purchases were \$1.7 million and \$1.6 million at the end of 2004 and 2003. Armstrong and ISI are contractually required to cooperate in product reformulation and new product development, but we are free to seek alternatives to felt products. Additionally, we receive nominal monthly payments from ISI for some logistics and administrative services. The amounts outstanding from ISI at the end of 2004 and 2003 for the logistics and administrative services we provide them were less than \$0.1 million. ISI had filed a proof of claim in Armstrong's Chapter 11 Case requesting payment for our prepetition obligations. This matter was settled in November 2002 with ISI agreeing to withdraw its proof of claim upon the consummation of the POR, subject to certain terms and conditions. See Note 11 for additional information.

We purchase grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately \$60 million, \$51 million and \$41 million for the years ended December 31, 2004, 2003 and 2002, respectively. We also provide certain selling, promotional and administrative processing services to WAVE for which we receive reimbursement. Those services amounted to \$11.8 million, \$9.8 million and \$10.0 million for the years ended December 31, 2004,

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2003 and 2002, respectively. The net amounts due from us to WAVE for these relationships were \$4.0 million and \$1.8 million at the end of 2004 and 2003. See Note 11 for additional information.

See discussion of Ardex in Note 7.

#### NOTE 32. LITIGATION AND RELATED MATTERS

##### ASBESTOS-RELATED LITIGATION

Prior to December 6, 2000, AWI, the major operating subsidiary of AHI, had been named as a defendant in personal injury cases and property damage cases related to asbestos-containing products. On December 6, 2000, AWI filed a voluntary petition for relief (“the Filing”) under Chapter 11 of the U.S. Bankruptcy Code to use the court-supervised reorganization process to achieve a resolution of AWI’s asbestos-related liability.

Two of AWI’s domestic subsidiaries also commenced Chapter 11 proceedings at the time of the Filing. AHI and all of AWI’s other direct and indirect subsidiaries, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (Armstrong’s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada and Armstrong DLW AG were not a part of the Filing and accordingly the liabilities, including asbestos-related liability if any, of such companies arising out of their own activities will not be resolved in AWI’s Chapter 11 Case except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI.

##### Asbestos-Related Personal Injury Claims

Prior to the Filing, AWI was a member of the Center for Claims Resolution (the “CCR”), which handled the defense and settlement of asbestos-related personal injury claims on behalf of its members. The CCR pursued broad-based settlements of asbestos-related personal injury claims under the Strategic Settlement Program (“SSP”) and had reached agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant.

Due to the Filing, holders of asbestos-related personal injury claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against AWI. In addition, AWI ceased making payments to the CCR with respect to asbestos-related personal injury claims, including payments pursuant to the outstanding SSP agreements. A creditors’ committee representing the interests of asbestos-related personal injury claimants and an individual representing the interests of future claimants have been appointed in the Chapter 11 Case. AWI’s present and future asbestos-related liability will be addressed in its Chapter 11 Case. See Note 1 regarding AWI’s Chapter 11 proceeding.

During 2003, AWI and the other parties in its Chapter 11 Case reached agreement on a plan of reorganization that addresses how all of AWI’s pre-Filing liabilities are to be settled. Several amendments to the plan of reorganization were filed, culminating in the Fourth Amended Plan of Reorganization filed with the Bankruptcy Court on May 23, 2003, which was modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, and December 3, 2004, and is referred to in this report as the “POR”.

Before the POR may be implemented, it must be confirmed by order of the Bankruptcy Court and the U.S. District Court. In addition, consummation of the POR is subject to the satisfaction after confirmation of certain conditions, as provided by the POR. On February 23, 2005, the U.S. District Court Judge Eduardo C. Robreno ruled that the POR, in its current form, could not be confirmed. AWI filed a Notice of Appeal to the U.S. Court of Appeals for the Third Circuit on March 4, 2005. On March 18, 2005, AWI filed a motion to expedite the appeal to the U.S. Court of Appeals. AWI is also reviewing other options to resolve its Chapter 11 Case. See Note 1 for further discussion of AWI’s Chapter 11 process.

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A principal feature of the POR is the creation of a trust (the “Asbestos PI Trust”), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI’s personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI’s pre-Filing use of or other activities involving asbestos would be channeled to the Asbestos PI Trust.

In accordance with the 524(g) injunction if the POR goes into effect, various entities would be protected from such present and future asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHI, AWI’s subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

However, although AWI’s domestic and foreign subsidiaries and other affiliates would be protected parties, asbestos-related personal injury claims against them would be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the manufacturing, installation, distribution or other activities of AWI or are based solely on AWI’s ownership of the subsidiaries or other affiliates (as distinguished from independent activities of the subsidiaries or affiliates). Currently, three asbestos-related personal injury litigations against subsidiaries of AWI allegedly arising out of such independent activities are pending. These claims would not be channeled to the Asbestos PI Trust under the POR inasmuch as they do not involve activities of AWI. The cases have several defendants. The subsidiaries deny liability and are aggressively defending the matters. AWI has not recorded any liability for these matters. Management does not expect that any sum that may have to be paid in connection with these matters will be material to Armstrong.

In addition, workers’ compensation claims brought against AWI or its subsidiaries or other affiliates would not be channeled to the Asbestos PI Trust and would remain subject to the workers’ compensation process. Historically, workers’ compensation claims against AWI and its subsidiaries have not been significant in number or amount and AWI has continued to honor its obligations with respect to such claims during the Chapter 11 Case. Workers’ compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Currently, AWI has three pending workers’ compensation claims, and its UK subsidiary has five employer liability claims involving alleged asbestos exposure.

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that neither AWI nor any of its subsidiaries or other affiliates is subject to any asbestos-related personal injury claims that would not be channeled to the Asbestos PI Trust and that are of a magnitude that, individually or collectively, would be material to reorganized Armstrong.

#### Asbestos-Related Liability

Based upon events through early March 2003, primarily the parties’ agreement on the basic terms of the POR’s treatment of AWI’s asbestos-related liabilities, management concluded that it could reasonably estimate its probable liability for AWI’s current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a \$2.5 billion charge to increase the balance sheet liability. The recorded asbestos-related liability for personal injury claims of approximately \$3.2 billion at December 31, 2004 and 2003, which was treated as subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos PI Trust is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims.

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AWI is unable to predict whether the POR will be confirmed or when AWI would emerge from Chapter 11. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded asbestos-related liability are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

### Insurance Recovery Proceedings

A substantial portion of AWI's primary and remaining excess insurance asset is nonproducts (general liability) insurance for personal injury claims. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure was commenced against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits.

During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR, which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the first quarter of 2001, a new trial judge was selected for the ADR. The new trial judge conducted hearings in 2001 and determined not to rehear matters decided by the previous judge. In the first quarter of 2002, the trial judge concluded the ADR trial proceeding with findings in favor of AWI on substantially all key issues. Liberty Mutual, the only insurer that is still a party to the ADR, appealed that final judgment. Appellate argument was held on March 11, 2003. On July 30, 2003, the appellate arbitrators ruled that AWI's claims against certain Liberty Mutual policies were barred by the statute of limitations. The ruling did not address the merits of any of the other issues Liberty Mutual raised in its appeal. Based on that unfavorable ruling, AWI concluded that insurance assets of \$73 million were no longer probable of recovery. AWI was also ordered to reimburse Liberty Mutual for certain costs and administration fees that Liberty Mutual incurred during the ADR. The \$1.6 million claimed for these costs and fees is in dispute. Based upon an AWI request, the appellate panel held a rehearing on November 21, 2003. In January 2004, the appellate panel upheld its initial ruling. On February 4, 2004, AWI filed a motion in the U.S. District Court for the Eastern District of Pennsylvania to vacate the rulings of the appellate panel.

In July 2002, AWI filed a lawsuit against Liberty Mutual in the U.S. District Court for the Eastern District of Pennsylvania seeking, among other things, a declaratory judgment with respect to certain policy issues not subject to binding ADR. The U.S. District Court has not yet set a schedule to hear this matter.

On June 13, 2003, the New Hampshire Insurance Department placed The Home Insurance Company ("Home") under an order of liquidation. Less than \$10 million of AWI's recorded insurance asset is based on policies with Home, which management believes is probable of recovery. AWI filed a proof of claim against Home during June 2004. It is uncertain when AWI will receive proceeds from Home under these insurance policies.

### Insurance Asset

An insurance asset in respect of asbestos claims in the amount of \$98.6 million was recorded as of December 31, 2004 compared to \$103.1 million recorded as of December 31, 2003. The total amount recorded reflects AWI's belief that insurance proceeds will be recovered in this amount, based upon AWI's success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. Such insurance, in our opinion, is either available through settlement or probable of recovery through negotiation or litigation. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS (the former AWI insulation contracting subsidiary that was sold in August 1969 and which filed for relief under Chapter 11 of the Bankruptcy Code in September 2002) and the financial condition of the insurers, AWI may revise its

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estimate of probable insurance recoveries. Approximately \$79 million of the \$98.6 million asset is determined from agreed coverage in place. Of the \$98.6 million, \$9.8 million has been recorded as a current asset as of December 31, 2004 reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

Many uncertainties remain in the insurance recovery process, therefore, AWI did not increase the estimated insurance recovery asset in the fourth quarter of 2004.

### Cash Flow Impact

As a result of the Chapter 11 Filing, AWI has not made any payments for asbestos-related personal injury claims since the fourth quarter of 2000. During 2004, 2003 and 2002, AWI received asbestos-related insurance recoveries of \$4.5 million, \$22.0 million and \$16.0 million, respectively. During the third quarter of 2003, AWI paid \$9.0 million for asbestos-related property damage claims and received \$9.0 million of insurance proceeds related to these claims. During the pendency of the Chapter 11 Case, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI expects to continue to receive insurance proceeds under the terms of various settlement agreements. Management estimates that the timing of future cash recoveries of the recorded asset may extend beyond 10 years.

### Potential Legislation

On February 7, 2005 Senator Arlen Specter submitted into the Congressional Record and distributed to the Senate Judiciary Committee a discussion draft of asbestos reform legislation. Members of the Senate are currently reviewing the draft bill. There is uncertainty as to whether any asbestos reform proposal will become law, and what impact there might be on AWI's asbestos liability and/or AWI's Chapter 11 Case.

### Conclusion

Many uncertainties continue to exist about the matters impacting AWI's asbestos-related liability and insurance asset. These uncertainties include when and if the POR will be confirmed by the U.S. District Court, the impact of any potential legislation, and the financial condition of AWI's insurance carriers.

Additionally, if the POR is confirmed, AWI is unable to predict when it will be implemented. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded liability and insurance asset are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability and insurance asset in light of future developments in the Chapter 11 Case and make changes to the recorded amounts if and when it is appropriate.

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### ENVIRONMENTAL MATTERS

#### Environmental Expenditures

Most of our manufacturing and certain of our research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at our operating facilities. We incurred expenditures of approximately \$5.5 million in 2004, \$3.7 million in 2003, and \$4.5 million in 2002 associated with environmental compliance and control facilities.

As a result of continuous changes in regulatory requirements, we cannot predict with certainty future expenditures associated with compliance with environmental requirements. The United States Environmental Protection Agency (“EPA”) has recently promulgated a new regulation pursuant to the Clean Air Act that may impact our domestic manufacturing operations. That regulation, The National Emission Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heaters Act, became effective in November, 2004, and requires compliance by September 13, 2007. While we are finalizing our review of this regulation, adoption of this regulation is not expected to have a material impact on our consolidated results of operations or financial condition.

#### Environmental Remediation

##### *Summary*

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), and similar state “Superfund” laws at 28 sites. In most cases, we are one of many potentially responsible parties (“PRPs”) which have potential liability for the required investigation and remediation of each site and which, in some cases, have agreed to jointly fund that required investigation and remediation. With regard to some sites, however, we dispute the liability, the proposed remedy or the proposed cost allocation among the PRPs. We may have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

We have also been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. Estimates of our future environmental liability at the Superfund sites and current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as our activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at Superfund sites, our contribution to the remediation of these sites is expected to be limited by the number of other companies also identified as potentially liable for site remediation. As a result, our estimated liability reflects only our expected share. In determining the probability of contribution, we consider the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. Additionally, the Chapter 11 Case also may affect the ultimate amount of such contributions.

##### *Effects of Chapter 11*

Certain of AWI’s environmental liabilities are subject to discharge through its Chapter 11 Case while others are not. AWI’s payments and remediation work on such sites for which AWI is a PRP is under review in light of the Chapter 11 Filing. The bar date for claims from the EPA expired during the third quarter of 2003. AWI received an unliquidated proof of claim from the EPA. Those environmental obligations that AWI has with respect to property that it owns or operates are likely to be unaffected by the Chapter 11 Case. Therefore, AWI will be required to continue meeting its on-going environmental compliance obligations at the properties that AWI owns or operates. AWI will also be required to address the effects of any contamination at those sites, even if the contamination predated Chapter 11 Filing. In addition, AWI may be obligated to remedy the off-site impact of activities that occurred on the properties it owns and operates.

Monetary claims with respect to properties that AWI does not own or operate (such as formerly owned sites, or landfills to which AWI’s waste was taken) may be discharged in AWI’s Chapter 11 Case.

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Accordingly, claims brought by a federal or state agency alleging that AWI should reimburse the claimant for money that it spent cleaning up a site which AWI does not own or operate would be subject to discharge, provided the claimant received proper notice of the bankruptcy and bar date. The same would be true for monetary claims by private parties, such as other PRPs with respect to sites with multiple PRPs. Under the POR, the Superfund sites at which AWI is alleged to be a PRP are being treated as unsecured liabilities subject to compromise. Other Superfund sites relate to entities that are not part of AWI's Chapter 11 Case and therefore will not be discharged.

In addition to the right to sue for reimbursement of the money it spends, CERCLA also gives the federal government the right to sue for an injunction compelling a defendant to perform a cleanup. Several state statutes give similar injunctive rights to those States. While we believe such rights do not survive Chapter 11, there does not appear to be controlling judicial precedent that these injunctive rights are dischargeable. Thus, according to some cases, while a governmental agency's right to require AWI to reimburse it for the costs of cleaning up a site may be dischargeable, the same governmental agency's right to compel us to spend our money cleaning up the same site may not be dischargeable even though the financial impact to AWI would be the same in both instances.

#### *Specific Events*

AWI has been working to resolve as many of its environmental liabilities through its Chapter 11 Case as possible. AWI has negotiated a global environmental settlement with the Department of Justice and the EPA with respect to CERCLA liability at 37 sites. Pursuant to the proposed Settlement Agreement, the federal government would covenant not to sue AWI for either monetary or injunctive relief under CERCLA at 19 of these sites, in exchange for an allowed claim amount in the bankruptcy with respect to known claims concerning sites that AWI does not own or operate. Under the Settlement, AWI would have contribution protection under CERCLA with respect to private party claims at the sites at which the government receives an allowed claim. Additionally, AWI has the benefit of discharge both at the 19 sites for which the government receives an allowed claim and at an additional 18 sites identified in the Settlement Agreement. At an additional site, AWI would continue to participate in the cleanup under a previously approved Consent Decree. Upon this global settlement becoming effective, the EPA proof of claim will be amended to assert a claim in the amount of \$8.7 million. This amount includes the \$7.8 million that AWI and EPA agreed upon with respect to the Peterson Puritan site. Notice of the Settlement was published in the Federal Register on February 10, 2005, soliciting comment for 30 days. Following the conclusion of the public comment period, the government may reconsider the Settlement Agreement on the basis of any comments. If the government decides to go forward with the Settlement Agreement, the parties will file a motion with the bankruptcy court seeking approval.

AWI is subject to a unilateral order by the Oregon Department of Environmental Quality ("DEQ") to conduct a remedial investigation and feasibility study and any necessary remedial design and action at its St. Helens, Oregon facility, as well as the adjacent Scappoose Bay. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. Other potentially responsible parties who are not yet subject to orders by the DEQ include former site owners Owens Corning ("OC") and Kaiser Gypsum Company, Inc. ("Kaiser"). AWI has entered into an agreement with Kaiser for the sharing of costs and responsibilities with respect to the remedial investigation, feasibility study and remedy selection at the site. OC has entered into a settlement with the DEQ. Pursuant to the settlement, OC has made a lump sum payment to the DEQ in exchange for contribution protection (including protection against common law and statutory contribution claims by AWI against OC) and a covenant not to sue. AWI has reached an agreement with the DEQ as to how these funds will be made available for the investigation and remediation of the site. AWI has recorded an environmental liability with respect to the investigation and feasibility study at its St. Helen's facility, but not for Scappoose Bay because AWI continues to dispute responsibility for contamination of Scappoose Bay.

#### *Summary of Financial Position*

Liabilities of \$28.0 million and \$21.2 million at December 31, 2004 and December 31, 2003, respectively were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made.

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The majority of this increase relates to developments in the Peterson Puritan site described in “*Specific Events*” above. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liabilities is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, \$18.6 million of the December 31, 2004 and \$12.8 million of the December 31, 2003 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, the Chapter 11 process does not preserve company assets for such prepetition liabilities.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. Such recoveries, where probable, have been recorded as an asset in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation. The amount of the recorded asset for estimated recoveries was \$2.4 million and \$2.5 million at December 31, 2004 and December 31, 2003, respectively.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we believe that any sum we may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on our financial condition, or liquidity, although the recording of future costs may be material to earnings in such future period. For the years ended December 31, 2004, 2003 and 2002, our net expense, recorded in the income statement, was \$7.2 million, less than \$0.1 million, and \$4.5 million, respectively.

### PATENT INFRINGEMENT CLAIMS

We are a defendant in two lawsuits claiming patent infringement related to some of our laminate flooring products. The plaintiffs have claimed unspecified monetary damages. We are being defended and indemnified by our supplier for all costs and potential damages related to the litigation.

### FORMER EMPLOYEES CLAIM

Former Armstrong employees that were separated from the company in two business divestitures in 2000 brought two purported class actions against the Retirement Committee of AWI, certain current and former members of the Retirement Committee, the Retirement Savings and Stock Ownership Plan (RSSOP), AHI and the trustee bank of the RSSOP. Plaintiffs alleged breach of Employee Retirement Income Security Act (ERISA) fiduciary duties and other violations of ERISA pertaining to losses in their RSSOP accounts, which were invested in Armstrong common stock.

In 2003, an agreement was reached to settle this matter. Contributors to the settlement were AWI, its insurer and the trustee bank of the RSSOP. The full amount of the settlement was allocated in December 2003 among approximately 370 former employees. AWI’s portion of the settlement is \$1.0 million, which will be treated as convenience claims in the Chapter 11 Case. The settlement was approved by the Bankruptcy Court on March 31, 2003 and by the United States District Court (Eastern District of PA) on June 16, 2003. Based upon the Bankruptcy Court’s approval of the settlement, AWI recorded a \$1.0 million charge in the first quarter of 2003 in SG&A expense.

### DEPARTMENT OF LABOR SETTLEMENT

Subsequent to an audit by the United States Department of Labor (“DOL”), we were informed that the DOL was challenging the validity of the use of certain contributions, in the approximate aggregate amount of \$33.4 million, to fund debt payments made by the Armstrong Employee Stock Ownership Plan (“ESOP”), as provided for by that plan. We reached a settlement with the DOL to resolve this matter with a funding to the ESOP of \$1.5 million, which was distributed to plan participants in accordance with terms of the agreement in February 2004. Insurance and third parties funded \$0.9 million of the settlement. Both the accrual of \$1.5 million expense and \$0.9 million insurance receivable were recorded in the third quarter of 2003 in SG&A expense.

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**OTHER CLAIMS**

Additionally, we are involved in various other claims and legal actions involving product liability, patent infringement, breach of contract, distributor termination, employment law issues and other actions arising in the ordinary course of business. While complete assurance cannot be given to the outcome of these claims, we do not expect that any sum that may have to be paid in connection with these matters will have a materially adverse effect on our consolidated financial position or liquidity, however it could be material to the results of operations in the particular period in which a matter is resolved.

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### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

### **ITEM 9A. CONTROLS AND PROCEDURES**

The Securities and Exchange Commission defines the term “disclosure controls and procedures” to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our chief executive officer and our chief financial officer, as of the end of the period covered by this report, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms.

In October 2004, we requested guidance from the staff of the Securities and Exchange Commission (“SEC”) on interpreting Regulation S-X rules 1-02(w) and 3-09. The SEC staff advised us that our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 should have included as an exhibit the audited financial statements of WAVE, our 50% equity investment, as of and for the three years ended December 31, 2003. Our 2003 Form 10-K included only condensed financial information on WAVE. A 2003 Form 10-K/A was filed with the SEC on November 4, 2004 to include the audited financial statements of WAVE. Our Form 10-Q for the quarter ended September 30, 2004 included summarized income statement information of WAVE for each of the first three quarters of 2004 and this 2004 Form 10-K includes as an exhibit the audited financial statements of WAVE.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

Information with respect to bonus and long-term incentive payments to executive officers for service in 2004 is incorporated by reference from the Summary Compensation Table in Item 11- Executive Compensation of this Form 10-K. In addition, Mr. Rodruan was paid a bonus of \$98,970 under the MAP and received a payout of \$98,200 under the LTIP based upon his service in 2004.

On March 29, 2005, the Company approved a grant to Mr. Lockhart of five additional years of service credit under AWI’s Retirement Benefit Equity Plan. See the sections captioned “Employment Agreements” and “Benefits from Retirement Plans” in Item 11. Executive Compensation of this Form 10-K for more information.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

**Code of Ethics**

Armstrong has followed a code of ethics for many years. The Company began in a small cork-cutting shop in 1860 in Pittsburgh under its Founder, Thomas Armstrong. He was determined that his company act with fairness and in the “balanced best interests (of) customers, stockholders, employees, suppliers, community neighbors, government and the general public.”

Thomas Armstrong was among the first American entrepreneurs to discard the old business maxim of *caveat emptor* —“Let the buyer beware”—and replace it by practicing the principle of “Let the buyer have faith,” which became an enduring motto for Armstrong.

To memorialize this ethical foundation, in 1960 Armstrong adopted its Operating Principles which incorporate the philosophy of Thomas Armstrong and his successors:

- To respect the dignity and inherent rights of the individual human being in all dealings with people.
- To maintain high moral and ethical standards to reflect honesty, integrity, reliability and forthrightness in all relationships.
- To reflect the tenets of good taste and common courtesy in all attitudes, words and deeds.
- To serve fairly and in proper balance the interests of all groups associated with the business – customers, stockholders, employees, suppliers, community neighbors, government and the public.

In 1992, Armstrong built on these Operating Principles and established its “Code of Business Conduct”, which applies to all employees, executives and directors, specifically including our Chief Executive Officer, our Chief Financial Officer and our Controller. That Code was updated in 2000, when the current version was introduced.

In 2002, we adopted an additional “Code of Ethics for Financial Professionals,” which applies to all professionals in Armstrong’s finance and controller functions worldwide, including our Chief Financial Officer and our Controller.

These Codes are intended to deter wrongdoing and to promote:

- Honest and ethical conduct, including handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely and understandable public disclosures;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting of violations of the Codes; and,
- Accountability for compliance with the Codes.

These two Codes are available on the Armstrong web site at [www.armstrong.com/corporatena/corp\\_mission.html](http://www.armstrong.com/corporatena/corp_mission.html) . If the substance of either Code is amended in the future, we will note the date and describe the nature of the amendment at that web site. We will also note at that site any express or implicit waiver from a provision of either Code granted to any Armstrong officer. To date, no such waivers have been granted.

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### **Armstrong Holdings Inc. Board of Directors**

The Board of Directors has determined that all members of the Board, including all members of the Audit, Management Development and Compensation, and Nominating Governance Committees are independent in accordance with the rules and regulations of The Nasdaq Stock Market, Inc. Although Armstrong is not currently listed on Nasdaq, the Company anticipates listing its stock on that exchange when AWI emerges from Chapter 11, and has been complying with Nasdaq requirements in preparation for such listing.

The Board of Directors has also determined that all members of the Board are independent within the meaning of Armstrong's Corporate Governance Principles (see [www.armstrong.com/corporate/corp\\_mission.html](http://www.armstrong.com/corporate/corp_mission.html)). The standards of independence set forth in Armstrong's Corporate Governance Principles incorporate and, in certain areas exceed, the standards under Nasdaq.

The determinations made as to independence under the rules and regulations of NASDAQ and Armstrong's Corporate Governance Principles were based upon the Board's consideration of relationships between directors and the Company or management, and of known factors that reasonably could compromise the independent judgment of a director. For example, the Board considered director relationships with vendors and service providers to the Company, and considered whether any director had sought to influence any decisions by the Company in a way beneficial to their personal interests.

Based on information disclosed by the directors, the Board was also advised that no director was disqualified from being considered an independent director under Armstrong's Corporate Governance Principles or any governmental or NASDAQ regulation. Following consideration of these facts, the Board of Directors determined that all outside directors are, in fact, "independent".

The Board, lead by its Nominating & Governance Committee, monitors the independence of outside directors. Each director is charged with a responsibility of candor and disclosure to their Board colleagues relative to potentially compromising relationships, transactions and compensation.

### **Audit Committee**

The Audit Committee of Armstrong Holdings consists of John J. Roberts (Chairman), H. Jesse Arnelle, James E. Marley and M. Edward Sellers. The business experience of these and all other directors is described below under the heading "Director Information". The Board of Directors determined that at least one member of this committee, John J. Roberts, qualifies as an "Audit Committee Financial Expert" as defined in Item 401(h)(2) of Regulation S-K of the Securities Exchange Act. Mr. Roberts is also independent, as that term is used in SEC regulations pertaining to such experts (Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act). Additionally, as noted above, all of the members of the Audit Committee are independent under the listing standards of NASDAQ and within the meaning of the applicable SEC rule pertaining to Audit Committees (Rule 10A-3) under the Securities Exchange Act).

### **Director Information**

The following information is current as of February 28, 2005. The directors named here serve until their successors are elected, or until their earlier retirement or removal.

#### Directors of Armstrong Holdings, Inc.

H. Jesse Arnelle – Age 71; Director since July 1995; Member—Audit Committee. Mr. Arnelle is Of Counsel with the law firm of Womble Carlyle Sandridge & Rice, PLLC since October 1997 and former senior partner and co-founder of Arnelle, Hastie, McGee, Willis & Greene, a San Francisco-based corporate law firm from which he retired in 1996. He is a graduate of Pennsylvania State University and the Dickinson School of Law. Armstrong has retained Womble Carlyle Sandridge & Rice, PLLC for many years, including 2003 and 2004. Mr. Arnelle served as Vice Chairman (1992-1995) and Chairman (1996-1998) of the Board of Trustees of the Pennsylvania State University. He serves on the Boards of FPL Group, Inc., Eastman Chemical Company, URS Corporation, Textron, Inc., Gannett Corporation and Metropolitan Life Series Fund.

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Judith R. Haberkorn – Age 58; Director since July 1998; Lead Director of the Board; Member—Nominating and Governance Committee (Chair) and Management Development and Compensation Committee. Ms. Haberkorn is a graduate of Briarcliff (N.Y.) College and completed the Advanced Management Program at Harvard Business School. From 1998 until her retirement in June 2000, she served as President – Consumer Sales & Service for Bell Atlantic (telecommunications). She previously served as President – Public & Operator Services (1997-1998), also at Bell Atlantic, and Vice President – Material Management (1990-1997) for NYNEX Telesector Resources Group (telecommunications). Ms. Haberkorn is a director of MCI, Enesco Corporation and serves on the advisory board of Norfolk Southern. She is Chair Emerita of the Committee of 200 and a member of The International Women’s Forum and The Harvard Business School Network of Women Alumnae. She is a Vice President Emerita of the Harvard Business School Alumni Advisory Board and a member of the Visiting Committee.

Michael D. Lockhart – Age 55; Chairman of the Board and Chief Executive Officer of AHI since August 2000. Director since November 2000 and Chairman of the Board and President since March 2001 of Armstrong World Industries, Inc. Mr. Lockhart previously served as Chairman and Chief Executive Officer of General Signal (a diversified manufacturer) headquartered in Stamford, Connecticut from September 1995 until it was acquired in October 1998. He joined General Signal as President and Chief Operating Officer in September 1994. From 1981 until 1994, Mr. Lockhart worked for General Electric in various executive capacities in GE Capital, GE Power Systems, GE Transportation Systems and GE Aircraft Engines. He is a member of the Business Council for the Graduate School of Business at the University of Chicago.

James E. Marley – Age 69; Director since November 1988; Member—Audit Committee, also Director—Armstrong World Industries, Inc. Mr. Marley is a graduate of Pennsylvania State University and earned a master’s degree in mechanical engineering from Drexel University. From 1993 until his retirement (August 1998), he served as Chairman of the Board of AMP Incorporated (electrical/electronic connection devices), which he joined in 1963 and where he served as President and Chief Operating Officer (1990-1992) and President (1986-1990). He also serves on the Board of Arvin Meritor, Inc.

Ruth M. Owades – Age 56; Director since April 2002; Member – Nominating and Governance Committee and Management Development and Compensation Committee. Ms. Owades is a graduate of Scripps College in Claremont, California and earned an MBA from Harvard Business School. She was a Fulbright Scholar in Strasbourg, France. Since 2002, she has served as the President of Owades Enterprises, LLC. (marketing enterprise having the rights to four new patented consumer products). She was the founder and CEO (1989-2001) of Calyx & Corolla (first fresh flower catalog and internet company). She was also the founder and CEO of Gardener’s Eden (a catalog of gardening tools and accessories). Ms. Owades is a director of Providian Financial Corporation and The J. Jill Group, Inc. She also serves as a member of the Board of Associates of Harvard Business School, the Board of Trustees of Scripps College, the Council on Competitiveness, the Committee of 200 and the Advisory Board of Insolia, LLC.

John J. Roberts – Age 60; Director since April 2003; Member – Audit Committee (Chairman). Mr. Roberts served as Global Managing Partner for PricewaterhouseCoopers LLP from 1998 until his retirement in June 2002. Mr. Roberts held numerous positions at Coopers & Lybrand LLP from 1967 until its merger with Price Waterhouse LLP in 1998. From 1994 to 1998 Mr. Roberts served as one of three members of the Office of the Chairman of Coopers & Lybrand’s United States operations. Prior to that time, Mr. Roberts held other positions at Coopers & Lybrand, including Deputy Vice Chairman, Vice Chairman and Managing Partner. Mr. Roberts is a graduate of Drexel University. He serves on the Boards of Directors and Audit Committees of Safeguard Scientifics, Inc. and the Pennsylvania Real Estate Investment Trust. He also serves on the Board of Directors and Audit Committee of Vonage, Inc., a privately-held company.

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M. Edward Sellers – Age 60; Director since April 2001; Member – Audit Committee. Mr. Sellers is a graduate of Vanderbilt University and received his MBA from Harvard Business School. Mr. Sellers joined Blue Cross Blue Shield of South Carolina and The Companion Group of Companies (a health, life, property and casualty insurance company with related services and functions) in 1987, serving as President and Chief Operating Officer until 1992 when he assumed the role of President and Chief Executive Officer. In 2001, he was named Chairman and Chief Executive Officer. He serves as Chair of the South Carolina Council on Competitiveness. He also serves on the following Boards: Open Networks Technologies, Inc.; National Bank of South Carolina; American Red Cross; ETV (Educational Television) Endowment of South Carolina, Central Carolina Economic Development Alliance and Central Carolina Community Foundation. Mr. Sellers is past Chair of the South Carolina State Chamber of Commerce; Palmetto Business Forum; Columbia College; ETV Endowment Board, and the Palmetto Conservation Foundation.

Jerre L. Stead – Age 62; Director since April 1992; Member—Nominating and Governance Committee and Management Development and Compensation Committee (Chairman). Mr. Stead is a graduate of the University of Iowa and was a participant in the Advanced Management Program, Harvard Business School. He has served as the Chairman of the Board of IHS, Inc. since December 2000. From August 1996 until June 2000 he served as Chairman and Chief Executive Officer of Ingram Micro, Inc. (technology products and services). During 1995, he served as Chairman, President and Chief Executive Officer of Legent Corporation (integrated product and service software solutions) until its sale late in 1995. He was Executive Vice President, American Telephone and Telegraph Company (telecommunications) and Chairman and Chief Executive Officer of AT&T Global Information Solutions (computers and communicating), formerly NCR Corp. (1993-1994). He was President of AT&T Global Business Communications Systems (communications) (1991-1993) and Chairman, President and Chief Executive Officer (1989-1991) and President (1987-1989) of Square D Company (industrial control and electrical distribution products). In addition, he held numerous positions during a 21-year career at Honeywell. He is a Director of Conexant Systems, Inc., Brightpoint Inc., Mobility Electronics, Inc. and Mindspeed, Inc.

### Directors of Armstrong World Industries, Inc.

Michael D. Lockhart - (See description, above.)

James E. Marley - (See description, above.)

John N. Rigas – (See description, below.)

### Changes to Nomination Procedures

There have been no changes to the procedures by which shareholders may recommend nominees to the Board of Directors since these procedures were first disclosed in the March 31, 2004 Form 10-Q. These procedures are posted at [www.armstrong.com/corporatena/article9748.html](http://www.armstrong.com/corporatena/article9748.html).

### Executive Officer Information

The following information is current as of February 28, 2005. Each executive officer serves a one-year term until reelected or until the earlier of his death, resignation, retirement or replacement.

### Executive Officers of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.

Michael D. Lockhart - (See description, above.)

Stephen J. Senkowski – Age 53; Executive Vice President, Armstrong Holdings, Inc. and Executive Vice President and President and Chief Executive Officer, Armstrong Building Products, Armstrong World Industries, Inc. since April 2004. Previously, President and Chief Executive Officer, Armstrong Building Products, Armstrong World Industries, Inc. October 2000 – April 2004; Senior Vice President, Americas, Building Products Operations, Armstrong World Industries, Inc. April 2000 – October 2000; President/Chief Executive Officer, WAVE July 1997 – April 2000; Vice President, Innovation Process, Building Products Operations 1994 – July 1997.

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Matthew J. Angello – Age 45; Senior Vice President, Human Resources, Armstrong Holdings, Inc. since September 2000 and Armstrong World Industries, Inc. since December 2002. Previously Vice President, Human Resources, Floor Products Operations, Armstrong World Industries, Inc. January 1997 – September 2000; Vice President and Senior Director, Human Resources, The Restaurant Company (food service) 1992 – January 1997.

F. Nicholas Grasberger III – Age 41; Senior Vice President and Chief Financial Officer since January 2005. Vice President and Chief Financial Officer of Kennametal, Inc. (a manufacturer of cutting tools and wear parts) August 2000 – December 2004. Previously employed at H. J. Heinz (a global U.S. based food company) for eleven years, his last title being Treasurer.

John N. Rigas – Age 56; Senior Vice President, Secretary and General Counsel, Armstrong Holdings, Inc. since November 2000 and Armstrong World Industries, Inc. since May 2001. Previously Deputy General Counsel-Litigation, Armstrong World Industries, Inc. March 1999 – November 2000; worked for Dow Corning Corporation (specialty chemical company) October 1982 – March 1999, his last title being Senior Managing Counsel.

William C. Rodruan – Age 50; Vice President and Controller, Armstrong World Industries, Inc. since July 1999 and Armstrong Holdings, Inc. since May 2000. Previously Director, Corporate Transformation and Shared Services, Armstrong World Industries, Inc. February 1997 – July 1999 and Vice President of Finance, Corporate Retail Accounts, Armstrong World Industries, Inc. July 1994 – February 1997.

### **Involvement in Certain Legal Proceedings**

On December 6, 2000, AWI and two of Armstrong World Industries' wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc., filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Therefore, individuals who were or are executive officers and directors of AWI have been associated with a corporation that filed a petition under the federal bankruptcy laws within the last five years. With the exception of Ms. Owades and Messrs. Sellers and Roberts, all present directors of AHI were or are directors of AWI.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Securities and Exchange Commission (“SEC”) regulations require Armstrong Holdings, Inc. directors and executive officers, and any persons beneficially owning more than ten percent of its common stock to report to the SEC their ownership of this stock and any changes in that ownership. SEC regulations also require these persons to furnish the Company with copies of these reports. SEC rules require the Company to report any failure to timely file those reports in the previous fiscal year.

Based solely upon our review of copies of reports furnished to us and written representations from directors and executive officers that no other reports were required, we believe that all of these filing requirements were satisfied by Armstrong Holdings' directors and executive officers during 2004.

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### ITEM 11. EXECUTIVE COMPENSATION

#### Executive Officers' Compensation

The following table shows the compensation received by the Chief Executive Officer and the four other highest paid individuals who served as executive officers during 2004. The data reflects compensation for services rendered to AHI and AWI and its subsidiaries in each of the last three fiscal years, for services in these individual's current position or previous positions during the three year period.

TABLE 1: SUMMARY COMPENSATION TABLE

Name and Current Principal Position	Year	ANNUAL COMPENSATION			LONG-TERM COMPENSATION			All Other Compensation (\$) <sup>5</sup>
		Salary (\$)	Bonus (\$) <sup>1</sup>	Other Annual Compensation (\$) <sup>2</sup>	Awards		Payout	
					AHI Restricted Stock Awards (\$) <sup>3</sup>	AHI Securities Underlying Options/SARs(#)	LTIP Payouts (\$) <sup>4</sup>	
M. D. Lockhart Chairman of the Board and Chief Executive Officer of AHI and AWI	2004	920,000	1,337,000	166,637	—	—	611,900	27,016
	2003	905,000	—	127,779	—	—	1,359,200	6,276
	2002	860,000	1,055,000	79,978	—	—	2,241,000	25,776
S. J. Senkowski Executive Vice President, AHI	2004	502,525	—	—	—	—	—	25,572
	2003	426,250	771,800	—	—	—	—	25,143
	2002	385,000	535,798	—	—	—	721,000	27,588
M. J. Angello Senior Vice President, Human Resources, AHI & AWI	2004	364,500	424,100	—	—	—	—	26,500
	2003	350,500	347,225	—	—	—	—	13,225
	2002	340,000	474,700	—	—	—	310,254	27,778
L. A. Campanaro, Financial Advisor <sup>6</sup>	2004	437,000	—	—	—	—	—	27,016
	2003	434,000	652,150	—	—	—	—	6,516
	2002	425,000	—	—	—	—	670,225	25,776
J. N. Rigas, Senior Vice President, Secretary and General Counsel, AHI & AWI	2004	365,000	421,400	—	—	—	—	27,016
	2003	345,000	330,000	—	—	—	—	6,276
	2002	330,000	640,875	—	—	—	355,350	25,776

- 1) The amounts disclosed for 2004 include payments under the Management Achievement Plan and, where applicable, other cash payments related to incentive awards for the indicated year, including payments on single-year incentive awards under the Long-Term Incentive Plan.
- 2) Except for the income related to Mr. Lockhart during 2004, the aggregate value does not exceed the lesser of \$50,000 or 10% of shown salary and bonus. Mr. Lockhart had taxable income of \$122,019 related to the personal use of the company aircraft and was reimbursed for related taxes incurred in the amount of \$37,349.
- 3) The number of shares and value of previously-granted restricted stock held by each executive as of January 31, 2005 was: M. D. Lockhart – 100,000 (\$191,000); S.J. Senkowski – 668 (\$1,276); M. J. Angello – 2,160 (\$4,126).
- 4) The amounts disclosed include pay-outs only on multi-year incentive awards granted under the Long-Term Incentive Plan. See note 1.
- 5) The amounts disclosed for 2004 include:
  - a) Non-elective contribution by Armstrong of \$20,000 to each individual's Bonus Replacement Retirement Plan account
  - b) Contributions by the Company under the Retirement Savings and Stock Ownership Plan that match the employee's contributions: M.D. Lockhart - \$6,500; S.J. Senkowski - \$5,572; M. J. Angello - \$6,500; L. A. Campanaro - \$6,500; J. N. Rigas - \$6,500.
  - c) Taxable income related to company-paid life insurance benefits: M. D. Lockhart - \$516; L.A. Campanaro - \$516; J. N. Rigas - \$516.
- 6) Prior to January 1, 2005, L. A. Campanaro served as Senior Vice President and Chief Financial Officer of AHI and AWI. His employment terminated February 28, 2005. In addition to the amounts included above, Mr. Campanaro received \$1,398,400 in March

2005 as a severance payment.

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### Management Achievement Plan and Long-Term Incentive Plan

Bonus payments disclosed in the “Summary Compensation Table” included awards made to executive officers in accordance with the Management Achievement Plan for Key Executives (“MAP”). Under the MAP, an executive can earn cash rewards in relation to the attainment of corporate, business unit and individual goals. The corporate and business unit goals are set by the Company’s Management Development and Compensation Committee of the Board of Directors. A specific weighting is assigned to each of the corporate and business unit achievement segments where such segments are applicable. Each participant has a targeted annual incentive award which is expressed as a percentage of base salary earnings and varies with the participant’s level of responsibility. Incentive amounts earned under the corporate and business unit segments of the MAP are based on financial performance against predetermined financial goals.

Payouts were also made to executive officers under the Long-Term Incentive Plan (the “Incentive Plan”). The Incentive Plan provides cash incentive awards to officers and key employees. Each award is conditioned upon achievement of one or more performance goals covering a performance period of one or more years, as set forth in the award agreement. In making a cash incentive award, a threshold performance level is established, below which no award will be payable.

### Change in Control Agreements

A group of senior executives, including M. D. Lockhart, S. J. Senkowski, J. N. Rigas, M. J. Angello, W. C. Rodruan and F. N. Grasberger III have entered into change in control (“CIC”) agreements. These agreements provide severance benefits in the event of a change in control of AHI or AWI. The purpose of the agreements is to foster stability in the management ranks in the face of a possible change in control.

The severance benefits are payable if the executive is involuntarily terminated or terminates employment for good reason within three years following a change in control. Good reason to terminate employment exists if there are significant changes in the nature of the individual’s employment following the change in control. For example, a reduction in compensation, a change in responsibility, or a relocation of the place of employment would constitute significant changes. For the most senior officers, the agreement includes a provision where the executive may choose to terminate employment for any reason during the thirty-day period beginning twelve months following a qualifying change in control and receive severance benefits. The qualifying change in control must meet the definitions in (2) and (3) shown below. The agreements have an automatic annual renewal feature, meaning the agreements will continue in effect unless either one of Armstrong, AHI or the executive elects not to extend the agreement.

For the purposes of these agreements, a change in control includes the following: (1) acquisition by a person (excluding certain qualified owners) of beneficial ownership of 20% or more of AHI’s common stock; (2) change in the composition of the Board of AHI, so that existing Board members and their approved successors do not constitute a majority of the Board; (3) consummation of a merger or consolidation of AHI, unless shareholders of voting securities immediately prior to the merger or consolidation continue to hold 66 <sup>2</sup>/<sub>3</sub> % or more of the voting securities of the resulting entity; and (4) shareholder approval of a liquidation or dissolution of AHI or sale of substantially all of AHI’s assets.

Severance benefits under the agreements depend on the position the executive holds, but generally include: (1) a lump severance payment equal to two or three times the sum of the officer’s annual base salary and the higher of the officer’s highest annual bonus earned in the three years prior to termination or prior to the change in control; (2) a lump-sum payment of the portion of the officer’s target incentive awards applicable to the year of termination of employment calculated by multiplying the target award by the fractional number of months completed in the performance award period; (3) up to three additional years of service credit for purpose of determining retirement benefits, the actuarial present value of which are payable as a lump sum; (4) continuation of life, disability, accident and health insurance benefits for three years following termination; (5) full reimbursement for the payment of any applicable excise taxes; and (6) payment of legal fees incurred in connection with a good faith dispute involving the agreement.

The Bankruptcy Court in Armstrong World Industries’ Chapter 11 Case approved AWI’s assumption of the CIC agreements subject

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to certain modifications. The modifications limit in certain respects (i) what constitutes a change in control under the CIC agreements; and (ii) with respect to the CIC agreements for the most senior officers, what constitutes “Good Reason” entitling the executive to terminate employment and receive benefits under the agreement. If the POR discussed in Note 1 of the Consolidated Financial Statements of this 10-K report were to become effective, the issuance of the new stock of reorganized AWI according to the provisions of the POR would constitute a change in control under the CIC agreements for all executives except for F. N. Grasberger III.

### Employment Agreements

Armstrong entered into an employment agreement with Michael D. Lockhart effective August 7, 2000, in which Mr. Lockhart agreed to serve as Chairman of the Board and Chief Executive Officer of AHI at an initial base salary of \$800,000 per year and a \$5,000,000 one-time signing bonus. This contract was subsequently approved by the Bankruptcy Court in Armstrong World Industries’ Chapter 11 Case. The employment agreement was automatically renewed for an additional one-year term on the third anniversary of the date of the agreement and renews for an additional one-year term on each successive anniversary, unless AHI gives notice not to extend the agreement at least 180 days prior to the anniversary date. If the employment agreement with Mr. Lockhart is terminated without “cause,” or if Mr. Lockhart terminates his employment for “good reason”, Mr. Lockhart is entitled to receive (1) a lump-sum cash payment equal to his base salary, plus the higher of (i) the bonus for which he is eligible in the year of termination at target performance levels, or (ii) the highest bonus award paid during the last three years, multiplied by either the number of years remaining in his employment agreement or by one (“1”), whichever is larger, and (2) continuation of certain benefits for the remainder of the term of his employment agreement. Mr. Lockhart’s employment agreement also contains a non-competition provision that bars him from competing with AHI or any subsidiaries or affiliates for a period of two years following his termination. The agreement also provides Mr. Lockhart with the opportunity to participate in all short-term and long-term incentive plans offered by AHI and AWI, including an annual cash incentive opportunity and an annual long-term incentive award under AHI’s long-term incentive plan. The agreement further provides that the value of his annual long-term incentive award on the grant date is required to equal 150% of Mr. Lockhart’s target annual cash compensation (salary and bonus) for the year, and that he receives two years of service credit for every one year of actual service towards the calculation of his pension benefits under the Retirement Benefit Equity Plan. In addition, in March 2005, the Company granted Mr. Lockhart five additional years of service credit under that plan. See the section “Benefits from Retirement Plans” below for a table illustrating actual benefit payments based upon credited years of service and compensation.

AWI hired F. Nicholas Grasberger III effective January 1, 2005 as Senior Vice President and Chief Financial Officer of AHI at an initial base salary of \$450,000 per year and a \$300,000 one-time signing bonus. His agreement also provides Mr. Grasberger with the opportunity to participate in AWI’s annual cash incentive and long-term incentive plans with target incentive awards for 2005 valued at 60% and 180% of annual base salary respectively. As approved by the Bankruptcy Court in AWI’s Chapter 11 Case, Mr. Grasberger will receive a Cash Retention Payment of \$450,000 if he remains employed through December 31, 2005. During AWI’s Chapter 11 reorganization, Mr. Grasberger will qualify for enhanced severance benefits if he meets the eligibility provisions of the AWI Severance Pay Plan which is described below. His severance payment would be two times the sum of annual base salary and target annual bonus. Mr. Grasberger would be eligible to continue health care and life insurance benefits for two years at active employee costs. Following emergence from Chapter 11 reorganization, AWI will provide a minimum severance payment equal to annual base salary, and benefits would continue for one year. At the time of AWI’s emergence from Chapter 11 reorganization, it is planned that Mr. Grasberger would receive equity awards consisting of 41,400 shares of restricted stock and 124,200 nonqualified stock options. It is anticipated that both awards would vest in one-third installments at two, three and four years from the grant date.

### Severance Pay Plan for Salaried Employees

The Severance Pay Plan for Armstrong World Industries’ Salaried Employees was adopted in 1990. This plan is designed to cushion the effects of unemployment for certain salaried employees. The benefits are payable if a covered employee is terminated under certain circumstances. All salaried employees of AHI and AWI, including the officers named in the Summary Compensation Table,

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are eligible to participate in the plan. A participant will be entitled to severance pay if they are terminated and an exclusion does not apply. The employee is not entitled to severance pay if the reason for the termination is the following: (1) voluntary separation; (2) the employee accepts employment with the successor organization in connection with the sale of a plant, unit, division or subsidiary; (3) the employee rejects the offer of a position in the same geographic area at a base salary of at least 90% of the employee's current salary made by AHI or AWI, their subsidiaries or any successor organization; (4) misconduct; or (5) unsatisfactory performance, unless otherwise approved by the Severance Pay Committee. Severance benefits will be offset by payments made under CIC agreements or individual employment agreements.

Under the plan, the scheduled amount of the payment is based on the employee's length of service, reason for termination and base salary level. The amount of the payment ranges from a minimum of two weeks base salary to a maximum of 39 weeks base salary. The Severance Pay Committee retains the right to depart from the severance pay schedule where factors justify an upward or downward adjustment in the level of benefits. In no event may the severance benefit exceed two times the participant's annual compensation.

### Enhanced Severance Benefits during AWI's Chapter 11 Reorganization

Under the Retention Program for Key Employees approved by the Bankruptcy Court in AWI's Chapter 11 Case, enhanced severance benefits apply to approximately 195 employees (excluding M. D. Lockhart) during the term of the Chapter 11 reorganization. Cash severance payments ranging from two years of base salary and target annual bonus for the year of termination to nine months of base salary apply depending on the employee's job and evaluation level. Employees will receive continued health care and life insurance benefits for the duration of their severance payment period along with outplacement support.

### Other Benefits

Except as specifically noted, the benefit programs for executives are generally the same as those offered to the company's other salaried employees. Depending on the executive's job evaluation and pay level, Armstrong currently provides the following executive benefits: (1) supplemental benefits on comparable terms to those otherwise available under either the pension or savings plan but for qualified plan limitations, (2) company-paid long-term disability insurance, (3) limited reimbursement (a maximum of \$4,500 per year) for personal financial planning expenses, and (4) annual company-paid physical exams. As noted in the Summary Compensation Table, Mr. Lockhart has access to company aircraft for personal use and is reimbursed for taxes accrued as a result of his imputed taxable income stemming from such use.

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**TABLE 2: OPTION/SAR GRANTS IN LAST FISCAL YEAR**

There were no grant of stock options or any other equity-based awards during 2004 under any of Armstrong’s stock-based compensation plans. No equity compensation awards have been made since AWI’s Chapter 11 Filing in December 2000, other than commitments entered into prior to the Chapter 11 filing.

**TABLE 3: AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES**

The following table sets forth information regarding the exercise of stock options during 2004 and the unexercised options held as of the end of 2004 by each of the named executives:

Name	AHI Shares Acquired	Value Realized (market price at exercise less exercise price) (\$)	Securities Underlying Unexercised Options/SARs At Fiscal Year-End (#)		Value of Unexercised In-The-Money Options/SARs At Fiscal Year-End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
M. D. Lockhart	0	0	300,000	0	\$133,250	0
S. J. Senkowski	0	0	14,655	0	0	0
L. A. Campanaro	0	0	0	0	0	0
J. N. Rigas	0	0	17,000	0	0	0
M. J. Angello	0	0	10,570	0	0	0

**TABLE 4: LONG TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR**

The following table sets forth information regarding the long-term incentive plan awards granted during 2004 to each of the named executives:

Name	Performance Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
		Threshold (\$)	Target (\$)	Maximum <sup>4</sup> (\$)
M. D. Lockhart	2/23/2004 – 12/31/2005		1,240,000	1,240,000
			<sup>1</sup>	
M. D. Lockhart	2/23/2004 – 12/31/2005		1,860,000	2,790,000
			<sup>2</sup>	
S. J. Senkowski	1/01/2004 – 12/31/2005		440,000	528,000
			<sup>3</sup>	
L. A. Campanaro	1/01/2004 – 12/31/2005		415,150	498,180
			<sup>3</sup>	
J. N. Rigas	1/01/2004 – 12/31/2005		262,500	315,000
			<sup>3</sup>	
M. J. Angello	1/01/2004 – 12/31/2005		265,500	318,600
			<sup>3</sup>	

1) Mr. Lockhart’s cash incentive award will be earned in direct proportion to the ratio of (1) three times the increase in 2005 earnings before interest, taxes, depreciation and amortization (EBITDA) over 2003 EBITDA to (2) 2003 EBITDA. EBITDA results exclude the impact of bankruptcy-related expense/income, restructuring charges and significant unusual items. No threshold payment level has been established. Cash payments earned will be paid in early 2006.

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- 2) Mr. Lockhart's second cash incentive award will be determined on the basis of a factor related to the EBITDA compound annual growth percentage comparing 2005 to 2003, multiplied by a number equal to 1 plus the ratio of (1) the dollar increase in EBITDA from 2003 to 2005 to (2) 2003 EBITDA. EBITDA results exclude the impact of bankruptcy-related expenses/income, restructuring charges and significant unusual items. No threshold payment level has been established. Cash payments earned will be paid in early 2006.
- 3) This award will be earned based on cumulative adjusted operating income results for 2004 and 2005 and paid in early 2006. The target and actual results exclude the impact of interest expense/income, bankruptcy-related expense/income, restructuring charges and significant unusual items.
- 4) Under the terms of the 1999 Long-Term Incentive Plan, the maximum payment to any one participant pursuant to a Cash Incentive Award with respect to any one year is \$3 million.

### BENEFITS FROM RETIREMENT PLANS

The following table shows the estimated pension benefits payable to a participant at normal retirement age under Armstrong's Retirement Income Plan and Retirement Benefit Equity Plan. The Retirement Income Plan is a qualified defined benefit pension plan. Salaried employees hired after December 31, 2004 will not participate in this plan but will receive an enhanced match under the 401(k) savings plan. The Retirement Benefit Equity Plan is an unfunded, nonqualified supplemental pension plan. It provides participants with benefits that would otherwise be denied by reason of certain Internal Revenue Code limitations on qualified plan benefits. The amounts shown in Table 5 are based on compensation that is covered under the plans and years of service with AWI and its subsidiaries (plus additional years of credited service awarded).

**TABLE 5: PENSION PLAN TABLE  
ANNUAL RETIREMENT BENEFIT BASED ON SERVICE <sup>1</sup>**

Remuneration <sup>2</sup>	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years
\$ 200,000	\$ 43,000	\$ 58,000	\$ 72,000	\$ 86,000	\$ 101,000	\$ 113,000
\$ 400,000	\$ 90,000	\$120,000	\$150,000	\$ 179,000	\$ 209,000	\$ 233,000
\$ 600,000	\$136,000	\$182,000	\$227,000	\$ 272,000	\$ 318,000	\$ 354,000
\$ 800,000	\$183,000	\$244,000	\$305,000	\$ 365,000	\$ 426,000	\$ 474,000
\$ 1,000,000	\$229,000	\$306,000	\$382,000	\$ 458,000	\$ 535,000	\$ 595,000
\$ 1,200,000	\$276,000	\$368,000	\$460,000	\$ 551,000	\$ 643,000	\$ 715,000
\$ 1,400,000	\$322,000	\$430,000	\$537,000	\$ 644,000	\$ 752,000	\$ 836,000
\$ 1,600,000	\$369,000	\$492,000	\$615,000	\$ 737,000	\$ 860,000	\$ 956,000
\$ 1,800,000	\$415,000	\$554,000	\$692,000	\$ 830,000	\$ 969,000	\$1,077,000
\$ 2,000,000	\$462,000	\$616,000	\$770,000	\$ 923,000	\$1,077,000	\$1,197,000
\$ 2,200,000	\$508,000	\$678,000	\$847,000	\$1,016,000	\$1,186,000	\$1,318,000

- 1) Benefits shown assume retirement in 2004. The benefits are computed as a straight life annuity beginning at age 65 and are not subject to deduction for Social Security or other offsets.
- 2) Calculated as the average annual compensation in the three highest paid years during the 10 years prior to retirement. Annual compensation equals the total of the amounts reported under the columns captioned "Salary" and "Bonus" in the Summary Compensation Table (excluding cash retention and long-term incentive payments) as well as Armstrong contributions under the Bonus Replacement Retirement Plan.

The 2004 annual compensation and estimated years of service for plan purposes for each of the executives named in the Summary Compensation Table were as follows:

M. D. Lockhart - \$920,000 (13.8 years); S. J. Senkowski - \$634,823 (31.6 years); M.J. Angello - \$378,950 (21.9 years); and J. N. Rigas - \$365,000 (22.8 years). Mr. Campanaro was not vested in the plans. Under his employment agreement, Mr. Lockhart receives two years of service credit for every one year of actual service toward the calculation of his pension benefits under the Retirement Benefit Equity Plan and five additional years of service credit, which are reflected in the numbers above. Estimated years of service include credit for prior service awarded to M.J. Angello (14 years) and J. N. Rigas (17 years) upon their employment with Armstrong. The Armstrong retirement benefit for Messrs. Angello and Rigas will be reduced by the value of any defined benefit pension payable by previous employers for the respective period of the prior service credit.

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Special provisions apply if the Retirement Income Plan is terminated within five years following an Extraordinary Event, as this item is defined in the plan. In that event, plan liabilities will first be satisfied; then, remaining plan assets will be applied to increase retirement income to employees. The amount of the increase is based on the assumption that the employee would have continued employment with Armstrong until retirement. Messrs. Lockhart, Senkowski, Angello and Rigas would be entitled to this benefit.

Pension enhancement provisions apply in the event that a salaried member is terminated other than for cause or resigns for good reason, as those terms are defined in the plan, within two years following a change in control of AHI. If those members have at least 10 years of service and are at least 50 years in age, they would be eligible for early retirement without certain normal reductions applying. Members with 15 or more years of service would also receive credit under the plan for an additional five years of service. Effective March 1, 2004, salaried members ceased to accrue additional pension benefits under these pension enhancement provisions and no such benefits will be paid from the Retirement Benefit Equity Plan.

### Compensation of Directors

AHI and Armstrong do not separately compensate directors who are employees for services as a director. AHI and Armstrong pay directors who are not employees a retainer of \$90,000 per year. Shared directors receive only a single retainer. The Audit Committee chairman receives an annual fee of \$20,000 and the chairpersons of the Management Development and Compensation Committee, and the Nominating and Governance Committee each receive an annual fee of \$10,000. AHI and Armstrong directors who are not employees are paid \$2,500 per day plus reasonable expenses for special assignments including special meetings in connection with Board activity.

### Management Development and Compensation Committee and Interlocks and Insider Participation

The Management Development and Compensation Committee members are Jerre L. Stead (Chairman); Judith R. Haberkorn; and Ruth M. Owades. John A. Krol served as a Committee member during 2004 prior to his retirement from the Board of Directors on March 31, 2004. The Management Development and Compensation Committee establishes the overall philosophy and policies governing compensation programs, including those subject to Section 162(m) of the Internal Revenue Code, for AHI and Armstrong management.

None of the members of the Management Development and Compensation Committee is a current or former officer of the Company or was a party to any related party transaction (as determined under SEC disclosure requirements) involving the Company during the year ended December 31, 2004.

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### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

#### **a) Stock Ownership of Certain Beneficial Owners**

AHI indirectly owns all of the capital stock of AWI. The following table <sup>1</sup> sets forth, as of February 15, 2005, unless otherwise indicated, each person or entity known to AHI that may be deemed to have beneficial ownership of more than 5% of the outstanding AHI common stock.

<u>Name And Address Of Beneficial Owner</u>	<u>Amount And Nature Of Beneficial Ownership</u>	<u>Percent Of Class Outstanding <sup>2</sup></u>
JP Morgan Chase <sup>3</sup> 270 Park Avenue New York, NY 10017	3,613,225 <sup>4</sup>	8.9%
Harbert Distressed Investment Management Fund, Ltd. <sup>5</sup> c/o International fund Services (Ireland) Ltd. Third Floor, Bishop's Square Redmond's Hill Dublin 2, Ireland	2,770,246	6.8%
Chesapeake Partners Management Co. Inc. <sup>6</sup> 1829 Reisterstown Road, Suite 420 Baltimore, MD 21208	2,614,000	6.4%
Royce & Associates, LLC 1414 Avenue of the Americas New York, NY 10019	2,419,500	5.9%
Glenview Capital Management, LLC 399 Park Avenue, Floor 39 New York, NY 10022	2,332,562	5.7%

- 1) In accordance with applicable rules of the Securities and Exchange Commission, this information is based on Schedule 13G information filed in February 2005.
- 2) In accordance with applicable rules of the Securities and Exchange Commission, this percentage is based upon the total 40,668,892 shares of AHI's common stock that were outstanding on December 31, 2004.
- 3) JP Morgan Chase serves as the trustee of the Stock Ownership Armstrong Holdings Stock Fund of the Retirement Savings and Stock Ownership Plan (RSSOP). As trustee, JP Morgan Chase may be deemed to be the beneficial owner of 3,613,225 shares held in the trusts. JP Morgan Chase is obligated to vote, tender, or exchange any Common Stock beneficially owned by the RSSOP Trust as directed by participants in RSSOP. JP Morgan Chase votes these shares in accordance with the participant's direction. Shares that are unallocated and any allocated shares for which no instructions are received, are voted in the same proportion as the shares of Common Stock for which instructions are received. JP Morgan Chase directly votes the shares beneficially owned by the Retirement Income Plan.
- 4) Number of shares held as of December 31, 2004.
- 5) Harbert Distressed Investment Management Fund, Ltd. filed a Schedule 13G on February 14, 2005. Harbert Distressed Investment Management Fund, Ltd. indicated it and its affiliated parties, HMC Distressed Investment Offshore Manager, L.L.C., HMC Investors, L.L.C., Philip Falcone, Raymond J. Harbert and Michael D. Luce own in the aggregate 2,770,246 shares.
- 6) The Schedule 13G filed on March 7, 2005 by Chesapeake Partners Management Co. Inc. was a joint filing in accordance with the provisions of Rule 13-d-1(k) of the Securities Exchange Act, as amended. Chesapeake Partners Management Co. Inc. is the beneficial owner of 2,614,000 shares. 1,355,835 shares are held for the account of Chesapeake Partners Limited Partnership and 1,258,165 shares are held for the account of Chesapeake Partners International Ltd.

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### b) Security Ownership of Management

The following table shows the amount of AHI stock that each director, each individual named in the Summary Compensation Table and all directors and executive officers owned as a group. The ownership rights in these shares consist of sole voting and investment power, except where otherwise indicated. No named individual beneficially owns 1% or more of the outstanding common shares. Collectively, all of the directors and executive officers as a group beneficially own 1.2% of the outstanding common shares. This information is as of January 31, 2005.

Name	Stock <sup>1</sup>	Stock Options		Restricted Stock <sup>2</sup>	Phantom Shares <sup>3</sup>
		Exercisable within 60 days	Total Beneficial Ownership		
H. Jesse Arnelle	2,044	—	2,044	—	1,689
Judith R. Haberkorn	1,084	4,970	6,054	—	1,910
Michael D. Lockhart	100,124	300,000	400,124	—	—
James E. Marley	3,022	1,410	4,432	—	8,086
Ruth M. Owades	5,000	—	5,000	—	—
John. J. Roberts	—	—	—	—	—
M. Edward Sellers	—	—	—	—	—
Jerre L. Stead	4,400	3,260	7,660	—	2,094
Matthew J. Angello	2,262	10,570	12,832	2,756	—
Leonard A. Campanaro	124	—	124	—	—
John N. Rigas	979	17,000	17,979	—	—
Stephen J. Senkowski	3,235	14,655	17,890	1,995	—
Director and officers as a group (13 persons)	126,506	366,465	492,971	6,198	14,062

- 1) Includes the following shares that may be determined to be owned by the employee through the employee stock ownership accounts of AHI's Retirement Savings and Stock Ownership Plan ("RSSOP"): M. D. Lockhart – 124; S. J. Senkowski – 2,186; M. J. Angello – 1,407; L.A. Campanaro – 124; J. N. Rigas – 979 and executive officers as a group – 11,274. Includes the following shares indirectly owned and held in the savings accounts of the RSSOP accounts of the following individuals: S. J. Senkowski – 38; M. J. Angello – 563 and executive officers as a group – 2,029. Includes the following shares indirectly owned and held in the Bonus Replacement Retirement Plan accounts: M. J. Angello – 292 and executive officers as a group – 292.
- 2) Includes restricted shares, some of which have been deferred and are held in trust. The participants have voting power but not investment power.
- 3) Includes phantom shares held in a stock subaccount under the Deferred Compensation Plan. The participants have no voting or investment power.

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### Equity Compensation Plan Information

No equity-based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing.

The following table provides information as of December 31, 2004 regarding securities that were authorized for issuance under pre-December 2000 grants pursuant to equity compensation plans:

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights 1 (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by security holders	2,278,096	\$ 29.57	4,538,709
Equity compensation plans not approved by security holders <sup>2</sup>	108,260	—	504,443
<b>Total</b>	<b>2,386,356</b>	<b>\$ 28.23</b>	<b>5,043,152</b>

1) Restricted stock included in weighted-average exercise price as \$0 because it has no exercise price.

2) The Stock Award Plan was adopted by the AHI Board of Directors effective July 24, 2000. The purpose of the plan was to providing a portion of the compensation for officers, directors and key employees in shares of common stock pursuant to the terms of the plan. The plan is administered by the Management Development and Compensation Committee and provides for the grant of Restricted Stock Awards and Stock Awards which may be subject to certain terms and conditions established by the Committee. The awards were to be used for the purposes of recruitment, recognition and retention of eligible participants.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Mr. H. Jesse Arnelle is Of Counsel with the law firm of Womble Carlyle Sandridge & Rice, PLLC. Armstrong has retained Womble Carlyle Sandridge & Rice, PLLC for many years, including 2004 and 2003. Mr. Arnelle receives no benefit from, and has no interest in, the fees the company pays to that law firm. Mr. Arnelle's relationship with this law firm does not prevent him from being considered an independent outside director under SEC or NASDAQ rules.

During 2004, Stratford Management Company, Inc. purchased products from our Cabinets segment in the amount of \$120,511. The President of Stratford Management Co. is the brother of David E. Gordon, who was President of our Cabinets segment during most of 2004. The transactions were all in the ordinary course of business.

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### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

#### Professional Audit Fee Services Rendered

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of AHI's annual financial statements for 2004 and 2003, and fees billed for other services rendered by KPMG LLP. For the purposes of this table, audit fees are for services rendered in connection with the audit of AHI's financial statements as of and for the year ended December 31, 2004, for which a portion of the billings occurred or will occur in 2005. All fees in 2004 were pre-approved by the Audit Committee. In 2003, all but \$13,000 of the fees were pre-approved by the Audit Committee.

<u>(amounts in 000's)</u>	<u>2004</u>	<u>2003</u>
Audit Fees	\$3,950	\$3,650
Audit Related Fees <sup>(1)</sup>	900	760
<b>Audit and Audit Related Fees</b>	<b>4,850</b>	<b>4,410</b>
Tax Fees <sup>(2)</sup>	915	1,480
All Other Fees <sup>(3)</sup>	105	890
<b>Total Fees</b>	<b>\$5,870</b>	<b>\$6,780</b>

1) Audit Related Fees consisted principally of fees for audits of financial statements of certain employee benefit plans, accounting research assistance on technical topics (including Chapter 11 related accounting issues), limited agreed upon procedures over certain internal controls and other consultations relating to internal controls, international financial reporting standards at some foreign locations and other issues with respect to foreign statutory financial statements.

2) Tax Fees consisted of fees for tax consultation and tax compliance services.

3) All Other Fees consist primarily of fees for Bankruptcy Court fee application preparation for 2004 and primarily Chapter 11 corporate recovery assistance services for 2003.

#### Audit Committee Pre-approval Policies and Procedures

The Audit Committee of Armstrong Holdings, Inc.'s Board of Directors adopted a policy and procedures that require their pre-approval of any services provided by the firm that serves as our independent auditor. Per the policy, management cannot engage the independent auditor for any services without the Audit Committee's pre-approval. Further, the Audit Committee delegates to the Committee chair the authority to pre-approve services not exceeding 5% of the total audit fees for the year for purposes of handling emergency needs, with a report to the full Committee of such approvals at its next meeting. The policy and procedures comply with Section 10A(i) of the Securities Exchange Act.

PART IV

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a)(1)(2) The financial statements and schedule of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. filed as a part of this 2004 Annual Report on Form 10-K are listed in the “Index to Financial Statements and Schedules” on page 50.
- (a)(2) The financial statements required to be filed pursuant to Item 15(d) of Form 10-K are:  
Worthington Armstrong Venture consolidated financial statements as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 (filed herewith as Exhibit 99.1).
- (a)(3) The following exhibits are filed as a part of this 2004 Annual Report on Form 10-K.

<b>Exhibit No.</b>	<b>Description</b>
No. 2.1	Armstrong Holdings, Inc. Plan of Dissolution, Winding Up and Distribution is incorporated by reference from Exhibit A to the Proxy Statement of Armstrong Holdings, Inc. filed on October 16, 2003.
No. 2.2	Armstrong World Industries, Inc.’s Revised Projected Financial Information submitted to the U.S. Bankruptcy Court for the District of Delaware, constituting Exhibit C to the Disclosure Statement, is incorporated by reference from the Current Report filed on Form 8-K on November 20, 2003 wherein it appeared as Exhibit 99.1.
No. 2.3	Certain Exhibits to Armstrong World Industries, Inc.’s Fourth Amended Plan of Reorganization submitted to the U.S. District Court for the District of Delaware are incorporated by reference from the Current Report filed on Form 8-K on September 8, 2003.
No. 2.4	Armstrong World Industries, Inc.’s Disclosure Statement submitted to the U.S. District Court for the District of Delaware is incorporated by reference from the Current Report filed on Form 8-K on May 23, 2003.
No. 2.5	Armstrong World Industries, Inc.’s Fourth Amended Plan of Reorganization submitted to the U.S. District Court for the District of Delaware on May 23, 2003, and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003 and December 3, 2004.
No. 3.1	Armstrong Holdings, Inc.’s Amended and Restated Articles of Incorporation are incorporated herein by reference from the Current Report on Form 8-K dated May 9, 2000, wherein it appeared as Exhibit 3.1(i). (SEC File No. 000-50408)
No. 3.2	Armstrong Holdings, Inc.’s Bylaws, effective May 1, 2000 are incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 3(b). (SEC File No. 000-50408)
No. 3.3	Armstrong World Industries, Inc.’s Restated Articles of Incorporation, as amended, are incorporated by reference from the 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b). (SEC File No. 1-2116)
No. 3.4	Armstrong World Industries, Inc.’s Bylaws as amended November 9, 2000 are incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 3(d). (SEC File No. 1-2116)

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- No. 4.1 Armstrong Holdings, Inc.'s Shareholder Summary of Rights to Purchase Preferred Stock dated as of March, 14, 2000 is incorporated by reference from Armstrong Holdings, Inc.'s registration statement on Form 8-K dated May 9, 2000, wherein it appeared as Exhibit 99.2. (SEC File No. 000-50408)
- No. 4.2 Armstrong World Industries, Inc.'s Retirement Savings and Stock Ownership Plan effective as of October 1, 1996, as amended April 12, 2001 is incorporated by reference from Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, wherein it appeared as Exhibit 4.\* (SEC File No. 1-2116)
- No. 4.3 Armstrong World Industries, Inc.'s \$450,000,000 Credit Agreement (5-year) dated as of October 29, 1998, among Armstrong World Industries, Inc., The Chase Manhattan Bank, as administrative agent, and the banks listed therein, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(f). (SEC File No. 1-2116)
- No. 4.4 Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated by reference from Armstrong World Industries, Inc.'s registration statement on Form S-3/A dated August 14, 1996, wherein it appeared as Exhibit 4.1. (SEC File No. 1-2116)
- No 4.5 Instrument of Resignation, Appointment and Acceptance dated as of December 1, 2000 among Armstrong World Industries, Inc., The Chase Manhattan Bank and Wells Fargo Bank Minnesota, National Association, regarding Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(e). (SEC File No. 1-2116)
- No. 4.6 Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of \$200,000,000 of 6.35% Senior Notes Due 2003 and \$150,000,000 of 6 1/2 % Senior Notes Due 2005, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(h). (SEC File No. 1-2116)
- No. 4.7 Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of \$180,000,000 of 7.45% Senior Quarterly Interest Bonds Due 2038, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(i). (SEC File No. 1-2116)
- No. 4.8 Note Purchase Agreement dated June 19, 1989 for 8.43% Series A Guaranteed Serial ESOP Notes due 1989 –2001 and 9.00% Series B Guaranteed Serial ESOP Notes due 2000-2004 for the Armstrong World Industries, Inc. Employee Stock Ownership Plan ("Share in Success Plan") Trust, with Armstrong World Industries, Inc. as guarantor is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s registration statement on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 4(a). (SEC File No. 1-2116)
- No. 4.9 Armstrong World Industries, Inc.'s \$300,000,000 Revolving Credit and Guarantee Agreement dated December 6, 2000, between Armstrong World Industries, Inc. and The Chase Manhattan Bank and the banks referenced therein; the First Amendment to this Agreement, dated February 2, 2001; and the Amendment Letter to this Agreement, dated February 28, 2001, are incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(i). (SEC File No. 1-2116)

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Armstrong Holdings, Inc. and Armstrong World Industries, Inc. agree to furnish to the Commission upon request copies of instruments defining the rights of holders of long-term debt of the registrants and their subsidiaries which are not filed herewith in accordance with applicable rules of the Commission because the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrants and their subsidiaries on a consolidated basis.

- No. 4.10 Amendment to Armstrong World Industries, Inc.'s Debtor in Possession Credit Facility dated October 31, 2003, is incorporated by reference from the 2003 Annual Report on Form 10-K wherein it appeared as Exhibit 4(j).
- No. 4.11 Indenture, dated as of March 15, 1988, between Armstrong World Industries, Inc. and Morgan Guaranty Trust Company of New York, as Trustee, as to which The First National Bank of Chicago is successor trustee, (relating to Armstrong World Industries, Inc.'s \$125 million 9 <sup>3</sup>/<sub>4</sub> % Debentures due 2008 and Series A Medium Term Notes) is incorporated by reference from the 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 4(c). (SEC File No. 1-2116)
- No. 4.12 Senior Indenture dated as of December 23, 1998 between Armstrong World Industries, Inc. and First National Bank of Chicago, as Trustee, is incorporated by reference from Armstrong World Industries, Inc.'s Registration Statement on Form S-3 (File No. 333 - 74501) dated March 16, 1999, wherein it appeared as Exhibit 4.3. (SEC File No. 1-2116)
- No. 4.13 Global Note representing \$200 million of 7.45% Senior Notes due 2029 is incorporated by reference from the Current Report on Form 8-K filed on May 29, 1999, wherein it appeared as Exhibit 4.2. (SEC File No. 1-2116)
- No. 4.14 Agreement and Plan of Merger, dated as of June 30, 1999 by and among AISI Acquisition Corp. and Armstrong World Industries, Inc and Armstrong Industrial Specialties, Inc. is incorporated by reference from the Current Report on Form 8 - K filed on July 14, 1999, wherein it appeared as Exhibit 1. (SEC File No. 1-2116)
- No. 10.1 Armstrong World Industries, Inc.'s Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the "Wellington Agreement") among Armstrong World Industries, Inc. and other companies is incorporated by reference from the 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(a). (SEC File No. 1-2116)
- No. 10.2 Producer Agreement concerning Center for Claims Resolution, as amended, among Armstrong World Industries, Inc. and other companies is incorporated by reference from the 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b). (SEC File No. 1-2116)
- No. 10.3 Armstrong World Industries, Inc.'s 1993 Long-Term Stock Incentive Plan is incorporated by reference from the 1993 Proxy Statement wherein it appeared as Exhibit A. \* (SEC File No. 1-2116)
- No. 10.4 Armstrong World Industries, Inc.'s Directors' Retirement Income Plan, as amended, is incorporated by reference from the 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c). \* (SEC File No. 1-2116)
- No. 10.5 Armstrong World Industries, Inc. and Armstrong Holdings, Inc.'s Management Achievement Plan for Key Executives, as amended February 26, 2001, is incorporated by reference from the 2000 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(d). \* (SEC File No. 1-2116)

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- No. 10.6 Armstrong World Industries, Inc.'s Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended January 1, 2000 is incorporated by reference from the 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(e). \* (SEC File No. 1-2116)
- No. 10.7 Armstrong Holdings, Inc.'s Deferred Compensation Plan, as amended May 1, 2000, is incorporated by reference from the 2000 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(f) \* (SEC File No. 000-50408)
- No. 10.8 Armstrong World Industries, Inc.'s Severance Pay Plan for Salaried Employees, as amended January 1, 2003 and March 15, 2005. \*
- No. 10.9 Armstrong World Industries, Inc.'s 1999 Long-Term Incentive Plan is incorporated by reference from the 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(j). \* (SEC File No. 1-2116)
- No. 10.10 Form of Change in Control Agreement between Armstrong World Industries, Inc. and certain of its officers is incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 10(iii)(k), together with a schedule identifying those executives and the material differences among the agreements to which each executive is a party, incorporated by reference from the 2003 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(j). \* (SEC File No. 1-2116)
- No. 10.11 Change in Control Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart, dated August 7, 2000 is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 10(e). \* (SEC File No. 000-50408)
- No. 10.12 Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and Messrs. Arnelle, Marley, Stead and Ms. Haberkorn, is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, wherein it appeared as Exhibit 10(iii)(a). \* (SEC File No. 000-50408)
- No. 10.13 Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries Inc. and certain Directors and Officers, together with schedules identifying those Directors and Officers and the material differences among the agreements to which each executive is a party, are incorporated by reference from the 2003 Annual Report on Form 10-K wherein they appeared as Exhibit 10(iii)(m), Exhibit 10(iii)(n) and Exhibit 10(iii)(q). \* (SEC File No. 000-50408)
- No. 10.14 Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries Inc. and M. Edward Sellers, dated May 1, 2001 is incorporated by reference from the 2001 Annual Report of Form 10-K wherein it appeared as Exhibit 10(iii)(s). \* (SEC File No. 000-50406)
- No. 10.15 Form of Indemnification Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc. and Ms. Ruth M. Owades and Mr. John J. Roberts, incorporated by reference from the 2003 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(q). \*
- No. 10.16 Armstrong World Industries, Inc.'s Bonus Replacement Retirement Plan, dated as of January 1, 1998, as amended, is incorporated by reference from the 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(m). \* (SEC File No. 1-2116)

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- No. 10.17 Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart dated August 7, 2000 is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(a). \* (SEC File No. 000-50408)
- No. 10.18 Amendment to August 7, 2000 Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, wherein it appeared as Exhibit 10. \* (SEC File No. 000-50408)
- No. 10.19 Order Authorizing and Approving Retention Program for Key Employees and Approving Assumption of Executory Contracts dated April 18, 2001 is incorporated by reference from the 2001 Annual Report on Form 10-K wherein it appeared as Exhibit 10 (iii)(u).
- No. 10.20 Armstrong Holdings, Inc.'s Stock Award Plan is incorporated by reference from Armstrong Holdings, Inc.'s registration statement on Form S-8 filed August 16, 2000, wherein it appeared as Exhibit 4.1. \* (SEC File No. 000-50408)
- No. 10.21 Management Services Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc., dated August 7, 2000 is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(g). \* (SEC File No. 000-50408)
- No. 10.22 Form of Amendment of Restricted Stock Award Agreements between Armstrong Holdings, Inc. and the following executive officers: M.D. Lockhart, M.J. Angello, S.J. Senkowski and W.C. Rodruan dated July 22, 2002 is incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 wherein it appeared as Exhibit 10. \*
- No. 10.23 Settlement and Release Agreement between Armstrong Holdings, Inc., Armstrong Worldwide, Inc. and Armstrong World Industries, Inc. dated May 9, 2003, incorporated by reference from the 2003 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(aa).
- No. 10.24 Hiring Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.1. \*
- No. 10.25 Change in Control Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.2. \*
- No. 10.26 Indemnification Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.3. \*
- No. 10.27 Form of grant letter regarding executive officer participation in Armstrong World Industries, Inc.'s retention payment program together with the schedule of participating Executive Officers is incorporated by reference from the Current Report filed on Form 8-K on February 3, 2005, wherein they appeared as Exhibits 10.1 and 10.2. \*

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- No. 10.28 Order of the U.S. District Court Authorizing and Approving Continued Cash Retention Program for Key Employees dated December 9, 2004, is incorporated by reference from the Current Report filed on Form 8-K on February 3, 2005, wherein it appeared as Exhibit 99.1.
- No. 10.29 Executive Officer Compensation Arrangements between Armstrong World Industries Inc. and certain executive officers. \*
- No. 10.30 Form of Long-Term Incentive Plan 2005 award letter regarding executive participation in the 1999 Long-Term Incentive Plan is incorporated by reference from the Current Report filed on Form 8-K on February 25, 2005, wherein it appeared as Exhibit 10.5. \*
- No. 10.31 Summary of Armstrong World Industries, Inc.'s Nonqualified Deferred Compensation Plan. \*
- No. 10.32 Summary of Armstrong Nonemployee Director Compensation. \*
- No. 11.1 Computation for basic earnings per share.
- No. 11.2 Computation for diluted earnings per share.
- No. 21.1 List of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
- No. 23.1 Consent of Independent Registered Public Accounting Firm.
- No. 23.2 Consent of Independent Registered Public Accounting Firm.
- No. 23.3 Consent of Independent Registered Public Accounting Firm.
- No. 23.4 Consent of Independent Registered Public Accounting Firm.
- No. 24.1 Power of Attorney and authorizing resolution.
- No. 31.1 Certification of Principal Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
- No. 31.2 Certification of Principal Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
- No. 31.3 Certification of Principal Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
- No. 31.4 Certification of Principal Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
- No. 32.1 Certification of Chief Executive Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
- No. 32.2 Certification of Chief Financial Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).

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No. 99.1      Worthington Armstrong Venture consolidated financial statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001, incorporated by reference from the Form 10-K/A Amendment No. 2 wherein it appeared as Exhibit 99.1.

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\* Management Contract or Compensatory Plan

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMSTRONG HOLDINGS, INC.  
(Registrant)

By: /s/ Michael D. Lockhart

\_\_\_\_\_  
Chairman, Chief Executive Officer and President

Date: March 29, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant AHI and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant AHI:

<u>Name</u>	<u>Title</u>
Michael D. Lockhart	Chairman, Chief Executive Officer and President (Principal Executive Officer)
F. Nicholas Grasberger III	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
William C. Rodruan	Vice President and Controller (Chief Accounting Officer)
H. Jesse Arnelle	Director
Judith R. Haberkorn	Director
James E. Marley	Director
Ruth M. Owades	Director
John J. Roberts	Director
M. Edward Sellers	Director
Jerre L. Stead	Director

By: /s/ Michael D. Lockhart

\_\_\_\_\_  
(Michael D. Lockhart, as attorney-in-fact for AHI  
directors and on his own behalf)  
As of March 29, 2005

By: /s/ F. Nicholas Grasberger III

\_\_\_\_\_  
(F. Nicholas Grasberger III)  
As of March 29, 2005

By: /s/ William C. Rodruan

\_\_\_\_\_  
(William C. Rodruan)  
As of March 29, 2005

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMSTRONG WORLD INDUSTRIES, INC.  
(Registrant)

By: /s/ Michael D. Lockhart

\_\_\_\_\_  
Chairman, Chief Executive Officer and President

Date: March 29, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant Armstrong and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant AWI:

<u>Name</u>	<u>Title</u>
Michael D. Lockhart	Chairman, Chief Executive Officer and President (Principal Executive Officer)
F. Nicholas Grasberger III	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
William C. Rodruan	Vice President and Controller (Chief Accounting Officer)
James E. Marley	Director
John N. Rigas	Director

By: /s/ Michael D. Lockhart

\_\_\_\_\_  
(Michael D. Lockhart, as attorney-in-fact for James  
E. Marley and on his own behalf)  
As of March 29, 2005

By: /s/ F. Nicholas Grasberger III

\_\_\_\_\_  
(F. Nicholas Grasberger III)  
As of March 29, 2005

By: /s/ William C. Rodruan

\_\_\_\_\_  
(William C. Rodruan)  
As of March 29, 2005

By: /s/ John N. Rigas

\_\_\_\_\_  
(John N. Rigas)  
As of March 29, 2005

SCHEDULE II

Armstrong Holdings, Inc. and Armstrong World Industries, Inc.  
Valuation and Qualifying Reserves of Accounts Receivable

For Years Ended December 31

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Provision for Losses</u>			
Balance at beginning of year	\$ 18.9	\$ 20.3	\$ 22.0
Additions charged to earnings	4.1	6.4	7.8
Deductions	(10.0)	(7.8)	(9.5)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of year	<u>\$ 13.0</u>	<u>\$ 18.9</u>	<u>\$ 20.3</u>
<u>Provision for Discounts</u>			
Balance at beginning of year	\$ 47.3	\$ 41.4	\$ 36.6
Additions charged to earnings	217.8	229.6	237.5
Deductions	(219.6)	(223.7)	(232.7)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of year	<u>\$ 45.5</u>	<u>\$ 47.3</u>	<u>\$ 41.4</u>
<u>Total Provision for Discounts and Losses</u>			
Balance at beginning of year	\$ 66.2	\$ 61.7	\$ 58.6
Additions charged to earnings	221.9	236.0	245.3
Deductions	(229.6)	(231.5)	(242.2)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of year	<u>\$ 58.5</u>	<u>\$ 66.2</u>	<u>\$ 61.7</u>

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<u>Exhibit No.</u>	<u>Exhibit Index</u>
No. 2.5	Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization submitted to the Bankruptcy Court for the District of Delaware on May 23, 2003, and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003 and December 3, 2004.
No. 10.8	Armstrong World Industries Inc.'s Severance Pay Plan for Salaried Employees, as amended January 1, 2003 and March 15, 2005.
No. 10.29	Executive Officer Compensation Arrangements between Armstrong World Industries Inc. and certain executive officers.
No. 10.30	Form of Long-Term Incentive Plan 2005 award letter regarding executive officer participation in the 1999 Long-Term Incentive Plan.
No. 10.31	Summary of Armstrong World Industries, Inc.'s Nonqualified Deferred Compensation Plan
No. 10.32	Summary of Armstrong Nonemployee Director Compensation.
No. 11.1	Computation for basic earnings per share.
No. 11.2	Computation for diluted earnings per share.
No. 21	List of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
No. 23.1	Consent of Independent Registered Public Accounting Firm.
No. 23.2	Consent of Independent Registered Public Accounting Firm.
No. 23.3	Consent of Independent Registered Public Accounting Firm.
No. 23.4	Consent of Independent Registered Public Accounting Firm.
No. 24	Power of Attorney and authorizing resolution.
No. 31.1	Certification of Principal Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
No. 31.2	Certification of Principal Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act 2002.
No. 31.3	Certification of Principal Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
No. 31.4	Certification of Principal Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
No. 32.1	Certification of Chief Executive Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
No. 32.2	Certification of Chief Financial Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
No. 99.1	Worthington Armstrong Venture consolidated financial statements as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002.

**Exhibit 2.5**

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

<i>In re</i>	:	Chapter 11 Case No.
	:	
ARMSTRONG WORLD INDUSTRIES, INC., <i>et al.</i> ,	:	00-4471 (JKF)
	:	
Debtors.	:	(Jointly Administered)
	:	
	:	
	:	

**NOTICE OF FILING OF TECHNICAL  
MODIFICATIONS TO THE FOURTH AMENDED PLAN OF  
REORGANIZATION OF ARMSTRONG WORLD INDUSTRIES, INC.**

PLEASE TAKE NOTICE that, pursuant to section 1127(a) of title 11 of the United States Code (the “*Bankruptcy Code*”) and Rule

3019 of the Federal Rules of Bankruptcy Procedure, Armstrong World Industries, Inc. ( "**AWI**" ), has today filed the modified (i) Fourth Amended Plan of Reorganization of Armstrong World Industries, Inc., dated May 23, 2003 (as previously amended by technical modifications filed on October 17, 2003 and November 10, 2003, the "**Plan**" ), <sup>1</sup> (ii) Exhibit "1.23" to the Plan (the Asbestos PI Trust Agreement) and (iii) Exhibit "1.24" to the Plan (the Asbestos PI Trust Distribution Procedures). Modifications incorporated in each of (i) through (iii) above are collectively referred to as the "**Modifications.**" <sup>2</sup>

PLEASE TAKE FURTHER NOTICE that, pursuant to Section 4.1 of the Plan, "AWI may only, with the written consent of the Future Claimants' Representative,

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<sup>1</sup> All capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Plan.

<sup>2</sup> In addition to the Modifications set forth herein, the case caption on each of (i) through (iii) has been revised to reflect the reassignment of AWI's chapter 11 case to the Honorable Judith K. Fitzgerald, pursuant to the order of the Chief Judge of the Bankruptcy Court, dated January 6, 2004.

the Asbestos PI Claimants' Committee, and if Class 6 has not voted to reject the Plan at the time of the requested alterations, amendment, or modification, the Unsecured Creditors' Committee, alter, amend, or modify the Plan under section 1127(a) of the Bankruptcy Code at any time prior to the Confirmation Date so long as the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code." AWI has been advised that each of the Future Claimants' Representative, the Asbestos PI Claimants' Committee and the Unsecured Creditors' Committee have consented in writing to the proposed Modifications, as set forth herein, in accordance with the terms of the Plan.<sup>3</sup>

PLEASE TAKE FURTHER NOTICE that attached hereto as Exhibit "A" is a copy of the Fourth Amended Plan of Reorganization of Armstrong World Industries, Inc., as Modified, which reflects the Modifications. The Modifications to specific provisions of the Plan, which are blacklined to reflect all changes from the Plan, are as follows:

- 1.28 *Available Cash* : The sum of the following: (a) all cash on hand of AWI and its subsidiaries as of the last day of the month immediately preceding the Effective Date *less* the sum of the following as of such date: (i) One Hundred Million and 00/100 Dollars (\$100,000,000.00) or such lesser amount as AWI, in its sole discretion (after consultation with the Asbestos PI Claimants' Committee, Unsecured Creditors' Committee, and the Future Claimants' Representative), determines it requires for working capital purposes, (ii) the Allowed Amount of Allowed Administrative Expenses, (iii) a reasonable estimate by AWI of additional Administrative Expenses (such as professional fees and expenses) that may become Allowed thereafter (other than Administrative Expenses of the type specified in section 1.1 l(c)(i) of the Plan) and fees and expenses payable in connection with any exit facility referred to in section 7.16(g) of the Plan, (iv) the Allowed Amount of Allowed Priority Tax Claims, (v) a reasonable estimate by AWI of additional Priority Tax Claims that may become Allowed thereafter, (vi) the Allowed Amount of all Priority Claims, (vii) a reasonable estimate of all Priority Claims that may become Allowed thereafter, (viii) the DIP Credit Facility Claim, (ix) the cash required to make the distributions for Class 3 (Convenience Claims) for those that are Allowed and a reasonable estimate by AWI of additional Convenience Claims that may become Allowed thereafter, (x) any other cash required to be paid or distributed by AWI pursuant to the Plan (other than in respect of "Available Cash"),

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<sup>3</sup> Because Class 6 has voted to reject the Plan, written approval of the modifications by the Unsecured Creditors' Committee is not required under the terms of the Plan AWI has, however, been advised that the Unsecured Creditors' Committee consents to the Modifications.

- and (xi) the amount reasonably estimated by AWI to be the cost of curing any defaults under the executory contracts and unexpired leases to be assumed by AWI under the Plan, (b) any amounts drawn, in AWI's sole discretion, under the working capital facility referenced in section 7.16(g) of the Plan for the purpose of funding the Distributions under the Plan, and (c) any proceeds of insurance received and retained by Reorganized AWI from the Effective Date to the Final Distribution Date on account of an Allowed Environmental Claim that is treated as an Allowed Unsecured Claim in accordance with sections 3.2(f) and 3.2(h) of the Plan; *provided, however*, that the 144A Offering Proceeds, if any, and any amounts received by AWI in connection with a settlement with Dal-Tile, International, Inc., shall be excluded from the determination of, and shall not constitute, Available Cash.
- 1.67 *Effective Date* : A Business Day selected by AWI that is within 31 days after the date by which all of the conditions precedent to the effectiveness of the Plan specified in Section 7.16 have been satisfied or waived or, if a stay of the Confirmation Order is in effect a date selected by AWI that is within 31 days after the date of the expiration, dissolution, or lifting of such stay.
  - 10.1 (b) *Transfer of Plan Consideration*. On the later of the Effective Date and the date by which all the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement, AWI shall transfer to the Asbestos PI Trust the Asbestos PI Insurance Asset and the following assets:
    - (i) 65.57% of the New Common Stock,
    - (ii) 65.57% of the first \$1.05 billion of (x) up to \$300 million of Available Cash and (y) principal amount of each series of Plan Notes and/or 144A Offering Proceeds,
    - (iii) 40% of the first \$50 million of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan,
    - (iv) 40% of an amount of each series of Plan Notes and/or 144A Offering Proceeds equal to the difference (if positive) of \$50 million *less* the amount of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan, and
    - (v) 65.57% of the remaining Available Cash and each series of Plan Notes and/or 144A Offering Proceeds after making provision for the Distribution provided in sections 3.2(f)(ii)2, 3.2(f)(ii)3, and 3.2(f)(ii)4 of the Plan and the funding of the Asbestos PI Trust in sections 10.1(b)(ii), 10.1(b)(iii), and 10.1(b)(iv) of the Plan.

Notwithstanding the foregoing, if (x) AWI intends to complete a 144A Offering and the 144A Offering has not been completed as of the time for the Distribution to the Asbestos PI Trust specified herein, then the Distribution of the Plan Notes and/or 144A Offering Proceeds to the Asbestos PI Trust shall be made as soon as practicable after the 144A Offering is completed or Reorganized AWI determines not to complete a 144A Offering, but in no event shall such Distribution occur after the Initial Distribution Date, and (y) if the Effective Date occurs on the first Business Day of a month, Distribution to the Asbestos PI Trust of its share of the Available Cash shall be made on a date selected by AWI that is within ten (10) Business Days after the Effective Date, but in no event shall such Distribution occur after the Initial Distribution Date. In addition, if Class 6 has voted to reject the Plan, the New Warrants shall be issued by Reorganized

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AWI on account of the Asbestos Personal Injury Claims; however, such claimants have waived on behalf of themselves and the Asbestos PI Trust any right to the New Warrants. The New Warrants shall be issued by Reorganized AWI to AWWD (or to Holdings as the successor to AWWD under the Holdings Plan of Liquidation), consistent with section 7.24 hereof (and shall never be issued or delivered to the Asbestos PI Trust), without any action being required of, or any direction by, the Asbestos PI Trust or the Asbestos PI Trustees in such regard.

PLEASE TAKE FURTHER NOTICE that attached hereto as Exhibit “B” is a copy of Exhibit “1.23” to the Plan (the Asbestos PI Trust Agreement) reflecting the Modifications. Modifications to the Asbestos PI Trust Agreement, blacklined to show all changes to the Asbestos PI Trust Agreement since the filing of the Exhibit Volume on September 5, 2003, are as follows:

- **4.5 Compensation and Expenses of Trustees .**

(a) The Trustees shall receive a retainer from the PI Trust for their services as Trustees in the amount of \$65,000 per annum, which amount shall be payable in quarterly installments, plus the sum of \$2,500 for attendance at a meeting of the Trustees, which amount shall not be charged against the annual retainer. A meeting is any scheduled, emergency or sub-committee meeting of the Trustees that is noticed and/or authorized by the chairperson in which participation is either in person or telephonically and the duration of which is no less than two (2) hours and not in excess of five (5) hours. A PI Trust meeting also includes attendance at meetings of Reorganized AWI’s Board of Directors. For all other time expended in preparation, authorized special projects, and time in excess of the (5) hours in a meeting, the Trustees shall receive the sum of \$450 per hour, and the sum of \$225 per hour for non-working travel, in both cases computed on a quarter-hour basis. The Trustees shall record all meeting and hourly time to be charged to the PI Trust on a daily basis. The per annum retainer, meeting and hourly compensation payable to the Trustees hereunder shall be reviewed every three (3) years and appropriately adjusted for changes in the cost of living. Any other changes in compensation of the Trustees shall be made subject to the approval of the Bankruptcy Court.

PLEASE TAKE FURTHER NOTICE that attached hereto as Exhibit “C” is a copy of Exhibit “1.24” to the Plan (the Asbestos PI Trust Distribution Procedures) reflecting the Modifications. Modifications to specific sections of the Asbestos PI Trust Distribution Procedures, blacklined to show all changes to the Asbestos PI Trust Distribution Procedures since the filing of the Exhibit Volume, are as follows:

- **2.2 Claims Liquidation Procedures** . PI Trust Claims shall be processed based on their place in the FIFO Processing Queue to be established pursuant to Section 5.1(a) below. The PI Trust shall take all reasonable steps to resolve PI Trust Claims as efficiently and expeditiously as possible at each stage of claims processing and arbitration. To this end, the PI Trust, in its sole discretion, may conduct settlement discussions with claimants’ representatives with respect to more than one claim at a time, provided that the claimants’ respective positions in the FIFO Processing Queue are maintained and each claim is individually evaluated pursuant to the valuation factors set forth in Section 5.3(b)(2) below. The PI Trust shall also make every effort to resolve each year at least that number of PI Trust Claims required to exhaust the Maximum Annual Payment and the Maximum Available Payment for Category A and Category B claims, as those terms are defined below.

The PI Trust shall liquidate all PI Trust Claims except Foreign Claims that meet the presumptive Medical/Exposure Criteria of Disease Levels I - V, VII and VIII under the Expedited Review Process described in Section 5.3(a) below. Claims involving Disease Levels I - V, VII and VIII that do not meet the presumptive Medical/Exposure Criteria for the relevant Disease Level may undergo the PI Trust’s Individual Review Process described in Section 5.3(b) below. In such a case, notwithstanding that the claim does not meet the presumptive Medical/Exposure Criteria for the relevant Disease Level, the PI Trust can offer the claimant an amount up to the Scheduled Value of that Disease Level if the PI Trust is satisfied that the claimant has presented a claim that would be cognizable and valid in the tort system.

PI Trust Claims involving Disease Levels II - VIII may in addition or alternatively seek to establish a liquidated value for the claim that is greater than its Scheduled Value by electing the PI Trust’s Individual Review Process. However, the liquidated value of a PI Trust Claim that undergoes the Individual Review Process for valuation purposes may be determined to be less than its Scheduled Value, and in any event shall not exceed the Maximum Value for the relevant Disease Level set forth in Section 5.3(b)(4) below, unless the claim qualifies as an Extraordinary Claim as defined in Section 5.4(a) below, in which case its liquidated value cannot exceed the Maximum Value specified in that provision for such claims. Level VI (Lung Cancer 2) claims and all Foreign Claims may be liquidated only pursuant to the PI Trust’s Individual Review Process.

- **5.2 Resolution of Pre-Petition Liquidated PI Trust Claims.**

**5.2(a) Processing and Payment** . As soon as practicable after the Effective Date, the PI Trust shall pay, upon submission by the claimant of the applicable PI Trust proof of claim form (included in Attachment B) together with all documentation required thereunder, all PI Trust Claims that were liquidated by (i) a binding settlement agreement for the particular claim entered into prior to the Petition Date that is judicially enforceable by the claimant, (ii) a jury verdict or non-final judgment in the tort system obtained prior to the Petition Date, or (iii) by a judgment that became final and non-appealable prior to the Petition Date (collectively “**Pre-Petition Liquidated Claims**”).

The liquidated value of a Pre-Petition Liquidated Claim shall be AWI’s share of the unpaid portion of the amount agreed to in the binding settlement agreement, the unpaid portion of the amount awarded by the jury verdict or non-final judgment, or the unpaid portion of the amount of the final judgment, as the case may be, plus interest, if any, that has accrued on that amount in accordance with the terms of the agreement, if any, or under applicable state law for settlements or judgments as of the Petition Date; however, except as provided in Section 7.4 below, the liquidated value of a Pre-Petition Liquidated Claim shall not include any punitive or exemplary damages. In the absence of a final order of the Bankruptcy Court determining whether a settlement agreement is binding and judicially enforceable, a dispute between the claimant and the PI Trust over this issue shall be resolved pursuant to the same procedures in this TDP that are provided for resolving the validity and/or liquidated value of a PI Trust Claim ( *i.e.* . arbitration and litigation in the tort system as set forth in Sections 5.10 and 5.11 below).

- **5.3(a) Expedited Review Process.**

**5.3(a)(1) In General .** The PI Trust’s Expedited Review Process is designed primarily to provide an expeditious, efficient and inexpensive method for liquidating all claims (except those involving Lung Cancer 2 - Disease Level VI and all Foreign Claims, which shall be liquidated pursuant to the PI Trust’s Individual Review Process) where the claim can easily be verified by the PI Trust as meeting the presumptive Medical/Exposure Criteria for the relevant Disease Level. Expedited Review thus provides claimants with a substantially less burdensome process for pursuing PI Trust Claims than does the Individual Review Process described in Section 5.3(b) below. Expedited Review is also intended to provide qualifying claimants a fixed and certain claims payment.

- **5.3(b) Individual Review Process**

**5.3(b)(1) In General.** Subject to the provisions set forth below, an AWI claimant may elect to have his or her PI Trust Claim reviewed for purposes of determining whether the claim would be compensable in the tort system even though it does not meet the presumptive Medical/Exposure Criteria for any of the Disease Levels set forth in Section 5.3(a)(3) above. In addition or alternatively, an AWI claimant may elect to have a claim undergo the Individual Review Process for purposes of determining whether the liquidated value of the claim exceeds the Scheduled Value for the relevant Disease Level also set forth in said provision. However, until such time as the PI Trust has made an offer on a claim pursuant to Individual Review, the claimant may change his or her Individual Review election and have the claim liquidated pursuant to the PI Trust’s Expedited Review Process. In the event of such a change in the processing election, the claimant shall nevertheless retain his or her place in the FIFO Processing Queue.

The liquidated value of Foreign Claims shall be established pursuant to the PI Trust’s Individual Review process. Because PI Trust Claims of individuals exposed in Canada who were resident in Canada when such claims were filed were routinely litigated and resolved in the courts of the United States, and because the resolution history of these claims has been included in developing the Expedited Review Process, such claims shall not be considered Foreign Claims hereunder and shall be eligible for liquidation under the Expedited Review Process. Accordingly, a **“Foreign Claim”** is a PI Trust claim with respect to which the claimant’s exposure to an asbestos-containing product for which AWI has legal responsibility occurred outside of the United States and its Territories and Possessions, and outside of the Provinces and Territories of Canada.

In reviewing Foreign Claims, the PI Trust shall take into account all relevant procedural and substantive legal rules to which the claims would be subject in the Claimant’s Jurisdiction as defined in Section 5.3(b)(2) below. The PI Trust shall determine the liquidated value of Foreign Claims based on historical settlements and verdicts in the Claimant’s Jurisdiction as well as the other valuation factors set forth in Section 5.3(b)(2) below.

For purposes of the Individual Review process, the Trustees, with the consent of the TAC and the Future Claimants’ Representative, may develop separate Medical/Exposure Criteria and standards, as well as separate requirements for physician and other professional qualifications, which shall be applicable to Foreign Claims; however, that such criteria, standards or requirements shall not effectuate substantive changes to the claims eligibility requirements under this TDP, but rather shall be made only for the purpose of adapting those requirements to the particular licensing provisions and/or medical customs of practices of the foreign country in question.

At such time as the PI Trust has a sufficient historical settlement, verdict and other valuation data for claims from a particular foreign jurisdiction, the Trustees, with the consent of the TAC and the Future Claimants’ Representative, may also establish a separate valuation matrix for such claims based on that data.

- **5.3(b)(2) Valuation Factors to be Considered in Individual Review.** The PI Trust shall liquidate the value of each PI Trust Claim that undergoes Individual Review based on the historic liquidated values of other similarly situated claims in the tort system for the same Disease Level. The PI Trust will take into consideration all of the factors that affect the severity of damages and values within the tort system including, but not limited to (i) the degree to which the characteristics of a claim differ from the presumptive Medical/Exposure Criteria for the Disease Level in question; (ii) factors such as the claimant's age, disability, employment status, disruption of household, family or recreational activities, dependencies, special damages, and pain and suffering; (iii) evidence that the claimant's damages were (or were not) caused by asbestos exposure, including exposure to an asbestos-containing product for which AWI has legal responsibility prior to December 31, 1982 (for example, alternative causes, and the strength of documentation of injuries); (iv) the industry of exposure; and (v) settlements, verdicts, and the claimant's and other law firms' experience in the Claimant's Jurisdiction for similarly situated claims.

For these purposes, the "*Claimant's Jurisdiction*" is the jurisdiction in which the claim was filed (if at all) against AWI in the tort system prior to the Petition Date. If the claim was not filed against AWI in the tort system prior to the Petition Date, the claimant may elect as the Claimant's Jurisdiction either (i) the jurisdiction in which the claimant resides at the time of diagnosis or when the claim is filed with the PI Trust; or (ii) a jurisdiction in which the claimant experienced exposure to an asbestos-containing product for which AWI has legal responsibility. With respect to the "Claimant's Jurisdiction" in the event a personal representative or authorized agent makes a claim under the TDP for wrongful death with respect to which the governing law of the Claimant's Jurisdiction could only be the Alabama Wrongful Death Statute the Claimant's Jurisdiction for such claim shall be the Commonwealth of Pennsylvania, and such claimant's damages shall be determined pursuant to the statutory and common laws of the Commonwealth of Pennsylvania without regard to its choice of law principles. The choice of law provision in Section 7.4 below applicable to any claim with respect to which, but for this choice of law provision, the applicable law of the Claimant's Jurisdiction pursuant to Section 5.3(b)(2) is determined to be the Alabama Wrongful Death Statute shall only govern the rights between the PI Trust and the claimant, and to the extent PI Trust seeks recovery from any entity that provided insurance coverage to AWI, the Alabama Wrongful Death Statute shall govern.

- **7.3 Punitive Damages.** Except as provided below for claims asserted under the Alabama Wrongful Death Statute, in determining the value of any liquidated or unliquidated PI Trust Claim, punitive or exemplary damages, *i.e.*, damages other than compensatory damages, shall not be considered or allowed, notwithstanding their availability in the tort system. The only damages that may be awarded pursuant to this TDP to Alabama claimants who are deceased and whose personal representatives pursue their claims only under the Alabama Wrongful Death Statute shall be compensatory damages determined pursuant to the statutory and common law of the Commonwealth of Pennsylvania, without regard to its choice of law principles. The choice of law provision in Section 7.4 herein applicable to any claim with respect to which, but for this choice of law provision, the applicable law of the Claimant's Jurisdiction pursuant to Section 5.3(b)(2) is determined to be the Alabama Wrongful Death Statute, shall only govern the rights between the PI Trust and the claimant, including, but not limited to, suits in the tort system pursuant to Section 7.6, and, to the extent the PI Trust seeks recovery from any entity that provided insurance coverage to AWI, the Alabama Wrongful Death Statute shall govern.

DATED: December 3, 2004  
Wilmington, Delaware

/s/ Rebecca L. Booth

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ATTORNEYS FOR DEBTORS AND  
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UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE

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

FOURTH AMENDED PLAN OF REORGANIZATION  
OF ARMSTRONG WORLD INDUSTRIES, INC.

*This plan of reorganization provides for the issuance of an Asbestos PI Permanent Channeling Injunction and a Claims Trading Injunction. See sections 1.18 (definition of “Asbestos Personal Injury Claim”), 1.21 (definition of “Asbestos PI Permanent Channeling Injunction”), 1.93 (definition of “PI Protected Party”), and 3.2(g)(ii) (Treatment of Asbestos Personal Injury Claims under the Plan) for details relating to the Asbestos PI Permanent Channeling Injunction and sections 1.18 (definition of “Asbestos Personal Injury Claim”) and 1.40 (definition of “Claims Trading Injunction”) for details regarding the Claims Trading Injunction.*

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE**

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

**Exhibit List**

- Exhibit 1.13: Amended and Restated Articles of Incorporation *(to be included in Exhibit Volume)*
- Exhibit 1.14: Amended and Restated By-Laws *(to be included in Exhibit Volume)*
- Exhibit 1.23: Asbestos PI Trust Agreement *(attached)*
- Exhibit 1.24: Asbestos PI Trust Distribution Procedures *(attached)*
- Exhibit 1.39: Claims Settlement Guidelines *(to be included in Exhibit Volume)*
- Exhibit 1.90: New Long-Term Incentive Plan *(to be included in Exhibit Volume)*
- Exhibit 1.91: New Warrants *(to be included in Exhibit Volume)*
- Exhibit 1.96: Plan Note Indentures *(to be included in Exhibit Volume)*
- Exhibit 1.109: Stockholder and Registration Rights Agreement *(to be included in Exhibit Volume)*
- Exhibit 7.2: Individuals Appointed as Asbestos PI Trustees *(to be included in Exhibit Volume)*
- Exhibit 7.21: Board of Directors of Reorganized AWI *(to be included in Exhibit Volume)*
- Exhibit 8.1: Assumed Executory Contracts and Unexpired Leases *(to be attached prior to distribution of solicitation packages)*
- Exhibit 8.2: Rejected Executory Contracts and Unexpired Leases *(to be attached prior to distribution of solicitation packages)*
- Exhibit 8.4: Previously Listed Executory Contracts No Longer Considered Executory Contracts *(to be attached prior to distribution of solicitation packages)*
- Exhibit 8.8: Management Agreements *(to be included in Exhibit Volume)*
  - Exhibit 8.8-A: Identity of Persons Entering into Management Agreements *(to be included in Exhibit Volume)*
  - Exhibit 8.8-B: Form of Management Agreement *(to be included in Exhibit Volume)*

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

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

**FOURTH AMENDED PLAN OF REORGANIZATION  
OF ARMSTRONG WORLD INDUSTRIES, INC. AS MODIFIED**

Armstrong World Industries, Inc. hereby proposes the following plan of reorganization:

**ARTICLE I**

**DEFINITIONS**

**A. Defined Terms.** As used herein, the following terms shall have the respective meanings specified below, unless the context otherwise requires:

1.1 *144A Debt Securities* : Debt securities issued by Reorganized AWI in a 144A Offering, having terms and conditions as determined by AWI and the initial purchasers in their sole discretion, subject, however, to the provisions of Section 7.3 of the Plan.

1.2 *144A Offering* : One or more private offerings of 144A Debt Securities, pursuant to Rule 144A and/or Regulation S under the Securities Act of 1933, through initial purchasers to institutional and other investors, completed on or after the Effective Date but prior to the Initial Distribution Date.

1.3 *144A Offering Proceeds* : The amount equal to the sum of (x) the aggregate net cash proceeds of any 144A Offerings, plus (y) the Term Loan B Proceeds, if any.

1.4 *Administrative Bar Date Order* : An order of the Bankruptcy Court setting a deadline for the filing of certain Administrative Expenses.

1.5 *Administrative Expense* : Any Claim constituting a cost or expense of administration in the Chapter 11 Case under section 503 of the Bankruptcy Code, including, without express or implied limitation, any actual and necessary costs and expenses of preserving the estate of AWI, any expenses of professionals under sections 330 and 331 of the Bankruptcy Code, any actual and necessary costs and expenses of operating the businesses of AWI, any indebtedness or obligations incurred or assumed by AWI, as debtor in possession, in connection with the conduct of its business or for the acquisition or lease of property or the rendition of services, any allowed compensation or reimbursement of expenses under section 503(b)(2)-(5) of the Bankruptcy Code, and any fees or charges assessed against the estate of AWI under section 1930, chapter 123, title 28, United States Code.

---

1.6 *Administrative Expense Creditor* : Any Creditor entitled to payment of an Administrative Expense.

1.7 *Administrative Expense Objection Deadline* : The first Business Day that is thirty (30) days after the Effective Date, as such date may be extended from time to time by order of the Bankruptcy Court.

1.8 *Affiliate* : Any Entity, other than (a) an Entity in which AWI has less than a fifty percent (50%) direct or indirect interest, (b) AWWD, or (c) Holdings, that is an “affiliate” of AWI, as of the date immediately preceding the Effective Date, within the meaning of section 101(2) of the Bankruptcy Code.

1.9 *Affiliate Claims* : All Claims against AWI held by an Affiliate.

1.10 *Agent Bank* : The JPMorgan Chase Bank, or such other Entity acting as agent under the DIP Credit Facility from time to time.

1.11 *Allowed* :

(a) With respect to any Claim (other than an Administrative Expense, Asbestos Property Damage Claim or Asbestos Personal Injury Claim), proof of which was filed within the applicable period of limitation fixed in accordance with Bankruptcy Rule 3003(c)(3) by the Bankruptcy Court, (i) as to which no objection to the allowance thereof has been interposed within the applicable period of limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order of the Bankruptcy Court, such Claim to the extent asserted in the proof of such Claim, or (ii) as to which an objection has been interposed, such Claim to the extent that it has been allowed in whole or in part by a Final Order of the Bankruptcy Court or by an agreement with AWI or Reorganized AWI, as the case may be, in accordance with the Claims Settlement Guidelines as in effect at the time of such agreement.

(b) With respect to any Claim (other than an Administrative Expense or Asbestos Personal Injury Claim), as to which no proof of claim was filed within the applicable period of limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order of the Bankruptcy Court, such Claim to the extent that it has been listed by AWI in its Schedules as liquidated in amount and not disputed or contingent.

(c) With respect to any Claim that is asserted to constitute an Administrative Expense

(i) that represents an actual or necessary expense of preserving the estate or operating the business of AWI for payment of goods, services, wages, or benefits or for credit extended to AWI, as debtor in possession, any such Claim to the extent that such claim is reflected as a postpetition liability of AWI on AWI’s books and records as of the Effective Date;

(ii) in an action against AWI pending as of the Confirmation Date or not required to be filed against AWI pursuant to the Administrative Bar Date Order, any such Claim to the extent (x) it is allowed by a Final Order of a court of competent jurisdiction or by agreement between Reorganized AWI and the holder of such Administrative Expense, and (y) if AWI disputes that such claim is a cost or expense of administration under sections 503(b) and 507(a)(1) of the Bankruptcy Code, to the extent the Bankruptcy Court determines by a Final Order that it constitutes a cost or expense of administration under sections 503(b) and 507(a)(1) of the Bankruptcy Code;

(iii) timely filed in accordance with the Administrative Bar Date Order, any such Claim to the extent (i) no objection is interposed by the Administrative Expense Objection Deadline or (ii) if an objection is interposed by the Administrative Expense Objection Deadline, is allowed in whole or in part by a Final Order of the Bankruptcy Court and only to the extent that such allowed portion is deemed, pursuant to a Final Order of the Bankruptcy Court, to constitute a cost or expense of administration under sections 503(b) and 507(a)(1) of the Bankruptcy Code; or

(iv) that represents a Claim of a professional person employed under section 327 or 1103 of the Bankruptcy Code that is required to apply to the Bankruptcy Court for the allowance of compensation and reimbursement of expenses pursuant to section 330 of the Bankruptcy Code or an Administrative Expense arising under section 503(b)(2), 503(b)(3), 503(b)(4), 503(b)(5), or 503(b)(6) of the Bankruptcy Code, such Claim to the extent it is allowed by a Final Order of the Bankruptcy Court.

(d) With respect to any Asbestos Personal Injury Claim, such Claim to the extent that it is Allowed in accordance with the procedures established pursuant to the Asbestos PI Trust Agreement and the Asbestos PI Trust Distribution Procedures. Pursuant to the Confirmation Order, an Allowed Claim, with respect to any Asbestos Personal Injury Claim, shall establish the amount of legal liability against the Asbestos PI Trust in the amount of the liquidated value of such Claim, as determined in accordance with the Asbestos PI Trust Distribution Procedures.

(e) With respect to any Asbestos Property Damage Claim, proof of which was filed by the Asbestos PD Bar Date, such Claim to the extent that it is allowed by an order of the Bankruptcy Court.

1.12 *Allowed Amount* : The lesser of (a) the dollar amount of an Allowed Claim or (b) the Estimated Amount of such Claim. Unless otherwise specified herein, in the Asbestos PI Trust Distribution Procedures or by Final Order of the Bankruptcy Court, the Allowed Amount of an Allowed Claim shall not include interest accruing on such Allowed Claim from and after the Commencement Date.

1.13 *Amended and Restated Articles of Incorporation* : The Articles of Incorporation of Reorganized AWI, to be amended and restated in accordance with section 7.1 hereof, in substantially the form of Exhibit 1.13 to the Plan.

1.14 *Amended and Restated By-Laws* : The By-Laws of Reorganized AWI, to be amended and restated in accordance with section 7.4 hereof, in substantially the form of Exhibit 1.14 to the Plan.

1.15 *Articles of Incorporation* : The Articles of Incorporation of AWI, as such Articles of Incorporation may be amended by the Amended and Restated Articles of Incorporation or otherwise.

1.16 *Asbestos PD Bar Date* : March 20, 2002.

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1.17 *Asbestos PD Committee* : The Asbestos Property Damage Committee, consisting of Entities appointed as members in the Chapter 11 Case by the United States Trustee for the District of Delaware and their duly appointed successors, if any, as the same may be reconstituted from time to time.

1.18 *Asbestos Personal Injury Claim* : **Any Claim or remedy, liability, or Demand against AWI now existing or hereafter arising, whether or not such Claim, remedy, liability, or Demand is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases therefor are known or unknown, under any theory of law, equity, admiralty, or otherwise, for death, bodily injury, sickness, disease, medical monitoring or other personal injuries (whether physical, emotional, or otherwise) to the extent caused or allegedly caused, directly or indirectly, by the presence of or exposure (whether prior to or after the Commencement Date) to asbestos or asbestos- containing products or things that was or were installed, engineered, designed, manufactured, fabricated, constructed, sold, supplied, produced, specified, selected, distributed, released, marketed, serviced, maintained, repaired, purchased, owned, occupied, used, removed, replaced or disposed by AWI or an Entity for whose products or operations AWI allegedly has liability or for which AWI is otherwise allegedly liable, including, without express or implied limitation, any Claim, remedy, liability, or Demand for compensatory damages (such as loss of consortium, wrongful death, medical monitoring, survivorship, proximate, consequential, general, and special damages) and punitive damages, and any Claim, remedy, liability or Demand for reimbursement, indemnification, subrogation and contribution (including, without limitation, any Indirect PI Trust Claim), and any claim under any settlement entered into by or on behalf of AWI prior to the Commencement Date relating to an Asbestos Personal Injury Claim. An Asbestos Property Damage Claim or a workers' compensation claim brought directly by a past or present employee of AWI under an applicable workers' compensation statute against AWI shall not constitute an Asbestos Personal Injury Claim.**

1.19 *Asbestos PI Claimants' Committee* : The Official Committee of Asbestos Claimants, consisting of Entities appointed as members in the Chapter 11 Case by the United States Trustee for the District of Delaware and their duly appointed successors, if any, as the same may be reconstituted from time to time.

1.20 *Asbestos PI Insurance Asset* : All rights arising under liability insurance policies issued to AWI with inception dates prior to January 1, 1982 with respect to the liability for Asbestos Personal Injury Claims (with the exception of AWI's claim against Liberty Mutual Insurance Company for costs, expenses and fees incurred in connection with an Alternative Dispute Resolution Proceeding initiated in 1996 under the Agreement Concerning Asbestos Related Claims of June 19, 1985, AWI's claim against Century Indemnity Company for payments due and owing to AWI before February 2003 under a settlement agreement dated February 8, 2000, together with applicable interest to the date of payment, and AWI's rights to insurance relating to workers' compensation claims). The foregoing includes, but is not limited to, rights under insurance policies, rights under settlement agreements made with respect to such insurance policies (with the exception of AWI's claim against Century Indemnity Company for amounts, including, without limitation, interest, due and owing under a settlement agreement dated February 8, 2000), rights against the estates of insolvent insurers that issued such policies or entered into such settlements, and rights against state insurance guaranty associations arising out of any such insurance policies issued by insolvent insurers. The foregoing also includes the right, on behalf of

AWI and its subsidiaries as of the Effective Date, to give a full release of the insurance rights of AWI and its subsidiaries as of the Effective Date under any such policy or settlement agreement with the exception of rights to coverage for property damage Claims and rights to coverage for the amount that AWI agreed to pay to plaintiffs in *Maertin et al. v. Armstrong World Industries, Inc. et al.*, No. 95-CV-20849 (JBS) (D.N.J.) in a settlement agreement executed November 22, 2000 and rights to coverage with respect to workers' compensation claims.

**1.21 Asbestos PI Permanent Channeling Injunction : An order or orders of the District Court in accordance with, and pursuant to, section 524(g) of the Bankruptcy Code permanently and forever staying, restraining, and enjoining any Entity from taking any of the following actions for the purpose of, directly or indirectly, collecting, recovering, or receiving payment of, on, or with respect to any Asbestos Personal Injury Claims, all of which shall be channeled to the Asbestos PI Trust for resolution as set forth in the Asbestos PI Trust Distribution Procedures (other than actions brought to enforce any right or obligation under the Plan, any Exhibits to the Plan, or any other agreement or instrument between AWI or Reorganized AWI and the Asbestos PI Trust, which actions shall be in conformity and compliance with the provisions hereof), including, but not limited to:**

(a) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding (including, without express or implied limitation, a judicial, arbitral, administrative, or other proceeding) in any forum against or affecting any PI Protected Party or any property or interests in property of any PI Protected Party;

(b) enforcing, levying, attaching (including, without express or implied limitation, any prejudgment attachment), collecting, or otherwise recovering by any means or in any manner, whether directly or indirectly, any judgment, award, decree, or other order against any PI Protected Party or any property or interests in property of any PI Protected Party;

(c) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Encumbrance against any PI Protected Party or any property or interests in property of any PI Protected Party;

(d) setting off, seeking reimbursement of, contribution from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability owed to any PI Protected Party or any property or interests in property of any PI Protected Party; *provided, however*, that the foregoing shall not preclude the assertion of a setoff or recoupment defense under applicable law by a third party solely in response to, and to the extent of, a claim asserted by a PI Protected Party against such third party that such third party is liable in whole or in part for an Asbestos Personal Injury Claim; and

(e) proceeding in any manner in any place with regard to any matter that is subject to resolution pursuant to the Asbestos PI Trust, except in conformity and compliance therewith.

1.22 *Asbestos PI Trust* : The trust established by AWI in accordance with the Asbestos PI Trust Agreement.

1.23 *Asbestos PI Trust Agreement* : That certain AWI Asbestos Personal Injury Settlement Trust Agreement, executed by AWI and the Asbestos PI Trustees, substantially in the form of Exhibit 1.23 to the Plan.

1.24 *Asbestos PI Trust Distribution Procedures* : The AWI Asbestos Personal Injury Settlement Trust Distribution Procedures to be implemented by the Asbestos PI Trustees pursuant to the terms and conditions of the Plan and the Asbestos PI Trust Agreement to process, liquidate, and pay Asbestos Personal Injury Claims, substantially in the form of Exhibit 1.24 to the Plan.

1.25 *Asbestos PI Trustees* : Collectively, the persons confirmed by the Bankruptcy Court to serve as trustees of the Asbestos PI Trust, pursuant to the terms of the Asbestos PI Trust Agreement, or as subsequently may be appointed pursuant to the terms of the Asbestos PI Trust Agreement.

1.26 *Asbestos Property Damage Claim* : Any Claim or remedy or liability against AWI, whether or not such Claim, remedy, or liability is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases therefor are known or unknown, under any theory of law, equity, admiralty, or otherwise, for damages for property damage, including but not limited to, the cost of inspecting, maintaining, encapsulating, repairing, decontaminating, removing or disposing of asbestos or asbestos-containing products in buildings, other structures, or other property arising from the installation in, presence in or removal from buildings or other structures of asbestos or asbestos-containing products that was or were installed, manufactured, sold, supplied, produced, distributed, released or marketed by AWI prior to the Commencement Date, or for which AWI is allegedly liable, including, without express or implied limitation, any such Claims, remedies and liabilities for compensatory damages (such as proximate, consequential, general, and special damages) and punitive damages, and any Claim, remedy or liability for reimbursement, indemnification, subrogation and contribution, including, without limitation, any Asbestos Property Damage Contribution Claim. Asbestos Property Damage Claims shall not include Asbestos Personal Injury Claims.

1.27 *Asbestos Property Damage Contribution Claim* : Any Claim or remedy or liability against AWI, whether or not such Claim, remedy or liability is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases for such Claim, remedy or liability are known or unknown, that is (i) held by (A) any Entity (other than a director or officer entitled to indemnification pursuant to section 8.6 of the Plan) who has been, is, or may be a defendant in an action seeking damages for property damage, including but not limited to, the cost of inspecting, maintaining, encapsulating, repairing, decontaminating, removing or disposing of asbestos or asbestos-containing products in buildings, other structures, or other property, or (B) any assignee or transferee of such Entity, and (ii) on account of alleged liability by AWI for reimbursement, indemnification, subrogation, or contribution of any portion of any damages such Entity has paid or may pay to the plaintiff in such action.

1.28 *Available Cash* : The sum of the following: (a) all cash on hand of AWI and its subsidiaries as of the last day of the month immediately preceding the Effective Date less the sum of the following as of such date: (i) One Hundred Million and 00/100 Dollars (\$100,000,000.00) or such lesser amount as AWI, in its sole discretion (after consultation with the Asbestos PI Claimants' Committee, Unsecured Creditors' Committee, and the Future Claimants' Representative), determines it requires for working capital

purposes, (ii) the Allowed Amount of Allowed Administrative Expenses, (iii) a reasonable estimate by AWI of additional Administrative Expenses (such as professional fees and expenses) that may become Allowed thereafter (other than Administrative Expenses of the type specified in section 1.11(c)(i) of the Plan) and fees and expenses payable in connection with any exit facility referred to in section 7.16(g) of the Plan, (iv) the Allowed Amount of Allowed Priority Tax Claims, (v) a reasonable estimate by AWI of additional Priority Tax Claims that may become Allowed thereafter, (vi) the Allowed Amount of all Priority Claims, (vii) a reasonable estimate of all Priority Claims that may become Allowed thereafter, (viii) the DIP Credit Facility Claim, (ix) the cash required to make the distributions for Class 3 (Convenience Claims) for those that are Allowed and a reasonable estimate by AWI of additional Convenience Claims that may become Allowed thereafter, (x) any other cash required to be paid or distributed by AWI pursuant to the Plan (other than in respect of “Available Cash”), and (xi) the amount reasonably estimated by AWI to be the cost of curing any defaults under the executory contracts and unexpired leases to be assumed by AWI under the Plan, (b) any amounts drawn, in AWI’s sole discretion, under the working capital facility referenced in section 7.16(g) of the Plan for the purpose of funding the Distributions under the Plan, and (c) any proceeds of insurance received and retained by Reorganized AWI from the Effective Date to the Final Distribution Date on account of an Allowed Environmental Claim that is treated as an Allowed Unsecured Claim in accordance with sections 3.2(f) and 3.2(h) of the Plan; *provided, however*, that the 144A Offering Proceeds, if any, and any amounts received by AWI in connection with a settlement with Dal-Tile, International, Inc., shall be excluded from the determination of, and shall not constitute, Available Cash.

1.29 *AWWD* : Armstrong Worldwide, Inc., a Delaware corporation.

1.30 *AWI* : Armstrong World Industries, Inc., a Pennsylvania corporation.

1.31 *Ballot* : The form or forms distributed to holders of impaired Claims and Equity Interests on which is to be indicated the acceptance or rejection of the Plan.

1.32 *Bankruptcy Code* : The Bankruptcy Reform Act of 1978, as amended, and as codified in title 11 of the United States Code, as applicable to the Chapter 11 Case.

1.33 *Bankruptcy Court* : The United States District Court for the District of Delaware, having jurisdiction over the Chapter 11 Case and, to the extent of any reference made pursuant to section 157 of title 28 of the United States Code, the unit of such District Court constituted pursuant to section 151 of title 28 of the United States Code.

1.34 *Bankruptcy Rules* : The Federal Rules of Bankruptcy Procedure, as amended, as applicable to the Chapter 11 Case, including the Local Rules of the Bankruptcy Court.

1.35 *Board of Directors* : The Board of Directors of AWI or Reorganized AWI, as it may exist from time to time.

1.36 *Business Day* : Any day on which commercial banks are required to be open for business in New York, New York.

1.37 *Chapter 11 Case* : The chapter 11 case of AWI pending in the Bankruptcy Court as *In re Armstrong World Industries, Inc., et al.* , Case No. 00-4471 (RJN) (Jointly Administered).

1.38 *Claim* : (a) A “claim,” as defined in section 101(5) of the Bankruptcy Code, against AWI, as debtor or Debtor in Possession, whether or not asserted, whether or not the facts of or legal bases therefor are known or unknown, and specifically including, without express or implied limitation, any rights under sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, any claim of a derivative nature, any potential or unmatured contract claims, and any other Contingent Claim, and (b) any Environmental Claim, whether or not it constitutes a “claim” under section 101(5) of the Bankruptcy Code, but in either case, not including a Demand.

1.39 *Claims Settlement Guidelines* : The settlement guidelines and authority contained in that certain Order Granting Motion of the Debtors for Order Pursuant to Section 105(a) of the Bankruptcy Code and Bankruptcy Rule 9019(b) Authorizing the Establishment of Procedures to Settle Certain Prepetition Claims Against the Debtors’ Estates dated May 31, 2002, as amended by the amendments set forth in Exhibit 1.39 to the Plan.

1.40 *Claims Trading Injunction* : **An order or orders of the Bankruptcy Court permanently and forever staying, restraining, and enjoining any Entity from, directly or indirectly, purchasing, selling, transferring, assigning, conveying, pledging, or otherwise acquiring or disposing of any Asbestos Personal Injury Claim ; provided, however, that the foregoing shall not apply to (i) the transfer of an Asbestos Personal Injury Claim to the holder of an Indirect PI Trust Claim solely as a result of such holder’s satisfaction of such Asbestos Personal Injury Claim or (ii) the transfer of an Asbestos Personal Injury Claim by will or under the laws of descent and distribution. Any such order or orders also will provide that any action taken in violation thereof will be void *ab initio* .**

1.41 *Class* : Any group of Claims or Equity Interests classified by the Plan pursuant to section 1122(a)(1) of the Bankruptcy Code.

1.42 *COLI Claims* : All amounts due to Pacific Life Insurance Company for loans made by Pacific Life Insurance Company to AWI against (and collateralized by) certain life insurance policies for which AWI is the holder and beneficiary and for which certain of AWI’s employees are insureds.

1.43 *Commencement Date* : December 6, 2000.

1.44 *Confirmation Date* : The date on which the Confirmation Order has been entered by the Clerk of the Bankruptcy Court and the Clerk of the District Court.

1.45 *Confirmation Deadline* : The date that is two hundred seventy (270) days after the filing of the Plan with the Bankruptcy Court or such later date as AWI, the Asbestos PI Claimants’ Committee, the Future Claimants’ Representative, and the Unsecured Creditors’ Committee may agree in writing.

1.46 *Confirmation Order* : The order or orders of the Bankruptcy Court and the District Court confirming the Plan in accordance with the provisions of chapter 11 of the Bankruptcy Code, which will contain, *inter alia*, the Asbestos PI Permanent Channeling Injunction and the Claims Trading Injunction; *provided, however*, that, if the District Court does not enter such an order confirming the Plan, then the term “Confirmation Order” shall include an order of the District Court affirming the Confirmation Order entered by the Bankruptcy Court.

1.47 *Contingent Claim* : Any Claim (other than an Asbestos Personal Injury Claim), the liability for which attaches or is

dependent upon the occurrence or happening, or is triggered by, an event, which event has not yet occurred, happened, or been triggered, as of the date on which such Claim is sought to be estimated or an objection to such Claim is filed, whether or not such event is within the actual or presumed contemplation of the holder of such Claim and whether or not a relationship between the holder of such Claim and AWI now or hereafter exists or previously existed.

1.48 *Convenience Claim* : As to each holder of an Unsecured Claim, other than a Debt Security Claim, (a) an Unsecured Claim held by such holder in an Allowed Amount of Ten Thousand and 00/100 Dollars (\$10,000.00) or less or (b) an Unsecured Claim of such holder the Allowed Amount of which has been reduced to Ten Thousand and 00/100 Dollars (\$10,000.00) by the election of the holder thereof, as provided on the Ballot.

1.49 *Creditor* : Any Entity that holds a Claim against AWI as Debtor or Debtor in Possession.

1.50 *Debtor* : AWI.

1.51 *Debtor in Possession* : AWI in its capacity as a debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

1.52 *Debt Security Claim* : Any Unsecured Claim represented by a series of notes or debt securities issued pursuant to an indenture, bank credit agreement, or a note purchase agreement prior to the Commencement Date or any guarantee by AWI of any obligations of another Entity under any series of notes or debt securities issued pursuant to an indenture, bank credit agreement, or a note purchase agreement prior to the Commencement Date.

1.53 *Demand* : A demand for payment, present or future, that (i) was not a Claim during the Chapter 11 Case; (ii) arises out of the same or similar conduct or events that gave rise to the Claims addressed by the Asbestos PI Permanent Channeling Injunction; and (iii) pursuant to the Plan, is to be paid by the Asbestos PI Trust.

1.54 *DIP Credit Facility* : Revolving Credit and Guaranty Agreement dated as of December 6, 2000 among Armstrong World Industries, Inc., a Pennsylvania corporation, and its subsidiaries, Nitram Liquidators, Inc., a Delaware corporation, and Desseaux Corporation of North America, a Delaware corporation, the banks party thereto, and the Agent Bank, as amended, modified or supplemented from time to time.

1.55 *DIP Credit Facility Claim* : Collectively, all Claims of the DIP Lenders arising under the DIP Credit Facility.

1.56 *DIP Lenders* : The financial institutions party to the DIP Credit Facility.

1.57 *Disallowed Claim* : A Claim that is disallowed in its entirety by an order of the Bankruptcy Court or such other court of competent jurisdiction or that is disallowed in its entirety pursuant to the Asbestos PI Trust Distribution Procedures, as the case may be.

1.58 *Disbursing Agent* : Any Entity in its capacity as a disbursing agent under section 7.9 hereof.

1.59 *Disputed Claim* : A Claim (other than an Asbestos Personal Injury Claim) that is neither an Allowed Claim nor a Disallowed Claim.

1.60 *Disputed Claim Amount* : The Estimated Amount of a Disputed Claim, or, if no Estimated Amount exists, the amount set forth in the proof of claim relating to such Disputed Claim as the liquidated amount of such Disputed Claim.

1.61 *Disputed Unsecured Claims Reserve* : The trust established pursuant to section 5.4 of the Plan to hold the portion of Plan Notes reserved for Distribution pending the resolution of Disputed Claims in Class 6 of the Plan.

1.62 *Distribution* : The payment or distribution under the Plan of property or interests in property to the holders of Allowed Claims (other than Asbestos Personal Injury Claims and Asbestos Property Damage Claims), the holder of the Equity Interest, and to the Asbestos PI Trust.

1.63 *Distribution Date* : (a) The Initial Distribution Date, (b) the first Business Day after the end of the months of March, June, September, and December, commencing with the first such date to occur more than one hundred eighty (180) days after the Effective Date and until the second anniversary of the Effective Date, (c) after the second anniversary of the Effective Date, the first Business Day after the end of the month of December, and (d) the Final Distribution Date; *provided, however*, that (i) a Distribution Date (other than the Initial Distribution Date and the Final Distribution Date) shall not occur if the aggregate amount of Plan Notes and/or 144A Offering Proceeds and Available Cash to be distributed on any Distribution Date is less than One Million and 00/100 Dollars (\$1,000,000.00), in which case the amount to be distributed shall be retained and added to the amount to be distributed on the next Distribution Date, and (ii) any Unsecured Claim that becomes Allowed less than twenty (20) Business Days prior to a Distribution Date shall be treated as a Disputed Claim for the purposes of the Distribution occurring on such Distribution Date and shall not receive a Distribution until the Distribution Date immediately succeeding such Distribution Date.

1.64 *District Court* : The United States District Court for the District of Delaware having jurisdiction over the Chapter 11 Case.

1.65 *DTC* : Depository Trust Company.

1.66 *Employee Benefit Claim* : Any Claim of a current or former employee of AWI, a current or former employee of any current or former subsidiary of AWI, or of the Pension Benefit Guaranty Corporation, for benefits payable or arising under any of the plans being assumed pursuant to section 8.7(a) of the Plan; *provided, however*, that any Claim for damages or other relief arising from any termination of any plans pursuant to section 8.7(b) of the Plan, any “rejection” of any plans as to any party that objects to any amendment under section 8.7(c) of the Plan, based upon any alleged breach by AWI of its responsibilities or duties under any plan specified in section 8.7(a) of the Plan (other than any obligation to pay the benefits arising thereunder, as modified), or related to the allegations made by the plaintiffs in those certain two class action complaints asserting various federal law claims under ERISA filed in the United States District Court for the Eastern District of Pennsylvania by Dean A. Markley, Michael Resetar, and Lori Shearer shall be deemed an Unsecured Claim.

1.67 *Effective Date* : A Business Day selected by AWI that is within 31 days after the date by which all of the conditions precedent to the effectiveness of the Plan specified in Section 7.16 have been satisfied or waived or, if a stay of the Confirmation Order is in effect, a date selected by AWI that is within 31 days after the date of the expiration, dissolution, or lifting of such stay.

1.68 *Encumbrance* : With respect to any asset, any mortgage, lien, pledge, charge, security interest, assignment, or encumbrance of any kind or nature in respect of such asset (including, without express or implied limitation, any conditional sale or other title retention agreement, any security agreement, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).

1.69 *Entity* : An individual, corporation, partnership, limited liability company, association, joint stock company, joint venture, estate, trust, unincorporated organization, or government or any political subdivision thereof, or other person or entity.

1.70 *Environmental Claim* : Any Claim as to which the treatment thereof is set forth in an agreement by and between AWI and any party asserting a Claim against AWI relating to alleged contamination under the federal or state environmental laws or regulations, pursuant to which agreement all or a portion of such Claim (to the extent and subject to the limitations imposed by such agreement) may be asserted by the holder thereof after the Effective Date, to the extent that such agreement is approved and authorized by a Final Order of the Bankruptcy Court or otherwise in accordance with the Claims Settlement Guidelines.

1.71 *Equity Interest* : Any interest in AWI represented by shares of Existing AWI Common Stock.

1.72 *Equity Value* : For purposes of calculating the exercise price on the New Warrants, the value of each share of New Common Stock as of the Effective Date, based upon the residual value of the equity of Reorganized AWI, as agreed among Lazard and the financial consultants for the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and the Unsecured Creditors' Committee and as set forth in the disclosure statement approved by the Bankruptcy Court.

1.73 *Estimated Amount* : The estimated dollar value of an Unliquidated Claim, Disputed Claim, or Contingent Claim pursuant to section 502(c) of the Bankruptcy Code.

1.74 *Existing AWI Common Stock* : Common stock, par value of \$0.01 per share, of AWI, authorized pursuant to the Articles of Incorporation as in effect immediately prior to the Effective Date.

1.75 *Final Distribution Date* : A date on or after the Initial Distribution Date and after all Disputed Claims (other than Asbestos Personal Injury Claims and Asbestos Property Damage Claims) have become either Allowed Claims or Disallowed Claims that is selected by Reorganized AWI in its discretion but, in any event, is no later than thirty (30) days thereafter, or such later date as the Bankruptcy Court may establish, upon request by Reorganized AWI, for cause shown.

1.76 *Final Order* : An order as to which the time to appeal, petition for *certiorari*, or move for reargument or rehearing has expired and as to which no appeal, petition for *certiorari*, or other proceedings for reargument or rehearing shall then be pending or as to which any right to appeal, petition for *certiorari*, reargue, or rehear shall have been waived in writing in form and substance satisfactory to AWI or Reorganized AWI, as the case may be, and its counsel or, in the event that an appeal, writ of *certiorari*, or reargument or rehearing thereof has been sought, such order shall have been affirmed by the highest court to which such order was appealed, or *certiorari* has been denied or from which reargument or rehearing was sought, and the time to take any further appeal, petition for *certiorari* or move for reargument or rehearing shall have expired.

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1.77 *Future Claimants' Representative* : Dean M. Trafelet, the Legal Representative for Future Claimants appointed pursuant to the order dated on or about March 1, 2002.

1.78 *Global Asbestos PD Settlement* : Agreement with respect to the resolution of all outstanding Asbestos Property Damage Claims and related issues relating to Asbestos Property Damage Claims, as such agreement may be approved by the Bankruptcy Court.

1.79 *Holdings* : Armstrong Holdings, Inc., a Pennsylvania corporation.

1.80 *Holdings Plan of Liquidation* : The dissolution of Holdings as approved by its Board of Directors and shareholders as required by Sections 1972, 1973 and 1974 of the Pennsylvania BCL and the liquidation and winding up of the business and affairs of Holdings (and, as part thereof, the dissolution and winding up, or other termination of the corporate existence, of AWWD) in accordance with a plan of liquidation and winding up approved by the Board of Directors and shareholders of Holdings as may be required by Subchapter F or H of Chapter 19 of the Pennsylvania BCL (which plan may provide for the distribution by Holdings of the New Warrants to Holdings' shareholders), or such other plan and manner of dissolution, liquidation and winding up of Holdings as is consistent with the terms of the Plan and permitted by law.

1.81 *Indentures* : The indenture agreements between the Indenture Trustees and AWI relating to the Debt Security Claims.

1.82 *Indenture Trustees* : The indenture trustees under Debt Security Claims (other than Debt Securities Claims representing obligations guaranteed by AWI), including Bank One Trust Company, N.A., as indenture trustee for the holders of AWI's 9 <sup>3</sup>/<sub>4</sub> % Debentures due 2008 and for the holders of the 8 <sup>3</sup>/<sub>4</sub> %-9% Medium Term Notes, Wells Fargo Minnesota, N.A., as indenture trustee for the holders of AWI's 6.35% Senior Notes due 2003, 6 <sup>1</sup>/<sub>2</sub> % Senior Notes due 2005, 7.45% Senior Notes due 2029, and the 7.45% Senior Quarterly Interest Bonds due 2038, and Wilmington Trust Company, as successor to Chase Manhattan Trust Company, National Association, as indenture trustee for the holders of the Solid Waste Disposal Revenue Bonds (Armstrong World Industries, Inc. Project) Series 1996.

1.83 *Indenture Trustees' Fees and Expenses* : All the fees and expenses, including the reasonable fees and expenses of their attorneys, incurred by the Indenture Trustees under their respective indentures from the Commencement Date to the Effective Date, up to a maximum of Twenty-Five Thousand and 00/100 Dollars (\$25,000.00) for the Indenture Trustee for each series of Debt Security Claims for which it acts as Indenture Trustee.

1.84 *Indirect PI Trust Claim* : Any Claim or remedy, liability, or Demand against AWI now existing or hereafter arising, whether or not such Claim, remedy, liability, or Demand is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases for such Claim, remedy, liability, or Demand are known or unknown, that is (x) (i) held by (A) any Entity (other than a director or officer entitled to indemnification pursuant to section 8.6 of the Plan) who has been, is, or may be a defendant in an action seeking damages for death,

bodily injury, sickness, disease, or other personal injuries (whether physical, emotional, or otherwise) to the extent caused or allegedly caused, directly or indirectly, by exposure to asbestos or asbestos-containing products or (B) any assignee or transferee of such Entity and (ii) on account of alleged liability of AWI for reimbursement, indemnification, subrogation, or contribution of any portion of any damages such Entity has paid or may pay to the plaintiff in such action or (y) held by any Entity that is seeking reimbursement, indemnification, subrogation, or contribution from AWI with respect to any surety bond, letter of credit or other financial assurance issued by any Entity on account of, or with respect to, Asbestos Personal Injury Claims.

1.85 *Initial Distribution Date* : A date after the Effective Date that is selected by Reorganized AWI in its discretion but, in any event, is within fifteen (15) days after the Effective Date, or such later date as the Bankruptcy Court may establish upon request by Reorganized AWI, for cause shown; *provided, however*, that in no event shall the Initial Distribution Date be more than forty-five (45) days after the Effective Date.

1.86 *Internal Revenue Code* : The Internal Revenue Code of 1986, as amended from time to time, and any applicable rulings, Treasury Regulations, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or the IRS.

1.87 *IRS* : The United States Internal Revenue Service.

1.88 *Lazard* : Lazard Frères & Co. LLC, or such other investment bank or financial advisor retained by AWI.

1.89 *New Common Stock* : Common stock, par value \$0.01 per share, of Reorganized AWI which is to be authorized and issued pursuant to the Plan and subject to dilution for equity to be issued under the New Long-Term Incentive Plan and for the New Warrants.

1.90 *New Long-Term Incentive Plan* : The Management Incentive Plan, substantially in the form of Exhibit 1.90 to the Plan.

1.91 *New Warrants* : Warrants to purchase the New Common Stock pursuant to a warrant agreement substantially in the form of Exhibit 1.91 to the Plan on terms and conditions determined in a manner agreed to by Lazard and the financial consultants for the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and the Unsecured Creditors' Committee; *provided, however*, that such New Warrants (a) shall comprise 5% of the New Common Stock on a fully diluted basis determined as of the Effective Date, (b) shall have an exercise price equal to 125% of the Equity Value, and (iii) shall have a term of seven years from the Effective Date.

1.92 *Pennsylvania BCL* : Pennsylvania Business Corporation Law of 1988, as amended from time to time and as applicable to the events described in the Plan.

1.93 *PI Protected Party* : **Any of the following parties:**

(a) **AWI;**

(b) **Reorganized AWI;**

- (c) **Holdings;**
- (d) **AWWD;**
- (e) **any Affiliate;**

(f) **Interface Solutions, Inc., a corporation organized under the laws of Pennsylvania, but only to the extent that such Entity is alleged to be directly or indirectly liable for the conduct of, Claims against, or Demands on AWI, Reorganized AWI, or the Asbestos PI Trust on account of Asbestos Personal Injury Claims;**

(g) **any Entity that, pursuant to the Plan or after the Effective Date, becomes a direct or indirect transferee of, or successor to, any assets of AWI, Reorganized AWI, or the Asbestos PI Trust (but only to the extent that liability is asserted to exist by reason of it becoming such a transferee or successor);**

(h) **any Entity that, pursuant to the Plan or after the Effective Date, makes a loan to Reorganized AWI or the Asbestos PI Trust or to a successor to, or transferee of, any assets of AWI, Reorganized AWI or the Asbestos PI Trust (but only to the extent that liability is asserted to exist by reason of such Entity becoming such a lender or to the extent any pledge of assets made in connection with such a loan is sought to be upset or impaired); or**

(i) **any Entity to the extent he, she, or it is alleged to be directly or indirectly liable for the conduct of, Claims against, or Demands on AWI, Reorganized AWI or the Asbestos PI Trust on account of Asbestos Personal Injury Claims by reason of one or more of the following:**

(i) **such Entity's ownership of a financial interest in AWI, Reorganized AWI, a past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or a predecessor in interest of AWI, or Reorganized AWI;**

(ii) **such Entity's involvement in the management of AWI, AWWD, Holdings, an Affiliate, Reorganized AWI, or any predecessor in interest of AWI, or Reorganized AWI;**

(iii) **such Entity's service as an officer, director, or employee of AWI, Reorganized AWI, AWWD, Holdings, an Affiliate, any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), any predecessor in interest of AWI or Reorganized AWI, or any Entity that owns or at any time has owned a financial interest in AWI or Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or any predecessor in interest of AWI or Reorganized AWI;**

(iv) **such Entity's provision of insurance to (a) AWI, (b) Reorganized AWI, (c) any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), (d) any**

**predecessor in interest of AWI or Reorganized AWI; or (e) any Entity that owns or at any time has owned a financial interest in AWI or Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or any predecessor in interest of AWI or Reorganized AWI, but only to the extent that AWI, Reorganized AWI, or the Asbestos PI Trust enters into a settlement with such Entity that is approved by the Bankruptcy Court and expressly provides that such Entity shall be entitled to the protection of the Asbestos PI Permanent Channeling Injunction as a PI Protected Party; or**

**(v) such Entity's involvement in a transaction changing the corporate structure, or in a loan or other financial transaction affecting the financial condition, of AWI, AWWD, Holdings, an Affiliate, Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than AC and S, Inc. f/k/a Armstrong Contracting and Supply Corp.), any predecessor in interest of AWI or Reorganized AWI, or any Entity that owns or at any time has owned a financial interest in AWI or Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or any predecessor in interest of AWI or Reorganized AWI.**

1.94 *Plan* : This plan of reorganization, either in its present form or as it may be amended, supplemented, or otherwise modified from time to time, and the exhibits and schedules to the foregoing, as the same may be in effect at the time such reference becomes operative.

1.95 *Plan Note Amount* : An amount equal to the greater of (x) \$1.125 billion *less* the amount of Available Cash and (y) \$775 million.

1.96 *Plan Note Indentures* : The indentures, substantially in the form of Exhibits 1.96-A and 1.96-B to the Plan, by and between AWI, as the issuer, and a trustee selected by AWI prior to the date of the commencement of the hearing on confirmation of the Plan, pursuant to which the Plan Notes will be issued, each of which will be qualified under the Trust Indenture Act of 1939, as amended.

1.97 *Plan Notes* : Unsecured notes issued pursuant to the Plan Note Indentures (a) in an aggregate principal amount equal to the Plan Note Amount *less* the 144A Offering Proceeds, (b) bearing a fixed or floating interest rate based upon U.S. Treasury Notes or three-month U.S. dollar LIBOR, respectively, with like maturities plus a spread determined to be the average corporate spread over such Treasury Notes or LIBOR for outstanding issues of comparable maturity and comparably rated U.S. industrial companies over the 30-day period ending on the last day of the month immediately preceding the Effective Date, (c) with a maturity, as selected by AWI, of not less than five years, but not more than ten years and no principal payments required to be paid prior to the maturity date, (d) callable at par at the option of Reorganized AWI, in whole or in part, at any time during the first six months following the Effective Date, and (e) having such other terms, covenants, and conditions substantially similar to those contained in indentures for issues of comparable maturity of comparably rated U.S. industrial companies and, with respect to any floating rate tranche, structured in a manner similar to, and as liquid as, marketable bank debt; *provided, however,* that if AWI successfully completes a 144A Offering but the 144A Offering Proceeds are less than the Plan Note Amount, AWI will issue additional 144A Debt Securities to the

applicable classes of Creditors in lieu of the Plan Notes it would otherwise issue under the Plan Note Indentures (subject to compliance with applicable securities laws) and, in any event, AWI will not issue Plan Notes having terms and conditions that are not substantially the same as those of the 144A Debt Securities without the consent of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee. In addition, if AWI is not successful in obtaining a Term Loan B, AWI will not issue any floating interest rate Plan Notes unless such floating rate Plan Notes satisfy the requirements of the Plan and are on terms and conditions that are mutually satisfactory to AWI and the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

1.98 *Priority Claim* : Any Claim to the extent such claim is entitled to priority in right of payment under section 507(a) of the Bankruptcy Code, other than an Administrative Expense, DIP Credit Facility Claim, or Priority Tax Claim.

1.99 *Priority Tax Claim* : A Claim against AWI that is of a kind specified in section 507(a)(8) of the Bankruptcy Code.

1.100 *Pro Rata Share* : Means the ratio (expressed as a percentage) of the amount of an Allowed Claim in a Class to the aggregate amount of all Allowed Claims plus the Disputed Claim Amount of all Disputed Claims in the same Class.

1.101 *Qualified Appraisal* : A "qualified appraisal" within the meaning of Treasury Regulations section 1.468B-3(b)(3).

1.102 *Record Date* : The first Business Day that is five (5) days from and after the Confirmation Date.

1.103 *Reorganized AWI* : AWI, as reorganized as of the Effective Date in accordance with this Plan, or any successors in interest thereto, from and after the Effective Date.

1.104 *Reorganization Consideration* : Collectively, the Available Cash, the Plan Notes and/or the 144A Offering Proceeds, the New Common Stock, and the New Warrants.

1.105 *Retention Period* : Five (5) years from and after the Effective Date, or such shorter period as the Bankruptcy Court may set.

1.106 *Schedules* : The schedules of assets and liabilities and the statements of financial affairs filed by AWI with the Bankruptcy Court, as required by section 521 of the Bankruptcy Code and the Official Bankruptcy Forms of the Bankruptcy Rules, as such schedules and statements have been and may be amended by AWI from time to time in accordance with Bankruptcy Rule 1009.

1.107 *SEC* : The United States Securities and Exchange Commission.

1.108 *Secured Claim* : Any Claim against AWI to the extent of the value of any interest in property of the estate of AWI securing such Claim, except for the DIP Credit Facility Claim and the COLI Claims.

1.109 *Stockholder and Registration Rights Agreement* : The Stockholder and Registration Rights Agreement to be entered into by Reorganized AWI and the Asbestos PI Trustees on behalf of the Asbestos PI Trust, pursuant to section 7.6 hereof, in substantially the same form of Exhibit 1.109 to the Plan.

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1.110 *Subsidiary Debt Guarantee Claim* : Any Claim against AWI arising from the guaranty by AWI of an obligation of one or more Entities that are subsidiaries of AWI as of the date immediately preceding the Effective Date so long as such obligation has not been accelerated or declared in default prior to the Effective Date (and such acceleration has not been rescinded or such default waived), other than any Claim relating to any obligations of Nitram Liquidators, Inc. or Desseaux Corporation of North America and other than any Claim relating to obligations arising from the sale or disposition of the business, operations, or assets of any Entity.

1.111 *Term Loan B* : A floating rate senior secured term loan credit facility, to be borrowed under the working capital facility referenced in Section 7.16 of the Plan, between Reorganized AWI and the lenders who are party thereto, having terms and conditions as determined by AWI and the lenders in their sole discretion.

1.112 *Term Loan B Proceeds* : The amount of the net cash proceeds received by Reorganized AWI on or as soon as practicable after the Effective Date pursuant to the Term Loan B.

1.113 *Treasury Regulations* : Regulations (including temporary and proposed) promulgated under the Internal Revenue Code by the United States Treasury Department, as amended from time to time.

1.114 *Unliquidated Claim* : Any Claim (other than an Asbestos Personal Injury Claim), the amount of liability for which has not been fixed, whether pursuant to agreement, applicable law, or otherwise, as of the date on which such Claim is sought to be estimated.

1.115 *Unsecured Claim* : Any Claim other than an Administrative Expense, Subsidiary Debt Guarantee Claim, a COLI Claim, a Priority Tax Claim, a Priority Claim, an Asbestos Personal Injury Claim, an Asbestos Property Damage Claim, an Environmental Claim (except to the extent provided in section 3.2(h)(ii) of the Plan), an Affiliate Claim, an Employee Benefit Claim, or a Secured Claim. Unsecured Claims include Debt Security Claims administered by the Indenture Trustees.

1.116 *Unsecured Creditors' Committee* : The Official Unsecured Creditors' Committee, consisting of Entities appointed as members in the Chapter 11 Case by the United States Trustee for the District of Delaware in accordance with section 1102(a) of the Bankruptcy Code and their duly appointed successors, if any, as the same may be reconstituted from time to time.

1.117 *Voting Deadline* : The date set by the Bankruptcy Court by which all completed ballots must be received.

1.118 *Voting Procedures Order* : An order of the Bankruptcy Court approving procedures relating to the solicitation and tabulation of votes with respect to the Plan.

**B. Other Terms.** Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine,

the whole and not to any particular section, subsection, or clause contained in the Plan. An initially capitalized term used herein that is not defined herein shall have the meaning ascribed to such term, if any, in the Bankruptcy Code, unless the context shall otherwise require.

**C. Exhibits.** All Exhibits to the Plan shall be contained in a separate Exhibit Volume, which shall be filed with the Clerk of the Bankruptcy Court not later than the earlier of (i) thirty (30) days prior to the commencement of the hearing on confirmation of the Plan and (ii) fifteen (15) days prior to the deadline for filing objections to confirmation of the Plan. Such Exhibits may be inspected in the office of the Clerk of the Bankruptcy Court during normal hours of operation of the Bankruptcy Court. Such Exhibits shall also be available for download from the following website: [www.armstrongplan.com](http://www.armstrongplan.com). Holders of Claims or shareholders of Holdings may also obtain a copy of such Exhibit Volume, once filed, from AWI by a written request sent to the following address:

Armstrong World Industries, Inc.  
Post Office Box 3666  
Lancaster, Pennsylvania 17604-3666

## ARTICLE II

### PROVISIONS FOR PAYMENT OF ADMINISTRATIVE EXPENSES AND PRIORITY TAX CLAIMS

*2.1 Payment of Allowed Administrative Expenses.* The Allowed Amount of each Administrative Expense that is Allowed as of the Effective Date shall be paid in full, in cash, on the Effective Date; *provided, however,* that Administrative Expenses of the type specified in section 1.11(c)(i) of the Plan shall be assumed and paid by Reorganized AWI in accordance with the terms and conditions of the particular transactions and any agreements relating thereto. Each Administrative Expense of the type specified in section 1.11(c)(ii) or 1.11(c)(iii) of the Plan shall be paid the Allowed Amount of such Administrative Expense in full, in cash, as soon as practicable after such Administrative Expense is Allowed.

*2.2 Compensation and Reimbursement Claims.* The Bankruptcy Court shall fix in the Confirmation Order a date for the filing of, and a date to hear and determine, all applications for final allowances of compensation or reimbursement of expenses under section 330 of the Bankruptcy Code or applications for allowance of Administrative Expenses arising under section 503(b)(2), 503(b)(3), 503(b)(4), 503(b)(5), or 503(b)(6) of the Bankruptcy Code. The Allowed Amount of all Administrative Expenses arising under section 330, 331, 503(b)(2), 503(b)(3), 503(b)(4), 503(b)(5), or 503(b)(6) of the Bankruptcy Code shall be paid in full, in cash, (a) upon the later of (i) the Effective Date and (ii) the date upon which any such Administrative Expense becomes Allowed or (b) at such later date or upon such other terms as may be mutually agreed upon between each such Administrative Expense Creditor and Reorganized AWI.

*2.3 DIP Credit Facility Claim.* On the Effective Date, the DIP Credit Facility Claim shall be paid in full, in cash. Unless otherwise agreed by the DIP Lenders, to the extent that any letters of credit issued pursuant to the DIP Credit Facility remain outstanding on the Effective Date, AWI will pay to the Agent Bank, for the ratable benefit of the DIP Lenders, cash in an amount equal to the face amount of such letters of credit, which shall be held by the Agent Bank for the repayment of all amounts due in respect of such letters of credit.

2.4 *Priority Tax Claims* . Each holder of an Allowed Priority Tax Claim shall be paid the Allowed Amount of its Allowed Priority Tax Claim either (a) in full, in cash, on the latest of (i) the Effective Date, (ii) the date such Allowed Priority Tax Claim becomes Allowed, and (iii) the date such Allowed Priority Tax Claim is payable under applicable non-bankruptcy law or (b) upon such other terms as may be mutually agreed upon between each holder of a Priority Tax Claim and Reorganized AWI.

### ARTICLE III

#### CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

3.1 *Summary*. Claims and Equity Interests are classified for all purposes, including, without express or implied limitation, voting, confirmation, and distribution pursuant to the Plan, as follows:

<u>CLASS</u>	<u>TREATMENT</u>	<u>STATUS</u>	<u>ENTITLED TO VOTE?</u>
<b>Class 1:</b> Priority Claims	Paid in full, in cash, on the later of the Effective Date or as soon as practicable after such Priority Claim becomes Allowed.	Unimpaired	No
<b>Class 2:</b> Secured Claims	Reinstated – Any defaults related to Secured Claims will be cured.	Unimpaired	No
<b>Class 3:</b> Convenience Claims	Payment of 75% of Allowed Amount of Convenience Claim, in cash, on later of the Effective Date or as soon as practicable after such Convenience Claim becomes Allowed.	Impaired	Yes
<b>Class 4:</b> Asbestos Property Damage Claims	All Asbestos Property Damage Claims will be resolved pursuant to the terms of the Global Asbestos PD Settlement. If the Global Asbestos PD Settlement is not approved by the Bankruptcy Court at least fifteen (15) days before the Voting Deadline, AWI will amend the Plan to provide alternative treatment for Asbestos Property Damage Claims, in which case the Asbestos Property Damage Claims will be treated as impaired and will be entitled to vote on the Plan.	Unimpaired	Yes
<b>Class 5:</b> COLI Claims	Reinstated – Any defaults related to the COLI Claims will be cured.	Unimpaired	No

<u>CLASS</u>	<u>TREATMENT</u>	<u>STATUS</u>	<u>ENTITLED TO VOTE?</u>
<b>Class 6:</b> Unsecured Claims other than Convenience Claims	Each holder of an Allowed Unsecured Claim will receive its Pro Rata Share of (i) 34.43% of the New Common Stock, (ii) 34.43% of the first \$1.05 billion of (x) up to \$300 million of Available Cash and (y) the principal amount of Plan Notes and/or 144A Offering Proceeds, (iii) 60% of the next \$50 million of the remaining Available Cash, (iv) 60% of the remaining amount of Plan Notes and/or 144A Offering Proceeds to the extent that Available Cash in (iii) is less than \$50 million, and (v) 34.43% of the remaining Available Cash and Plan Notes and/or 144A Offering Proceeds.	Impaired	Yes
<b>Class 7:</b> Asbestos Personal Injury Claims	All Asbestos Personal Injury Claims will be channeled to the Asbestos PI Trust, which will be funded pursuant to section 10.1 of the Plan.	Impaired	Yes
<b>Class 8:</b> Environmental Claims	Each Environmental Claim will be treated as an Allowed Unsecured Claim to the extent it becomes Allowed prior to any Distribution Date. Other treatment determined as applicable under the relevant settlement agreement.	Impaired	Yes
<b>Class 9:</b> Affiliate Claims	Reinstated	Unimpaired	No
<b>Class 10:</b> Subsidiary Debt Guarantee Claims	Reinstated	Unimpaired	No
<b>Class 11:</b> Employee Benefit Claims	Reinstated	Unimpaired	No
<b>Class 12:</b> Equity Interests	The holder of the Equity Interests in AWI will receive the New Warrants (which will be distributed in accordance with the Holdings Plan of Liquidation, if the Holdings Plan of Liquidation is approved).	Impaired	Yes

3.2 *Classification and Treatment.*

(a) **Class 1. Priority Claims.**

(i) *Classification* : Class 1 consists of all Allowed Priority Claims.

(ii) *Treatment* : Each holder of an Allowed Priority Claim shall be paid the Allowed Amount of its Allowed Priority Claim, in full, in cash, on the later of the Effective Date and as soon as practicable after the date such Priority Claim becomes Allowed.

(iii) *Status* : Class 1 is not impaired. The holders of the Claims in Class 1 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

**(b) Class 2. Secured Claims.**

(i) *Classification* : Class 2 consists of all Allowed Secured Claims. Although placed in one class for purposes of convenience, each Allowed Secured Claim shall be treated as though in a separate class for all purposes under the Plan.

(ii) *Treatment* : At the option of AWI and in accordance with section 1124 of the Bankruptcy Code, each Allowed Secured Claim shall be treated in one of the following ways:

1. The legal, equitable and contractual rights to which such Allowed Secured Claim entitles the holder of such Claim shall be unaltered.

*or*

2. Notwithstanding any contractual provision or applicable law that entitles the holder of an Allowed Secured Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim from and after the occurrence of a default under the agreements governing or instruments evidencing such Claim, such Claim shall be reinstated, and AWI shall (i) cure all defaults that occurred before or from and after the Commencement Date (other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code), (ii) reinstate the maturity of such Claim as such maturity existed prior to the occurrence of such default, (iii) compensate the holder of such Claim for any damages incurred as a consequence of any reasonable reliance by such holder on such contractual provision or such applicable law, and (iv) not otherwise alter the legal, equitable, or contractual rights to which the holder of such Claim is entitled.

(iii) *Status* : Class 2 is not impaired. The holders of the Claims in Class 2 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

**(c) Class 3. Convenience Claims.**

(i) *Classification* : Class 3 consists of all Allowed Convenience Claims.

(ii) *Treatment* : Each holder of an Allowed Convenience Claim shall be paid 75% of the Allowed Amount of its Allowed Convenience Claim, in cash, on the later of the Effective Date and as soon as practicable after such Convenience Claim becomes Allowed.

(iii) *Election* : Any holder of an Unsecured Claim in an amount equal to or less than Ten Thousand and 00/100 Dollars (\$10,000.00) and which otherwise constitutes a Convenience Claim automatically shall be treated as a Convenience Claim. Any holder of any other Unsecured Claim that desires treatment of such Claim as a Convenience Claim shall make such election on the Ballot to be provided to holders of Unsecured Claims in Class 6 and return such Ballot to the address specified therein on or before the Voting Deadline. Any election made after the Voting Deadline shall not be binding on AWI unless the Voting Deadline is expressly waived in writing by AWI with respect to any such Claim.

(iv) *Status* : Class 3 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 3 are entitled to vote to accept or reject the Plan.

**(d) Class 4. Asbestos Property Damage Claims.**

(i) *Classification* : Class 4 consists of all Allowed Asbestos Property Damage Claims.

(ii) *Treatment* : All pending Asbestos Property Damage Claims will be Allowed and treated in accordance with the terms of the Global Asbestos PD Settlement.

(iii) *Status* : Class 4 is unimpaired. The holders of the Claims in Class 4 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

**(e) Class 5. COLI Claims.**

(i) *Classification* : Class 5 consists of all Allowed COLI Claims.

(ii) *Treatment* : In accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable law that entitles the holder of an Allowed COLI Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim from and after the occurrence of a default under the agreements governing or instruments evidencing such Claim, such Claim shall be reinstated, and AWI shall (i) cure all defaults that occurred before or from and after the Commencement Date (other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code), (ii) reinstate the maturity of such Claim as such maturity existed prior to the occurrence of such default, (iii) compensate the holder of such Claim for any damages incurred as a consequence of any reasonable reliance by such holder on such contractual provision or such applicable law, and (iv) not otherwise alter the legal, equitable, or contractual rights to which the holder of such Claim is entitled.

(iii) *Status* : Class 5 is not impaired. The holders of the Claims in Class 5 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

**(f) Class 6. Unsecured Claims other than Convenience Claims.**

(i) *Classification* : Class 6 consists of Unsecured Claims other than Convenience Claims.

(ii) *Treatment* : Each holder of an Allowed Unsecured Claim in Class 6 will receive on each Distribution Date its Pro Rata Share of the following elements of Reorganization Consideration:

1. 34.43% of the New Common Stock,
2. 34.43% of the first \$ 1.05 billion of (x) up to \$300 million of Available Cash and (y) the Plan Notes and/or 144A Offering Proceeds,
3. 60% of the first \$50 million of the amount of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan,
4. 60% of the amount of Plan Notes and/or 144A Offering Proceeds equal to the difference (if positive) of \$50 million less the amount of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan, and
5. 34.43% of the remaining Available Cash and Plan Notes and/or 144A Offering Proceeds after making provision for the Distribution provided in sections 3.2(f)(ii)2, 3.2(f)(ii)3, and 3.2(f)(ii)4 of the Plan and the funding of the Asbestos PI Trust in sections 10.1(b)(ii), 10.1(b)(iii) and 10.1(b)(iv) of the Plan.

In any Distribution made to the holder of an Allowed Unsecured Claim, there shall be deducted from such Distribution the amount of each element of the Reorganization Consideration (computed as provided in this section 3.2(f)(ii)) previously distributed to such holder on account of such Allowed Unsecured Claim in any Distribution made prior thereto.

(iii) *Interest* : Interest shall neither accrue nor be payable from and after the Commencement Date with respect to Allowed Unsecured Claims.

(iv) *Status* : Class 6 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 6 are entitled to vote to accept or reject the Plan.

(g) **Class 7. Asbestos Personal Injury Claims.**

(i) *Classification* : Class 7 consists of all Asbestos Personal Injury Claims.

(ii) *Treatment* : All Asbestos Personal Injury Claims shall be determined and paid pursuant to the terms, provisions, and procedures of the Asbestos PI Trust, the Asbestos PI Trust Distribution Procedures, and the Asbestos PI Trust Agreement. The Asbestos PI Trust will be funded in accordance with the provisions of section 10.1 of the Plan. The sole recourse of the holder of an Asbestos Personal Injury Claim shall be the Asbestos PI Trust, and such holder shall have no right whatsoever at any time to assert its Asbestos Personal Injury Claim against any PI Protected Party. **Without limiting the foregoing, on the Effective Date, all Entities shall be permanently and forever stayed, restrained, and enjoined from taking any of the following actions for the purpose of, directly or indirectly, collecting, recovering, or receiving payment of, on, or with respect to any Asbestos Personal Injury Claim (other than actions brought to enforce any right or obligation under the Plan, any Exhibits to the Plan, or any other agreement or instrument between AWI or Reorganized AWI and the Asbestos PI Trust, which actions shall be in conformity and compliance with the provisions hereof):**

1. **commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding (including, without express or implied limitation, a judicial, arbitral, administrative, or other proceeding) in any forum against or affecting any PI Protected Party or any property or interests in property of any PI Protected Party;**

2. **enforcing, levying, attaching (including, without express or implied limitation, any prejudgment attachment), collecting, or otherwise recovering by any means or in any manner, whether directly or indirectly, any judgment, award, decree, or other order against any PI Protected Party or any property or interests in property of any PI Protected Party;**

3. **creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Encumbrance against any PI Protected Party or any property or interests in property of any PI Protected Party;**

4. **setting off, seeking reimbursement of, contribution from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability owed to any PI Protected Party or any property or interests in property of any PI Protected Party; *provided, however* , that the foregoing shall not preclude the assertion of a setoff or recoupment defense under applicable law by a third party solely in response to, and to the extent of, a claim asserted by a PI Protected Party against such third party that such third party is liable in whole or in part for an Asbestos Personal Injury Claim; and**

**5. proceeding in any manner in any place with regard to any matter that is subject to resolution pursuant to the Asbestos PI Trust Agreement, except in conformity and compliance therewith.**

Nothing contained herein shall constitute or be deemed a waiver of any claim, right, or cause of action that AWI, Reorganized AWI, or the Asbestos PI Trust may have against any Entity in connection with or arising out of an Asbestos Personal Injury Claim, and the injunction shall not apply to the assertion of any such claim, right, or cause of action by AWI, Reorganized AWI, or the Asbestos PI Trust.

(iii) *Status* : Class 7 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 7 are entitled to vote to accept or reject the Plan.

**(h) Class 8. Environmental Claims .**

(i) *Classification* : Class 8 consists of all Environmental Claims.

(ii) *Treatment* : Each holder of an Environmental Claim shall be entitled to treatment of its Environmental Claim and receive such consideration as is provided in the settlement agreement applicable to such Environmental Claim. Without limiting the provisions of such settlement agreement, to the extent any portion of an Environmental Claim becomes Allowed prior to any Distribution Date, such Environmental Claim shall be deemed to constitute, and will be treated as, an Allowed Unsecured Claim under Class 6 of the Plan. The sole recourse of the holders of Environmental Claims shall be in accordance with the rights of such holders set forth in such settlement agreement. Nothing contained herein or in any settlement agreement relating to an Environmental Claim shall constitute or be deemed a waiver of any claim, right, or cause of action that AWI or Reorganized AWI may have against any Entity that is not a party to such settlement agreement.

(iii) *Status* : Class 8 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 8 are entitled to vote to accept or reject the Plan.

**(i) Class 9. Affiliate Claims.**

(i) *Classification* : Class 9 consists of Affiliate Claims.

(ii) *Treatment* : In accordance with section 1124 of the Bankruptcy Code, the legal, equitable, and contractual rights to which such Allowed Affiliate Claims entitle the holder of any such Claims shall be unaltered.

(iii) *Status* : Class 9 is unimpaired. The holders of the Claims in Class 9 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

**(j) Class 10. Subsidiary Debt Guarantee Claims.**

(i) *Classification* : Class 10 consists of all Subsidiary Debt Guarantee Claims.

(ii) *Treatment* : In accordance with section 1124 of the Bankruptcy Code, each Subsidiary Debt Guarantee Claim shall be reinstated.

(iii) *Status* : Class 10 is not impaired. The holders of Claims in Class 10 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

**(k) Class 11. Employee Benefit Claims.**

(i) *Classification* : Class 11 consists of all Employee Benefit Claims.

(ii) *Treatment* : In accordance with section 1124 of the Bankruptcy Code, each Employee Benefit Claim shall be reinstated.

(iii) *Status* : Class 11 is not impaired. The holders of Claims in Class 11 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

**(l) Class 12. Equity Interests.**

(i) *Classification* : Class 12 consists of Equity Interests.

(ii) *Treatment* : On or as soon as practicable after the Effective Date, Reorganized AWI shall issue the New Warrants in respect of the Equity Interests in AWI as provided in section 7.24 hereof; *provided, however*, that, if Class 6 votes to reject the Plan, no distribution shall be made under the Plan from AWI's estate in respect of the Equity Interests in AWI but, in such event, Reorganized AWI shall issue the New Warrants as provided in section 7.24 hereof in respect of the Asbestos Personal Injury Claims and in accordance with section 10.1(b) hereof. On the Effective Date, the certificates that previously evidenced ownership of Existing AWI Common Stock shall be cancelled and shall be null and void, the holder(s) thereof shall no longer have any rights in respect of the Equity Interests in AWI, and such certificates shall not evidence any rights under the Plan.

(iii) *Status* : Class 12 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holder of the Equity Interests in Class 12 is entitled to vote to accept or reject the Plan; *provided, however*, if Class 6 votes to reject the Plan, Class 12 shall be deemed to have rejected the Plan.

3.3 *In the event of a controversy as to whether any class of Claims or Equity interests is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy prior to the Confirmation Date.*

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## ARTICLE IV

### MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN

4.1 *Modification of the Plan* . AWI may only, with the written consent of the Future Claimants' Representative, the Asbestos PI Claimants' Committee, and, if Class 6 has not voted to reject the Plan at the time of the requested alteration, amendment, or modification, the Unsecured Creditors' Committee, alter, amend, or modify the Plan under section 1127(a) of the Bankruptcy Code at any time prior to the Confirmation Date so long as the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code. After the Confirmation Date and prior to the Effective Date, AWI, with the written consent of the Future Claimants' Representative, the Asbestos PI Claimants' Committee, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee, may only alter, amend, or modify the Plan in accordance with section 1127(b) of the Bankruptcy Code.

#### 4.2 *Revocation or Withdrawal*.

(a) *Right to Revoke* . The Plan may be revoked or withdrawn prior to the Confirmation Date by AWI, with the written consent of the Future Claimants' Representative, the Asbestos PI Claimants' Committee, and, if Class 6 has not voted to reject the Plan at the time of the requested revocation or withdrawal, the Unsecured Creditors' Committee, or, after the Confirmation Deadline, by AWI.

(b) *Effect of Withdrawal or Revocation*. If the Plan is revoked or withdrawn prior to the Confirmation Date, then the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any claims or defenses or any admission or statement against interest by AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, the Unsecured Creditors' Committee, or any other Entity or to prejudice in any manner the rights of AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, the Unsecured Creditors' Committee, or any Entity in any further proceedings involving AWI.

4.3 *Amendment of Plan Documents*. From and after the Effective Date, the authority to amend, modify, or supplement the Exhibits to the Plan and any documents attached to such Exhibits shall be as provided in such Exhibits and their respective attachments.

## ARTICLE V

### PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

5.1 *Objections to Claims; Prosecution of Disputed Claims*. Reorganized AWI shall object to the allowance of Claims filed with the Bankruptcy Court (other than Asbestos Personal Injury Claims and Asbestos Property Damage Claims) with respect to which Reorganized AWI disputes liability in whole or in part. All objections that are filed and prosecuted by Reorganized AWI as provided herein shall be litigated to Final Order by Reorganized AWI or compromised and settled in accordance with the Claims Settlement Guidelines. Unless otherwise provided herein or ordered by the Bankruptcy Court, all objections by Reorganized AWI to Claims shall be served and filed no later than ninety (90) days after the Effective Date.

5.2 *Claims Settlement Guidelines* . The Confirmation Order shall approve the amendment to the Claims Settlement Guidelines, as set forth in Exhibit 1.39 to the Plan.

5.3 *Distributions on Account of Disputed Claims*. Notwithstanding section 3.2 hereof, a Distribution shall only be made by Reorganized AWI to the holder of a Disputed Claim when, and to the extent that, such Disputed Claim becomes Allowed. No interest shall be paid on account of Disputed Claims that later become Allowed except to the extent that payment of interest is required under section 506(b) of the Bankruptcy Code. No Distribution shall be made with respect to all or any portion of any Disputed Claim pending the entire resolution thereof in the manner prescribed by section 5.1 hereof.

5.4 *Disputed Unsecured Claims Reserve*. On the Initial Distribution Date, if the Plan Notes are issued, Reorganized AWI will establish the Disputed Unsecured Claims Reserve, pursuant to which Plan Notes not distributed on the Initial Distribution Date or on any subsequent Distribution will be issued but held in trust by the Disbursing Agent pending the resolution of Disputed Claims. In accordance with and subject to the provisions of sections 3.2(f)(ii), 5.3, and 7.8 of the Plan, any Distribution of Plan Notes with respect to a Disputed Claim that becomes Allowed shall include interest and other accretions with respect to such Plan Notes, net of the portion of expenses (including, without limitation, taxes payable by the Disputed Unsecured Claims Reserve) attributable to such Plan Notes.

5.5 *Tax Treatment of Disputed Unsecured Claims Reserve* .

(a) Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the receipt by the Disbursing Agent of a private letter ruling if the Disbursing Agent so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Disbursing Agent), the Disbursing Agent shall (i) treat the Disputed Unsecured Claims Reserve established to hold Plan Notes and any earnings with respect thereto as a discrete trust for federal income tax purposes, consisting of separate and independent shares to be established in respect of each Disputed Claim in Class 6, in accordance with the trust provisions of the Tax Code (sections 641 *et seq.*), and (ii) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes. All parties (including Reorganized AWI and all holders of Claims in Class 6) shall report, for tax purposes, consistently with such treatment.

(b) The Disbursing Agent may request an expedited determination of taxes under section 505(b) of the Bankruptcy Code for all tax returns filed for, or on behalf of, the Disputed Unsecured Claims Reserve for all taxable periods through the termination of such reserve.

## ARTICLE VI

### ACCEPTANCE OR REJECTION OF THE PLAN

6.1 *Impaired Classes to Vote*. Each holder of a Claim in an impaired Class of Claims shall be entitled to vote to accept or reject the Plan to the extent and in the manner provided by the Voting Procedures Order.

6.2 *Acceptance by Class of Claims*. Acceptance of the Plan by any impaired Class of Claims shall be determined in accordance with the Voting Procedures Order.

6.3 *Nonconsensual Confirmation*. In the event that any impaired Class of Claims shall fail to accept the Plan in accordance with section 1129(a) of the Bankruptcy Code, AWI reserves the right to (a) request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to such non-accepting Class, in which case the Plan shall constitute a motion for such relief, or (b) amend the Plan in accordance with section 4.1 hereof.

## ARTICLE VII

### IMPLEMENTATION OF THE PLAN

7.1 *Creation of Asbestos PI Trust*. Effective as of the later of (i) the date the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement and (ii) the Effective Date, the Asbestos PI Trust shall be created. The Asbestos PI Trust is intended to be a “qualified settlement fund” within the meaning of section 468B of the Internal Revenue Code. The purpose of the Asbestos PI Trust shall be to, among other things, (a) direct the processing, liquidation, and payment of all Asbestos Personal Injury Claims in accordance with the Plan, the Asbestos PI Trust Distribution Procedures, and the Confirmation Order and (b) preserve, hold, manage, and maximize the assets of the Asbestos PI Trust for use in paying and satisfying Asbestos Personal Injury Claims.

7.2 *Appointment of Asbestos PI Trustees*. On the Confirmation Date, effective as of the Effective Date, the Bankruptcy Court shall appoint the individuals selected jointly by the Asbestos PI Claimants’ Committee and the Future Claimants’ Representative (as identified in Exhibit 7.2 to the Plan), which individuals shall be appointed after consultation with AWI, to serve as the Asbestos PI Trustees for the Asbestos PI Trust.

7.3 *144A Offering*. AWI will use reasonable efforts to effect the 144A Offering and obtain a Term Loan B prior to, on or as soon as practicable after the Effective Date such that the 144A Offering Proceeds yield an amount at least equal to the Plan Note Amount, in which case the Plan Notes will not be issued under the Plan. However, if AWI successfully completes a 144A Offering but the 144A Offering Proceeds are less than the Plan Note Amount, AWI will issue additional 144A Debt Securities to the applicable classes of Creditors in lieu of the Plan Notes it would otherwise issue under the Plan Note Indentures (subject to compliance with applicable securities laws) and, in any event, AWI will not issue Plan Notes that have terms and conditions that are not substantially the same as those of the 144A Debt Securities without the consent of the Asbestos PI Claimants’ Committee, the Future Claimants’ Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors’ Committee. In addition, if AWI is not successful in obtaining a Term Loan B, AWI will not issue any floating interest rate Plan Notes unless such floating rate Plan Notes satisfy the requirements of the Plan and are on terms and conditions that are mutually satisfactory to AWI and the Asbestos PI Claimants’ Committee, the Future Claimants’ Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors’ Committee.

7.4 *Amendment of Articles of Incorporation*. The Articles of Incorporation shall be amended and restated as of the Effective Date in substantially the form of the Amended and Restated Articles of Incorporation, *inter alia*, (a) to prohibit the issuance of nonvoting equity securities as required by section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such Amended and Restated Articles of Incorporation as permitted by applicable law, and (b) to authorize 215 million (215,000,000)

shares of capital stock of which (i) 200 million (200,000,000) shares will be shares of common stock, and (ii) 15 million shares will be preferred stock of Reorganized AWI, with such rights, preferences and privileges as may be determined by the Board of Directors. Pursuant to the Plan, of the 200 million shares of common stock (A) fifty to sixty million (50,000,000-60,000,000) shares shall be New Common Stock issued under the Plan, (B) an amount equal to 5% of the New Common Stock on a fully diluted basis determined as of the Effective Date shall be reserved for issuance upon exercise of the New Warrants, and (C) a portion shall be reserved for issuance under the New Long-Term Incentive Plan, and (D) the remainder shall be reserved for future issuance.

*7.5 Amendment of By-Laws.* The By-Laws of AWI shall be amended and restated as of the Effective Date in substantially the form of the Amended and Restated By-Laws.

*7.6 Stockholder and Registration Rights Agreement.* On the Effective Date, AWI and the Asbestos PI Trust shall enter into the Stockholder and Registration Rights Agreement, which will provide, among other things, for the registration by Reorganized AWI of shares of New Common Stock and Plan Notes owned by the Asbestos PI Trust for public sale in certain circumstances, will provide for rights of others to participate in certain sales of New Common Stock and Plan Notes by the Asbestos PI Trust, and will establish certain requirements for amendment of provisions of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws.

*7.7 Distributions under the Plan.* Whenever any Distribution to be made under this Plan shall be due on a day other than a Business Day, such Distribution shall instead be made, without interest, on the immediately succeeding Business Day, but shall be deemed to have been made on the date due.

*7.8 Timing of Distributions under the Plan.* Any Distribution to be made by AWI or Reorganized AWI pursuant to the Plan shall be deemed to have been timely made if made within ten (10) days after the time therefore specified in the Plan. No interest shall accrue or be paid with respect to any Distribution as a consequence of such Distribution not having been made on the Effective Date; *provided, however*, that any Plan Notes distributed from the Disputed Unsecured Claims Reserve after the Initial Distribution Date shall include accrued interest and any other accretions thereon (net of the portion of the expenses of the Disputed Unsecured Claims Reserve (including, without limitation, taxes) attributable to such Plan Notes) from and after the Initial Distribution Date in accordance with the terms of the Plan Note Indentures, and New Common Stock issued to holders of Allowed Claims in Classes 6 and 8 after the Effective Date shall include all dividends declared and paid and other distributions made in respect thereto after the Effective Date.

*(a) Distributions with Respect to Unsecured Claims and Environmental Claims.* Distributions with respect to Classes 6 and 8 shall only be made on each Distribution Date; *provided, however*, that, if a Claim in any of Classes 6 or 8 becomes Allowed subsequent to the Initial Distribution Date, AWI may, in its sole discretion, make a Distribution with respect to such Claim prior to a Distribution Date. For purposes of treatment and Distribution under the Plan, except as provided with respect to treatment of Claims in the voting procedures approved by the Voting Procedures Order, all Unsecured Claims held by a Creditor shall be aggregated and treated as a single Claim. At the written request of AWI or the Disbursing Agent, any Creditor holding multiple Unsecured Claims shall provide to AWI or the Disbursing Agent, as the case may be, a single address to which any Distributions shall be sent. At the written request of any Creditor holding multiple Unsecured Claims made to the Disbursing Agent within thirty (30) days prior to a Distribution Date, such Creditor shall receive an itemized statement of the Unsecured Claims for which the Distribution is being made.

(b) *Distribution to the Asbestos PI Trust.* The Distribution to the Asbestos PI Trust shall be made on the later of (a) the date the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement and (b) the Effective Date; *provided, however*, that if AWI intends to complete the 144A Offering, then the Distribution of the 144A Offering Proceeds and/or Plan Notes to the Asbestos PI Trust shall occur as soon as practicable after the 144A Offering is completed or Reorganized AWI determines not to complete a 144A Offering, but in no event shall such Distribution occur after the Initial Distribution Date.

7.9 *Disbursing Agent.* All distributions under the Plan shall be made by Reorganized AWI as Disbursing Agent or such other entity designated by Reorganized AWI as a Disbursing Agent. The Disbursing Agent shall not be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court, and, in the event that a Disbursing Agent is so otherwise ordered, all costs and expenses of procuring any such bond or surety shall be borne by Reorganized AWI. Distributions on account of Debt Security Claims shall be made to the Indenture Trustee under the applicable Indenture for subsequent distribution to the holders of the Debt Security Claims, and upon such Distribution to the Indenture Trustees, AWI and Reorganized AWI shall have no further obligations with respect thereto.

7.10 *Record Date.* Except as and to the extent otherwise required by customary procedures of the DTC with respect to Debt Security Claims, as of the close of business on the Record Date, the various transfer and claims registers for each of the classes of Claims as maintained by AWI, its respective agents, or the Indenture Trustees shall be deemed closed, and there shall be no further changes in the record holders of any of the Claims. AWI and Reorganized AWI shall have no obligation to recognize any transfer of the Claims occurring after the close of business on the Record Date. AWI, Reorganized AWI, the Disbursing Agent, and the Indenture Trustees shall be entitled to recognize and deal hereunder only with those record holders stated on the transfer ledgers as of the close of business on the Record Date, to the extent applicable.

7.11 *Distributions to Holders of Debt Security Claims Administered by the Indenture Trustees .*

(a) Distributions to holders of Debt Security Claims administered by the Indenture Trustees will be made on each Distribution Date by means of book-entry exchange through the facilities of the DTC in accordance with the customary practices of the DTC, as and to the extent practicable. In connection with such book-entry exchange, each Indenture Trustee will deliver instructions to the DTC directing the DTC to effect distributions on a *pro rata* basis of the elements of Reorganization Consideration as provided under the Plan with respect to the Debt Security Claims upon which such Indenture Trustee acts as trustee.

(b) The Indenture Trustees providing services related to Distributions pursuant to the Plan will receive from Reorganized AWI reasonable compensation for such services and reimbursement of reasonable out-of-pocket expenses incurred in connection with such services in an amount pursuant to the procedures set forth in section 7.19 herein.

7.12 *Manner of Payment under the Plan.* Unless the Entity receiving a payment agrees otherwise, any payment in cash to be made by AWI or Reorganized AWI shall be made, at the election of AWI or Reorganized AWI (as the case may be), by check drawn on a domestic bank or by wire transfer from a domestic bank.

7.13 *Hart-Scott-Rodino Compliance.* Any shares of New Common Stock to be distributed under the Plan to any Entity required to file a Premerger Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, shall not be distributed until the notification and waiting periods applicable under such Act to such Entity shall have expired or been terminated.

7.14 *Fractional Shares or Other Distributions.* Notwithstanding anything to the contrary contained herein, no fractional shares of New Common Stock shall be distributed, no Plan Notes will be issued in an amount less than \$1,000, and no cash payments of fractions of cents will be made. Fractional cents shall be rounded to the nearest whole cent (with .5 cent or less to be rounded down). Fractional shares shall be rounded to the nearest whole share (with .5 share or less to be rounded down). Plan Notes in denominations of less than \$1,000 shall be rounded to the nearest \$1,000 increment (with Plan Notes in denominations of \$500 or less to be rounded down). No cash will be paid in lieu of such fractional shares or Plan Notes in increments of less than \$1,000.

7.15 *Occurrence of the Confirmation Date.* The following shall constitute conditions to confirmation of the Plan:

(a) The Bankruptcy Court makes the following findings, each of which shall be contained in the Confirmation Order:

(i) With respect to any Asbestos Personal Injury Claim that is Allowed by the Asbestos PI Trust in accordance with the Asbestos PI Trust Agreement and the Asbestos PI Trust Distribution Procedures, such allowance shall establish the amount of legal liability against the Asbestos PI Trust in the amount of the liquidated value of such Claim, as determined in accordance with the Asbestos PI Trust Distribution Procedures.

(ii) The Asbestos PI Permanent Channeling Injunction is to be implemented in connection with the Plan and the Asbestos PI Trust.

(iii) The Plan and its Exhibits are a fair, equitable, and reasonable resolution of the liabilities of AWI for Asbestos Personal Injury Claims.

(iv) The Plan complies with section 524(g) of the Bankruptcy Code.

(v) In light of the benefits provided, or to be provided, to the Asbestos PI Trust on behalf of each PI Protected Party, the Asbestos PI Permanent Channeling Injunction is fair and equitable with respect to the persons that might subsequently assert Asbestos Personal Injury Claims against any PI Protected Party.

(vi) At the time of the order for relief with respect to AWI, AWI had been named as a defendant in personal injury, wrongful death, and property damage actions seeking recovery for damages allegedly caused by the presence of, or exposure to, asbestos or asbestos-containing products.

(vii) The Asbestos PI Trust, as of the Effective Date, will assume the liabilities of AWI with respect to all Asbestos Personal Injury Claims and, upon such assumption, Reorganized AWI shall have no liability for any Asbestos Personal Injury Claim.

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(viii) The Asbestos PI Trust is to be funded in whole or in part by securities of Reorganized AWI and by the obligation of Reorganized AWI to make future payments, including dividends.

(ix) The Asbestos PI Trust is to own, or by the exercise of rights granted under the Plan would be entitled to own if specified contingencies occur, a majority of the voting shares of AWI.

(x) AWI is likely to be subject to substantial future Demands for payment arising out of the same or similar conduct or events that gave rise to the Claims that are addressed by the Asbestos PI Permanent Channeling Injunction.

(xi) The actual amounts, numbers, and timing of the future Demands referenced in section 7.15(a)(x) of the Plan cannot be determined.

(xii) Pursuit of the Demands referenced in section 7.15(a)(x) of the Plan outside the procedures prescribed by the Plan is likely to threaten the Plan's purpose to deal equitably with Claims and future Demands.

(xiii) The terms of the Asbestos PI Permanent Channeling Injunction, including any provisions barring actions against third parties pursuant to section 524(g)(4)(A) of the Bankruptcy Code, are set out in the Plan and in any disclosure statement supporting the Plan.

(xiv) The Plan establishes, in Class 7 (Asbestos Personal Injury Claims), a separate class of the claimants whose Claims are to be addressed by the Asbestos PI Trust.

(xv) The Future Claimants' Representative was appointed as part of the proceedings leading to issuance of the Asbestos PI Permanent Channeling Injunction for the purpose of protecting the rights of persons that might subsequently assert unknown Asbestos Personal Injury Claims and Demands that are addressed in the Asbestos PI Permanent Channeling Injunction and transferred to the Asbestos PI Trust. The Future Claimants' Representative has fulfilled his duties, responsibilities, and obligations as the future representative in accordance with section 524(g) of the Bankruptcy Code.

(xvi) Identifying each PI Protected Party in the Asbestos PI Permanent Channeling Injunction is fair and equitable with respect to persons that might subsequently assert Demands against each such PI Protected Party, in light of the benefits provided, or to be provided, to the Asbestos PI Trust by or on behalf of any such PI Protected Party.

(xvii) Class 7 (Asbestos Personal Injury Claims) has voted, by at least 75 percent (75%) of those voting, in favor of the Plan.

(xviii) Pursuant to court orders or otherwise, the Asbestos PI Trust will operate through mechanisms such as structured, periodic, or supplemental payments, pro rata distributions, matrices, or periodic review of estimates of the

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numbers and values of Asbestos Personal Injury Claims and Demands, or other comparable mechanisms, that provide reasonable assurance that the Asbestos PI Trust will value, and be in a financial position to pay, Asbestos Personal Injury Claims and Demands that involve similar Claims in substantially the same manner.

(xix) If Class 6 votes to reject the Plan, the transfer of the New Warrants to the holder of the Equity Interests will not be subject to prior registration under the Securities Act of 1933, as amended.

(b) Class 7 (Asbestos Personal Injury Claims) has voted, by at least 75 percent (75%) of those voting, in favor of the Plan.

(c) The Confirmation Order shall be, in form and substance, acceptable to the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

The Plan shall not be confirmed and the Confirmation Order shall not be entered until and unless each of the foregoing conditions to confirmation is either satisfied or waived in writing by each of AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and the Unsecured Creditors' Committee.

7.16 *Occurrence of the Effective Date.* The "effective date of the plan," as used in section 1129 of the Bankruptcy Code, shall not occur, and the Plan shall be of no force and effect, until the Effective Date. The occurrence of the Effective Date is subject to satisfaction of the following conditions precedent:

(a) The Confirmation Order has become a Final Order.

(b) The Bankruptcy Court and/or the District Court, as required, shall have entered the Asbestos PI Permanent Channeling Injunction (which may be included in the Confirmation Order), which shall contain terms satisfactory to AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

(c) The Confirmation Order, the Claims Trading Injunction and the Asbestos PI Permanent Channeling Injunction shall be in full force and effect.

(d) No proceedings to estimate any Claims shall be pending.

(e) All Asbestos PI Trustees shall have been selected and shall have executed the Asbestos PI Trust Agreement.

(f) A favorable ruling shall have been obtained from the IRS with respect to the qualification of the Asbestos PI Trust as a "qualified settlement fund" within the meaning of Treasury Regulation section 1.468B-1, or AWI shall have received an opinion of counsel with respect to the tax status of the Asbestos PI Trust as a "qualified settlement fund" reasonably satisfactory to AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

(g) Reorganized AWI shall have entered into and shall have credit availability under a credit facility to provide Reorganized AWI with working capital (including letters of credit) in an amount sufficient to meet the needs of Reorganized AWI, as determined by Reorganized AWI.

(h) Each of the Exhibits shall be in form and substance acceptable to AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and the Unsecured Creditors' Committee.

Notwithstanding the foregoing, AWI reserves, in its sole discretion, the right, with the written consent of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee, to waive the occurrence of any of the foregoing conditions precedent to the Effective Date or to modify any of such conditions precedent. Any such written waiver of a condition precedent set forth in this section may be effected at any time, without notice, without leave or order of the Bankruptcy Court or the District Court, and without any formal action other than proceeding to consummate the Plan. Any actions required to be taken on the Effective Date shall take place and shall be deemed to have occurred simultaneously, and no such action shall be deemed to have occurred prior to the taking of any other such action. If AWI decides that one of the foregoing conditions cannot be satisfied, and the occurrence of such condition is not waived in writing by each of AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if required, the Unsecured Creditors' Committee, then AWI shall file a notice of the failure of the Effective Date with the Bankruptcy Court, at which time the Plan and the Confirmation Order shall be deemed null and void.

#### *7.17 Cancellation of Existing Debt Securities.*

(a) As of the Effective Date, all notes, agreements, and securities evidencing Unsecured Claims and the rights of the holders thereof thereunder shall be cancelled and deemed null and void and of no further force and effect, and the holders thereof shall have no rights, and such instruments shall evidence no rights, except the right to receive the Distributions provided herein.

(b) Notwithstanding any other provisions in the Plan, each Indenture or other agreement that governs the rights of a holder of a Debt Security Claim that is administered by an Indenture Trustee shall continue in effect solely for the purposes of permitting the applicable Indenture Trustee thereunder (i) to make distributions to such holder pursuant to the terms of the applicable Indenture; (ii) maintain any rights and liens it may have for any unpaid fees, costs, expenses, and indemnification under such Indenture or other agreement, *provided, however*, such rights and liens are limited to the Distributions, if any, to such holders; and (iii) to be paid by such holders or reimbursed for such prepetition and postpetition fees, costs, expenses, and indemnification (to the extent not paid as an Administrative Expense or otherwise) from the Distributions, if any, to such holders (until payment in full of such fees, costs, expenses or indemnification) on the terms and conditions set forth by the respective Indenture, other agreement, or applicable law.

*7.18 Expiration of the Retention Period.* Upon the expiration of the Retention Period, all monies or other property held for distribution by any trustee under any indenture governing any of the Unsecured Claims shall be returned to Reorganized AWI by such trustee, free and clear of any claim or interest of any nature whatsoever, including, without express or implied limitation, escheat rights of any governmental unit under applicable law.

*7.19 Compensation of the Applicable Indenture Trustees.* Reorganized AWI will pay the Indenture Trustees' Fees and Expenses to the extent that an Indenture Trustee makes a written request for Indenture Trustees' Fees and Expenses within thirty (30) days after the Effective Date. Although it will not be necessary for the Indenture Trustees to apply to the Bankruptcy Court for approval of the Indenture Trustees' Fees and Expenses, any dispute between Reorganized AWI and an Indenture Trustee regarding the reasonableness of any such fees and expenses shall be resolved by the Bankruptcy Court. Each Indenture Trustee shall be compensated by Reorganized AWI for services rendered from and after the Effective Date, including the reasonable compensation, disbursements, and expenses of the agents and legal counsel of such trustee in connection with the performance after the Effective Date of its duties under this section, and shall be indemnified by Reorganized AWI for any loss, liability, or expense incurred by it in connection with the performance of such duties to the same extent and in the same manner as provided in the related indenture.

*7.20 Distribution of Unclaimed Property.* Any Distribution under the Plan that is unclaimed after one hundred eighty (180) days following the date such property is distributed shall be deemed not to have been made and shall be transferred to Reorganized AWI, free and clear of any claims or interests of any Entities, including, without express or implied limitation, any claims or interests of any governmental unit under escheat principles. Nothing contained herein shall affect the discharge of the Claim with respect to which such Distribution was made, and the holder of such Claim shall be forever barred from enforcing such Claim against Reorganized AWI or Reorganized AWI's assets, estate, properties, or interests in property.

*7.21 Management of Reorganized AWI.* On the Effective Date, the Board of Directors shall consist of at least three individuals who at that time qualify under the prevailing standards of the New York Stock Exchange or the NASDAQ Stock Market (depending upon on which of such markets the common stock of Reorganized AWI will be listed for trading purposes upon the Effective Date) and applicable laws as independent, outside directors, and are eligible to serve on the audit committee of the Board of Directors, as an SEC-reporting public company, and at least three individuals who qualify as outside directors under section 162(m) of the Internal Revenue Code eligible to serve on the committee of the Board of Directors of Reorganized AWI responsible for matters of executive compensation. Each of the members of such Board of Directors shall be identified on Exhibit 7.21 to the Plan and shall serve in accordance with the Amended and Restated Articles of Incorporation, the Amended and Restated By-Laws, and the Stockholder and Registration Rights Agreement. The officers of AWI immediately prior to the Effective Date shall serve as the officers of Reorganized AWI in accordance with the terms of any employment agreements pursuant to section 8.8 of the Plan and the requirements of applicable nonbankruptcy law.

*7.22 Listing of Reorganized AWI Common Stock.* Reorganized AWI shall use its best efforts to obtain, as of or as soon as practicable after the Effective Date, the listing of its common stock for trading on the New York Stock Exchange or for quotation in the NASDAQ Stock Market and, for so long as there are at least 300 holders of shares of its common stock, to continue the listing of its common stock for trading on either of such markets.

*7.23 Corporate Reorganization Actions.* On or as soon as practicable after the Effective Date, Reorganized AWI shall take such actions as may be or become necessary to effectuate the following, all of which shall be authorized and approved in all respects, in each case without further action being required under applicable law, regulation, order, or rule (including, without limitation, any action by the shareholders or directors of AWI or Reorganized AWI or the Asbestos PI Trust or the Asbestos PI Trustees):

(a) AWI will file the Amended and Restated Articles of Incorporation with the Secretary of State for the Commonwealth of Pennsylvania.

(b) Certain wholly owned, non-operating subsidiaries of AWI will merge with and into AWI on or as soon as practicable after the Effective Date.

(c) The Existing AWI Common Stock will be cancelled.

(d) Subject to section 7.3 hereof, the Plan Note Indentures will become effective and, upon such effectiveness, the Plan Notes will be issued and delivered in accordance with sections 3.2(f) and 11.8 hereof and sections 3.2(g) and 10.1(b) hereof; the New Common Stock will be issued and delivered in accordance with sections 3.2(f) and 11.8 hereof and sections 3.2(g) and 10.1(b) hereof; and the New Warrants will be issued and delivered as provided in section 7.24 hereof (and, if applicable, in accordance with section 10.1(b) hereof), in each case such issuance and delivery to be subject to the other provisions of ARTICLE VII of the Plan regarding the conditions to and manner of delivery of Plan Notes, New Common Stock and New Warrants.

(e) Reorganized AWI may consummate the 144A Offering.

(f) Reorganized AWI will enter into the working capital facility referenced in section 7.16 of the Plan.

(g) Reorganized AWI will enter into the New Long-Term Incentive Plan.

*7.24 Holdings Transactions.* On or as soon as is practicable after the Effective Date and, if applicable, in accordance with section 10.1(b) hereof, the New Warrants will be issued to the holder of the Equity Interests, which will be Holdings if the Holdings Plan of Liquidation has been approved on or before such date. From and after the Effective Date, other than as provided in the Plan (including, without limitation, provisions of the Plan relating to the indemnification rights of Holdings' officers, directors, and employees and the requirement to provide insurance for the benefit of such persons), Reorganized AWI shall have no ongoing obligations to Holdings or AWWD; *provided, however*, that Reorganized AWI shall bear (i) all costs and expenses related to the preparation and submission to a vote of Holdings' shareholders of the Holdings Plan of Liquidation, which shall be undertaken as soon as reasonably practicable, and (ii) all other operating expenses of Holdings and AWWD until the time of such vote (and for a reasonable time thereafter to permit an orderly transition on the administration of Holdings' affairs), and (iii) if the requisite approval of the Holdings Plan of Liquidation is obtained, all costs and expenses of administering the performance and consummation of the Holdings Plan of Liquidation, including any taxes incurred by Holdings in connection therewith.

*7.25 Compliance with QSF Regulations.*

(a) *Tax Status of Asbestos PI Trust.* AWI shall timely seek a private letter ruling from the IRS substantially to the effect that, among other things, the Asbestos PI Trust shall be a "qualified settlement fund" within the meaning of section 468B of the Internal Revenue Code and the Treasury Regulations thereunder.

(b) *Qualified Appraisal.* Within sixty (60) days before or after the funding of the Asbestos PI Trust (but not later than February 14<sup>th</sup> of the following calendar year), AWI or Reorganized AWI shall obtain a Qualified Appraisal of the fair market value of the New Common Stock transferred (or to be transferred) to the Asbestos PI Trust.

(c) *Delivery of Statement of Transfers.* Following the funding of the Asbestos PI Trust and the receipt of the Qualified Appraisal (and in no event later than February 15<sup>th</sup> of the calendar year following the funding of the Asbestos PI Trust), Reorganized AWI shall provide a “§ 1.468B-3 Statement” to the Asbestos PI Trustees in accordance with Treasury Regulations section 1.468B-3(e).

7.26 *Effectuating Documents and Further Transactions.* Each of the officers of AWI and Reorganized AWI is authorized, in accordance with his or her authority under the resolutions of the Board of Directors, to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan and any notes or securities issued pursuant to the Plan.

7.27 *Allocation of Plan Distributions Between Principal and Interest.* To the extent that any Allowed Unsecured Claim or Allowed Convenience Claim entitled to a Distribution under the Plan is comprised of indebtedness and accrued but unpaid interest thereon, such Distribution shall be allocated to the principal amount of the Claim (as determined for federal income tax purposes) first and then, to the extent the consideration exceeds the principal amount of the Claim, to accrued but unpaid interest.

## ARTICLE VIII

### EXECUTORY CONTRACTS AND UNEXPIRED LEASES

8.1 *Assumption of Executory Contracts and Unexpired Leases.* Any executory contracts or unexpired leases listed on Exhibit 8.1 to the Plan shall be deemed to have been assumed by Reorganized AWI as of the Effective Date, and the Plan shall constitute a motion to assume such executory contracts and unexpired leases. Subject to the occurrence of the Effective Date, entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumptions pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such assumption is in the best interest of AWI, its estate, and all parties in interest in the Chapter 11 Case. With respect to each such executory contract or unexpired lease assumed by Reorganized AWI, unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, the dollar amount required to cure any defaults of AWI existing as of the Confirmation Date shall be conclusively presumed to be the amount set forth in Exhibit 8.1 with respect to such executory contract or unexpired lease. Subject to the occurrence of the Effective Date, any such cure amount shall be treated as an Allowed Administrative Expense under the Plan, and, upon payment of such Allowed Administrative Expense, all defaults of AWI existing as of the Confirmation Date with respect to such executory contract or unexpired lease shall be deemed cured.

8.2 *Rejection of Executory Contracts and Unexpired Leases.* Any executory contracts or unexpired leases of AWI that either (x) are set forth on Exhibit 8.2 to the Plan or (y)(i) are not listed on Exhibit 8.1 to the Plan, (ii) have not been assumed by AWI with the approval of the Bankruptcy Court, and (iii) are not the subject of pending motions to assume at the Confirmation Date shall

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be deemed to have been rejected by AWI, the Plan shall constitute a motion to reject such executory contracts and unexpired leases, and Reorganized AWI shall have no liability thereunder except as is specifically provided in the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such rejections pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such rejected executory contract or unexpired lease is burdensome and that the rejection thereof is in the best interest of AWI, its estate, and all parties in interest in the Chapter 11 Case. Without limiting the foregoing, any agreement entered into prior to the Commencement Date by or on behalf of AWI with respect to the settlement of any Asbestos Personal Injury Claim shall be deemed rejected as of the Effective Date to the extent such settlement agreement is deemed to be an executory contract within the meaning of section 365(a) of the Bankruptcy Code.

8.3 *Claims Arising from Rejection, Termination or Expiration.* Claims created by the rejection of executory contracts or unexpired leases (including, without limitation, the rejection provided in section 8.2 of the Plan) or the expiration or termination of any executory contract or unexpired lease prior to the Confirmation Date, other than Asbestos Personal Injury Claims, must be filed with the Bankruptcy Court and served on AWI no later than thirty (30) days after (i) in the case of an executory contract or unexpired lease that was terminated or expired by its terms prior to the Confirmation Date, the Confirmation Date, (ii) in the case of an executory contract or unexpired lease rejected by AWI, the entry of the order of the Bankruptcy Court authorizing such rejection, or (iii) in the case of an executory contract or unexpired lease that is deemed rejected pursuant to section 8.2 of the Plan, the Confirmation Date. Notwithstanding the foregoing, Exhibit 8.2 to the Plan sets forth AWI's value of the rejection claim for each executory contract or unexpired lease set forth thereon, which claim shall be deemed an Allowed Unsecured Claim if no proof of claim is timely filed and served in accordance with the immediately preceding sentence. Any Claims for which a rejection claim is not set forth on Exhibit 8.2 to the Plan and for which a proof of claim is not filed and served within the time provided herein will be forever barred from assertion and shall not be enforceable against AWI, its estate, assets, properties, or interests in property, or Reorganized AWI or its estate, assets, properties, or interests in property. Unless otherwise ordered by the Bankruptcy Court, all such Claims (other than Asbestos Personal Injury Claims) that are timely filed as provided herein shall be treated as Unsecured Claims under the Plan and shall be subject to the provisions of Article V of the Plan.

8.4 *Previously Scheduled Contracts.* Exhibit 8.4 to the Plan sets forth a list of agreements that were listed on the Schedules as executory contracts, but which AWI believes should not be considered executory contracts (either because they were not executory contracts as of the Commencement Date or because they have expired or terminated in accordance with their terms prior to the Effective Date). If any such agreements are determined to be executory contracts, AWI or Reorganized AWI, as the case may be, reserves the right to seek the assumption or rejection of any such contract, and the time within which AWI or Reorganized AWI, as the case may be, may seek to assume or reject any such agreements shall be tolled until twenty (20) Business Days after the date on which an order determining that any such agreement is an executory contract becomes a Final Order. Set forth on Exhibit 8.4 to the Plan is the amount that AWI intends to treat as an Allowed Unsecured Claim for each such agreement. Such amount and the treatment of each such agreement shall be binding unless, on or before ten (10) days after the Confirmation Date, the other party to any such agreement either (i) files a proof of claim (which proof of claim shall be deemed timely filed) or (ii) files a motion seeking to compel assumption or rejection of such agreement.

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### 8.5 Insurance Policies and Agreements.

(a) *Assumed Insurance Policies and Agreements.* AWI does not believe that the insurance policies issued to, or insurance agreements entered into by, AWI prior to the Commencement Date constitute executory contracts. To the extent that such insurance policies or agreements are considered to be executory contracts, then, notwithstanding anything contained in sections 8.1 or 8.2 of the Plan to the contrary, the Plan shall constitute a motion to assume such insurance policies and agreements, and, subject to the occurrence of the Effective Date, the entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumption pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such assumption is in the best interest of AWI, its estate, and all parties in interest in the Chapter 11 Case. Unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, no payments are required to cure any defaults of AWI existing as of the Confirmation Date with respect to each such insurance policy or agreement. In accordance with section 10.1 hereof, the rights under the insurance policies and agreements constituting the Asbestos PI Insurance Asset shall, to the extent necessary, be deemed assigned to the Asbestos PI Trust as of the Effective Date and, pursuant to section 365 of the Bankruptcy Code, AWI shall have no further liability thereunder from and after the Effective Date.

(b) *Reservation of Rights.* Nothing contained in the Plan, including this section 8.5, shall constitute a waiver of any claim, right, or cause of action that AWI, the Asbestos PI Trust, or Reorganized AWI, as the case may be, may hold against the insurer under any policy of insurance or insurance agreement.

8.6 *Indemnification and Reimbursement Obligations.* For purposes of the Plan, the obligations of AWI to indemnify and reimburse persons who are or were directors, officers, or employees of Holdings, AWWD, or AWI on the Commencement Date or at any time thereafter against and for any obligations (including, without limitation, fees and expenses incurred by the board of directors of Holdings, or the members thereof, in connection with the Chapter 11 Case) pursuant to articles of incorporation, codes of regulations, bylaws, applicable state law, or specific agreement, or any combination of the foregoing, shall survive confirmation of the Plan, remain unaffected thereby, and not be discharged in accordance with section 1141 of the Bankruptcy Code, irrespective of whether indemnification or reimbursement is owed in connection with an event occurring before, on, or after the Commencement Date. In furtherance of the foregoing, Reorganized AWI shall maintain insurance for the benefit of such directors, officers, or employees at levels no less favorable than those existing as of the date of entry of the Confirmation Order for a period of no less than four years following the Effective Date.

8.7 *Compensation and Benefit Programs.* (a) Except as set forth below in sections 8.7(b) and 8.7(c) of the Plan, all employment and severance policies, workers' compensation programs, and all compensation and benefit plans, policies and programs of AWI applicable to its present and former employees, officers, and directors, including, without express or implied limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit plans, incentive plans, and life, accidental death, and dismemberment insurance plans, shall be deemed to be, and shall be treated as though they are, executory contracts that are deemed assumed under the Plan, and AWI's obligations under such plans, policies, and programs shall be deemed assumed pursuant to section 365(a) of the Bankruptcy Code, survive confirmation of the Plan, remain unaffected thereby, and not be discharged in accordance with section 1141 of the Bankruptcy Code. Any defaults existing under any of such plans, policies, and programs shall be cured promptly after they become known by Reorganized AWI.

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(b) Notwithstanding section 8.7(a) of the Plan, on the Effective Date (unless an earlier date is specified herein),

(i) the Employment Protection Plan for Salaried Employees will be deemed to have been terminated, cancelled, and of no further force and effect prior to the Effective Date, and the participants thereunder shall have no further rights thereunder;

(ii) the 1993 Long-Term Stock Incentive Plan will be deemed terminated, cancelled, and of no further force and effect, and the participants thereunder shall have no further rights thereunder; *provided* that any and all remaining restrictions on restricted stock awards under the 1993 Long-Term Stock Incentive Plan will lapse on the Effective Date to the extent participants do not elect to waive their right to such awards prior to such date;

(iii) the 1999 Long-Term Incentive Plan will be deemed terminated, cancelled, and of no further force and effect, and the participants thereunder shall have no further rights thereunder; *provided* that any and all remaining restrictions on restricted stock awards under the 1999 Long-Term Incentive Plan will lapse on the Effective Date to the extent participants do not elect to waive their right to such awards prior to such date; and

(iv) the Armstrong Holdings Stock Award Plan will be deemed terminated, cancelled, and of no further force and effect, and the participants thereunder shall have no further rights thereunder; *provided* that any and all remaining restrictions on restricted stock awards under the Armstrong Holdings Stock Award Plan will lapse on the Effective Date to the extent participants do not elect to waive their right to such awards prior to such date.

(c) Notwithstanding section 8.7(a) of the Plan, on the Effective Date (unless an earlier date is specified herein),

(i) the Armstrong Deferred Compensation Plan will be modified so that Reorganized AWI, and not Holdings, will be the sponsor of such plan and to provide that Reorganized AWI has the right, in its sole discretion, not to honor single-sum withdrawal requests, and the Armstrong Deferred Compensation Plan will be assumed, as amended; *provided, however*, as to any party that objects to such amendment by the deadline for filing objections to confirmation of the Plan, the Armstrong Deferred Compensation Plan will be deemed rejected, and such party will have an Unsecured Claim for any benefits thereunder in accordance with section 8.3 of the Plan, and, as of any date immediately prior to the Effective Date designated by Holdings, the Armstrong Deferred Compensation Plan will be deemed amended to exclude the occurrence of the Effective Date, the creation of the Asbestos PI Trust, and the issuance of the New Common Stock to the Asbestos PI Trust from triggering a change in control thereunder;

(ii) the Severance Pay Plan for Salaried Employees will be amended as of the Effective Date as follows: If the participant is in a position at a grade level of 15 or higher on Reorganized AWI's organizational management system on the date of termination, the participant will be eligible for severance benefits based on two weeks of pay for each year of service, subject to a minimum of 8 weeks pay and a maximum of 52 weeks pay, and the Severance Pay Plan for Salaried Employees will be assumed, as amended;

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(iii) the Retirement Income Plan (Pension) will be amended prior to the Effective Date in the manner described below and, as amended, will be assumed as of the Effective Date:

1. to eliminate the Social Security retirement enhancement that may become payable due to job loss following a Change in Control (as defined in the Retirement Income Plan (Pension)), and
2. to eliminate future accruals of all other retirement enhancements that may become payable due to job loss following a Change in Control to the fullest extent permitted by applicable law; and

(iv) the Retirement Benefit Equity Plan will be amended as of any date prior to the Effective Date designated by AWI in the manner described below and, as amended, will be assumed as of the Effective Date:

1. to exclude in the definition of Change in Control (as defined in the Retirement Benefit Equity Plan) the occurrence of the Effective Date, the creation of the Asbestos PI Trust, and the issuance of the New Common Stock to the Asbestos PI Trust,
2. to eliminate the Extraordinary Event provisions as covered under the Retirement Income Plan,
3. to eliminate any and all retirement enhancements, related to past and future service, that may become payable due to job loss following a Change in Control as covered under the Retirement Income Plan, and
4. to terminate any right or obligation of Reorganized AWI to honor single-sum withdrawal requests;

*provided*, however, as to any party that objects to such amendments by the deadline for filing objections to confirmation of the Plan, such plan will be deemed rejected, and such party will have an Unsecured Claim for any benefits thereunder in accordance with section 8.3 of the Plan.

(d) On the Effective Date, the assumption, rejection, and amendment of the foregoing plans provided in this section 8.7 shall be deemed to have occurred as of such date or earlier date specified in such section, shall be authorized, and shall be deemed approved in all respects, and shall be in effect from and after the Effective Date or such other date in each case without requiring further action under applicable law, regulation, order, or rule, including, without express or implied limitation, any action by any party or Entity, including any administrative committee of any plan or the stockholders or directors of AWI or Reorganized AWI. On the Effective Date or as soon thereafter as is practicable, Reorganized AWI shall restate the plans amended above as provided in section 8.7(c) and shall communicate such amendments in such manner and as may be required without any further order of the

Bankruptcy Court. Each of the officers of AWI and Reorganized AWI is authorized, in accordance with his or her authority under the resolutions of the Board of Directors, to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the plan amendments set forth in this section of the Plan.

8.8 *Management Agreements*. On the Effective Date, all employment contracts between AWI and any employee of AWI who was employed by AWI as of the date immediately preceding the Effective Date (including, without limitation, any offer letters issued to any such employees to the extent such offer letters are not superseded by formal employment contracts) shall be deemed assumed by Reorganized AWI. In addition, Reorganized AWI shall enter into new employment contracts with those persons listed on Exhibit 8.8-A substantially in the form of Exhibit 8.8-B to the Plan, which employment contracts shall be deemed authorized without any further approval of the Board of Directors of AWI or Reorganized AWI and automatically shall become effective on the Effective Date.

## **ARTICLE IX**

### **RETENTION OF JURISDICTION**

Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, the Bankruptcy Court shall retain and shall have exclusive jurisdiction over any matter (a) arising under the Bankruptcy Code, (b) arising in or related to the Chapter 11 Case or the Plan, or (c) to perform any of the following actions:

9.1 To interpret, enforce, and administer the terms of the Asbestos PI Trust Agreement (including all annexes and exhibits thereto), and the restrictions on transfer of Asbestos Personal Injury Claims contained in the Confirmation Order.

9.2 To hear and determine any and all motions or applications pending on the Confirmation Date (or thereafter if a contract listed on Exhibit 8.4 of the Plan is thereafter determined to be executory, and AWI is required to assume or reject it) for the assumption and/or assignment or rejection of executory contracts or unexpired leases to which AWI is a party or with respect to which AWI may be liable, and to hear and determine any and all Claims resulting therefrom or from the expiration or termination prior to the Confirmation Date of any executory contract or unexpired lease;

9.3 To determine any and all adversary proceedings, applications, motions, and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the Plan, may be instituted by Reorganized AWI after the Effective Date, including, without express or implied limitation, any claims to avoid any preferences, fraudulent transfers, or other voidable transfers, or otherwise to recover assets for the benefit of AWI's estate;

9.4 To hear and determine any objections to the allowance of Claims arising prior to the Effective Date (other than Asbestos Personal Injury Claims), whether filed, asserted, or made before or after the Effective Date, including, without express or implied limitation, to hear and determine any objections to the classification of any Claim and to allow or disallow any Disputed Claim in whole or in part;

9.5 To issue such orders in aid of execution of the Plan to the extent authorized or contemplated by section 1142 of the Bankruptcy Code;

9.6 To consider any modifications of the Plan, remedy any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including, without express or implied limitation, the Confirmation Order;

9.7 To hear and determine all applications for allowances of compensation and reimbursement of expenses of professionals under sections 330 and 331 of the Bankruptcy Code and any other fees and expenses authorized to be paid or reimbursed under the Plan;

9.8 To hear and determine all controversies, suits, and disputes that may relate to, impact upon, or arise in connection with the Plan (and all Exhibits to the Plan) or its interpretation, implementation, enforcement, or consummation;

9.9 To the extent that Bankruptcy Court approval is required, to consider and act on the compromise and settlement of any Claim (other than an Asbestos Personal Injury Claim) or cause of action by or against AWI's estate;

9.10 To determine such other matters that may be set forth in the Plan, the Confirmation Order, the Claims Trading Injunction, or the Asbestos PI Permanent Channeling Injunction, or that may arise in connection with the Plan, the Confirmation Order, the Claims Trading Injunction, or the Asbestos PI Permanent Channeling Injunction;

9.11 To hear and determine any proceeding that involves the validity, application, construction, enforceability, or modification of the Claims Trading Injunction or the Asbestos PI Permanent Channeling Injunction or of the application of section 524(g) of the Bankruptcy Code to the Asbestos PI Permanent Channeling Injunction;

9.12 To hear and determine matters concerning state, local, and federal taxes, fines, penalties, or additions to taxes for which AWI, as Debtor or Debtor in Possession, or the Disputed Unsecured Claims Reserve may be liable, directly or indirectly, in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including any request for expedited determination under section 505(b) of the Bankruptcy Code);

9.13 To enter an order or final decree closing the Chapter 11 Case; and

9.14 To hear and determine all objections to the termination of the Asbestos PI Trust.

To the extent that the Bankruptcy Court is not permitted under applicable law to preside over any of the foregoing matters, the reference to the "Bankruptcy Court" in this ARTICLE IX shall be deemed to be replaced by the "District Court." Notwithstanding anything in this ARTICLE IX to the contrary, (i) the allowance of Asbestos Personal Injury Claims and the forum in which such allowance will be determined will be governed by and in accordance with the Asbestos PI Trust Distribution Procedures and the Asbestos PI Trust Agreement; and (ii) the Bankruptcy Court and/or the District Court shall have concurrent rather than exclusive jurisdiction with respect to (x) disputes relating to rights under insurance policies issued to AWI that are included in the Asbestos PI Insurance Asset, (y) disputes relating to AWI's claim for costs, expenses and fees incurred in connection with an Alternative Dispute Resolution Proceeding initiated in 1996, as referenced in section 1.20 of the Plan, and (z) disputes relating to AWI's rights to insurance with respect to workers' compensation claims.

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## ARTICLE X

### TRANSFERS OF PROPERTY TO AND ASSUMPTION OF CERTAIN LIABILITIES BY THE ASBESTOS PI TRUST

#### 10.1 *Transfer of Certain Property to the Asbestos PI Trust.*

(a) *Transfer of Books and Records.* On the Effective Date or as soon thereafter as is practicable, at the sole cost and expense of the Asbestos PI Trust and in accordance with written instructions provided to Reorganized AWI by the Asbestos PI Trust, Reorganized AWI shall transfer and assign, or cause to be transferred and assigned, to the Asbestos PI Trust the books and records of AWI that pertain directly to Asbestos Personal Injury Claims that have been asserted against AWI. AWI will request that the Bankruptcy Court, in the Confirmation Order, rule that such transfer does not result in the destruction or waiver of any applicable privileges pertaining to such books and records. If the Bankruptcy Court does not so rule, at the option of the Asbestos PI Trust, Reorganized AWI will, at the sole cost and expense of the Asbestos PI Trust, retain the books and records and enter into arrangements to permit the Asbestos PI Trust to have access to such books and records. If the Asbestos PI Trust does not issue written instructions for the transfer or retention of such books and records within one hundred eighty (180) days after the later of the Effective Date and the date by which all the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement, or if the Asbestos PI Trust so requests, Reorganized AWI may (and shall, if the Asbestos PI Trust so requests, but at the sole cost and expense of the Asbestos PI Trust) destroy any such books and records, and the order of the District Court entered during the Chapter 11 Case with respect to the retention of books and records shall be deemed superseded by this section of the Plan.

(b) *Transfer of Plan Consideration.* On the later of the Effective Date and the date by which all the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement, AWI shall transfer to the Asbestos PI Trust the Asbestos PI Insurance Asset and the following assets:

(i) 65.57% of the New Common Stock,

(ii) 65.57% of the first \$1.05 billion of (x) up to \$300 million of Available Cash and (y) principal amount of each series of Plan Notes and/or 144A Offering Proceeds,

(iii) 40% of the first \$50 million of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan,

(iv) 40% of an amount of each series of Plan Notes and/or 144A Offering Proceeds equal to the difference (if positive) of \$50 million less the amount of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan, and

(v) 65.57% of the remaining Available Cash and each series of Plan Notes and/or 144A Offering Proceeds after making provision for the Distribution provided in sections 3.2(f)(ii)2, 3.2(f)(ii)3, and 3.2(f)(ii)4 of the Plan and the funding of the Asbestos PI Trust in sections 10.1(b)(ii), 10.1(b)(iii), and 10.1(b)(iv) of the Plan.

Notwithstanding the foregoing, if (x) AWI intends to complete a 144A Offering and the 144A Offering has not been completed as of the time for the Distribution to the Asbestos PI Trust specified herein, then the Distribution of the Plan Notes and/or 144A Offering Proceeds to the Asbestos PI Trust shall be made as soon as practicable after the 144A Offering is completed or Reorganized AWI determines not to complete a 144A Offering, but in no event shall such Distribution occur after the Initial Distribution Date, and (y) if the Effective Date occurs on the first Business Day of a month, Distribution to the Asbestos PI Trust of its share of the Available Cash shall be made on a date selected by AWI that is within ten (10) Business Days after the Effective Date, but in no event shall such Distribution occur after the Initial Distribution Date. In addition, if Class 6 has voted to reject the Plan, the New Warrants shall be issued by Reorganized AWI on account of the Asbestos Personal Injury Claims; however, such claimants have waived on behalf of themselves and the Asbestos PI Trust any right to the New Warrants. The New Warrants shall be issued by Reorganized AWI to AWWD (or to Holdings as the successor to AWWD under the Holdings Plan of Liquidation), consistent with section 7.24 hereof (and shall never be issued or delivered to the Asbestos PI Trust), without any action being required of, or any direction by, the Asbestos PI Trust or the Asbestos PI Trustees in such regard.

10.2 *Assumption of Certain Liabilities by the Asbestos PI Trust.* In consideration for the property transferred to the Asbestos PI Trust pursuant to section 10.1 hereof and in furtherance of the purposes of the Asbestos PI Trust and the Plan, the Asbestos PI Trust shall assume all liability and responsibility for all Asbestos Personal Injury Claims, and Reorganized AWI shall have no further financial or other responsibility or liability therefor. The Asbestos PI Trust shall also assume all liability for premiums, deductibles, retrospective premium adjustments, security or collateral arrangements, or any other charges, costs, fees, or expenses (if any) that become due to any insurer in connection with the Asbestos PI Insurance Asset as a result of Asbestos Personal Injury Claims, asbestos-related personal injury claims against Entities insured under policies included in the Asbestos PI Insurance Asset by reason of vendor's endorsements, or under the indemnity provisions of settlement agreements that AWI made with various insurers prior to the Commencement Date to the extent that those indemnity provisions relate to Asbestos Personal Injury Claims, and Reorganized AWI shall have no further financial or other responsibility or liability for any of the foregoing.

10.3 *Cooperation with Respect to Insurance Matters.* Reorganized AWI shall cooperate with the Asbestos PI Trust and use commercially reasonable efforts to take or cause to be taken all appropriate actions and to do or cause to be done all things necessary or appropriate to effectuate the transfer of the Asbestos PI Insurance Asset to the Asbestos PI Trust. By way of enumeration and not of limitation, Reorganized AWI shall be obligated (i) to provide the Asbestos PI Trust with copies of insurance policies and settlement agreements included within or relating to the Asbestos PI Insurance Asset; (ii) to provide the Asbestos PI Trust with information necessary or helpful to the Asbestos PI Trust in connection with its efforts to obtain insurance coverage for Asbestos Personal Injury Claims; and (iii) to execute further assignments or allow the Asbestos PI Trust to pursue claims relating to the Asbestos PI Insurance Asset in its name (subject to appropriate disclosure of the fact that the Asbestos PI Trust is doing so and the reasons why it is doing so), including by means of arbitration, alternative dispute resolution proceedings or litigation, to the extent necessary or helpful to the efforts of the Asbestos PI Trust to obtain insurance coverage under the Asbestos PI Insurance Asset for Asbestos Personal Injury Claims. To the extent that the transfer of the Asbestos PI Insurance Asset to the Asbestos PI Trust is determined to be invalid by a court or arbitrator of competent jurisdiction, upon the request of the Asbestos PI Trust, Reorganized AWI shall (i) pursue any rights to the Asbestos PI Insurance Asset for the benefit of, and to the fullest extent required by, the

Asbestos PI Trust, and (ii) immediately transfer any amounts recovered under or on account of the Asbestos PI Insurance Asset to the Asbestos PI Trust. The Asbestos PI Trust shall be obligated to compensate Reorganized AWI for costs reasonably incurred in connection with providing assistance to the Asbestos PI Trust or in pursuing recovery for the benefit of the Asbestos PI Trust pursuant to this section 10.3, including, but not limited to, out-of-pocket costs and expenses, consultant fees, and attorneys' fees.

10.4 *Authority of AWI.* Effective on the Confirmation Date, AWI shall be empowered and authorized to take or cause to be taken, prior to the Effective Date, all actions necessary to enable it to implement effectively the provisions of the Plan and the Asbestos PI Trust Agreement.

## ARTICLE XI

### MISCELLANEOUS PROVISIONS

11.1 *Payment of Statutory Fees.* All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the hearing on confirmation of the Plan, shall be paid by AWI on or before the Effective Date.

11.2 *Discharge of AWI.* The rights afforded in the Plan and the treatment of all Claims and Equity Interests herein shall be in exchange for and in complete satisfaction, discharge, and release of all Claims and Equity Interests of any nature whatsoever, including any interest accrued thereon from and after the Commencement Date, against AWI, or its estate, assets, properties, or interests in property. Except as otherwise provided herein, on the Effective Date, all Claims against and Equity Interests in AWI shall be satisfied, discharged, and released in full. Reorganized AWI shall not be responsible for any obligations of AWI except those expressly assumed by Reorganized AWI in the Plan. All Entities shall be precluded and forever barred from asserting against AWI, Reorganized AWI, their successors or assigns, or their assets, properties, or interests in property any other or further Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not the facts of or legal bases therefor were known or existed prior to the Effective Date.

11.3 *Rights of Action.* Any rights, claims, or causes of action accruing to AWI pursuant to the Bankruptcy Code or pursuant to any statute or legal theory, including, without express or implied limitation, any avoidance or recovery actions under sections 544, 545, 547, 548, 549, 550, 551, and 553 of the Bankruptcy Code and (except as provided in Articles X and XI hereof) any rights to, claims or causes of action for recovery under any policies of insurance issued to or on behalf of AWI shall remain assets of AWI's estate and, on the Effective Date, shall be transferred to Reorganized AWI. Reorganized AWI shall be deemed the appointed representative to, and may, pursue, litigate, and compromise and settle any such rights, claims, or causes of action, as appropriate, in accordance with what is in the best interests of and for the benefit of Reorganized AWI.

11.4 *Third Party Agreements.* The Distributions to the various classes of Claims hereunder shall not affect the right of any Entity to levy, garnish, attach, or employ any other legal process with respect to such Distributions by reason of any claimed subordination rights or otherwise. All of such rights and any agreements relating thereto shall remain in full force and effect.

11.5 *Dissolution of Committees.* On the Effective Date, the Future Claimants' Representative, the Asbestos PI Claimants' Committee, the Asbestos PD Committee, and the Unsecured Creditors' Committee shall thereupon be released and discharged of and from all further authority, duties, responsibilities, and obligations relating to and arising from and in connection with the Chapter 11 Case, and, except for the limited purpose of presenting final applications for fee and expenses, all such committees shall be deemed dissolved, and the Future Claimants' Representative shall continue to serve through the termination of the Asbestos PI Trust in order to perform the functions required by the Asbestos PI Trust Agreement; *provided, however,* (i) if the Effective Date occurs before the Confirmation Order becomes a Final Order, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee may continue to exist and to serve for the purposes of pursuing any appeal of the Confirmation Order, and (ii) if any adversary proceeding to which any of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, or, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee is participating is pending as of the Effective Date, any such committee may continue to exist or the Future Claimants' Representative may continue to serve for the limited purpose of litigating such adversary proceeding. The fees and expenses of the Future Claimants' Representative from and after the Effective Date relating to the role of the Future Claimants' Representative in the Asbestos PI Trust, pursuant to the Asbestos PI Trust Agreement and the Asbestos PI Trust Distribution Procedures (including, without limitation, the fees and expenses of any professionals retained by the Future Claimants' Representative), shall be the sole responsibility of the Asbestos PI Trust.

11.6 *Exculpation.* None of Reorganized AWI, any of the members of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, any of the members of the Unsecured Creditors' Committee, any members of the Asbestos PD Committee, AWW, Holdings, or any of their officers, directors, employees, or agents shall have or incur any liability to any Entity for any act or omission in connection with or arising out of the Chapter 11 Case, including, without limitation, the commencement of the Chapter 11 Case, the negotiation of the Plan, pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for gross negligence or willful misconduct, and in all respects shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under, or in connection with, the Plan.

11.7 *Title to Assets; Discharge of Liabilities.* Except as otherwise provided in the Plan, on the Effective Date, title to all assets and properties and interests in property dealt with by the Plan shall vest in Reorganized AWI free and clear of all Claims, Equity Interests, Encumbrances, and other interests, and the Confirmation Order shall be a judicial determination of discharge of the liabilities of AWI arising prior to the Effective Date, except as may be otherwise provided in the Plan.

11.8 *Surrender and Cancellation of Instruments.* Except as otherwise provided in section 7.11 of the Plan with respect to Debt Security Claims issued under the Indentures, and in addition to the provisions of section 3.2(f) hereof, each holder of a promissory note or other instrument evidencing an Unsecured Claim shall surrender such promissory note or instrument to Reorganized AWI, and Reorganized AWI shall distribute or cause to be distributed to the holder thereof the appropriate Distribution hereunder. At the option of Reorganized AWI (in its sole and absolute discretion), no Distribution hereunder shall be made to or on behalf of any holder of such Unsecured Claim unless and until such promissory note or instrument is received or the unavailability of such note or instrument is reasonably established to the satisfaction of Reorganized AWI. In accordance with section 1143 of the



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*and*

Kaye Scholer LLP  
425 Park Avenue  
New York, New York 10022  
Telecopier: (212) 836-7157  
Telephone Confirmation: (212) 836-8781  
Attention: Michael J. Crames, Esq.

If to the Unsecured Creditors'  
Committee:

Paul, Weiss, Rifkind, Wharton & Garrison  
1285 Avenue of the Americas  
New York, New York 10019-6064  
Telecopier: (212) 757-3990  
Telephone Confirmation: (212) 373-3000  
Attention: Andrew N. Rosenberg, Esq.

11.10 *Headings*. The headings used in the Plan are inserted for convenience only and neither constitute a portion of the Plan nor in any manner affect the construction of the provisions of the Plan.

11.11 *Severability*. At the unanimous option of AWI, the Asbestos PI Trust, the Future Claimant's Representative, and the Unsecured Creditors' Committee, each acting in its or his sole discretion, any provision of the Plan, the Claims Trading Injunction, the Confirmation Order, the Asbestos PI Permanent Channeling Injunction, or any of the Exhibits to the Plan that is prohibited, unenforceable, or invalid shall, as to any jurisdiction in which such provision is prohibited, unenforceable, or invalidated, be ineffective to the extent of such prohibition, unenforceability, or invalidation without invalidating the remaining provisions of the Plan, the Claims Trading Injunction, the Confirmation Order, the Asbestos PI Permanent Channeling Injunction, and the Exhibits to the Plan or affecting the validity or enforceability of such provisions in any other jurisdiction.

11.12 *Governing Law*. Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules) or by Pennsylvania corporate law, the laws of the State of Delaware, without giving effect to the conflicts of laws principles thereof, shall govern the construction of the Plan and any agreements, documents, and instruments executed in connection with the Plan, except as otherwise expressly provided in such instruments, agreements or documents.

11.13 *Compliance with Tax Requirements*. In connection with the Plan, AWI and the Disbursing Agent will comply with all withholding and reporting requirements imposed by federal, state and local taxing authorities, and all distributions hereunder shall be subject to such withholding and reporting requirements.

11.14 *Exemption from Transfer Taxes*. Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or

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exchange of notes or equity securities under the Plan, the creation of any mortgage, deed of trust, or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including, without express or implied limitation, any liens granted in connection with the exit finance facility referred to in section 7.16(g) hereof, shall not be subject to any sales and use, stamp, real estate transfer, mortgage recording, or other similar tax.

11.15 *Expedited Determination of Postpetition Taxes.* AWI and Reorganized AWI are authorized (but not required) to request an expedited determination of taxes under section 505(b) of the Bankruptcy Code for all tax returns filed for, or on behalf of, AWI for all taxable periods (or portions thereof) from the Commencement Date through (and including) the Effective Date.

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Dated: Wilmington, Delaware  
May 23, 2003

Respectfully submitted,

ARMSTRONG WORLD INDUSTRIES, INC.

By: \_\_\_\_\_

Name: John N. Rigas

Title: Senior Vice President, Secretary, and  
General Counsel

WEIL, GOTSHAL & MANGES LLP  
Co-Attorneys for Armstrong World  
Industries, Inc., *et al.*  
Chapter 11 Debtor in Possession  
767 Fifth Avenue  
New York, New York 10153  
(212) 310-8000

and

RICHARDS, LAYTON & FINGER  
Co-Attorneys for Armstrong World  
Industries, Inc., *et al.*  
Chapter 11 Debtor in Possession  
One Rodney Square  
P.O. Box 551  
Wilmington, Delaware 19899  
(302) 658-6541

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

*In re*

ARMSTRONG WORLD INDUSTRIES,  
INC., *et al.*,

Debtors

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)  
)

Chapter 11  
Case No. 00-4471 (JKF)  
(Jointly Administered)

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**Exhibit 1.23**

**F O R M O F A S B E S T O S P I T R U S T A G R E E M E N T**

**A RMSTRONG W ORLD I NDUSTRIES , I NC .**  
**A SBESTOS P ERSONAL I NJURY S ETTLEMENT T RUST A GREEMENT**

This Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement ( "**PI Trust Agreement**" ), dated the date set forth on the signature page hereof and effective as of the Effective Date, is entered into by Armstrong World Industries, Inc. ( "**AWI**," the "**Settlor**," or the "**Debtor**" ), the Debtor and debtor-in-possession in Case No. 00-4471 (RJN) in the United States Bankruptcy Court for the District of Delaware as Settlor; the Legal Representative for Asbestos-Related Future Claimants ( "**Future Claimants' Representative**" ); the Official Committee of Asbestos Creditors ( "**ACC**" ); and the Trustees ( "**Trustees**" ) and the members of the PI Trust Advisory Committee ( "**TAC**" ) identified on the signature page hereof and appointed at Confirmation pursuant to Armstrong World Industries, Inc. Fourth Amended Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code, dated May 23, 2003 ( "**Plan**" ), as such Plan may be amended, modified or supplemented from time to time. All capitalized terms not otherwise defined herein shall have their respective meanings as set forth in the Plan, and such definitions are incorporated herein by reference. All capitalized terms not defined herein or defined in the Plan, but defined in the Bankruptcy Code or Rules, shall have the meanings ascribed to them by the Bankruptcy Code and Rules, and such definitions are incorporated herein by reference.

WHEREAS, at the time of the entry of the order for relief in the Chapter 11 case, AWI was named as a defendant in actions involving personal injury ( "**PI**" ) or death claims caused by exposure to asbestos-containing products for which AWI, its predecessors, successors and assigns have legal liability ( "**Asbestos Personal Injury Claims**" as defined in the Plan); and

WHEREAS, AWI has reorganized under the provisions of Chapter 11 of the Bankruptcy Code in a case pending in the United States Bankruptcy Court for the District of Delaware, known as *In re Armstrong World Industries, Inc., Debtor*, Case No. 00-4471 (RJN); and

WHEREAS, the Plan has been confirmed by the Bankruptcy Court; and

WHEREAS, the Plan provides, *inter alia*, for the creation of the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust ( "**PI Trust**" ); and

WHEREAS, pursuant to the Plan, the PI Trust is to use its assets and income to satisfy all Asbestos Personal Injury Claims; and

WHEREAS, it is the intent of AWI, the Trustees, the ACC, the TAC, and the Future Claimants' Representative that the PI Trust be administered, maintained, and operated at all times through mechanisms that provide reasonable assurance that the PI Trust will satisfy all Asbestos Personal Injury Claims pursuant to the AWI Asbestos Personal Injury Settlement Trust Distribution Procedures ( "**TDP**" ) that are attached to the Plan as Exhibit 1.24 in substantially the same manner, and in strict compliance with the terms of this PI Trust Agreement; and

WHEREAS, pursuant to the Plan, the PI Trust is intended to qualify as a "qualified settlement fund" within the meaning of section 1.468B-1 *et seq.* of the Treasury Regulations promulgated under section 468B of the Internal Revenue Code ( "**IRC**" ); and

WHEREAS, the Bankruptcy Court has determined that the PI Trust and the Plan satisfy all the prerequisites for an injunction pursuant to section 524(g) of the Bankruptcy Code, and such injunction has been entered in connection with the Confirmation Order;

Exhibit 1.23-1

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NOW, THEREFORE, it is hereby agreed as follows:

**SECTION 1**

**A GREEMENT OF T RUST**

**1.1 Creation and Name .** AWI as Settlor hereby creates a trust known as the “Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust,” which is the PI Trust provided for and referred to in the Plan. The Trustees of the PI Trust may transact the business and affairs of the PI Trust in the name of the PI Trust.

**1.2 Purpose .** The purpose of the PI Trust is to assume the liabilities of AWI, its predecessors and successors in interest, for all Asbestos Personal Injury Claims (as defined in the Plan), and to use the PI Trust’s assets and income to pay the holders of all Asbestos Personal Injury Claims in accordance with this PI Trust Agreement and the TDP 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.

**1.3 Transfer of Assets .** Pursuant to the Plan, certain assets have been transferred and assigned to the PI Trust to settle and discharge all Asbestos Personal Injury Claims (“*PI Trust Assets*”). Pursuant to the Plan, AWI, its successors in interest thereto, from and after the Effective Date (“*Reorganized AWI*”) and others may also transfer and assign additional assets to the PI Trust from time to time, which will be added to the PI Trust Assets. In all events, the PI Trust Assets will be transferred to the PI Trust free and clear of any liens or other claims by AWI, Reorganized AWI, any creditor, or other entity, AWI, Reorganized AWI, and any other transferors shall also execute and deliver such documents to the PI Trust as the Trustees reasonably request to transfer and assign the PI Trust Assets to the PI Trust.

**1.4 Acceptance of Assets and Assumption of Liabilities**

(a) In furtherance of the purposes of the PI Trust, the Trustees, on behalf of the PI Trust, hereby expressly accept the transfer and assignment to the PI Trust of the PI Trust Assets in the time and manner contemplated in the Plan.

(b) In furtherance of the purposes of the PI Trust, the Trustees, on behalf of the PI Trust, expressly assume all liability for (i) all Asbestos Personal Injury Claims and (ii) all premiums, deductibles, retrospective premium adjustments, security or collateral arrangements, or any other charges, costs, fees, or expenses (if any) that become due to any insurer in connection with the Asbestos PI Insurance Asset (as such term is defined in the Plan) as a result of Asbestos Personal Injury Claims, asbestos-related personal injury claims against Entities insured under policies included in the Asbestos PI Insurance Asset by reason of vendor’s endorsements, or under indemnity provisions of settlement agreements that AWI made with various insurers prior to the Commencement Date (as such term is defined in the Plan) to the extent that those indemnity provisions relate to Asbestos Personal Injury Claims.

(c) No provision herein or in the TDP shall be construed to mandate distributions on any claims or other actions that would contravene the PI Trust’s compliance with the requirements of a qualified settlement fund within the meaning of section 1.468B-1 *et seq.* of the Treasury Regulations promulgated under section 468B of the IRC.

(d) AWI and Reorganized AWI shall be entitled to indemnification from the PI Trust for any expenses, costs, and fees (including attorneys’ fees and costs, but excluding any such expenses, costs, and fees incurred prior to the Effective Date), judgments, settlements, or other liabilities arising from or incurred in connection with any action related to Asbestos Personal Injury Claims, including, but not limited to, indemnification or contribution for such claims prosecuted against Reorganized AWI.

(e) Nothing in this PI Trust Agreement shall be construed in any way to limit the scope, enforceability, or effectiveness of the Section 524(g) injunction issued in connection with the Plan or the PI Trust’s assumption of all liability for Asbestos Personal Injury Claims, subject to the provisions of Section 1.4(b) above.

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## SECTION 2

### POWERS AND TRUST ADMINISTRATION

#### **2.1 Powers .**

(a) The Trustees are and shall act as the fiduciaries to the PI Trust in accordance with the provisions of this PI Trust Agreement and the Plan. The Trustees shall, at all times, administer the PI Trust and the PI Trust Assets in accordance with the purposes set forth in Section 1.2 above. Subject to the limitations set forth in this PI Trust Agreement, the Trustees shall have the power to take any and all actions that, in the judgment of the Trustees, are necessary or proper to fulfill the purposes of the PI Trust, including, without limitation, each power expressly granted in this Section 2.1, any power reasonably incidental thereto, and any trust power now or hereafter permitted under the laws of the State of Delaware.

(b) Except as required by applicable law or otherwise specified herein, the Trustees need not obtain the order or approval of any court in the exercise of any power or discretion conferred hereunder

(c) Without limiting the generality of Section 2.1(a) above, and except as limited below, the Trustees shall have the power to:

(i) receive and hold the PI Trust Assets, vote the Reorganized AWI common stock, and exercise all rights with respect to, and sell, any securities issued by Reorganized AWI that are included in the PI Trust Assets, subject to any restrictions set forth in the Restated Certificate of Reorganized AWI;

(ii) invest the monies held from time to time by the PI Trust;

(iii) sell, transfer, or exchange any or all of the PI Trust Assets at such prices and upon such terms as the Trustees may consider proper, consistent with the other terms of this PI Trust Agreement;

(iv) enter into leasing and financing agreements with third parties to the extent such agreements are reasonably necessary to permit the PI Trust to operate;

(v) pay liabilities and expenses of the PI Trust, including, but not limited to, PI Trust expenses;

(vi) establish such funds, reserves and accounts within the PI Trust estate, as deemed by the Trustees to be useful in carrying out the purposes of the PI Trust;

(vii) sue and be sued and participate, as a party or otherwise, in any judicial, administrative, arbitral, or other proceeding;

(viii) establish, supervise and administer the PI Trust in accordance with the TDP and the terms thereof;

(ix) appoint such officers and hire such employees and engage such legal, financial, accounting, investment, auditing and forecasting, and other consultants and agents as the business of the PI Trust requires, and delegate to such persons such powers and authorities as the fiduciary duties of the Trustees permit and as the Trustees, in their discretion, deem advisable or necessary in order to carry out the terms of this PI Trust;

(x) pay employees, legal, financial, accounting, investment, auditing, and forecasting, and other consultants, advisors, and agents, including those engaged by the PI Trust in connection with its alternative dispute resolution activities, reasonable compensation;

(xi) compensate the Trustees, the TAC members, and the Future Claimants' Representative as provided below, and their employees, legal, financial, accounting, investment and other advisors, consultants, independent contractors, and agents, and reimburse the Trustees, the TAC members and the Future Claimants' Representative all reasonable out-of-pocket costs and expenses incurred by such persons in connection with the performance of their duties hereunder;

(xii) execute and deliver such instruments as the Trustees consider proper in administering the PI Trust;

(xiii) enter into such other arrangements with third parties as are deemed by the Trustees to be useful in carrying out the purposes of the PI Trust, provided such arrangements do not conflict with any other provision of this PI Trust Agreement;

(xiv) in accordance with Section 4.6 below, defend, indemnify and hold harmless (and purchase insurance indemnifying) (A) the Trustees and (B) the TAC, the Future Claimants' Representative, the officers and employees of the PI Trust, and any agents, advisors and consultants of the PI Trust, the TAC or the Future Claimants' Representative (the "***Additional Indemnitees***"), to the fullest extent that a corporation or trust organized under the law of the PI Trust's situs is from time to time entitled to indemnify and/or insure its directors, trustees, officers, employees, agents, advisors and representatives;

(xv) delegate any or all of the authority herein conferred with respect to the investment of all or any portion of the PI Trust Assets to any one or more reputable individuals or recognized institutional investment advisors or investment managers without liability for any action taken or omission made because of any such delegation, except as provided in Section 4.4 below;

(xvi) consult with Reorganized AWI, the TAC and the Future Claimants' Representative at such times and with respect to such issues relating to the conduct of the PI Trust as the Trustees consider desirable; and

(xvii) make, pursue (by litigation or otherwise), collect, compromise or settle, in the name of the PI Trust or the name of Reorganized AWI, any claim, right, action, or cause of action included in the PI Trust Assets including, but not limited to, insurance recoveries, before any court of competent jurisdiction; provided that settlement of actions before the Bankruptcy Court require the approval of the Bankruptcy Court after notice to Reorganized AWI.

(d) The Trustees shall not have the power to guarantee any debt of other persons.

(e) The Trustees shall give the TAC, the Future Claimants' Representative and Reorganized AWI prompt notice of any act performed or taken pursuant to Sections 2.1(c)(i), (iii), (vii), or (xv) above, and any act proposed to be performed or taken pursuant to Section 2.2(f) below.

## **2.2 General Administration .**

(a) The Trustees shall adopt and act in accordance with the PI Trust Bylaws. To the extent not inconsistent with the terms of this PI Trust Agreement, the PI Trust Bylaws shall govern the affairs of the PI Trust. In the event of an inconsistency between the PI Trust Bylaws and this PI Trust Agreement, the PI Trust Agreement shall govern.

(b) The Trustees shall (i) timely file such income tax and other returns and statements and shall timely pay all taxes required to be paid, (ii) comply with all withholding obligations, as required under the applicable provisions of the IRC and of any state law and the regulations promulgated thereunder, (iii) meet without limitation all requirements necessary to qualify and maintain qualification of the PI Trust as a qualified settlement fund within the meaning of section 1.468B-1 *et seq.* of the Treasury Regulations promulgated under section 468B of the IRC, and (iv) take no action that could cause the PI Trust to fail to qualify as a qualified settlement fund within the meaning of section 1.468B-1 *et seq.* of the Treasury Regulations promulgated under section 468B of the IRC.

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(c) The Trustees shall timely account to the Bankruptcy Court as follows:

(i) The Trustees shall cause to be prepared and filed with the Bankruptcy Court, as soon as available, and in any event within one hundred and twenty (120) days following the end of each fiscal year, an annual report containing financial statements of the PI Trust (including, without limitation, a balance sheet of the 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. The Trustees shall provide a copy of such report to the TAC, the Future Claimants' Representative, and Reorganized AWI when such reports are filed with the Bankruptcy Court.

(ii) Simultaneously with delivery of each set of financial statements referred to in Article 2.2(c)(i) above, the Trustees shall cause to be prepared and filed with the Bankruptcy Court a report containing a summary regarding the number and type of claims disposed of during the period covered by the financial statements. The Trustees shall provide a copy of such report to the TAC, the Future Claimants' Representatives, and Reorganized AWI when such report is filed.

(iii) All materials required to be filed with the Bankruptcy Court by this Section 2.2(c) shall be available for inspection by the public in accordance with procedures established by the Bankruptcy Court and shall be filed with the Office of the United States Trustee for the District of Delaware.

(d) The Trustees shall cause to be prepared as soon as practicable prior to the commencement of each fiscal year a budget and cash flow projections covering such fiscal year and the succeeding four fiscal years. The budget and cash flow projections shall include determining the Maximum Annual Payment pursuant to Section 2.4 of the TDP, and the Asbestos Personal Injury Claims Payment Ratio pursuant to Section 2.5 of the TDP. The Trustees shall provide a copy of the budget and cash flow projections to the TAC and the Future Claimants' Representative.

(e) The Trustees shall consult with the TAC and the Future Claimants' Representative (i) on the general implementation and administration of the PI Trust; (ii) on the general implementation and administration of the TDP; and (iii) on such other matters as may be required under this PI Trust Agreement and the TDP.

(f) The Trustees shall be required to obtain the consent of the TAC and the Future Claimants' Representative pursuant to the Consent Process set forth in Section 5.7(b) and 6.6(b) below, in addition to any other instances elsewhere enumerated, in order:

- (i) to change the Claims Payment Ratio described in Section 2.5 of the TDP in the event that the requirements for such a change as set forth in said provision have been met;
- (ii) to change the Scheduled Diseases, Disease Levels and/or Medical/Exposure Criteria set forth in Section 5.3(a)(3) of the TDP, and/or the Maximum Values set forth in Section 5.3(b)(4) and Section 5.4(a) of the TDP;
- (iii) to change the Payment Percentage described in Section 2.3 of the TDP as provided in Section 4.2 of the TDP;

Exhibit 1.23-5

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- (iv) to establish and/or to change the Claims Materials to be provided holders of Asbestos Personal Injury Claims under Section 6.1 of the TDP;
  - (v) to require that claimants provide additional kinds of medical and/or exposure evidence pursuant to Section 7.1 of the TDP;
  - (vi) to change the form of release to be provided pursuant to Section 7.8 of the TDP;
  - (vii) to terminate the PI Trust pursuant to Section 7.2 below;
  - (viii) to settle the liability of any insurer under any insurance policy or legal action related thereto;
  - (ix) to change the compensation of the members of the TAC, the Future Claimants' Representative or Trustees, other than to reflect cost-of-living increases or changes approved by the Bankruptcy Court as otherwise provided herein;
  - (x) to take structural or other actions to minimize any tax on the PI Trust Assets; or
  - (xi) to amend the PI Trust Bylaws in accordance with the terms thereof;
  - (xii) to amend any provision of this PI Trust Agreement or the TDP in accordance with the terms thereof;
  - (xiii) to vote the stock of the Reorganized Debtor for the purpose of electing members of the Board of Directors of the Reorganized Debtor; or
  - (xiv) to merge any asbestos claims resolution organization formed by the PI Trust with another asbestos claims resolution organization that is not specifically created by this PI Trust Agreement or the TDP, or to contract with another asbestos claims resolution organization or other entity that is not specifically created by this PI Trust Agreement or the TDP, or permit any other party to join in any asbestos claims resolution organization that is formed by the PI Trust pursuant to the PI Trust Agreement or the TDP; provided that such merger, contract or joinder shall not (a) subject Reorganized AWI or any successors in interest thereto, to any risk of having any PI Trust Claim asserted against it or them, or (b) otherwise jeopardize the validity or enforceability of the section 524(g) injunction; and provided further that the terms of such merger will require the surviving organization to make decisions about the allowability and value of claims in accordance with Section 2.1 of the TDP which requires that such decisions be based on the provisions of the TDP.

(g) The Trustees shall meet with the TAC and the Future Claimants' Representative no less often than quarterly. The Trustees shall meet in the interim with the TAC and the Future Claimants' Representative when so requested by either.

(h) The Trustees, upon notice from either the TAC or the Future Claimants' Representative, if practicable in view of pending business, shall at their next meeting with the TAC or the Future Claimants' Representative consider issues submitted by the TAC or the Future Claimants' Representative.

(i) Periodically, but not less often than once a year, the Trustees shall make available to claimants and other interested parties the number of claims by disease levels that have been resolved both by individual review and by arbitration, as well as by trial, indicating the amounts of the awards and the averages of the awards by jurisdiction pursuant to Section 7.10 of the TDP.

### **2.3 Claims Administration**

The Trustees shall promptly proceed to implement the TDP.

## **SECTION 3**

### **ACCOUNTS, INVESTMENTS, AND PAYMENTS**

**3.1 Accounts.** The Trustees may, from time to time, create such accounts and reserves within the PI Trust estate as they may deem necessary, prudent, or useful in order to provide for the payment of expenses and payment of Asbestos Personal Injury Claims and may, with respect to any such account or reserve, restrict the use of monies therein.

**3.2 Investments.** Investment of monies held in the PI Trust shall be administered in the manner in which individuals of ordinary prudence, discretion, and judgment would act in the management of their own affairs, subject to the following limitations and provisions:

(a) The PI Trust shall not acquire, directly or indirectly, equity in any entity (other than Reorganized AWI or any successor to Reorganized AWI) or business enterprise if, immediately following such acquisition, the PI Trust would hold more than 5% of the equity in such entity or business enterprise. The PI Trust shall not hold, directly or indirectly, more than 10% of the equity in any entity (other than Reorganized AWI or any successor to Reorganized AWI) or business enterprise.

(b) The PI Trust shall not acquire or hold any long-term debt securities unless (i) such securities are PI Trust Assets under the Plan, (ii) such securities are rated “Baa” or higher by Moody’s, “BBB” or higher by Standard & Poor’s (“S&P’s”), or have been given an equivalent investment grade rating by another nationally recognized statistical rating agency, or (iii) have been issued or fully guaranteed as to principal and interest by the United States of America or any agency or instrumentality thereof.

(c) The PI Trust shall not acquire or hold for longer than ninety (90) days any commercial paper unless such commercial paper is rated “Prime-1” or higher by Moody’s or “A-1” or higher by S&P’s or has been given an equivalent rating by another nationally recognized statistical rating agency.

(d) Excluding any securities by the Debtor or Reorganized AWI, the PI Trust shall not acquire or hold any common or preferred stock or convertible securities unless such stock or securities are rated “A” or high by Moody’s or “A” or higher by S&P’s or have been given an equivalent investment grade rating by another nationally recognized statistical rating agency.

(e) The PI Trust shall not acquire any debt securities or other instruments issued by any entity (other than debt securities or other instruments issued or fully guaranteed as to principal and interest by the United States of America or any agency or instrumentality thereof) if, following such acquisition, the aggregate market value of all debt securities and instruments issued by such entity held by the PI Trust would exceed 2% of the aggregate value of the PI Trust estate. The PI Trust shall not hold any debt securities or other instruments issued by any entity (other than debt securities or other instruments issued or fully guaranteed as to principal and interest by the United States of America or any agency or instrumentality thereof and other than debt securities or other instruments of Reorganized AWI or any successor to Reorganized AWI) to the extent that the aggregate market value of all securities and instruments issued by such entity held by the PI Trust would exceed 5% of the aggregate value of the PI Trust Assets.

(f) The PI Trust shall not acquire or hold any certificates of deposit unless all publicly held, long-term debt securities, if any, of the financial institution issuing the certificate of deposit and the holding company, if any, of which such financial institution is a subsidiary, meet the standards set forth in Section 3.2(b) above.

(g) The PI Trust may acquire and hold any securities or instruments issued by Reorganized AWI or any successor to Reorganized AWI, or obtained as proceeds of litigation or otherwise to resolve disputes, without regard to the limitations set forth in Subsections (a)-(f) above.

(h) The PI Trust shall not acquire or hold any repurchase obligations unless, in the opinion of the Trustees, they are adequately collateralized.

(i) The PI Trust shall not acquire or hold any options.

**3.3 Source of Payments .** All PI Trust expenses and payments and all liabilities with respect to claims shall be payable solely by the Trustees out of the PI Trust Assets. Neither AWI, Reorganized AWI, their subsidiaries, any successor in interest, the present or former directors, officers, employees or agents of AWI, Reorganized AWI, nor the Trustees, the TAC or Future Claimants' Representative, or any of their officers, agents, advisors, or employees shall be liable for the payment of any PI Trust expense or any other liability of the PI Trust.

## **S E C T I O N 4**

### **T R U S T E E S**

**4.1 Number .** There shall be five (5) Trustees. The initial Trustees shall be those persons named on the signature page hereof.

**4.2 Term of Service .**

(a) The five initial Trustees named pursuant to Article 4.1 above shall each serve an initial two (2) year term. At the expiration of these initial two (2) year terms, the number of Trustees shall be reduced from five (5) to three (3). At that time, the five initial Trustees, after consultation with the TAC and the Future Claimants' Representative, shall decide which three individuals among their number shall continue to serve, and the three (3) Trustees so selected shall then serve staggered terms of three (3), four (4), and Five (5) years each. Thereafter, each Trustee's term of service shall be five (5) years. The initial Trustees shall serve from the Effective Date until the earlier of (i) the end of his or her term, (ii) his or her death, (iii) his or her resignation pursuant to Section 4.2(b) below, (iv) his or her removal pursuant to Section 4.2(c) below, or (v) the termination of the PI Trust pursuant to Section 7.2 below.

(b) A PI Trustee may resign at any time by written notice to the remaining Trustees, the TAC and the Future Claimants' Representative. Such notice shall specify a date when such resignation shall take place, which shall not be less than 90 days after the date such notice is given, where practicable.

(c) A Trustee may be removed by unanimous vote of the remaining Trustees in the event that he or she becomes unable to discharge his or her duties hereunder due to accident or physical or mental deterioration, or for other good cause. Good cause shall be deemed to include, without limitation, any substantial failure to comply with the general administration provisions of Section 2.2 above, a consistent pattern of neglect and failure to perform or participate in performing the duties of the Trustees hereunder, or repeated non-attendance at scheduled meetings. Such removal shall require the approval of the Bankruptcy Court and shall take effect at such time as the Bankruptcy Court shall determine.

**4.3 Appointment of Successor Trustees .**

(a) In the event of a vacancy in the position of PI Trustee, whether by term expiration, resignation or removal, the remaining Trustees shall consult with the TAC and the Future Claimants' Representative concerning appointment of a successor PI Trustee.

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The vacancy shall be filled by the unanimous vote of the remaining Trustees unless a majority of the TAC or the Future Claimants' Representative vetoes the appointment. In the event that the remaining Trustees cannot agree on a Successor PI Trustee, or a majority of the TAC or the Future Claimants' Representative vetoes the appointment of a successor PI Trustee, the Bankruptcy Court shall make the appointment. Nothing shall prevent the reappointment of a PI Trustee for an additional term or terms.

(b) Immediately upon the appointment of any Successor PI Trustee, all rights, titles, duties, powers and authority of the predecessor PI Trustee hereunder shall be vested in, and undertaken by, the Successor PI Trustee without any further act. No Successor PI Trustee shall be liable personally for any act or omission of his or her predecessor Trustees.

(c) Each Successor PI Trustee shall serve until the earlier of (i) the end of a full term of five (5) years if the predecessor PI Trustee completed his or her term, (ii) the end of the remainder of the term of the PI Trustee whom he or she is replacing if said predecessor PI Trustee did not complete said term, (iii) his or her death, (iv) his or her resignation pursuant to Section 4.2(b) above, (v) his or her removal pursuant to Section 4.2(c) above, or (vi) the termination of the PI Trust pursuant to Section 7.2 below.

**4.4 Liability of Trustees, Officers and Employees.** The Trustees and the individuals identified as Additional Indemnites in Section 2.1(c)(xiv) above shall not be liable to the PI Trust, to any individual holding an asbestos claim, or to any other person, except for such individual's own breach of trust committed in bad faith or willful misappropriation. In addition, the Trustees and the Additional Indemnites shall not be liable for any act or omission of any other Trustee or Additional Indemnitee unless such person acted with bad faith in the selection or retention of such other Trustee or Additional Indemnitee.

**4.5 Compensation and Expenses of Trustees.**

(a) The Trustees shall receive a retainer from the PI Trust for their services as Trustees in the amount of \$65,000 per annum, which amount shall be payable in quarterly installments, plus the sum of \$2,500 for attendance at a meeting of the Trustees, which amount shall not be charged against the annual retainer. A meeting is any scheduled, emergency or sub-committee meeting of the Trustees that is noticed and/or authorized by the chairperson in which participation is either in person or telephonically and the duration of which is no less than two (2) hours and not in excess of five (5) hours. A PI Trust meeting also includes attendance at meetings of Reorganized AWI's Board of Directors. For all other time expended in preparation, authorized special projects, and time in excess of the (5) hours in a meeting, the Trustees shall receive the sum of \$450 per hour, and the sum of \$225 per hour for non-working travel, in both cases computed on a quarter-hour basis. The Trustees shall record all meeting and hourly time to be charged to the PI Trust on a daily basis. The per annum retainer, meeting and hourly compensation payable to the Trustees hereunder shall be reviewed every three (3) years and appropriately adjusted for changes in the cost of living. Any other changes in compensation of the Trustees shall be made subject to the approval of the Bankruptcy Court.

(b) The PI Trust will promptly reimburse the Trustees for all reasonable out-of-pocket costs and expenses incurred by the Trustees in connection with the performance of their duties hereunder.

(c) The PI Trust shall include a description of the amounts paid under this Section 4.5 in the accounts to be filed with the Bankruptcy Court and provided to the TAC, the Future Claimants' Representative, and Reorganized AWI pursuant to Section 2.2(c)(i).

**4.6 Indemnification of Trustees and Additional Indemnites.**

(a) The PI Trust shall indemnify and defend the Trustees, as well as the Additional Indemnites in the performance of their duties hereunder to the fullest extent that a corporation or trust organized under the laws of the PI Trust's situs is from time to time

entitled to indemnify and defend such persons against any and all liabilities, expenses, claims, damages or losses incurred by them in the performance of their duties. Notwithstanding the foregoing, the Trustees and the Additional Indemnitees shall not be indemnified or defended in any way for any liability, expense, claim, damage, or loss for which he or she is ultimately liable under Section 4.4 above.

(b) Reasonable expenses, costs and fees (including attorneys' fees and costs) incurred by or on behalf of a PI Trustee or Additional Indemnitee in connection with any action, suit, or proceeding, whether civil, administrative or arbitral from which they are indemnified by the PI Trust pursuant to Section 4.6(a) above, shall be paid by the PI Trust in advance of the final disposition thereof upon receipt of an undertaking, by or on behalf of the Trustees or Additional Indemnitee, to repay such amount in the event that it shall be determined ultimately by final order that such PI Trustee or Additional Indemnitee is not entitled to be indemnified by the PI Trust.

(c) The Trustees may purchase and maintain reasonable amounts and types of insurance on behalf of an individual who is or was a PI Trustee or Additional Indemnitee including against liability asserted against or incurred by such individual in that capacity or arising from his or her status as a PI Trustee, TAC member, Future Claimants' Representative, officer, employee, agent or other representative.

**4.7 Trustees' Lien.** The Trustees and the Additional Indemnitees shall have a first priority lien upon the PI Trust Assets to secure the payment of any amounts payable to them pursuant to Section 4.6 above.

**4.8 Trustees' Employment of Experts.** The Trustees may, but shall not be required to, retain and/or consult with counsel, accountants, appraisers, auditors and forecasters, and other parties deemed by the Trustees to be qualified as experts on the matters submitted to them, and the written opinion of or information provided by any such parties on any matters submitted to them by the Trustees shall be full and complete authorization and protection in respect of any action taken or not taken by the Trustees hereunder in good faith and in accordance with the written opinion of or information provided by any such party.

**4.9 Trustees' Independence.** The Trustees shall not, during the term of their service, hold a financial interest in, act as attorney or agent for, or serve as any other professional for Reorganized AWI. Notwithstanding the foregoing, any PI Trustee may serve, without any additional compensation other than the per diem compensation to be paid by the PI Trust pursuant to Section 4.5(a) above, as a director of Reorganized AWI. No PI Trustee shall act as an attorney for any person who holds an asbestos claim.

**4.10 Bond.** The Trustees shall not be required to post any bond or other form of surety or security unless otherwise ordered by the Bankruptcy Court.

## **SECTION 5**

### **TRUST ADVISORY COMMITTEE**

**5.1 Members.** The TAC shall consist of five (5) members, who shall initially be the persons named on the signature page hereof.

**5.2 Duties.** The members of the TAC shall serve in a fiduciary capacity representing all holders of present Asbestos Personal Injury Claims. The Trustees must consult with the TAC on matters identified in Section 2.2(e) above and in other provisions herein, and must obtain the consent of the TAC on matters identified in Section 2.2(f) above. Where provided in the TDP, certain other actions by the Trustees are also subject to the consent of the TAC.

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### **5.3 Term of Office .**

(a) Each member of the TAC shall serve until the earlier of (i) his or her death, (ii) his or her resignation pursuant to Section 5.3(b) below, (iii) his or her removal pursuant to Section 5.3(c) below, or (iv) the termination of the PI Trust pursuant to Section 7.2 below.

(b) A member of the TAC may resign at any time by written notice to the other members of the TAC, the Trustees and the Future Claimants' Representative. Such notice shall specify a date when such resignation shall take effect, which shall not be less than ninety (90) days after the date such notice is given, where practicable.

(c) A member of the TAC may be removed in the event that he or she becomes unable to discharge his or her duties hereunder due to accident, physical deterioration, mental incompetence, or a consistent pattern of neglect and failure to perform or to participate in performing the duties of such member hereunder, such as repeated non-attendance at scheduled meetings, or for other good cause. Such removal shall be made at the recommendation of the remaining members of the TAC with the approval of the Bankruptcy Court.

### **5.4 Appointment of Successor .**

(a) In the event of a vacancy caused by the resignation or death of a TAC member, his or her successor shall be selected by the TAC member who is resigning or deceased, or by his or her law firm in the event that such member had not pre-selected a successor. If neither the member nor the law firm exercises the right to make such a selection, the successor shall be chosen by a majority vote of the remaining TAC members. If a majority of the remaining members cannot agree, the Bankruptcy Court shall appoint the successor. In the event of a vacancy caused by the removal of a TAC member, the remaining members of the TAC by majority vote shall name the successor. If the majority of remaining members of the TAC cannot reach agreement, the Bankruptcy Court shall appoint the successor.

(b) Each successor TAC member shall serve until the earlier of (i) his or her death, (ii) his or her resignation pursuant to Section 5.3(b) above, (iii) his or her removal pursuant to Section 5.3(c) above, or (iv) the termination of the PI Trust pursuant to Section 7.2 below.

### **5.5 TAC's Employment of Professionals .**

(a) The TAC may but is not required to retain and/or consult counsel, accountants, appraisers, auditors, forecasters, experts, and financial and investment advisors, and such other parties deemed by the TAC to be qualified as experts on matters submitted to the TAC (the "**Professionals**"). The TAC and its Professionals shall at all times have complete access to the PI Trust's officers, employees and agents, as well as to the Professionals retained by the PI Trust, and shall also have complete access to all information generated by them or otherwise available to the PI Trust or the Trustees. In the absence of gross negligence, the written opinion of or information provided by any Professional deemed by the TAC to be qualified as an expert on the particular matter submitted to the TAC shall be full and complete authorization and protection in support of any action taken or not taken by the TAC in good faith and in accordance with the written opinion of or information provided by the Professional.

(b) The Trust shall promptly reimburse, or pay directly if so instructed, the TAC for all reasonable fees and costs associated with the TAC's employment of legal counsel pursuant to this provision in connection with the TAC's performance of its duties hereunder. The Trust shall also promptly reimburse, or pay directly if so instructed, the TAC for all reasonable fees and costs associated with the TAC's employment of any other Professional pursuant to this provision in connection with the TAC's performance of its duties hereunder; provided, however, that (i) the TAC has first submitted to the Trust a written request for such reimbursement setting forth the reasons (A) why the TAC desires to employ such Professional, and (B) why the TAC cannot rely on Professionals retained by the Trust to meet the need of the TAC for such expertise or advice, and (ii) the Trust has approved the TAC's request for reimbursement in writing. If the Trust agrees to pay for the TAC Professional, such reimbursement shall be treated as a Trust expense. If the Trust declines to pay for the TAC Professional, it must set forth its reasons in writing.

If the TAC still desires to employ such Professional at Trust expense, the TAC and/or the Trustees shall resolve their dispute pursuant to Section 7.13 below.

**5.6 Compensation and Expenses of TAC .** The members of the TAC shall receive compensation from the PI Trust for their services as TAC members in the form of a reasonable hourly rate set by the Trustees for attendance at meetings or other conduct of PI Trust business. The members of the TAC shall also be reimbursed promptly for all reasonable out-of-pocket costs and expenses incurred in connection with the performance of their duties hereunder. Such reimbursement or direct payment shall be deemed a PI Trust expense. The PI Trust shall include a description of the amounts paid under this Section 5.6 in the accounts to be filed with the Bankruptcy Court and provided to the Trustees, the Future Claimants' Representative, and Reorganized AWI pursuant to Section 2.2(c)(i).

**5.7 Procedures for Consultation with and Obtaining the Consent of the TAC .**

(a) **Consultation Process .**

- (i) In the event the Trustees are required to consult with the TAC pursuant to Section 2.2(e) above or on other matters as provided herein, the Trustees shall provide the TAC with written advance notice of the matter under consideration, and with all relevant information concerning the matter as is reasonably practicable under the circumstances. The Trustees shall also provide the TAC with such reasonable access to Professionals and other experts retained by the PI Trust and its staff (if any) as the TAC may reasonably request during the time that the Trustees are considering such matter, and shall also provide the TAC the opportunity, at reasonable times and for reasonable periods of time, to discuss and comment on such matter with the Trustees.
- (ii) The Trustees shall take into consideration the time required for the TAC, if its members so wish, to engage and consult with its own independent financial or investment advisors as to such matter.

(b) **Consent Process .**

- (i) In the event the Trustees are required to obtain the consent of the TAC pursuant to Section 2.2(f) above, the Trustees shall provide the TAC with a written notice stating that their consent is being sought pursuant to that provision, describing in detail the nature and scope of the action the Trustees propose to take, and explaining in detail the reasons why the Trustees desire to take such action. The Trustees shall provide the TAC as much relevant additional information concerning the proposed action as is reasonably practicable under the circumstances. The Trustees shall also provide the TAC with such reasonable access to Professionals and other experts retained by the PI Trust and its staff (if any) as the TAC may reasonably request during the time that the Trustees are considering such action, and shall also provide the TAC the opportunity, at reasonable times and for reasonable periods of time, to discuss and comment on such action with the Trustees.
- (ii) The TAC must consider in good faith and in a timely fashion any request for its consent by the Trustees, and must in any event advise the Trustees in writing of its consent or its objection to the proposed action within 30 days of receiving the original request for consent from the Trustees. The TAC may not withhold its consent

unreasonably. If the TAC decides to withhold its consent, it must explain in detail its objections to the proposed action. If the TAC does not advise the Trustees in writing of its consent or its objections to the action within 30 days of receiving notice regarding such request, the TAC's consent to the proposed actions shall be deemed to have been affirmatively granted.

- (iii) If, after following the procedures specified in this Section 5.7(b), the TAC continues to object to the proposed action and to withhold its consent to the proposed action, the Trustees and/or the TAC shall resolve their dispute pursuant to Section 7.13. However, the burden of proof with respect to the validity of the TAC's objection and withholding of its consent shall be on the TAC.

## SECTION 6

### THE FUTURE CLAIMANTS' REPRESENTATIVE

**6.1 Duties .** The initial Future Claimants' Representative shall be the individual identified on the signature pages hereto, namely Dean M. Trafelet, Esquire. He shall serve in a fiduciary capacity, representing the interests of the holders of future Asbestos Personal Injury Claims for the purpose of protecting the rights of such persons. The Trustees must consult with the Future Claimants' Representative on matters identified in Section 2.2(e) above and on certain other matters provided herein, and must obtain the consent of the Future Claimants' Representative on matters identified in Section 2.2(f) above. Where provided in the TDP, certain other actions by the Trustees are also subject to the consent of the Future Claimants' Representative.

#### **6.2 Term of Office .**

(a) The Future Claimants' Representative shall serve until the earlier of (i) his or her death, (ii) his or her resignation pursuant to Section 6.2(b) below, (iii) his or her removal pursuant to Section 6.2(c) below, or (iv) the termination of the PI Trust pursuant to Section 7.2 below.

(b) The Future Claimants' Representative may resign at any time by written notice to the Trustees. Such notice shall specify a date when such resignation shall take effect, which shall not be less than ninety (90) days after the date such notice is given, where practicable.

(c) The Future Claimants' Representative may be removed by the Bankruptcy Court in the event he or she becomes unable to discharge his or her duties hereunder due to accident, physical deterioration, mental incompetence, or a consistent pattern of neglect and failure to perform or to participate in performing the duties hereunder, such as repeated non-attendance at scheduled meetings, or for other good cause.

**6.3 Appointment of Successor .** A vacancy caused by resignation or death shall be filled with an individual nominated prior to the effective date of the resignation or the death by the resigning Future Claimants' Representative, and a vacancy caused by removal of the Future Claimants' Representative shall be filled with an individual nominated by the Trustees, in consultation with the TAC, subject to the approval of the Bankruptcy Court. In the event a majority of the Trustees cannot agree, or a nominee has not been pre-selected, the successor shall be appointed by the Bankruptcy Court.

#### **6.4 Future Claimants' Representative's Employment of Professionals .**

(a) The Future Claimants' Representative may but is not required to retain and/or consult counsel, accountants, appraisers, auditors, forecasters, experts, and financial and investment advisors, and such other parties deemed by the Future Claimants' Representative to be qualified as experts on matters submitted to the Future Claimants' Representative (the "**Professionals**"). The Future Claimants' Representative and his or her experts shall at all times have complete access to the PI Trust's officers, employees

and agents, as well as to the Professionals retained by the PI Trust, and shall also have complete access to all information generated by them or otherwise available to the PI Trust or the Trustees. In the absence of gross negligence, the written opinion of or information provided by any Professional deemed by the Future Claimants' Representative to be qualified as an expert on the particular matter submitted to the Future Claimants' Representative shall be full and complete authorization and protection in support of any action taken or not taken by the Future Claimants' Representative in good faith and in accordance with the written opinion of or information provided by the Professional.

(b) The Trust shall promptly reimburse, or pay directly if so instructed, the Future Claimants' Representative for all reasonable fees and costs associated with the Future Claimants' Representative's employment of legal counsel pursuant to this provision in connection with the Future Claimants' Representative's performance of his or her duties hereunder. The Trust shall also promptly reimburse, or pay directly if so instructed, the Future Claimants' Representative for all reasonable fees and costs associated with the Future Claimants' Representative's employment of any other Professionals pursuant to this provision in connection with the Future Claimants' Representative's performance of his or her duties hereunder; provided, however, that (i) the Future Claimants' Representative has first submitted to the Trust a written request for such reimbursement setting forth the reasons (A) why the Future Claimants' Representative desires to employ the Professional, and (B) why the Future Claimants' Representative cannot rely on Professionals retained by the Trust to meet the need of the Future Claimants' Representative for such expertise or advice, and (ii) the Trust has approved the Future Claimants' Representative's request for reimbursement in writing. If the Trust agrees to pay for the Future Claimants' Representative's Professional, such reimbursement shall be treated as a Trust Expense. If the Trust declines to pay for the Future Claimants' Representative's Professional, it must set forth its reasons in writing. If the Future Claimants' Representative still desires to employ the Professional at Trust expense, the Future Claimants' Representative and/or the Trustees shall resolve their dispute pursuant to Section 7.13 below.

**6.5 Compensation and Expenses of the Future Claimants' Representative .** The Future Claimants' Representative shall receive compensation from the PI Trust in the form of the Future Claimants' Representative's normal hourly rate for services performed. The PI Trust will promptly reimburse the Future Claimants' Representative for all reasonable out-of-pocket costs and expenses incurred by the Future Claimants' Representative in connection with the performance of his or her duties hereunder. Such reimbursement or direct payment shall be deemed a PI Trust expense. The PI Trust shall include a description of the amounts paid under this Section 6.5 in the accounts to be filed with the Bankruptcy Court and provided to the Trustees, the Future Claimants' Representative, and Reorganized AWI pursuant to Section 2.2(c)(i).

**6.6 Procedures for Consultation with and Obtaining the Consent of the Future Claimants Representative .**

(a) **Consultation Process .**

- (i) In the event the Trustees are required to consult with the Future Claimants' Representative pursuant to Section 2.2(e) above or on any other matters specified herein, the Trustees shall provide the Future Claimants' Representative with written advance notice of the matter under consideration, and with all relevant information concerning the matter as is reasonably practicable under the circumstances. The Trustees shall also provide the Future Claimants' Representative with such reasonable access to Professionals and other experts retained by the PI Trust and its staff (if any) as the Future Claimants' Representative may reasonably request during the time that the Trustees are considering such matter, and shall also provide the Future Claimants' Representative the opportunity, at reasonable times and for reasonable periods of time, to discuss and comment on such matter with the Trustees.

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- (ii) The Trustees shall take into consideration the time required for the Future Claimants' Representative, if he or she so wishes, to engage and consult with his or her own independent financial or investment advisors as to such matter.

(b) **Consent Process.**

- (i) In the event the Trustees are required to obtain the consent of the Future Claimants' Representative pursuant to Section 2.2(f) above, the Trustees shall provide the Future Claimants' Representative with a written notice stating that his or her consent is being sought pursuant to that provision, describing in detail the nature and scope of the action the Trustees propose to take, and explaining in detail the reasons why the Trustees desire to take such action. The Trustees shall provide the Future Claimants' Representative as much relevant additional information concerning the proposed action as is reasonably practicable under the circumstances. The Trustees shall also provide the Future Claimants' Representative with such reasonable access to Professional and other experts retained by the PI Trust and its staff (if any) as the Future Claimants' Representative may reasonably request during the time that the Trustees are considering such action, and shall also provide the Future Claimants' Representative the opportunity, at reasonable times and for reasonable periods of time, to discuss and comment on such action with the Trustees.
- (ii) The Future Claimants' Representative must consider in good faith and in a timely fashion any request for his or her consent by the Trustees, and must in any event advise the Trustees in writing of his or her consent or objection to the proposed action within 30 days of receiving the original request for consent from the Trustees. The Future Claimants' Representative may not withhold his or her consent unreasonably. If the Future Claimants' Representative decides to withhold consent, he or she must explain in detail his or her objections to the proposed action. If the Future Claimants' Representative does not advise the Trustees in writing of his or her consent or objections to the proposed action within 30 days of receiving the notice from the Trustees regarding such consent, the Future Claimants' Representative's consent shall be deemed to have been affirmatively granted.
- (iii) If, after following the procedures specified in this Section 5.7(b), the Future Claimants' Representative continues to object to the proposed action and to withhold its consent to the proposed action, the Trustees and/or the Future Claimants' Representative shall resolve their dispute pursuant to Section 7.13. However, the burden of proof with respect to the validity of the Future Claimants' Representative's objection and withholding of his or her consent shall be on the Future Claimants' Representative.

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## SECTION 7

### GENERAL PROVISIONS

**7.1 Irrevocability.** The PI Trust is irrevocable.

**7.2 Termination.**

- (a) The PI Trust shall automatically terminate on the date ninety (90) days after the first to occur of the following events:
- (i) the Trustees decide to terminate the PI Trust because (A) they deem it unlikely that new asbestos claims will be filed against the PI Trust, (B) all Asbestos Personal Injury Claims duly filed with the PI Trust have been liquidated and paid to the extent provided in this PI 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 PI Trust; or
  - (ii) 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 PI Trust in a manner consistent with this PI 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
  - (iii) to the extent that any rule against perpetuities shall be deemed applicable to the PI 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 the date hereof.

(b) On the Termination Date, after payment of all the PI Trust's liabilities have been provided for, all monies remaining in the PI Trust estate shall be given to such organization(s) exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, which tax-exempt organization(s) shall be selected by the Trustees using their reasonable discretion; provided, however, that (i) if practicable, the activities of the selected tax-exempt organization(s) shall be related to the treatment of, research on, or the relief of suffering of individuals suffering from asbestos related lung disorders, and (ii) the tax-exempt organization(s) shall not bear any relationship to Reorganized AWI within the meaning of section 468B(d)(3) of the Internal Revenue Code. Notwithstanding any contrary provision of the Plan and related documents, this Section 7.2(b) cannot be modified or amended.

**7.3 Amendments.** The Trustees, after consultation with the TAC and the Future Claimants' Representative, and subject to the unanimous consent of the TAC and the Future Claimants' Representative, may modify or amend this PI Trust Agreement and the PI Trust Bylaws. The Trustees, after consultation with the TAC and the Future Claimants' Representative, and subject to the consent of the TAC and the Future Claimants' Representative, may modify or amend the TDP; provided, however, that no amendment to the TDP shall be inconsistent with the provisions limiting amendments to that document provided therein, and in particular the provisions limiting amendment of the Claims Payment Ratio set forth in Section 2.5 of the TDP and of the Payment Percentage set forth in Section 4.2 of the TDP. Any modification or amendment made pursuant to this Article must be done in writing. Notwithstanding anything contained in this PI Trust Agreement to the contrary, neither this PI Trust Agreement, the PI Trust Bylaws, the TDP, nor any

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document annexed to the foregoing shall be modified or amended in any way that could jeopardize, impair, or modify the applicability of section 524(g) of the Bankruptcy Code, the efficacy or enforceability of the injunction entered thereunder, or the PI Trust's qualified settlement fund status under Section 468B of the Internal Revenue Code.

**7.4 Meetings.** The Trustees, the TAC, and the Future Claimants' Representative, shall be deemed to have attended a meeting in the event such person spends a substantial portion of the day conferring, in person or by telephone conference call, on PI Trust matters with the TAC, the Future Claimants' Representative, or Trustees, as applicable. A Trustee shall also be deemed to have attended a meeting in the event he or she spends a substantial portion of the day engaging in activities related to Reorganized AWI, including attendance at its Board of Directors meetings. The Trustees, the TAC and the Future Claimants' Representative shall have complete discretion to determine whether a meeting, as described herein, occurred for purposes of Sections 4.5, 5.6, and 6.5 above.

**7.5 Severability.** Should any provision in this PI Trust Agreement be determined to be unenforceable, such determination shall in no way limit or affect the enforceability and operative effect of any and all other provisions of this PI Trust Agreement.

**7.6 Notices.** Notices to persons asserting claims shall be given by first class mail, postage prepaid, at the address of such person, or, where applicable, such person's legal representative, in each case as provided on such person's claim form submitted to the PI Trust with respect to his or her PI Trust Claim.

(a) Any notices or other communications required or permitted hereunder to the following parties shall be in writing and delivered at the addresses designated below, or sent by telex, telecopy or facsimile pursuant to the instructions listed below, or mailed by registered or certified mail, return receipt requested, postage prepaid, addressed as follows, or to such other address or addresses as may hereafter be furnished in writing to each of the other parties listed below in compliance with the terms hereof

To the PI Trust through the Trustees:

To the TAC:

To the Future Claimants' Representative:

To Reorganized AWI:

(b) All such notices and communications if mailed shall be effective when physically delivered at the designated addresses or, if electronically transmitted, when the communication is received at the designated addresses and confirmed by the recipient by return transmission.

**7.7 Successors and Assigns.** The provisions of this PI Trust Agreement shall be binding upon and inure to the benefit of AWI, the PI Trust, the Trustees and Reorganized AWI, and their respective successors and assigns, except that neither AWI, the PI Trust, the Trustees nor Reorganized AWI may assign or otherwise transfer any of its, or their, rights or obligations under this PI Trust Agreement except, in the case of the PI Trust and the Trustees, as contemplated by Section 2.1 above.

**7.8 Limitation on Claim Interests for Securities Laws Purposes.** Asbestos Personal Injury Claims, and any interests therein (a) shall not be assigned, conveyed, hypothecated, pledged or otherwise transferred, voluntarily or involuntarily, directly or indirectly, except by will or under the laws of descent and distribution; (b) shall not be evidenced by a certificate or other instrument; (c) shall not possess any voting rights; and (d) shall not be entitled to receive any dividends or interest; provided, however, that clause (a) of this Section 7.8 shall not apply to the holder of a claim that is subrogated to a PI Trust Claim as a result of its satisfaction of such PI Trust Claim.

**7.9 Entire Agreement; No Waiver.** The entire agreement of the parties relating to the subject matter of this PI Trust Agreement is contained herein and in the documents referred to herein, and this PI Trust Agreement and such documents supersede any prior oral or written agreements concerning the subject matter hereof. No failure to exercise or delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any further exercise thereof or of any other right, power or privilege. The rights and remedies herein provided are cumulative and are not exclusive of rights under law or in equity.

**7.10 Headings.** The headings used in this PI Trust Agreement are inserted for convenience only and do not constitute a portion of this PI Trust Agreement, nor in any manner affect the construction of the provisions of this PI Trust Agreement .

**7.11 Governing Law.** This PI Trust Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to Delaware conflict of law principles.

**7.12 Settlor Representative and Cooperation.** AWI is hereby irrevocably designated as the Settlor, and it is hereby authorized to take any action required of the Settlor in connection with the PI Trust Agreement. AWI agrees to cooperate in implementing the goals and objectives of this PI Trust.

**7.13 Dispute Resolution.** Any disputes that arise under this PI Trust Agreement or under the TDP shall be resolved by submission of the matter to an alternative dispute resolution ( “*ADR*” ) process mutually agreeable to the parties involved. Should any party to the ADR process be dissatisfied with the decision of the arbitrator(s), that party may apply to the Bankruptcy Court for a judicial determination of the matter. In either case, if the dispute arose pursuant to the consent provision set forth in Section 5.7(b) (in the case of the TAC) or Section 6.6(b) (in the case of the Future Claimants’ Representative), the burden of proof shall be on the party or parties who withheld consent to show that the objection was valid. Should the dispute not be resolved by ADR process within thirty (30) days after submission, the parties are relieved of the requirement to pursue ADR prior to application to the Bankruptcy Court. Notwithstanding anything else herein contained, to the extent any provision of this PI Trust Agreement is inconsistent with any provision of the Plan or the TDP, the Plan or the TDP shall control.

**7.14 Enforcement and Administration.** The provisions of this PI Trust Agreement and the TDP attached hereto shall be enforced by the Bankruptcy Court pursuant to the Plan. The parties hereby further acknowledge and agree that the Bankruptcy Court shall have exclusive jurisdiction over the settlement of the accounts of the Trustees and over any disputes hereunder not resolved by alternative dispute resolution in accordance with Section 7.13 above.

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**7.15 Effectiveness.** This PI Trust Agreement shall not become effective until it has been executed and delivered by all the parties hereto.

**7.16 Counterpart Signatures.** This PI Trust Agreement may be executed in any number of counterparts, each of which shall constitute an original, but such counterparts shall together constitute but one and the same instrument.

Exhibit 1.23-19

IN WITNESS WHEREOF, the parties have executed this PI Trust Agreement this \_\_\_day of \_\_\_\_\_, \_\_\_\_.

**A RMSTRONG W ORLD I NDUSTRIES , I NC ., S ETTLOR ,  
by**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**T RUSTEES**

\_\_\_\_\_  
Anne M. Ferrazi

\_\_\_\_\_  
Harry Huge

\_\_\_\_\_  
Paul A. Knuti

\_\_\_\_\_  
Lewis R. Sifford

\_\_\_\_\_  
Thomas M. Tully

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**A SBESTOS C LAIMANTS ' C OMMITTEE**

By: \_\_\_\_\_

John D. Cooney

**T RUST A DVISORY C OMMITTEE**

\_\_\_\_\_  
John D. Cooney

\_\_\_\_\_  
Russell W. Budd

\_\_\_\_\_  
Steven Kazan

\_\_\_\_\_  
Joseph F. Rice

\_\_\_\_\_  
Perry Weitz

**F UTURE C LAIMANTS ' R EPRESENTATIVE**

\_\_\_\_\_  
Dean M. Trafelet, Esq.

Exhibit 1.23-21

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**EXHIBIT A**

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

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

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**Exhibit 1.24**

**F ORM OF A RMSTRONG W ORLD I NDUSTRIES , I NC .  
A SBESTOS P ERSONAL I NJURY S ETTLEMENT T RUST  
D ISTRIBUTION P ROCEDURES**

Exhibit 1.24-1

ASBESTOS PERSONAL INJURY SETTLEMENT TRUST DISTRIBUTION PROCEDURES

The Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Distribution Procedures (“*TDP*”) contained herein provide for resolving all Asbestos Personal Injury Claims (as that term is defined in the Armstrong World Industries, Inc. Plan of Reorganization (“*Plan*”)) caused by exposure to asbestos-containing products for which Armstrong World Industries, Inc. (“*AWI*”) and its predecessors, successors, and assigns have legal responsibility (hereinafter for all purposes of this TDP referred to as “*PI Trust Claims*”), as provided in and required by the Plan and by the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement (“*PI Trust Agreement*”). The Plan and PI Trust Agreement establish the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (“*PI Trust*”). The Trustees of the PI Trust (“*Trustees*”) shall implement and administer this TDP in accordance with the PI Trust Agreement. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Plan and the PI Trust Agreement.

SECTION I

Introduction

**1.1 Purpose.** This TDP has been adopted pursuant to the PI Trust Agreement. It is designed to provide fair, equitable and substantially similar treatment for all PI Trust Claims that may presently exist or may arise in the future in substantially the same manner.

**1.2 Interpretation.** Nothing in this TDP shall be deemed to create a substantive right for any claimant.

SECTION II

Overview

**2.1 PI Trust Goals.** The goal of the PI Trust is to treat all claimants equitably. This TDP furthers that goal by setting forth procedures for processing and paying AWI’s several share of the unpaid portion of the liquidated value of PI Trust Claims generally on an impartial, first-in-first-out (“*FIFO*”) basis, with the intention of paying all claimants over time as equivalent a share as possible of the value of their claims based on historical values for substantially similar claims in the tort system. To this end, the TDP establishes a schedule of eight asbestos-related diseases (“*Disease Levels*”), seven of which have presumptive medical and exposure requirements (“*Medical/Exposure Criteria*”), specific liquidated values (“*Scheduled Values*”), anticipated average values (“*Average Values*”) and caps on their liquidated values (“*Maximum Values*”). The Disease Levels, Medical/Exposure Criteria, Scheduled Values, Average Values and Maximum Values, which are set forth in Sections 5.3 and 5.4 below, have all been selected and derived with the intention of achieving a fair allocation of the PI Trust funds as among claimants suffering from different disease processes in light of the best available information considering the settlement history of AWI and the rights claimants would have in the tort system absent the bankruptcy.

**2.2 Claims Liquidation Procedures.** PI Trust Claims shall be processed based on their place in the FIFO Processing Queue to be established pursuant to Section 5.1(a) below. The PI Trust shall take all reasonable steps to resolve PI Trust Claims as efficiently and expeditiously as possible at each stage of claims processing and arbitration. To this end, the PI Trust, in its sole discretion, may conduct settlement discussions with claimants’ representatives with respect to more than one claim at a time, provided that the claimants’ respective positions in the FIFO Processing Queue are maintained and each claim is individually evaluated pursuant to the valuation factors set forth in Section 5.3(b)(2) below. The PI Trust shall also make every effort to resolve each year at least that number of PI Trust Claims required to exhaust the Maximum Annual Payment and the Maximum Available Payment for Category A and Category B claims, as those terms are defined below.

The PI Trust shall liquidate all PI Trust Claims except Foreign Claims that meet the presumptive Medical/Exposure Criteria of Disease Levels I – V, VII and VIII under the Expedited Review Process described in Section 5.3(a) below. Claims involving Disease Levels I – V, VII and VIII that do not meet the presumptive Medical/Exposure Criteria for the relevant Disease Level may undergo the PI Trust’s Individual Review Process described in Section 5.3(b) below. In such a case, notwithstanding that the claim does not

meet the presumptive Medical/Exposure Criteria for the relevant Disease Level, the PI Trust can offer the claimant an amount up to the Scheduled Value of that Disease Level if the PI Trust is satisfied that the claimant has presented a claim that would be cognizable and valid in the tort system.

PI Trust Claims involving Disease Levels II - VIII may in addition or alternatively seek to establish a liquidated value for the claim that is greater than its Scheduled Value by electing the PI Trust's Individual Review Process. However, the liquidated value of a PI Trust Claim that undergoes the Individual Review Process for valuation purposes may be determined to be less than its Scheduled Value, and in any event shall not exceed the Maximum Value for the relevant Disease Level set forth in Section 5.3(b)(4) below, unless the claim qualifies as an Extraordinary Claim as defined in Section 5.4(a) below, in which case its liquidated value cannot exceed the Maximum Value specified in that provision for such claims. Level VI (Lung Cancer 2) claims and all Foreign Claims may be liquidated only pursuant to the PI Trust's Individual Review Process.

Based upon AWI's claims settlement history in light of applicable tort law, and current projections of present and future unliquidated claims, the Scheduled Values and Maximum Values set forth in Section 5.3(b)(4) have been established for each of the Disease Levels that are eligible for Individual Review of their liquidated values, with the expectation that the combination of settlements at the Scheduled Values and those resulting from the Individual Review Process will result in the Average Values also set forth in that provision.

All unresolved disputes over a claimant's medical condition, exposure history and/or the liquidated value of the claim shall be subject to binding or non-binding arbitration as set forth in Section 5.10 below, at the election of the claimant, under procedures that are provided in Attachment A hereto. PI Trust Claims that are the subject of a dispute with the PI Trust that cannot be resolved by non-binding arbitration may enter the tort system as provided in Sections 5.11 and 7.6 below. However, if and when a claimant obtains a judgment in the tort system, the judgment will be payable (subject to the Payment Percentage, Maximum Available Payment, and Claims Payment Ratio provisions set forth below) as provided in Section 7.7 below.

**2.3 Application of the Payment Percentage.** After the liquidated value of a PI Trust Claim other than a claim involving Other Asbestos Disease (Disease Level I – Cash Discount Payment), as defined in Section 5.3(a)(3) below, is determined pursuant to the procedures set forth herein for Expedited Review, Individual Review, arbitration, or litigation in the tort system, the claimant will ultimately receive a pro-rata share of that value based on a Payment Percentage described in Section 4.2 below. The Payment Percentage shall also apply to all Pre-Petition Liquidated Claims as provided in Section 5.2 below. The Initial Payment Percentage has been set at twenty percent (20%), and shall apply to all PI Trust Voting Claims accepted as valid by the PI Trust, unless adjusted by the PI Trust pursuant to the consent of the PI Trust Advisory Committee (“TAC”) and the Legal Representative for Future Asbestos Claimants (“Future Claimants’ Representative”) (who are described in Section 3.1 below) pursuant to Section 4.2 below. The term “PI Voting Trust Claims” includes (i) Pre-Petition Liquidated Claims as defined in Section 5.2(a) below; (ii) claims filed against AWI in the tort system or actually submitted to AWI pursuant to an administrative settlement agreement prior to the Petition Date of December 6, 2000; and (iii) all claims filed against another defendant in the tort system prior to the date the Plan was filed with the Bankruptcy Court (November 1, 2002 (the “Plan Filing Date”)), provided, however, that the holder of a claim described in subsection (i), (ii) or (iii) above or his or her authorized agent, actually voted to accept or reject the Plan pursuant to the voting procedures established by the Bankruptcy Court, and provided further that the claim was subsequently filed with the PI Trust pursuant to Section 6.1 below by the Initial Claims Filing Date defined in Section 5.1(a) below. The Initial Payment Percentage has been calculated on the assumption that the Average Values set forth in Section 5.3(b)(4) below will be achieved with respect to existing present claims and projected future claims involving Disease Levels II – VIII.

The Payment Percentage may be adjusted upwards or downwards from time to time by the PI Trust with the consent of the TAC and the Future Claimants’ Representative to reflect then-current estimates of the PI Trust’s assets and its liabilities, as well as the then-estimated value of pending and future claims. However, any adjustment to the Initial Payment Percentage shall be made only pursuant to Section 4.2 below. If the Payment Percentage is increased over time, claimants whose claims were liquidated and paid in prior periods under the TDP will not receive additional payments, except as provided in Section 4.2 below relating to circumstances in which the PI Trust has received a substantial recovery of insurance proceeds. Because there is uncertainty in the prediction of both the number and severity of future claims, and the amount of the PI Trust’s assets, no guarantee can be made of any Payment Percentage of a PI Trust Claim’s liquidated value.

**2.4 PI Trust's Determination of the Maximum Annual Payment and Maximum Available Payment.** The PI Trust shall estimate or model the amount of cash flow anticipated to be necessary over its entire life to ensure that funds will be available to treat all present and future claimants as similarly as possible. In each year, the PI Trust will be empowered to pay out all of the interest earned during the year, together with a portion of its principal, calculated so that the application of PI Trust funds over its life shall correspond with the needs created by the anticipated flow of claims (the "*Maximum Annual Payment*"), taking into account the Payment Percentage provisions set forth in Sections 2.3 above and 4.2 below. The PI Trust's distributions to all claimants for that year shall not exceed the Maximum Annual Payment determined for that year.

In distributing the Maximum Annual Payment, the PI Trust shall first allocate the amount in question to outstanding Pre-Petition Liquidated Claims and to liquidated PI Trust Claims involving Disease Level I (Cash Discount Payment), in proportion to the aggregate value of each group of claims. The remaining portion of the Maximum Annual Payment (the "*Maximum Available Payment*"), if any, shall then be allocated and used to satisfy all other liquidated PI Trust Claims, subject to the Claims Payment Ratio set forth in Section 2.5 below. In the event there are insufficient funds in any year to pay the total number of outstanding Pre-Petition Liquidated Claims and/or previously liquidated Disease Level I Claims, the available funds allocated to that group of claims shall be paid to the maximum extent to claimants in the particular group based on their place in their respective FIFO Payment Queue. Claims in either group for which there are insufficient funds shall be carried over to the next year and placed at the head of their FIFO Payment Queue.

**2.5 Claims Payment Ratio.** Based upon AWI's claims settlement history and analysis of present and future claims, a Claims Payment Ratio has been determined which, as of the Effective Date, has been set at 65% for Category A claims, which consist of PI Trust Claims involving severe asbestosis and malignancies (Disease Levels IV – VIII) that were unliquidated as of the Petition Date, and at 35% for Category B claims, which are PI Trust Claims involving non-malignant Asbestosis or Pleural Disease (Disease Levels II and III) that were similarly unliquidated as of the Petition Date. The Claims Payment Ratio shall not apply to any Pre-Petition Liquidated Claims or to any claims for Other Asbestos Disease (Disease Level I - Cash Discount Payment). In each year, after the determination of the Maximum Available Payment described in Section 2.4 above, 65% of that amount will be available to pay Category A claims and 35% will be available to pay Category B claims that have been liquidated since the Petition Date.

In the event there are insufficient funds in any year to pay the liquidated claims within either or both of the Categories, the available funds allocated to the particular Category shall be paid to the maximum extent to claimants in that Category based on their place in the FIFO Payment Queue described in Section 5.1(c) below, which will be based upon the date of claim liquidation. Claims for which there are insufficient funds allocated to the relevant Category shall be carried over to the next year where they will be placed at the head of the FIFO Payment Queue. If there are excess funds in either or both Categories, because there is an insufficient amount of liquidated claims to exhaust the respective Maximum Available Payment amount for that Category, then the excess funds for either or both Categories will be rolled over and remain dedicated to the respective Category to which they were originally allocated.

The 65%/35% Claims Payment Ratio and its rollover provision shall apply to all PI Trust Voting Claims as defined in Section 2.3 above except Pre-Petition Liquidated Claims and Other Asbestos Disease claims (Disease Level I – Cash Discount Payment), and shall not be amended until the fifth anniversary of the Effective Date. Thereafter, both the Claims Payment Ratio and its rollover provision shall be continued absent circumstances, such as a significant change in law or medicine, necessitating amendment to avoid a manifest injustice. However, the accumulation, rollover and subsequent delay of claims resulting from the application of the Claims Payment Ratio, shall not, in and of itself, constitute such circumstances. Nor may an increase in the numbers of Category B claims beyond those predicted or expected be considered as a factor in deciding whether to reduce the percentage allocated to Category A claims.

In considering whether to make any amendments to the Claims Payment Ratio and/or its rollover provisions, the Trustees shall consider the reasons for which the Claims Payment Ratio and its rollover provisions were adopted, the settlement history that gave rise to its calculation, and the foreseeability or lack of foreseeability of the reasons why there would be any need to make an amendment. In that regard, the Trustees should keep in mind the interplay between the Payment Percentage and the Claims Payment Ratio as it affects the net cash actually paid to claimants.

In any event, no amendment to the Claims Payment Ratio may be made without the consent of the TAC and the Future Claimants' Representative pursuant to the consent process set forth in Sections 5.7(b) and 6.6(b) of the PI Trust Agreement. However, the Trustees, with the consent of the TAC and the Future Claimants' Representative, may offer the option of a reduced Payment Percentage to holders of claims in either Category A or Category B in return for prompter payment (the "**Reduced Payment Option**").

**2.6 Indirect PI Trust Claims.** As set forth in Section 5.6 below, Indirect PI Trust Claims (as such term is defined in the Plan) ("**Indirect PI Trust Claims**"), if any, shall be subject to the same categorization, evaluation, and payment provisions of this TDP as all other PI Trust Claims.

### SECTION III

#### TDP Administration

**3.1 PI Trust Advisory Committee and Future Claimants' Representative.** Pursuant to the Plan and the PI Trust Agreement, the PI Trust and this TDP shall be administered by the Trustees in consultation with the TAC, which represents the interests of holders of present PI Trust Claims, and the Future Claimants' Representative, who represents the interests of holders of PI Trust Claims that will be asserted in the future. The Trustees shall obtain the consent of the TAC and the Future Claimants' Representative on any amendments to these Procedures pursuant to Section 8.1 below, and on such other matters as are otherwise required below and in Section 2.2(f) of the PI Trust Agreement. The Trustees shall also consult with the TAC and the Future Claimants' Representative on such matters as are provided below and in Section 2.2(e) of the PI Trust Agreement. The initial members of the TAC and the initial Future Claimants' Representative are identified in the PI Trust Agreement.

**3.2 Consent and Consultation Procedures.** In those circumstances in which consultation or consent is required, the Trustees will provide written notice to the TAC and the Future Claimants' Representative of the specific amendment or other action that is proposed. The Trustees will not implement such amendment nor take such action unless and until the parties have engaged in the Consultation Process described in Sections 5.7(a) and 6.6(a), or the Consent Process described in Sections 5.7(b) and 6.6(b) of the PI Trust Agreement, respectively.

### SECTION IV

#### Payment Percentage; Periodic Estimates

**4.1 Uncertainty of AWI's Personal Injury Asbestos Liabilities.** As discussed above, there is inherent uncertainty regarding AWI's total asbestos-related tort liabilities, as well as the total value of the assets available to the PI Trust to pay PI Trust Claims. Consequently, there is inherent uncertainty regarding the amounts that holders of PI Trust Claims will receive. To seek to ensure substantially equivalent treatment of all present and future PI Trust Claims, the Trustees must determine from time to time the percentage of full liquidated value that holders of present and future PI Trust Claims will be likely to receive, *i.e.*, the "Payment Percentage" described in Section 2.3 above and Section 4.2 below.

**4.2 Computation of Payment Percentage.** As provided in Section 2.3 above, the Initial Payment Percentage shall be twenty percent (20%), and shall apply to all PI Trust Voting Claims as defined in Section 2.3 above, unless the Trustees, with the consent of the TAC and the Future Claimants' Representative, determine that the Initial Payment Percentage should be changed to assure that the PI Trust will be in a financial position to pay holders of unliquidated and/or unpaid PI Trust Voting Claims and present and future PI Trust Claims in substantially the same manner.

In making any such adjustment, the Trustees, the TAC and the Future Claimants' Representative shall take into account the fact that the holders of PI Trust Voting Claims voted on the Plan relying on the findings of experts that the Initial Payment Percentage represented a reasonably reliable estimate of the PI Trust's total assets and liabilities over its life based on the best information available at the time, and shall thus give due consideration to the expectations of PI Trust Voting Claimants that the Initial Payment Percentage would be applied to their PI Trust Claims.

Except with respect to PI Trust Voting Claims to which the Initial Payment Percentage applies, the Payment Percentage shall be subject to change pursuant to the terms of this TDP and the PI Trust Agreement if the Trustees determine that an adjustment is required. No less frequently than once every three years, commencing with the first day of January occurring after the Plan is consummated, the Trustees shall reconsider the then applicable Payment Percentage to assure that it is based on accurate, current information and may, after such reconsideration, change the Payment Percentage if necessary with the consent of the TAC and the Future Claimants' Representative. The Trustees shall also reconsider the then applicable Payment Percentage at shorter intervals if they deem such reconsideration to be appropriate or if requested to do so by the TAC or the Future Claimants' Representative.

The Trustees must base their determination of the Payment Percentage on current estimates of the number, types, and values of present and future PI Trust Claims, the value of the assets then available to the PI Trust for their payment, all anticipated administrative and legal expenses, and any other material matters that are reasonably likely to affect the sufficiency of funds to pay a comparable percentage of full value to all holders of PI Trust Claims. When making these determinations, the Trustees shall exercise common sense and flexibly evaluate all relevant factors. The Payment Percentage applicable to Category A or Category B claims may not be reduced to alleviate delays in payments of claims in the other Category; both Categories of claims shall receive the same Payment Percentage, but the payment may be deferred as needed, and a Reduced Payment Option may be instituted as described in Section 2.5 above.

The uncertainty surrounding the amount of the PI Trust's future assets is due in significant part to the fact that the estimates of those assets do not take into account the possibility that the PI Trust may receive substantial additional funds from successful recoveries of insurance proceeds that have been assigned to the PI Trust with respect to which the coverage is presently in dispute or the solvency of the carrier is in doubt. If the PI Trust successfully resolves an insurance coverage dispute or otherwise receives a substantial recovery of insurance proceeds, the PI Trust will use those proceeds first to maintain the Payment Percentage then in effect. If the insurance recovery exceeds the amount estimated to be reasonably necessary to maintain the Payment Percentage then in effect, the PI Trust, with the consent of the TAC and the Future Claimants' Representative, shall adjust the Payment Percentage upward to reflect the increase in available assets, and shall also make supplemental payments to claimants who previously liquidated their claims against the PI 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 the claimant with respect to the claim.

**4.3 Applicability of the Payment Percentage.** No holder of a PI Trust Voting Claim, other than a PI Trust Claim for Other Asbestos Disease (Disease Level I - Cash Discount Payment) as defined in Section 5.3(a)(3) below shall receive a payment that exceeds the Initial Payment Percentage times the liquidated value of the claim. Except as otherwise provided in Section 5.1(c) below for PI Trust Claims involving deceased or incompetent claimants for which approval of the PI Trust's offer by a court or through a probate process is required, no holder of any other PI Trust Claim, other than a PI Trust Claim for Other Asbestos Disease (Disease Level I - Cash Discount Payment), shall receive a payment that exceeds the liquidated value of the claim times the Payment Percentage in effect at the time of payment. PI Trust Claims involving Other Asbestos Disease (Disease Level I - Cash Discount Payment) shall not be subject to the Payment Percentage, but shall instead be paid the full amount of their Scheduled Value as set forth in Section 5.3(a)(3) below.

If a redetermination of the Payment Percentage has been proposed in writing by the Trustees to the TAC and the Future Claimants' Representative but has not yet been adopted, the claimant shall receive the lower of the current Payment Percentage or the proposed Payment Percentage. However, if the proposed Payment Percentage was the lower amount but was not subsequently adopted, the claimant shall thereafter receive the difference between the lower proposed amount and the higher current amount. Conversely, if the proposed Payment Percentage was the higher amount and was subsequently adopted, the claimant shall thereafter receive the difference between the lower current amount and the higher adopted amount.

## SECTION V

### Resolution of PI Trust Claims .

#### **5.1 Ordering, Processing and Payment of Claims.**

##### **5.1(a) Ordering of Claims.**

Exhibit 1.24-6

**5.1(a)(1) Establishment of the FIFO Processing Queue.** The PI Trust will order claims that are sufficiently complete to be reviewed for processing purposes on a FIFO basis except as otherwise provided herein (the “*FIFO Processing Queue*”). For all claims filed on or before the date six months after the Effective Date (the “*Initial Claims Filing Date*”), a claimant’s position in the FIFO Processing Queue shall be determined as of the earlier of (i) the date prior to the Petition Date (if any) that the specific claim was either filed against AWI in the tort system or was actually submitted to AWI pursuant to an administrative settlement agreement; (ii) the date before the Petition Date that a claim was filed against another defendant in the tort system if at the time the claim was subject to a tolling agreement with AWI; (iii) the date after the Petition Date (if any) but before the Effective Date that the claim was filed against another defendant in the tort system; (iv) the date after the Petition Date (if any) but before the Effective Date that a proof of claim was filed against AWI in AWI’s Chapter 11 case; (v) the date a ballot was submitted in AWI’s Chapter 11 case for purposes of voting on the Plan in accordance with the voting procedures adopted by the Bankruptcy Court; or (vi) the date after the Effective Date but on or before the Initial Claims Filing Date that the claim was filed with the PI Trust.

Following the Initial Claims Filing Date, the claimant’s position in the FIFO Processing Queue shall be determined by the date the claim was filed with the PI Trust. If any claims are filed on the same date, the claimant’s position in the FIFO Processing Queue shall be determined by the date of the diagnosis of the claimant’s asbestos-related disease. If any claims are filed and diagnosed on the same date, the claimant’s position in the FIFO Processing Queue shall be determined by the date of the claimant’s birth, with older claimants given priority over younger claimants.

**5.1(a)(2) Effect of Statutes of Limitations and Repose.** To be eligible for a place in the FIFO Processing Queue, a claim must meet either (i) for claims first filed in the tort system against AWI prior to the Petition Date, the applicable federal, state and foreign statute of limitation and repose that was in effect at the time of the filing of the claim in the tort system, or (ii) for claims that were not filed against AWI in the tort system prior to the Petition Date, the applicable statute of limitation that was in effect at the time of the filing with the PI Trust. However, the running of the relevant statute of limitation shall be tolled as of the earliest of (A) the actual filing of the claim against AWI prior to the Petition Date, whether in the tort system or by submission of the claim to AWI pursuant to an administrative settlement agreement; (B) the filing of the claim against another defendant in the tort system prior to the Petition Date if the claim was tolled against AWI at the time by an agreement or otherwise; (C) the filing of a claim after the Petition Date but prior to the Effective Date against another defendant in the tort system; (D) the date after the Petition Date (if any) but before the Effective Date that a proof of claim was filed against AWI in AWI’s Chapter 11 case; (E) the date a ballot was submitted in AWI’s Chapter 11 case for purposes of voting on the Plan in accordance with the voting procedures adopted by the Bankruptcy Court; or (F) the filing of a proof of claim with the requisite supporting documentation with the PI Trust after the Effective Date.

If a PI Trust Claim meets any of the tolling provisions described in the preceding sentence and the claim was not barred by the applicable statute of limitation at the time of the tolling event, it will be treated as timely filed if it is actually filed with the PI Trust within three (3) years after the Effective Date. In addition, any claims that were first diagnosed after the Petition Date, irrespective of the application of any relevant statute of limitation or repose, may be filed with the PI Trust within three (3) years after the date of diagnosis or within three (3) years after the Effective Date, whichever occurs later. However, the processing of any PI Trust Claim by the PI Trust may be deferred at the election of the claimant pursuant to Section 6.3 below.

**5.1(b) Processing of Claims.** As a general practice, the PI Trust will review its claims files on a regular basis and notify all claimants whose claims are likely to come up in the FIFO Processing Queue in the near future. However, claims that were not filed (i) against AWI in the tort system or actually submitted to AWI pursuant to an administrative settlement agreement prior to the Petition Date, or (ii) against another defendant in the tort system prior to the Plan Filing Date, shall not be processed until after the Initial Claims Filing Date.

**5.1(c) Payment of Claims.** PI Trust Claims that have been liquidated by the Expedited Review Process as provided in Section 5.3 (a) below, by the Individual Review Process as provided in Section 5.3(b) below, by arbitration as provided in Section 5.10 below, or by litigation in the tort system provided in Section 5.11 below, shall be paid in FIFO order based on the date their liquidation became final (the “*FIFO Payment Queue*”), all such payments being subject to the applicable Payment Percentage, the Maximum Available Payment, and the Claims Payment Ratio, except as otherwise provided herein.

Where the claimant is deceased or incompetent, and the settlement and payment of his or her claim must be approved by a court of competent jurisdiction or through a probate process prior to acceptance of the claim by the claimant's representative, an offer made by the PI Trust on the claim shall remain open so long as proceedings before that court or in that probate process remain pending, provided that the PI Trust has been furnished with evidence that the settlement offer has been submitted to such court or probate process for approval. If the offer is ultimately approved by the court or through the probate process and accepted by the claimant's representative, the PI Trust shall pay the claim in the amount so offered, multiplied by the Payment Percentage in effect at the time the offer was first made.

If any claims are liquidated on the same date, the claimant's position in the FIFO Payment Queue shall be determined by the date of the diagnosis of the claimant's asbestos-related disease. If any claims are liquidated on the same date and the respective claimants' asbestos-related diseases were diagnosed on the same date, the position of those claimants in the FIFO Payment Queue shall be determined by the PI Trust based on the dates of the claimants' birth, with older claimants given priority over younger claimants.

## **5.2 Resolution of Pre-Petition Liquidated PI Trust Claims.**

**5.2(a) Processing and Payment.** As soon as practicable after the Effective Date, the PI Trust shall pay, upon submission by the claimant of the applicable PI Trust proof of claim form (included in Attachment B) together with all documentation required thereunder, all PI Trust Claims that were liquidated by (i) a binding settlement agreement for the particular claim entered into prior to the Petition Date that is judicially enforceable by the claimant, (ii) a jury verdict or non-final judgment in the tort system obtained prior to the Petition Date, or (iii) by a judgment that became final and non-appealable prior to the Petition Date (collectively "**Pre-Petition Liquidated Claims**").

The liquidated value of a Pre-Petition Liquidated Claim shall be AWI's share of the unpaid portion of the amount agreed to in the binding settlement agreement, the unpaid portion of the amount awarded by the jury verdict or non-final judgment, or the unpaid portion of the amount of the final judgment, as the case may be, plus interest, if any, that has accrued on that amount in accordance with the terms of the agreement, if any, or under applicable state law for settlements or judgments as of the Petition Date; however, except as provided in Section 7.4 below, the liquidated value of a Pre-Petition Liquidated Claim shall not include any punitive or exemplary damages. In the absence of a final order of the Bankruptcy Court determining whether a settlement agreement is binding and judicially enforceable, a dispute between the claimant and the PI Trust over this issue shall be resolved pursuant to the same procedures in this TDP that are provided for resolving the validity and/or liquidated value of a PI Trust Claim (*i.e.*, arbitration and litigation in the tort system as set forth in Sections 5.10 and 5.11 below).

Pre-Petition Liquidated Claims shall be processed and paid in accordance with their order in a separate FIFO queue to be established by the PI Trust based on the date the PI Trust received a completed proof of claim form with all required documentation for the particular claim; *provided, however*, the amounts payable with respect to such claims shall not be subject to or taken into account in consideration of the Claims Payment Ratio, but shall be subject to the Maximum Annual Payment and Payment Percentage provisions set forth above. If any Pre-Petition Liquidated Claims were filed on the same date, the claimants' position in the FIFO queue for such claims shall be determined by the date on which the claim was liquidated. If any Pre-Petition Liquidated Claims were both filed and liquidated on the same dates, the position of those claimants in the FIFO queue shall be determined by the dates of the claimants' birth, with older claimants given priority over younger claimants.

**5.2(b) Marshalling of Security.** Holders of Pre-Petition Liquidated Claims that are secured by letters of credit, appeal bonds, or other security or sureties shall first exhaust their rights against any applicable security or surety before making a claim against the PI Trust. Only in the event that such security or surety is insufficient to pay the Pre-Petition Liquidated Claim in full shall the deficiency be processed and paid as a Pre-Petition Liquidated Claim.

**5.3 Resolution of Unliquidated PI Trust Claims.** Within six months after the establishment of the PI Trust, the Trustees with the consent of the TAC and the Future Claimants' Representative shall adopt procedures for reviewing and liquidating all unliquidated PI Trust Claims, which shall include deadlines for processing such claims. Such procedures shall also require claimants seeking resolution of unliquidated PI Trust claims to first file a proof of claim form, together with the required supporting documentation, in accordance with the provisions of Sections 6.1 and 6.2 below. It is anticipated that the PI Trust shall provide an initial response to the claimant within six months of receiving the proof of claim form.

The proof of claim form shall require the claimant to assert his or her claim for the highest Disease Level for which the claim qualifies at the time of filing. Irrespective of the Disease Level alleged on the proof of claim form, all claims shall be deemed to be a claim for the highest Disease Level for which the claim qualifies at the time of filing, and all lower Disease Levels for which the claim may also qualify at the time of filing or in the future shall be treated as subsumed into the higher Disease Level for both processing and payment purposes.

Upon filing of a valid proof of claim form with the required supporting documentation, the claimant shall be placed in the FIFO Processing Queue in accordance with the ordering criteria described in Section 5.1(a) above. The PI Trust shall provide the claimant with six-months notice of the date by which it expects to reach the claim in the FIFO Queue, following which the claimant shall promptly (i) advise the PI Trust whether the claim should be liquidated under the PI Trust's Expedited Review Process described in Section 5.3(a) below or, in certain circumstances, under the PI Trust's Individual Review Process described in Section 5.3(b) below; (ii) provide the PI Trust with any additional medical and/or exposure evidence that was not provided with the original claim submission; and (iii) advise the PI Trust of any change in the claimant's Disease Level. If a claimant fails to respond to the PI Trust's notice prior to the reaching of the claim in the FIFO Queue, the PI Trust will process and liquidate the claim under the Expedited Review Process based upon the medical/exposure evidence previously submitted by the claimant, although the claimant shall retain the right to request Individual Review as described in Section 5.3(b) below.

### **5.3(a) Expedited Review Process.**

**5.3(a)(1) In General.** The PI Trust's Expedited Review Process is designed primarily to provide an expeditious, efficient and inexpensive method for liquidating all claims (except those involving Lung Cancer 2 - Disease Level VI and all Foreign Claims, which shall be liquidated pursuant to the PI Trust's Individual Review Process) where the claim can easily be verified by the PI Trust as meeting the presumptive Medical/Exposure Criteria for the relevant Disease Level. Expedited Review thus provides claimants with a substantially less burdensome process for pursuing PI Trust Claims than does the Individual Review Process described in Section 5.3(b) below. Expedited Review is also intended to provide qualifying claimants a fixed and certain claims payment.

Thus, claims that undergo Expedited Review and meet the presumptive Medical/Exposure Criteria for the relevant Disease Level shall be paid the Scheduled Value for such Disease Level set forth in Section 5.3(a)(3) below. However, except for claims involving Other Asbestos Disease (Disease Level I), all claims liquidated by Expedited Review shall be subject to the applicable Payment Percentage, the Maximum Available Payment, and the Claims Payment Ratio limitations set forth above. Claimants holding claims that cannot be liquidated by Expedited Review because they do not meet the presumptive Medical/Exposure Criteria for the relevant Disease Level may elect the PI Trust's Individual Review Process set forth in Section 5.3(b) below.

**5.3(a)(2) Claims Processing under Expedited Review.** All claimants seeking liquidation of their claims pursuant to Expedited Review shall file the PI Trust's proof of claim form provided in Attachment B hereto. As a proof of claim form is reached in the FIFO Processing Queue, the PI Trust shall determine whether the claim described therein meets the Medical/Exposure Criteria for one of the seven Disease Levels eligible for Expedited Review, and shall advise the claimant of its determination. If a Disease Level is determined, the PI Trust shall tender to the claimant an offer of payment of the Scheduled Value (as adjusted by the applicable Payment Percentage) for the relevant Disease Level multiplied by the applicable Payment Percentage, together with a form of release approved by the PI Trust. If the claimant accepts the Scheduled Value and returns the release properly executed, the claim shall be placed in the FIFO Payment Queue, following which the PI Trust shall disburse payment subject to the limitations of the Maximum Available Payment and Claims Payment Ratio, if any.

**5.3(a)(3) Disease Levels, Scheduled Values and Medical/Exposure Criteria.** The eight Disease Levels covered by this TDP, together with the Medical/Exposure Criteria for each and the Scheduled Values for the seven Disease Levels eligible for Expedited Review, are set forth below. These Disease Levels, Scheduled Values, and Medical/Exposure Criteria shall apply to all PI Trust Voting Claims filed with the PI Trust on or before the Initial Claims Filing Date provided in Section 5.1 above. Thereafter, with

the consent of the TAC and the Future Claimants' Representative, the Trustees may add to, change or eliminate Disease Levels, Scheduled Values, or Medical/Exposure Criteria; develop subcategories of Disease Levels, Scheduled Values or Medical/Exposure Criteria; or determine that a novel or exceptional asbestos personal injury claim is compensable even though it does not meet the Medical/Exposure Criteria for any of the then current Disease Levels.

<u>Disease Level</u>	<u>Scheduled Value</u>	<u>Medical/Exposure Criteria</u>
Mesothelioma (Level VIII)	\$110,000	(1) Diagnosis <sup>1</sup> of mesothelioma; and (2) credible evidence of AWI Exposure (as defined in Section 5.7(b)(3) below).
Lung Cancer 1 (Level VII)	\$42,500	(1) Diagnosis of a primary lung cancer plus evidence of an underlying Bilateral Asbestos-Related Nonmalignant Disease <sup>2</sup> , (2) six months AWI Exposure prior to December 31, 1982, (3) Significant Occupational Exposure to asbestos (as defined in Section 5.7(b)(2) below), and (4) supporting medical documentation establishing asbestos exposure as a contributing factor in causing the lung cancer in question.
Lung Cancer 2 (Level VI)	None	(1) Diagnosis of a primary lung cancer; (2) AWI Exposure prior to December 31, 1982, and (3) supporting medical documentation establishing asbestos exposure as a contributing factor in causing the lung cancer in question.  Lung Cancer 2 (Level VI) claims are claims that do not meet the more stringent medical and/or exposure requirements of Lung Cancer (Level VII) claims. All claims in this Disease Level will be individually evaluated. The estimated likely average of the individual evaluation awards for this category is \$15,000, with such awards capped at \$50,000, unless the claim qualifies for Extraordinary Claim treatment (as described in Section 5.4(a) below).

<sup>1</sup> The requirements for a diagnosis of an asbestos-related disease that may be compensated under the provisions of this TDP are set forth in Section 5.7 below.

<sup>2</sup> Evidence of "Bilateral Asbestos-Related Nonmalignant Disease" for purposes of meeting the criteria for establishing Disease Levels I, II, III, V, and VII, means either (i) a chest X-ray read by a qualified B reader of 1/0 or higher on the ILO scale or, (ii) (x) a chest X-ray read by a qualified B reader, (y) a CT scan read by a qualified physician, or (z) pathology, in each case showing bilateral interstitial fibrosis, bilateral pleural plaques, bilateral pleural thickening, or bilateral pleural calcification. Solely for claims filed against AWI or another asbestos defendant in the tort system prior to the Petition Date, if an ILO reading is not available, either (i) a chest x-ray or a CT scan read by a qualified physician or, (ii) pathology, showing bilateral interstitial fibrosis, bilateral pleural plaques, bilateral pleural thickening, or bilateral pleural calcification consistent with, or compatible with, a diagnosis of asbestos-related disease shall be evidence of Bilateral Asbestos-Related Nonmalignant Disease for purposes of meeting the presumptive medical requirements of Disease Level I, II, III, V and VII. Pathological proof of asbestosis may be based on the pathological grading system for asbestosis described in the Special Issue of the Archives of Pathology and Laboratory Medicine, "Asbestos-associated Diseases," Vol. 106, No. 11, App. 3 (October 8, 1982).

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Level VI claims that show no evidence of either an underlying Bilateral Asbestos-Related Non-malignant Disease or Significant Occupational Exposure may be individually evaluated, although it is not expected that such claims will be treated as having any significant value, especially if the claimant is also a Smoker.<sup>3</sup> In any event, no presumption of validity will be available for any claims in this category.

Other Cancer (Level V)	\$21,500	(1) Diagnosis of a primary colo-rectal, laryngeal, esophageal, pharyngeal, or stomach cancer, plus evidence of an underlying Bilateral Asbestos-Related Nonmalignant Disease, (2) six months AWI Exposure prior to December 31, 1982, (3) Significant Occupational Exposure to asbestos, and (4) supporting medical documentation establishing asbestos exposure as a contributing factor in causing the other cancer in question.
Severe Asbestosis (Level IV)	\$42,500	(1) Diagnosis of asbestosis with ILO of 2/1 or greater, or asbestosis determined by pathological evidence of asbestos, plus (a) TLC less than 65%, or (b) FVC less than 65% and FEV1/FVC ratio greater than 65%, (2) six months AWI Exposure prior to December 31, 1982, (3) Significant Occupational Exposure to asbestos, and (4) supporting medical documentation establishing asbestos exposure as a contributing factor in causing the pulmonary disease in question.
Asbestosis/ Pleural Disease (Level III)	\$ 9,700	(1) Diagnosis of Bilateral Asbestos-Related Nonmalignant Disease, plus (a) TLC less than 80%, or (b) FVC less than 80% and FEV1/FVC ratio greater than or equal to 65%, and (2) six months AWI Exposure prior to December 31, 1982, (3) Significant Occupational Exposure to asbestos, and (4) supporting medical documentation establishing asbestos exposure as a contributing factor in causing the pulmonary disease in question.

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<sup>3</sup> There is no distinction between Non-Smokers and Smokers for either Lung Cancer (Level VII) or Lung Cancer (Level VI), although a claimant who meets the more stringent requirements of Lung Cancer (Level VII) (evidence of an underlying Bilateral Asbestos-Related Nonmalignant Disease plus Significant Occupational Exposure), and who is also a Non-Smoker, may wish to have his or her claim individually evaluated by the PI Trust. In such a case, absent circumstances that would otherwise reduce the value of the claim, it is anticipated that the liquidated value of the claim might well exceed the \$42,500 Scheduled Value for Lung Cancer 1 (Level VII) shown above. **“Non- Smoker”** means a claimant who either (a) never smoked or (b) has not smoked during any portion of the twelve (12) years immediately prior to the diagnosis of the lung cancer.

Asbestosis/ Pleural Disease (Level II)	\$ 3,700	(1) Diagnosis of a Bilateral Asbestos-Related Nonmalignant Disease, and (2) six months AWI Exposure prior to December 31, 1982, and (3) five years cumulative occupational exposure to asbestos.
Other Asbestos Disease (Level I - Cash Discount Payment)	\$ 400	(1) Diagnosis of a Bilateral Asbestos-Related Nonmalignant Disease or an asbestos-related malignancy other than mesothelioma, and (2) AWI Exposure prior to December 31, 1982.

**5.3(b) Individual Review Process**

**5.3(b)(1) In General.** Subject to the provisions set forth below, an AWI claimant may elect to have his or her PI Trust Claim reviewed for purposes of determining whether the claim would be compensable in the tort system even though it does not meet the presumptive Medical/Exposure Criteria for any of the Disease Levels set forth in Section 5.3(a)(3) above. In addition or alternatively, an AWI claimant may elect to have a claim undergo the Individual Review Process for purposes of determining whether the liquidated value of the claim exceeds the Scheduled Value for the relevant Disease Level also set forth in said provision. However, until such time as the PI Trust has made an offer on a claim pursuant to Individual Review, the claimant may change his or her Individual Review election and have the claim liquidated pursuant to the PI Trust’s Expedited Review Process. In the event of such a change in the processing election, the claimant shall nevertheless retain his or her place in the FIFO Processing Queue.

The liquidated value of Foreign Claims shall be established pursuant to the PI Trust’s Individual Review process. Because PI Trust Claims of individuals exposed in Canada who were resident in Canada when such claims were filed were routinely litigated and resolved in the courts of the United States, and because the resolution history of these claims has been included in developing the Expedited Review Process, such claims shall not be considered Foreign Claims hereunder and shall be eligible for liquidation under the Expedited Review Process. Accordingly, a “ *Foreign Claim* ” is a PI Trust claim with respect to which the claimant’s exposure to an asbestos-containing product for which AWI has legal responsibility occurred outside of the United States and its Territories and Possessions, and outside of the Provinces and Territories of Canada.

In reviewing Foreign Claims, the PI Trust shall take into account all relevant procedural and substantive legal rules to which the claims would be subject in the Claimant’s Jurisdiction as defined in Section 5.3(b)(2) below. The PI Trust shall determine the liquidated value of Foreign Claims based on historical settlements and verdicts in the Claimant’s Jurisdiction as well as the other valuation factors set forth in Section 5.3 (b)(2) below.

For purposes of the Individual Review process, the Trustees, with the consent of the TAC and the Future Claimants’ Representative, may develop separate Medical/Exposure Criteria and standards, as well as separate requirements for physician and other professional qualifications, which shall be applicable to Foreign Claims; however, that such criteria, standards or requirements shall not effectuate substantive changes to the claims eligibility requirements under this TDP, but rather shall be made only for the purpose of adapting those requirements to the particular licensing provisions and/or medical customs or practices of the foreign country in question.

At such time as the PI Trust has a sufficient historical settlement, verdict and other valuation data for claims from a particular foreign jurisdiction, the Trustees, with the consent of the TAC and the Future Claimants’ Representative, may also establish a separate valuation matrix for such claims based on that data.

**5.3(b)(1)(A) Review of Medical/Exposure Criteria.** The PI Trust’s Individual Review Process provides a claimant with an opportunity for individual consideration and evaluation of a PI Trust Claim that fails to meet the presumptive Medical/Exposure Criteria for Disease Levels I – V, and VII-VIII. In such a case, the PI Trust shall either deny the claim, or, if the PI Trust is satisfied that the claimant has presented a claim that would be cognizable and valid in the tort system, the PI Trust can offer the claimant a liquidated value amount up to the Scheduled Value for that Disease Level, unless the claim qualifies as an Extraordinary Claim as defined in Section 5.4(a) below, in which case its liquidated value cannot exceed the Maximum Value for such a claim.

**5.3(b)(1)(B) Review of Liquidated Value .** Claimants holding claims involving Disease Levels II – VIII shall also be eligible to seek Individual Review of the liquidated value of their claims, as well as of their medical/exposure evidence. The Individual Review Process is intended to result in payments equal to the full liquidated value for each claim multiplied by the Payment Percentage; however, the liquidated value of any PI Trust Claim that undergoes Individual Review may be determined to be less than the Scheduled Value the claimant would have received under Expedited Review. Moreover, the liquidated value for a claim involving Disease Levels II – VIII shall not exceed the Maximum Value for the relevant Disease Level set forth in Section 5.3(b)(4) below, unless the claim meets the requirements of an Extraordinary Claim described in Section 5.4(a) below, in which case its liquidated value cannot exceed the Maximum Value set forth in that provision for such claims. Because the detailed examination and valuation process pursuant to Individual Review requires substantial time and effort, claimants electing to undergo the Individual Review Process will necessarily be paid the liquidated value of their PI Trust Claims later than would have been the case had the claimant elected the Expedited Review Process.

**5.3(b)(2) Valuation Factors to be Considered in Individual Review.** The PI Trust shall liquidate the value of each PI Trust Claim that undergoes Individual Review based on the historic liquidated values of other similarly situated claims in the tort system for the same Disease Level. The PI Trust will thus take into consideration all of the factors that affect the severity of damages and values within the tort system including, but not limited to (i) the degree to which the characteristics of a claim differ from the presumptive Medical/Exposure Criteria for the Disease Level in question; (ii) factors such as the claimant’s age, disability, employment status, disruption of household, family or recreational activities, dependencies, special damages, and pain and suffering; (iii) evidence that the claimant’s damages were (or were not) caused by asbestos exposure, including exposure to an asbestos-containing product for which AWI has legal responsibility prior to December 31, 1982 (for example, alternative causes, and the strength of documentation of injuries); (iv) the industry of exposure; and (v) settlements, verdicts, and the claimant’s and other law firms’ experience in the Claimant’s Jurisdiction for similarly situated claims.

For these purposes, the “*Claimant’s Jurisdiction*” is the jurisdiction in which the claim was filed (if at all) against AWI in the tort system prior to the Petition Date. If the claim was not filed against AWI in the tort system prior to the Petition Date, the claimant may elect as the Claimant’s Jurisdiction either (i) the jurisdiction in which the claimant resides at the time of diagnosis or when the claim is filed with the PI Trust; or (ii) a jurisdiction in which the claimant experienced exposure to an asbestos-containing product for which AWI has legal responsibility. With respect to the “*Claimant’s Jurisdiction*” in the event a personal representative or authorized agent makes a claim under the TDP for wrongful death with respect to which the governing law of the Claimant’s Jurisdiction could only be the Alabama Wrongful Death Statute, the Claimant’s Jurisdiction for such claim shall be the Commonwealth of Pennsylvania, and such claimant’s damages shall be determined pursuant to the statutory and common laws of the Commonwealth of Pennsylvania without regard to its choice of law principles. The choice of law provision in Section 7.4 below applicable to any claim with respect to which, but for this choice of law provision, the applicable law of the Claimant’s Jurisdiction pursuant to Section 5.3(b)(2) is determined to be the Alabama Wrongful Death Statute, shall only govern the rights between the PI Trust and the claimant, and, to the extent the PI Trust seeks recovery from any entity that provided insurance coverage to AWI, the Alabama Wrongful Death Statute shall govern.

**5.3(b)(3) Processing and Payment Limitations for Claims Involving Disease Levels III and II.** The PI Trust shall administer Individual Review for Disease Levels III and II so that Individual Review does not reduce payments to claimants electing the Scheduled Value for such PI Trust Claims under Expedited Review. As one means of implementing this requirement, the following shall apply for Disease Levels III and II claims:

**5.3(b)(3)(A) Disease Level III Claims.** No more than 8 percent of Disease Level III claims paid in any year shall be PI Trust Claims allowed under Individual Review, and the total payments to such Disease Level III claims allowed under Individual Review shall be no more than 12 percent of payments to all Disease Level III claimants during any year.

**5.3(b)(3)(B) Disease Level II Claims.** No more than 15 percent of Disease Level II claims paid in any year shall be PI Trust Claims allowed under Individual Review, and the total payments to such Disease Level II claims allowed under Individual Review shall be no more than 25 percent of payments to all Disease Level II claimants during any year.

**5.3(b)(4) Scheduled, Average and Maximum Values.** The Scheduled, Average and Maximum Values for the Disease Levels compensable under this TDP are the following:

<u>Scheduled Disease</u>	<u>Scheduled Value</u>	<u>Average Value</u>	<u>Maximum Value</u>
Mesothelioma (Level VIII)	\$ 110,000	\$ 130,500	\$ 400,000
Lung Cancer 1 (Level VII)	\$ 42,500	\$ 43,800	\$ 150,000
Lung Cancer 2 (Level VI)	None	\$ 15,000	\$ 50,000
Other Cancer (Level V)	\$ 21,500	\$ 21,800	\$ 75,000
Severe Asbestosis (Level IV)	\$ 42,500	\$ 44,300	\$ 140,000
Asbestosis/Pleural Disease (Level III)	\$ 9,700	\$ 10,100	\$ 20,000
Asbestos is/Pleural Disease (Level II)	\$ 3,700	\$ 4,200	\$ 10,000
Other Asbestos Disease Cash Discount Payment (Level I)	\$ 400	None	None

These Scheduled Values, Average Values and Maximum Values shall apply to all PI Trust Voting Claims except Pre-Petition Liquidated Claims filed with the PI Trust on or before the Initial Claims Filing Date as provided in Section 5.1 above. Thereafter, the PI Trust, with the consent of the TAC and the Future Claimants' Representative pursuant to Sections 5.7(b) and 6.6(b) of the PI Trust Agreement, may change these valuation amounts for good cause and consistent with other restrictions on the amendment power.

**5.4 Categorizing Claims as Extraordinary and/or Exigent Hardship**

**5.4(a) Extraordinary Claims.** “*Extraordinary Claim*” means a PI Trust Claim that otherwise satisfies the Medical Criteria for Disease Levels II - VIII, and that is held by a claimant whose exposure to asbestos (i) occurred predominately as the result of working in a manufacturing facility of AWI during a period in which AWI was manufacturing asbestos-containing products at that facility, or (ii) was at least 75% the result of exposure to asbestos-containing product for which AWI has legal responsibility, and there is little likelihood of a substantial recovery elsewhere. All such Extraordinary Claims shall be presented for Individual Review and, if valid, shall be entitled to an award of up to a Maximum Value of five (5) times the Scheduled Value for claims qualifying for Disease Levels II – V, VII and VIII, and five (5) times the Average Value for claims in Disease Level VI, multiplied by the applicable Payment Percentage.

Any dispute as to Extraordinary Claim status shall be submitted to a special Extraordinary Claims Panel established by the PI Trust with the consent of the TAC and the Future Claimants' Representative. All decisions of the Extraordinary Claims Panel shall be final and not subject to any further administrative or judicial review. An Extraordinary Claim, following its liquidation, shall be placed in the PI Trust's FIFO Queue ahead of all other PI Trust Claims except Pre-Petition Liquidated Claims, Disease Level I Claims and Exigent Hardship Claims, which shall be paid first in that order in said Queue, based on its date of liquidation and shall be subject to the Maximum Available Payment and Claims Payment Ratio described above.

**5.4(b) Exigent Hardship Claims.** At any time the PI Trust may liquidate and pay PI Trust Claims that qualify as Exigent Hardship Claims as defined below. Such claims may be considered separately no matter what the order of processing otherwise would

have been under this TDP. An Exigent Hardship Claim, following its liquidation, shall be placed first in the FIFO Payment Queue ahead of all other liquidated PI Trust Claims except Pre-Petition Liquidated Claims and Disease Level I Claims, and shall be subject to the Maximum Available Payment and Claims Payment Ratio described above. A PI Trust Claim qualifies for payment as an Exigent Hardship Claim if the claim meets the Medical/Exposure Criteria for Severe Asbestosis (Disease Level IV) or an asbestos-related malignancy (Disease Levels V-VIII), and the PI Trust, in its sole discretion, determines (i) that the claimant needs financial assistance on an immediate basis based on the claimant's expenses and all sources of available income, and (ii) that there is a causal connection between the claimant's dire financial condition and the claimant's asbestos-related disease.

**5.5 Secondary Exposure Claims.** If a claimant alleges an asbestos-related disease resulting solely from exposure to an occupationally exposed person, such as a family member, the claimant may seek Individual Review of his or her claim pursuant to Section 5.3(b) above. In such a case, the claimant must establish that the occupationally exposed person would have met the exposure requirements under this TDP that would have been applicable had that person filed a direct claim against the PI Trust. In addition, the claimant with secondary exposure must establish that he or she is suffering from one of the eight Disease Levels described in Section 5.3(a)(3) above or an asbestos-related disease otherwise compensable under the TDP, that his or her own exposure to the occupationally exposed person occurred within the same time frame as the occupationally exposed person was exposed to asbestos products produced by AWI, and that such secondary exposure was a cause of the claimed disease. The proof of claim form included in Attachment B hereto contains an additional section for Secondary Exposure Claims. All other liquidation and payment rights and limitations under this TDP shall be applicable to such claims.

**5.6 Indirect PI Trust Claims.** Indirect PI Trust Claims asserted against the PI Trust based upon theories of contribution or indemnification under applicable law, shall be treated as presumptively valid and paid by the PI Trust subject to the applicable Payment Percentage if (a) such claim satisfied the requirements of the Bar Date for such claims established by the Bankruptcy Court, if applicable, and is not otherwise disallowed by Section 502(e) of the Code or subordinated under Section 509(c) of the Code, and (b) the holder of such claim (the "*Indirect Claimant* ") establishes to the satisfaction of the Trustees that (i) the Indirect Claimant has paid in full the liability and obligation of the PI Trust to the individual claimant to whom the PI Trust would otherwise have had a liability or obligation under these Procedures (the "*Direct Claimant* "), (ii) the Direct Claimant and the Indirect Claimant have forever and fully released the PI Trust from all liability to the Direct Claimant, and (iii) the claim is not otherwise barred by a statute of limitation or repose or by other applicable law. In no event shall any Indirect Claimant have any rights against the PI Trust superior to the rights of the related Direct Claimant against the PI Trust, including any rights with respect to the timing, amount or manner of payment. In addition, no Indirect Claim may be liquidated and paid in an amount that exceeds what the Indirect Claimant has actually paid the related Direct Claimant.

To establish a presumptively valid Indirect PI Trust Claim, the Indirect Claimant's aggregate liability for the Direct Claimant's claim must also have been fixed, liquidated and paid fully by the Indirect Claimant by settlement (with an appropriate full release in favor of the PI Trust) or a Final Order (as defined in the Plan) provided that such claim is valid under the applicable state law. In any case where the Indirect Claimant has satisfied the claim of a Direct Claimant against the PI Trust under applicable law by way of a settlement, the Indirect Claimant shall obtain for the benefit of the PI Trust a release in form and substance satisfactory to the Trustees.

If an Indirect Claimant cannot meet the presumptive requirements set forth above, including the requirement that the Indirect Claimant provide the PI Trust with a full release of the Direct Claimant's claim, the Indirect Claimant may request that the PI Trust review the Indirect PI Trust Claim individually to determine whether the Indirect Claimant can establish under applicable state law that the Indirect Claimant has paid all or a portion of a liability or obligation that the PI Trust had to the Direct Claimant as of the effective date of the TDP. If the Indirect Claimant can show that it has paid all or a portion of such a liability or obligation, the PI Trust shall reimburse the Indirect Claimant the amount of the liability or obligation so paid, times the then applicable Payment Percentage. However, in no event shall such reimbursement to the Indirect Claimant be greater than the amount to which the Direct Claimant would have otherwise been entitled. Further, the liquidated value of any Indirect PI Trust Claim paid by the PI Trust to an Indirect Claimant shall be treated as an offset to or reduction of the full liquidated value of any PI Trust Claim that might be subsequently asserted by the Direct Claimant against the PI Trust.

Any dispute between the PI Trust and an Indirect Claimant over whether the Indirect Claimant has a right to reimbursement for any amount paid to a Direct Claimant shall be subject to the ADR procedures provided in Section 5.10 below and set forth in Attachment A hereto. If such dispute is not resolved by said ADR procedures, the Indirect Claimant may litigate the dispute in the tort system pursuant to Sections 5.11 above and 7.6 below.

The Trustees may develop and approve a separate proof of claim form for such Indirect PI Trust Claims. Indirect PI Trust Claims that have not been disallowed, discharged, or otherwise resolved by prior order of the Bankruptcy Court shall be processed in accordance with procedures to be developed and implemented by the Trustees, consistent with the provisions of this Section 5.6, which procedures (a) shall determine the validity, allowability and enforceability of such claims; and (b) shall otherwise provide the same liquidation and payment procedures and rights to the holders of such claims as the PI Trust would have afforded the holders of the underlying valid PI Trust Claims. Nothing in this TDP is intended to preclude a trust to which asbestos-related liabilities are channeled from asserting an Indirect PI Trust Claim against the PI Trust subject to the requirements set forth herein.

## **5.7 Evidentiary Requirements**

### **5.7(a) Medical Evidence.**

**5.7(a)(1) In General.** All diagnoses of a Disease Level shall be accompanied by either (i) a statement by the physician providing the diagnosis that at least 10 years have elapsed between the date of first exposure to asbestos or asbestos-containing products and the diagnosis, or (ii) a history of the claimant's exposure sufficient to establish a 10-year latency period. A finding by a physician after the Petition Date that a claimant's disease is "consistent with" or "compatible with" asbestosis will not alone be treated by the PI Trust as a diagnosis.<sup>4</sup>

**5.7(a)(1)(A). Disease Levels I-IV.** Except for claims filed against AWI or any other asbestos defendant in the tort system prior to the Petition Date, all diagnoses of a non-malignant asbestos-related disease (Disease Levels I-IV) shall be based in the case of a claimant who was living at the time the claim was filed, upon a physical examination of the claimant by the physician providing the diagnosis of the asbestos-related disease. In addition, all living claimants must provide (i) for Disease Levels I-III, evidence of Bilateral Asbestos-Related Nonmalignant Disease (as defined in Footnote 2 above); (ii) for Disease Level IV, an ILO reading of 2/1 or greater or pathological evidence of asbestosis, and (iii) for Disease Levels III and IV, pulmonary function testing.<sup>5</sup>

In the case of a claimant who was deceased at the time the claim was filed, all diagnoses of a non-malignant asbestos-related disease (Disease Levels I-IV) shall be based upon either (i) a physical examination of the claimant by the physician providing the diagnosis of the asbestos-related disease; or (ii) pathological evidence of the non-malignant asbestos-related disease; or (iii) in the case of Disease Levels I-III, evidence of Bilateral Asbestos-Related Nonmalignant Disease (as defined in Footnote 3 above), and for Disease Level IV, either an ILO reading of 2/1 or greater or pathological evidence of asbestosis; and (iv) for either Disease Level III or IV, pulmonary function testing.

**5.7(a)(1)(B). Disease Levels V-VIII.** All diagnoses of an asbestos-related malignancy (Disease Levels V – VIII) shall be based upon either (i) a physical examination of the claimant by the physician providing the diagnosis of the asbestos-related disease, or (ii) on a diagnosis of such a malignant Disease Level by a board-certified pathologist.

**5.7(a)(1)(C). Exception to the Exception for Certain Pre-Petition Claims.** If the holder of a PI Trust Claim that was filed against AWI or any other defendant in the tort system prior to the Petition Date has not provided the PI Trust with a

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<sup>4</sup> All diagnoses of Asbestosis/Pleural Disease (Disease Levels II and III) not based on pathology shall be presumed to be based on findings of bilateral asbestosis or pleural disease, and all diagnoses of Mesothelioma (Disease Level VIII) shall be presumed to be based on findings that the disease involves a malignancy. However, the PI Trust may rebut such presumptions.

<sup>5</sup> "**Pulmonary Function Testing**" shall mean spirometry testing that is in material compliance with the quality criteria established by the American Thoracic Society ( "**ATS**" ) and is performed on equipment which is in material compliance with ATS standards for technical quality and calibration.

diagnosis of the asbestos-related disease by a physician who conducted a physical examination of the holder as described in Section 5.7(a)(1) (A), or if the holder has such a diagnosis by an examining physician engaged by holder, or if the holder filed such a diagnosis with another asbestos-related personal injury settlement trust that requires such evidence, the holder shall provide such diagnosis to the PI Trust notwithstanding the exception in Section 5.7(a)(1)(A).

**5.7(a)(2) Credibility of Medical Evidence.** Before making any payment to a claimant, the PI Trust must have reasonable confidence that the medical evidence provided in support of the claim is credible and consistent with recognized medical standards. The PI Trust may require the submission of X-rays, CT scans, detailed results of pulmonary function tests, laboratory tests, tissue samples, results of medical examination or reviews of other medical evidence, and may require that medical evidence submitted comply with recognized medical standards regarding equipment, testing methods and procedures to assure that such evidence is reliable. Medical evidence (i) that is of a kind shown to have been received in evidence by a state or federal judge at trial, (ii) that is consistent with evidence submitted to AWI to settle for payment similar disease cases prior to AWI's bankruptcy, or (iii) a diagnosis by a physician shown to have previously qualified as a medical expert with respect to the asbestos-related disease in question before a state or federal judge, is presumptively reliable, although the PI Trust may seek to rebut the presumption.

In addition, claimants who otherwise meet the requirements of this TDP for payment of a PI Trust Claim shall be paid irrespective of the results in any litigation at anytime between the claimant and any other defendant in the tort system. However, any relevant evidence submitted in a proceeding in the tort system involving another defendant, other than any findings of fact, a verdict, or a judgment, may be introduced by either the claimant or the PI Trust in any Individual Review proceeding conducted pursuant to Section 5.3(b) or any Extraordinary Claim proceeding conducted pursuant to Section 5.4(a).

### **5.7(b) Exposure Evidence**

**5.7(b)(1) In General.** As set forth in Section 5.3(a)(3) above, to qualify for any Disease Level, the claimant must demonstrate a minimum exposure to an asbestos-containing product manufactured or distributed by AWI. Claims based on conspiracy theories that involve no exposure to an asbestos-containing product produced by AWI are not compensable under this TDP. To meet the presumptive exposure requirements of Expedited Review set forth in Section 5.3(a)(3) above, the claimant must show (i) for all Disease Levels, AWI Exposure as defined in Section 5.7(b)(3) below prior to December 31, 1982; (ii) for Asbestos/Pleural Disease Level II, six months AWI Exposure prior to December 31, 1982, plus five years cumulative occupational asbestos exposure; and (iii) for Asbestosis/Pleural Disease (Disease Level III), Severe Asbestosis (Disease Level IV), Other Cancer (Disease Level V) or Lung Cancer 1 (Disease Level VII), the claimant must show six months AWI Exposure prior to December 31, 1982, plus Significant Occupational Exposure to asbestos as defined below. If the claimant cannot meet the relevant presumptive exposure requirements for a Disease Level eligible for Expedited Review, the claimant may seek Individual Review of his or her claim based on exposure to an asbestos-containing product manufactured or distributed by AWI.

**5.7(b)(2) Significant Occupational Exposure.** "*Significant Occupational Exposure*" means employment for a cumulative period of at least five years, with a minimum of two years prior to December 31, 1982, in an industry and an occupation in which the claimant (a) handled raw asbestos fibers on a regular basis; (b) fabricated asbestos-containing products so that the claimant in the fabrication process was exposed on a regular basis to raw asbestos fibers; (c) altered, repaired or otherwise worked with an asbestos-containing product such that the claimant was exposed on a regular basis to asbestos fibers; or (d) was employed in an industry and occupation such that the claimant worked on a regular basis in close proximity to workers engaged in the activities described in (a), (b) and/or (c).

**5.7(b)(3) AWI Exposure.** The claimant must demonstrate meaningful and credible exposure prior to December 31, 1982, to asbestos or asbestos-containing products supplied, specified, manufactured, installed, maintained, or repaired by AWI and/or any entity, including an AWI contracting unit, for which AWI has legal responsibility. That meaningful and credible exposure evidence may be established by an affidavit of the claimant, by an affidavit of a co-worker or the affidavit of a family member in the case of a deceased claimant (providing the PI Trust finds such evidence reasonably reliable), by invoices, employment, construction or similar records, or by other credible evidence. The specific exposure information required by the PI Trust to process a claim under either Expedited or Individual Review is set forth on the proof of claim form to be used by the PI Trust, which is attached as Attachment B hereto. The PI Trust can also require submission of other or additional evidence of exposure when it deems such to be necessary.

**5.8 Claims Audit Program.** The PI Trust with the consent of the TAC and the Futures Claimants' Representative may develop methods for auditing the reliability of medical evidence, including additional reading of x-rays, CT scans and verification of pulmonary function tests, as well as the reliability of evidence of exposure to asbestos, including exposure to asbestos-containing products manufactured or distributed by AWI prior to December 31, 1982. In the event that the PI Trust reasonably determines that any individual or entity has engaged in a pattern or practice of providing unreliable medical evidence to the PI Trust, it may decline to accept additional evidence from such provider in the future.

Further, in the event that an audit reveals that fraudulent information has been provided to the PI Trust, the PI Trust may penalize any claimant or claimant's attorney by disallowing the PI Trust Claim or by other means including, but not limited to, requiring the source of the fraudulent information to pay the costs associated with the audit and any future audit or audits, reordering the priority of payment of all affected claimants' PI Trust Claims, raising the level of scrutiny of additional information submitted from the same source or sources, refusing to accept additional evidence from the same source or sources, seeking the prosecution of the claimant or claimant's attorney for presenting a fraudulent claim in violation of 18 U.S.C. § 152, and seeking sanctions from the Bankruptcy Court.

**5.9 Second Disease (Malignancy) Claims.** The holder of a PI Trust Claim involving a non-malignant asbestos-related disease (Disease Levels I through IV) may assert a new PI Trust Claim against the PI Trust for a malignant disease (Disease Levels V – VIII) that is subsequently diagnosed. Any additional payments to which such claimant may be entitled with respect to such malignant asbestos-related disease shall not be reduced by the amount paid for the non-malignant asbestos-related disease, provided that the malignant disease had not been diagnosed by the time the claimant was paid with respect to his or her original claim involving the non-malignant disease.

#### **5.10 Arbitration .**

**5.10(a) Establishment of ADR Procedures.** The PI Trust, with the consent of the TAC and the Future Claimants' Representative, shall institute binding and non-binding arbitration procedures in accordance with the Alternative Dispute Resolution (“**ADR**”) Procedures included in Attachment A hereto for resolving disputes concerning whether a Pre-Petition settlement agreement with AWI is binding and judicially enforceable in the absence of a final order of the Bankruptcy Court determining the issue, whether the PI Trust's outright rejection or denial of a claim was proper, or whether the claimant's medical condition or exposure history meets the requirements of this TDP for purposes of categorizing a claim involving Disease Levels I – VIII. Binding and non-binding arbitration shall also be available for resolving disputes over the liquidated value of a claim involving Disease Levels II – VIII as well as disputes over AWI's share of the unpaid portion of a Pre-Petition Liquidated Claim described in Section 5.2 above and disputes over the validity of an Indirect PI Trust Claim.

In all arbitrations where relevant, the arbitrator shall consider the same medical and exposure evidentiary requirements that are set forth in Section 5.7 above. In the case of an arbitration involving the liquidated value of a claim involving Disease Levels II – VIII, the arbitrator shall consider the same valuation factors that are set forth in Section 5.3(b)(2) above. With respect to all claims eligible for arbitration, the claimant, but not the PI Trust, may elect either non-binding or binding arbitration. The Arbitration Rules set forth in Attachment A hereto may be modified by the PI Trust with the consent of the TAC and the Future Claimants' Representative. Such amendments may include adoption of mediation procedures as well as establishment of an Extraordinary Claims Panel to review such claims pursuant to Section 5.4(a) above.

**5.10(b) Claims Eligible for Arbitration.** In order to be eligible for arbitration, the claimant must first complete the Individual Review Process as well as either Pro Bono Evaluation or Mediation under the ADR Procedures with respect to the disputed issue. Individual Review will be treated as completed for these purposes when the claim has been individually reviewed by the PI Trust, the PI Trust has made an offer on the claim, the claimant has rejected the liquidated value resulting from the Individual Review, and the claimant has notified the PI Trust of the rejection in writing. Individual Review will also be treated as completed if the PI Trust has rejected the claim.

**5.10(c) Limitations on and Payment of Arbitration Awards.** In the case of a non-Extraordinary Claim involving Disease Levels II – VIII, the arbitrator shall not return an award in excess of the Maximum Value for the appropriate Disease Level as set

forth in Section 5.3(a)(4) above, and for an Extraordinary Claim involving one of those Disease Levels, the arbitrator shall not return an award greater than the Maximum Extraordinary Value for such a claim as set forth in Section 5.4(a) above. A claimant who submits to arbitration and who accepts the arbitral award will receive payments in the same manner as one who accepts the PI Trust's original valuation of the claim.

**5.11 Litigation.** Claimants who elect non-binding arbitration and then reject their arbitral awards retain the right to institute a lawsuit in the tort system against the PI Trust pursuant to Section 7.6 below. However, a claimant shall be eligible for payment of a judgment for monetary damages obtained in the tort system from the PI Trust's available cash only as provided in Section 7.7 below.

## SECTION VI

### Claims Materials

**6.1 Claims Materials.** The PI Trust shall prepare suitable and efficient claims materials ("*Claims Materials*") for all PI Trust Claims, and shall provide such Claims Materials upon a written request for such materials to the PI Trust. The proof of claim form to be submitted to the PI Trust shall require the claimant to assert the highest Disease Level for which the claim qualifies at the time of filing. The proof of claim form shall also include a certification by the claimant or his or her attorney sufficient to meet the requirements of Rule 11(b) of the Federal Rules of Civil Procedure. A copy of the proof of claim form to be used by the PI Trust for Pre-Petition Liquidated Claims and unliquidated PI Trust Claims is included in Attachment B hereto. The proof of claim form may be changed by the PI Trust with the consent of the TAC and the Future Claimants' Representative.

**6.2 Content of Claims Materials.** The Claims Materials shall include a copy of this TDP, such instructions as the Trustees shall approve, and a detailed proof of claim form. If feasible, the forms used by the PI Trust to obtain claims information shall be the same or substantially similar to those used by other asbestos claims resolution organizations. Instead of collecting some or all of the claims information from a claimant or the claimant's attorney, the PI Trust may also obtain such information from electronic data bases maintained by any other asbestos claims resolution organization. However, the PI Trust shall inform the claimant that it plans to obtain information as available from such other organizations and may do so unless the claimant objects in writing or provides such information directly to the PI Trust. If requested by the claimant, the PI Trust shall accept information provided electronically. The claimant may, but will not be required to, provide the PI Trust with evidence of recovery from other asbestos defendants and claims resolution organizations .

**6.3 Withdrawal or Deferral of Claims.** A claimant can withdraw a PI Trust Claim at any time upon written notice to the PI Trust and file another such claim subsequently without affecting the status of the claim for statute of limitations purposes, but any such claim filed after withdrawal shall be given a place in the FIFO Processing Queue based on the date of such subsequent filing. A claimant can also request that the processing of his or her PI Trust Claim by the PI Trust be deferred for a period not to exceed three (3) years without affecting the status of the claim for statute of limitation purposes, in which case the claimant shall also retain his or her original place in the FIFO Processing Queue. Except for PI Trust Claims held by representatives of deceased or incompetent claimants for which court or probate approval of the PI Trust's offer is required, or a PI Trust Claim for which deferral status has been granted, a claim will be deemed to have been withdrawn if the claimant neither accepts, rejects, nor initiates arbitration within six months of the PI Trust's offer of payment or rejection of the claim. Upon written request and good cause, the PI Trust may extend either the deferral or withdrawal period for an additional six months.

**6.4 Filing Requirements and Fees.** The Trustees shall have the discretion to determine, with the consent of the TAC and the Futures Representative, (a) whether a claimant must have previously filed a PI Trust Claim in the tort system to be eligible to file the claim with the PI Trust and (b) whether a filing fee should be required for any PI Trust claims .

## SECTION VII

### General Guidelines for Liquidating and Paying Claims

**7.1 Showing Required.** To establish a valid PI Trust Claim, a claimant must meet the requirements set forth in this TDP. The PI Trust may require the submission of X-rays, CT scans, laboratory tests, medical examinations or reviews, other medical evidence, or any other evidence to support or verify the claim, and may further require that medical evidence submitted comply with recognized medical standards regarding equipment, testing methods, and procedures to assure that such evidence is reliable.

**7.2 Costs Considered.** Notwithstanding any provisions of this TDP to the contrary, the Trustees shall always give appropriate consideration to the cost of investigating and uncovering invalid PI Trust Claims so that the payment of valid PI Trust Claims is not further impaired by such processes with respect to issues related to the validity of the medical evidence supporting a PI Trust Claim. The Trustees shall also have the latitude to make judgments regarding the amount of transaction costs to be expended by the PI Trust so that valid PI Trust Claims are not unduly further impaired by the costs of additional investigation. Nothing herein shall prevent the Trustees, in appropriate circumstances, from contesting the validity of any claim against the PI Trust whatever the costs, or to decline to accept medical evidence from sources that the Trustees have determined to be unreliable pursuant to the Claims Audit Program described in Section 5.7 above.

**7.3 Discretion to Vary the Order and Amounts of Payments in Event of Limited Liquidity.** Consistent with the provisions hereof and subject to the FIFO Processing and Liquidation Queues, the Maximum Annual Payment, the Maximum Available Payment and the Claims Payment Ratio requirements set forth above, the Trustees shall proceed as quickly as possible to liquidate valid PI Trust Claims, and shall make payments to holders of such claims in accordance with this TDP promptly as funds become available and as claims are liquidated, while maintaining sufficient resources to pay future valid claims in substantially the same manner.

Because the PI Trust's income over time remains uncertain, and decisions about payments must be based on estimates that cannot be done precisely, they may have to be revised in light of experiences over time, and there can be no guarantee of any specific level of payment to claimants. However, the Trustees shall use their best efforts to treat similar claims in substantially the same manner, consistent with their duties as Trustees, the purposes of the PI Trust, the established allocation of funds to claims in Categories A and B, and the practical limitations imposed by the inability to predict the future with precision. In the event that the PI Trust faces temporary periods of limited liquidity, the Trustees may, with the consent of the TAC and the Future Claimants' Representative, suspend the normal order of payment and may temporarily limit or suspend payments altogether, and may offer a Reduced Payment Option as described in Section 2.5 above.

**7.4 Punitive Damages.** Except as provided below for claims asserted under the Alabama Wrongful Death Statute, in determining the value of any liquidated or unliquidated PI Trust Claim, punitive or exemplary damages, *i.e.*, damages other than compensatory damages, shall not be considered or allowed, notwithstanding their availability in the tort system. The only damages that may be awarded pursuant to this TDP to Alabama claimants who are deceased and whose personal representatives pursue their claims only under the Alabama Wrongful Death Statute shall be compensatory damages determined pursuant to the statutory and common law of the Commonwealth of Pennsylvania, without regard to its choice of law principles. The choice of law provision in Section 7.4 herein applicable to any claim with respect to which, but for this choice of law provision, the applicable law of the Claimant's Jurisdiction pursuant to Section 5.3(b)(2) is determined to be the Alabama Wrongful Death Statute, shall only govern the rights between the PI Trust and the claimant, including, but not limited to, suits in the tort system pursuant to Section 7.6, and, to the extent the PI Trust seeks recovery from any entity that provided insurance coverage to AWI, the Alabama Wrongful Death Statute shall govern.

#### **7.5 Interest.**

**7.5(a) In General.** Except for PI Trust Claim involving Other Asbestos Disease (Disease Level I – Cash Discount Payment) and subject to the limitations set forth below, interest shall be paid on all PI Trust Claims with respect to which the claimant has had to wait a year or more for payment, *provided, however*, that no claimant shall receive interest for a period in excess of seven (7) years. The initial interest rate shall be six percent (6%) simple interest per annum for the first five (5) years after the Effective Date; thereafter, the PI Trust shall have the discretion to change the annual interest rate with the consent of the TAC and the Future Claimants' Representative.

**7.5(b) Unliquidated PI Trust Claims.** Interest shall be payable on the Scheduled Value of any unliquidated PI Trust Claim that meets the requirements of Disease Levels II - V, VII and VIII, whether the claim is liquidated under Expedited Review, Individual Review, or by arbitration. No interest shall be paid on any claim liquidated in the tort system pursuant to section 5.11 above and 7.6 below. Interest on an unliquidated PI Trust Claim that meets the requirements of Disease Level VI shall be based on the Average Value of such a claim. Interest on all such unliquidated claims shall be measured from the date of payment back to the earliest of the date that is one year after the date on which (a) the claim was filed against AWI prior to the Petition Date; (b) the claim was filed against another defendant in the tort system on or after the Petition Date but before the Effective Date; or (c) the claim was filed with the PI Trust after the Effective Date.

**7.5(c) Liquidated Pre-Petition Claims.** Interest shall also be payable on the liquidated value of all Pre-Petition Liquidated Claims described in Section 5.2(a) above. In the case of Pre-Petition Liquidated Claims liquidated by verdict or judgment, interest shall be measured from the date of payment back to the date that is one year after the date that the verdict or judgment was entered. In the case of Pre-Petition Liquidated Claims liquidated by a binding, judicially enforceable settlement, interest shall be measured from the date of payment back to the date that is one year after the Petition Date.

**7.6 Suits in the Tort System.** If the holder of a disputed claim disagrees with the PI Trust's determination regarding the Disease Level of the claim, the claimant's exposure history or the liquidated value of the claim, and if the holder has first submitted the claim to non-binding arbitration as provided in Section 5.10 above, the holder may file a lawsuit in the Claimant's Jurisdiction as defined in Section 5.3(b)(2) above. Any such lawsuit must be filed by the claimant in her or her own right and name and not as a member or representative of a class, and no such lawsuit may be consolidated with any other lawsuit. All defenses (including, with respect to the PI Trust, all defenses which could have been asserted by AWI) shall be available to both sides at trial; however, the PI Trust may waive any defense and/or concede any issue of fact or law. If the claimant was alive at the time the initial pre-petition complaint was filed or on the date the proof of claim was filed with the PI Trust, the case will be treated as a personal injury case with all personal injury damages to be considered even if the claimant has died during the pendency of the claim.

**7.7 Payment of Judgments for Money Damages .** If and when a claimant obtains a judgment in the tort system, the claim shall be placed in the FIFO Payment Queue based on the date on which the judgment became final. Thereafter, the claimant shall receive from the PI Trust an initial payment (subject to the applicable Payment Percentage, the Maximum Available Payment, and the Claims Payment Ratio provisions set forth above) of an amount equal to one-hundred percent (100%) of the greater of (i) the PI Trust's last offer to the claimant or (ii) the award that the claimant declined in non-binding arbitration. The claimant shall receive the balance of the judgment, if any, in five equal installments in years six (6) through ten (10) following the year of the initial payment (also subject to the applicable Payment Percentage, the Maximum Available Payment and the Claims Payment Ratio provisions set forth above).

In the case of non-Extraordinary claims involving Disease Levels II - VIII, the total amounts paid with respect to such claims shall not exceed the Maximum Values for such Disease Levels set forth in Section 5.3(b)(4). In the case of Extraordinary Claims, the total amounts paid with respect to such claims shall not exceed the Maximum Value for such claims set forth in Section 5.4(a) above. Under no circumstances shall interest be paid pursuant to Section 7.5 or under any statute on any judgments obtained in the tort system.

**7.8 Releases.** The Trustees shall have the discretion to determine the form and substance of the releases to be provided to the PI Trust in order to maximize recovery for claimants against other tortfeasors without increasing the risk or amount of claims for indemnification or contribution from the PI Trust. As a condition to making any payment to a claimant, the PI Trust shall obtain a general, partial, or limited release as appropriate in accordance with the applicable state or other law. If allowed by state law, the endorsing of a check or draft for payment by or on behalf of a claimant shall constitute such a release.

**7.9 Third-Party Services.** Nothing in this TDP shall preclude the PI Trust from contracting with another asbestos claims resolution organization to provide services to the PI Trust so long as decisions about the categorization and liquidated value of PI Trust Claims are based on the relevant provisions of this TDP, including the Disease Levels, Scheduled Values, Average Values, Maximum Values, and Medical/Exposure Criteria set forth above.

**7.10 PI Trust Disclosure of Information.** Periodically, but not less often than once a year, the PI Trust shall make available to claimants and other interested parties, the number of claims by disease levels that have been resolved both by the Individual Review Process and by arbitration as well as by litigation in the tort system indicating the amounts of the awards and the averages of the awards by jurisdiction.

## SECTION VIII

### Miscellaneous

**8.1 Amendments.** Except as otherwise provided herein, the Trustees may amend, modify, delete, or add to any provisions of this TDP (including, without limitation, amendments to conform this TDP to advances in scientific or medical knowledge or other changes in circumstances), provided they first obtain the consent of the TAC and the Future Claimants' Representative pursuant to the Consent Process set forth in Sections 5.7(b) and 6.6(b) of the PI Trust Agreement, except that the right to amend the Claims Payment Ratio is governed by the restrictions in Section 2.5 above, and the right to adjust the Payment Percentage is governed by Section 4.2 above.

**8.2 Severability.** Should any provision contained in this TDP be determined to be unenforceable, such determination shall in no way limit or affect the enforceability and operative effect of any and all other provisions of this TDP. Should any provision contained in this TDP be determined to be inconsistent with or contrary to AWI obligations to any insurance company providing insurance coverage to AWI in respect of claims for personal injury based on exposure to asbestos-containing products manufactured or produced by AWI, the PI Trust with the consent of the TAC and the Future Claimants' Representative, may amend this TDP and/or the PI Trust Agreement to make the provisions of either or both documents consistent with the duties and obligations of AWI to said insurance company.

**8.3 Governing Law.** Except for purposes of determining the liquidated value of any PI Trust Claim, administration of this TDP shall be governed by, and construed in accordance with, the laws of the State of Delaware. The law governing the liquidation of PI Trust Claims in the case of Individual Review, arbitration or litigation in the tort system shall be the law of the Claimant's Jurisdiction as described in Section 5.3 (b)(2) above.

Exhibit 1.24-22

**Exhibit No. 10.8**

## SEVERANCE PAY PLAN FOR SALARIED EMPLOYEES

### OF

### ARMSTRONG WORLD INDUSTRIES, INC.

The Severance Pay Plan for Salaried Employees of Armstrong World Industries, Inc. (the "Plan") has been authorized by the Board of Directors of Armstrong World Industries, Inc. to be effective on and after May 1, 1989. This Plan supersedes, with the exception of the Armstrong Employment Protection Plan, all prior separation pay policies, practices, and plans of the Company whether in writing or otherwise.

#### 1. DEFINITIONS

1.01 "Affiliate" shall mean any company which is related to the employing company as a member of a controlled group of corporations in accordance with Section 414(b) of the Code, or as a trade or business under common control in accordance with Section 414(c) of the Code, or any other entity to the extent it is required to be treated as an Affiliated Company in accordance with Section 414(o) of the Code, or any organization which is part of an affiliated service group in accordance with Section 414(m) of the Code. For purposes under the Plan of determining whether an individual is an employee and the period of employment of such individual, each company shall be considered an Affiliate only for the period or periods during which such company is a member of the controlled group or under common control.

1.02 "Company" shall mean Armstrong World Industries, Inc., and any subsidiary or parent corporation of Armstrong World Industries, Inc. that shall have adopted this Plan.

1.03 "Committee" shall mean the Severance Pay Committee where membership shall include at least three salaried employees of the Company who are appointed by the President to administer the Plan.

1.04 "Date of Termination" shall mean the date on which an eligible Participant terminates service pursuant to Subsection 2.02 hereof.

1.05 "Disability" shall mean such incapacity due to physical or mental illness or injury as causes an Employee to be absent from employment duties for 180 consecutive calendar days.

1.06 "Employee" shall mean an individual who is either a Regular Full-Time Salaried Employee or Regular Part-Time Salaried Employee.

1.07 "Eligible Earnings" shall mean the Employee's unadjusted annual base salary.

1.08 "Reasonable Alternative Employment" shall mean an offer of employment where (i) the base salary is equal to at least 90% of the employee's current base salary, and (ii) the distance between the employee's residence or current place of employment and the new place of employment is within 50 miles, or the distance of the employee's current commute, whichever is greater.

1.09 “Regular Full-Time Employee” shall mean any individual who is employed by the Company on a salaried basis as an employee on a continuing basis and is expected to work the normal number of work hours for the location as determined by the Company.

1.10 “Regular Part-Time Employee” shall mean any individual who is employed by the Company on a salaried basis as an employee on a continuing basis and is expected to work for the Company less than the normal number of work hours.

1.11 “Weekly Eligible Earnings” shall mean Eligible Earnings divided by 52.

1.12 “Years of Service” shall mean the eligible Participant’s period of service with the Company, including partial years. A Participant who is a key executive as designated by the Board of Directors, or its delegate, will receive credit for years of service for employment prior to such Participant’s Company employment.

## 2. PARTICIPATION AND ELIGIBILITY

2.01 Participants. The participants in the Plan are all Regular Full-Time or Regular Part-Time Employees of the Company. Any employee who was previously employed by the Company and is rehired shall be entitled to credit for any prior period(s) of employment with the Company for the purpose of calculating Years of Service referenced in Section 1.12 and Section 3.01, in the event that the Employee’s reemployment is terminated under conditions which would otherwise entitle the Employee to benefits under the Plan. Any Employee who was previously employed by the Company and who terminated employment and received benefits under this Plan and is subsequently reemployed by the Company shall not be entitled to receive credit for any prior period of employment for which benefits have been paid under this Plan.

### 2.02 Eligibility.

- (a) Any Participant who is involuntarily terminated (1) due to a reduction in the workforce of the office on location where he/she is employed; (2) due to the elimination of the Employee’s position; or (3) any other reason approved in the Committee’s sole discretion, will be eligible for severance benefits, provided the Participant is not otherwise excluded from receiving benefits under Paragraph (b) below.
- (b) Any Participant whose employment with the Company is terminated by the Company for any of the reasons listed below shall not be eligible for benefits under the Plan:
  - (1) because of the death or Disability of the Employee;
  - (2) by the Company due to deliberately engaging in gross misconduct which is demonstrably and materially injurious to the Company, monetarily or otherwise, including but not limited to fraud or embezzlement by the Employee;

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- (3) by the Employee;
  - (4) by the Company in connection with the sale or transfer of a plant, unit, division, or subsidiary of the Company to a successor (whether by reason of a sale of stock or assets), and the Employee (i) continues employment with the successor organization or (ii) is offered Reasonable Alternative Employment by the successor, regardless of whether the Employee accepts or rejects the employment offer;
  - (5) by the Company and the Employee refuses to accept an offer of Reasonable Alternative Employment with the Company or any Affiliate.
- (c) Generally, any Participant whose employment with the Company is terminated by the Company due to unacceptable job performance or for other disciplinary reasons (such as attendance issues or insubordination) shall not be eligible for benefits under the Plan unless otherwise approved in the Committee's sole discretion.

2.03 Effect of Participant's Eligibility to Retire. No eligible Participant will be denied severance benefits solely because such Participant is also eligible for retirement benefits under another plan of the Company.

2.04 Reservation of Rights. The Company reserves the right for the Committee to depart from the schedule listed in the Appendix where the eligible Participant's attendance, job performance, or other job-related conduct appears to the Company to justify an upward or downward adjustment in benefits. However, in no event shall the maximum benefit payable under the Plan exceed twice such Participant's annual compensation, as defined in 29 C.F.R. Section 2510.3-2(b)(2); nor shall the maximum payment period exceed 24 months after the termination of the Participant's employment.

2.05 Classification of Employees to Whom the Plan Does Not Relate. The severance policies and procedures contained in this Plan do not apply to employees classified by the Company as temporary or hourly-paid employees.

### 3. BENEFITS

3.01 Amount and Schedule of Benefit Payments. The Company will provide severance pay and benefits, as described in paragraphs (a) through (e) below, to a Participant eligible for benefits under this Plan.

- (a) Accrued Salary. Any accrued salary not yet paid to the Participant for services performed prior to the Date of Termination shall be paid in compliance with state law, but not later than 20 calendar days following the Date of Termination.

- (b) Vacation Pay. The Participant will be reimbursed for vacation pay to the Date of Termination in accordance with Company policy.
- (c) Severance Pay. The Participant shall be paid a severance amount related to the Participant's Years of Service and Eligible Earnings. The amount of severance payment shall be calculated using the schedule in the Appendix. Weeks of severance for partial years of service will be calculated proportionately.
- (d) Mode of Payment. After the eligible Participant has satisfied all conditions precedent to receive severance benefits, such benefits will be paid to the Participant in a lump sum within 30 days of termination, unless the Plan administrator approves payment by salary continuation or some combination of periodic and lump sum payments. Participants who are notified in writing of their eligibility for severance benefits under the Plan on or after March 1, 2005 will receive a lump sum payment of such benefit within 30 days of termination, provided that the eligible Participant has satisfied all conditions precedent to receive severance benefits.
- (e) Insurance Benefits. An eligible Participant's insurance benefits shall be determined in accordance with the applicable insurance benefit plan.

3.02 Other Circumstances that Can Result in Disqualification, Forfeiture, Reduction or Suspension of Severance Benefits.

- (a) Elective Deductions. An eligible Participant may elect to have insurance premiums for Company-sponsored insurance plans deducted from severance payments.
- (b) Legally Required Deductions. Appropriate federal, state and local taxes will be withheld from all severance payments.
- (c) Effect of Rehire or Reinstatement (Or an Offer of Same). If an eligible Participant is granted severance benefits and the Participant is either rehired or reinstated as a regular salaried employee on a regular full-time basis by the Company (or is offered rehire or reinstatement on a full-time basis by the Company) before the end of the pay continuation period, then the Participant forfeits any unpaid severance payments for the periods following rehire or reinstatement (or the date of offer of same). In addition, to the extent the number of weeks of severance paid to the Participant exceeds the length of the Participant's break in service, the Participant will be required to refund or reimburse the Company for the excess severance already paid to the Participant.
- (d) Effect of Sale of Portion of Business Assets. Any Participant whose employment with the Company is terminated during or in anticipation of a sale of some, but not all, assets of the Company is not entitled to severance benefits if the purchaser of such assets offers Reasonable Alternative Employment to the Participant, and such offer of employment is made by the purchaser within no later than eight (8) weeks after the termination of the Participant's employment by the Company. Any severance paid to the Participant shall be repaid to the Company.

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- (e) Effect of Participant Misconduct. Any Participant who accepts severance benefits is obligated to reimburse the Company for the full amount of such payments if the Participant subsequently discloses any of the Company's trade secrets, violates any written covenants between the Participant and the Company, or otherwise engages in conduct that may adversely affect the Company's reputation or business relations. Likewise, a Participant who engages in such conduct shall forfeit any right to any unpaid severance payments.
  - (f) Effect of Employee Solicitation. Any participant who accepts severance benefits is obligated to reimburse the Company for the full amount of such payments if during the two-year period following the Participant's Date of Termination, the Participant subsequently acts to approach, canvas, solicit or otherwise endeavor to entice away any employee of the Company or any Affiliate. Likewise, a Participant who engages in such conduct shall forfeit any right to any unpaid severance payments.
  - (g) Effect of Adverse Economic Conditions. The Company may permanently suspend benefits under severance allowances in pay status (1) in the event of the Company's insolvency, liquidation, or bankruptcy reorganization or (2) in the event the cost of providing such benefits would lead to the Company's insolvency, liquidation, or bankruptcy reorganization.
  - (h) Effect of Other Severance Pay Laws. Any severance benefits provided by the Company under this Plan shall be reduced dollar-for-dollar by any severance, separation, or any other termination pay benefit that the Company or any Affiliate is required to pay to an eligible Participant under any federal or state law.
  - (i) Effect of Catastrophes and Other Extraordinary Events. Severance payments will not be made if the Participant's employment is terminated because of fire, flood, explosion, bombing, earthquake or other disaster causing damage to the location facilities or when strikes, work stoppages or civil disturbances prevent continued operations.
  - (j) Effect of Temporary Layoffs. Severance payments will not be made if a layoff is deemed to be temporary and of limited duration, e.g., a need for inventory reduction in a production facility or activities closely aligned with it. During such periods, Participants are encouraged to take any available vacation to which they may be entitled.
  - (k) Non-Compete Agreement. The Participant who has been involuntarily terminated may be required to execute a Non-Compete Agreement when the Committee determines that such an Agreement is required to protect the Company. Any Participant who is asked to execute a Non-Compete Agreement will receive additional severance in an amount not less than One Thousand Dollars (\$1,000) as consideration for the Non-Compete Agreement.

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The Non-Compete Agreement must be signed and returned to the Company within 60 days after the Participant's termination date in order for the Participant to receive any benefits under this Plan.

3.03 Condition Precedent to Severance Payments. For the Employee who becomes eligible for severance payments under the Plan, severance payments will not be paid under any circumstances until the eligible Participant executes a Company approved release of the Participant's then existing rights and claims against the Company. The release must be signed and returned to the Company within 30 days after the Participant's Date of Termination in order for the Participant to receive benefits under this Plan.

3.04 Impact of Armstrong Employment Protection Plan. Notwithstanding anything to the contrary in this Plan, in the event the Participant's Date of Termination coincides with or follows a change in control, as defined in the Armstrong Employment Protection Plan, no benefits will be paid under this Plan. This Plan applies only in the case of an eligible Participant whose employment has been terminated by the Company prior to the change in control and who is otherwise eligible to receive a benefit hereunder.

#### 4. AMENDMENT OR TERMINATION.

The Board of Directors of the Company may by written resolution terminate or amend this Plan at any time, provided that no amendment or termination of the Plan may adversely affect the amount, type, or timing of payment of benefits due and payable hereunder with respect to Participants whose employment has been terminated, except as provided in Section 3.02 of this Plan. Notwithstanding the foregoing, the Board of Directors has delegated the authority to amend the Plan to the Retirement Committee; provided, however, that the Board of Directors reserves the right to rescind or modify such delegation at any time and for any reason and retains the right to amend the Plan itself at any time.

#### 5. ADMINISTRATION

5.01 Responsibility for administration of the Plan shall be vested in the Committee, which shall have the sole and exclusive discretionary authority to determine conclusively all questions arising in connection with the administration, interpretation and application of the Plan, either by general rules or by particular decisions, including (but not limited to) questions regarding eligibility for benefits hereunder and the amount, form and timing of payments thereof, and any other matter (including any question of fact) raised by a claimant or identified by the Committee. Any such determination by the Committee shall be binding and conclusive upon all persons. The Committee may correct any defect, supply any information, or reconcile any inconsistency in such manner and to such extent as shall be deemed necessary or advisable by it to carry out the purpose of this Plan. The Committee may delegate administrative tasks as necessary to persons who are not Committee members.

5.02 All expenses of administering the Plan shall be borne by the Company. No member of the Committee shall receive any remuneration for service in such capacity. However, expenses of the Committee or its members paid or incurred in connection with administering the Plan shall be reimbursed by the Company.

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5.03 The Company may purchase insurance to cover potential liability of the Plan's fiduciaries. The Plan may purchase insurance for its fiduciaries and/or for itself to cover liability and losses occurring by reason of the act or omission of a fiduciary.

5.04 The Plan is unfunded and all severance payments under the Plan shall be made from the general assets of the Company.

## 6. SUCCESSORS; BINDING AGREEMENT

6.01 In the event of a sale or transfer of a plant, unit, division, or subsidiary of the Company to a successor (whether by reason of a sale of stock or assets) by means of which any Employee continues employment with the successor organization or is offered employment with the successor organization, the Company shall not be obliged to negotiate with the successor organization over whether to establish any severance pay plan, policy, or practice with respect to such Employees or whether to cover such Employees under any existing severance pay plan, policy, or practice already maintained by the successor organization.

6.02 All rights of an eligible Employee hereunder shall inure to the benefit of and be enforceable by such Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If an eligible Employee should die after having satisfied all conditions precedent to the receipt of such benefits, but prior to receiving all amounts of benefits payable hereunder, all such amounts, unless otherwise provided herein, shall be paid in a lump sum in accordance with the terms of this Plan to the Employee's devisee, legatee, or other designee or, if there be no such designee, to the Employee's estate.

## 7. ARBITRATION.

Any dispute or controversy arising under or in connection with this Plan shall be settled exclusively by arbitration in Lancaster County, Pennsylvania, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

## 8. MISCELLANEOUS

8.01 No amount payable under the Plan shall be subject to assignment, transfer, sale, pledge, encumbrance, alienation or change by an eligible Employee or the beneficiary of such Employee except as may be required by law.

8.02 Neither the Plan nor any action taken hereunder shall be construed either (1) as giving any individual employed by the Company any right to receive severance benefits of a type or in any amount similar to the benefits described in Section 3.01 above, unless the individual qualifies for benefits under this Plan; or (2) as giving any Employee any right to be retained in the employ of the Company.

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8.03 Payments of benefits under this Plan shall be made in lieu of payments of any severance benefits of a type similar to the benefits described in Section 3.01 above that may be offered under any written or unwritten severance pay policy maintained by the Company and there shall be no duplication of benefits previously paid under any such policy.

8.04 This Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania except to the extent preempted by the Employee Retirement Income Security Act or any other federal law.

8.05 The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall remain in full force and effect.

8.06 Any notice or other communication provided for in this Plan shall be in writing and, unless otherwise expressly stated herein, shall be deemed to have been duly given if mailed by United States registered mail, return receipt requested, postage prepaid addressed in the case of an Employee to the Employee's office at the Company with a copy to the Employee's residence and in the case of the Company to its principal executive offices, attention of the Severance Plan Administrator.

As Amended Through March 15, 2005

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The APPENDIX  
Severance Pay Schedule  
Effective July 1, 2001

<u>Years of Service</u>	<u>Number of Weeks</u>
1 or less	2.0
2	2.0
3	3.0
4	4.0
5	5.0
6	6.0
7	7.0
8	8.0
9	9.0
10	10.0
11	11.0
12	12.0
13	13.0
14	14.0
15	16.0
16	18.0
17	20.0
18	22.0
19	24.0
20	26.0
21	28.0
22	30.0
23	32.0
24	34.0
25	36.0
26	38.0
27 or more	39.0

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SEVERANCE PAYMENT RELEASE AND  
COVENANT TO NOT SUE

ARMSTRONG ADVISES YOU TO CONSULT AN ATTORNEY

In exchange for the severance pay and benefits which you will receive, you (and anyone acting on your behalf) agree to give up every past or present right or claim of any kind that is related to your employment with Armstrong World Industries, Inc., Armstrong Wood Products, Inc., or any other entity related to Armstrong World Industries, Inc. ("Armstrong" or the "Company") and the Company's termination of your employment. You agree to give up such rights and claims against the Company, as well as anyone related to the Company, such as the Company's parents, subsidiaries, employees, officers, directors and agents ("Released Parties"), and agree not to file a lawsuit or initiate any proceedings related to such rights and claims against any of them.

These rights and claims include, but are not limited to, those which could arise under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act (ADEA), or any other federal, state, or local law, statute or regulation; claims based upon any express or implied contract; or claims for wrongful or retaliatory discharge; or for any tort, contractual or any other common-law claim. You also acknowledge and agree that the Released Parties have no obligation to hire or re-hire you; and you specifically agree and acknowledge that you will not seek to be hired or rehired by any of these entities, and in the event you do, the Released Parties may refuse to consider you.

In addition, you agree never to sue any Released Party in any forum for any claim covered by the above waiver and release language, except that you may bring a claim under the ADEA to challenge this Agreement. If you violate this Agreement by suing any Released Party, other than under the ADEA, you shall be liable to the Released Party for its reasonable attorneys' fees and other litigation costs incurred in defending against such a suit. Alternatively, and to the extent permitted by law, in the event you sue any Released Party (other than under the ADEA), you may, at the Released Party's option, be required to return all monies and other benefits paid to you pursuant to this Agreement.

However, you do maintain the right to (1) receive the severance benefits under the terms of this Release, (2) receive your vested retirement or pension benefits under the terms of any Armstrong pension plan for which you are eligible, (3) receive benefits or exercise rights under the terms of any other plan or program that may be available to you and for which you qualify, including the right to pursue any claims review procedures or other rights provided by the terms of these plans, and (4) elect health care coverage under the federal continuation of health coverage law known as "COBRA" or under any applicable state law concerning continuation of health coverage.

You agree that during the two year period following your termination date, you will not directly or indirectly, on behalf of yourself or on behalf of any other person, firm, partnership, corporation, association or other entity, (1) call upon any of the customers or clients of the Company (or potential customers or clients of the Company whose business you solicited on behalf of the Company or whose needs you gained information about during his employment) for the purpose of soliciting to provide or providing any products or services similar to those provided by the Company; and/or (2) solicit, contact or induce any person to leave the employ of the Company.

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You also agree that you have had time to review and consider this information, that you have received information about the various benefits to which you are entitled and that you have read and understood this information. Accordingly, it will be appreciated if you would sign a copy of this Release indicating your understanding of, concurrence and voluntary agreement with the plan outlined above. This Release must be signed and returned to the Company within 30 days after your termination date in order for you to receive the severance payment. If you fail to sign and return the Release within 30 days after your termination date, you will forfeit the severance payment.

You further acknowledge and agree that:

1. The severance benefits provided pursuant to this Release constitute consideration for this Release, in that these are benefits to which you would not have been entitled had you not signed this Release.
2. You have been given a period of at least twenty-one (21) days within which to consider this Release and review any documents.
3. This Release does not waive any claims that you may have which arise after the date you sign this Release.
4. This Release is not effective or enforceable for seven (7) days after you sign it and you may revoke it during that time by sending a written revocation to the human resources representative for your department.

I sign this form as my own free act and deed, and I hereby release any rights and claims as set forth above in exchange for the severance payment and benefits I am receiving.

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Signature of Employee

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Date

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Please print name

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Non-Compete Agreement

THIS AGREEMENT, made this    day of           , 20 \_\_, by and between \_\_\_\_\_ (hereinafter called "Employee") and Armstrong World Industries, Inc., a Pennsylvania corporation (hereinafter called "Company").

WHEREAS, Employee has been involuntarily terminated and is conditionally entitled to receive certain severance benefits from the Company including severance pay;

AND WHEREAS, the Employee has had access to confidential, proprietary information and trade secrets and has agreed to enter into this Non-Compete Agreement in consideration of receipt of severance pay and other severance benefits.

NOW, THEREFORE, in consideration of the Company providing the Employee with severance pay and other severance benefits, and intending to be legally bound hereby, the Company and the Employee agree as follows:

1. The Company agrees to provide Employee with severance pay and other severance benefits under various plans of the Company.

2. Employee agrees that for a period of two years from the date of this Agreement that Employee will not, without the Company's prior written consent, directly or indirectly, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant, or otherwise, any individual, partnership, firm, corporation or other business organization or entity that, at such time, is engaged in the businesses now conducted by the Company, or its subsidiaries, anywhere within the geographical territory of the United States of America. The foregoing notwithstanding, Employee may make such investments that are permitted under Armstrong's CORPORATE REFERENCE GUIDE covering Conflicts of Interest and Outside Work By Employees.

3. Without intending to limit the remedies available to the Company, Employee acknowledges that a breach of any covenant contained in this Agreement may result in material, irreparable damage to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such breach of this Agreement. In the event of such breach, the Company shall be entitled to obtain a temporary restraining order and/or preliminary or permanent injunction restraining the Employee from engaging in activities prohibited by this Agreement and in addition to any other damages to which the Company may be entitled, the Employee will reimburse the Company for the full amount of severance pay already paid to such Employee and the Employee will forfeit any right to any unpaid severance payments.

4. The Employee agrees and consents that injunctive relief may be sought *ex parte* in any state or federal court of record in the Commonwealth of Pennsylvania, or in any state and county in which such violation may occur, or in any other court having jurisdiction at the election of the Company. The Employee agrees to and hereby submits to *in personam* jurisdiction before each and every such court for that purpose.

5. This Agreement shall be governed and construed in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the parties have entered into this Agreement effective as of the date first above written.

EMPLOYEE:

COMPANY:

Armstrong World Industries, Inc.

BY:

**Exhibit No. 10.29**

### EXECUTIVE OFFICER COMPENSATION ARRANGEMENTS

The Company has established and administers its executive compensation programs to attract and retain executive talent necessary for our operations. The principal components of executive compensation are base salary, an annual performance-based bonus under the Management Achievement Plan (“MAP”), and a long-term incentive component that has been provided under the 1999 Long-Term Incentive Plan (“LTIP”). Since Armstrong World Industries, Inc. filed for Chapter 11 protection in December 2000, that long-term incentive component has been provided through cash incentive awards instead of stock-based awards. Other elements of total executive officer remuneration are disclosed in Item 11 of the Report on Form 10-K.

The Company’s Management Development and Compensation Committee of the Board of Directors (the “Committee”) typically establishes performance goals for the Company’s operations under the MAP and LTIP, and establishes target awards under those plans for executives based upon achievement of those operating goals.

The following summary of the terms and operation of the MAP and LTIP is qualified in its entirety by reference to the provisions of those plans, which are separate exhibits to the Company’s Report on Form 10-K for 2004.

All executive officers other than Mr. Lockhart are employees-at-will. This means that their employment is terminable, and their salaries, bonuses, and incentives can be changed, at any time.

With respect to our Chief Executive Officer (“CEO”), Mr. Lockhart, his employment agreement dated August 7, 2000 (which is a separate exhibit to this filing) addresses his contractual rights with respect to his employment and his annual bonus and long-term incentive compensation. The Committee administers Mr. Lockhart’s awards under MAP and LTIP with a view towards observing those contractual obligations.

If the Company performs above a MAP performance threshold for 2005, participants in the MAP will be eligible to receive a payment in 2006 based upon a percentage of their target bonus. Each executive’s target bonus is calculated as a percentage of their annual base salary earnings ranging from 15% (at the base level for participants) to 125% (for the CEO).

Similarly, if the Company performs above a LTIP performance threshold for 2005 and 2006, participants in the LTIP will be eligible to receive a payment in 2007 equal to a percentage of their 2005 LTIP cash incentive award target grant. LTIP award target grants are calculated as a percentage of the executive’s current base salary ranging from 12% (at the base level for participants) to 337% (for the CEO).

The table below shows the current base salary level, the 2005 MAP target percentage and the LTIP award target grant amount for each executive officer:

Executive Officer	Current Base Salary	2005 MAP Award % of Actual Base Salary Earnings	2005 LTIP Award
Michael D. Lockhart	\$ 920,000	125%	\$3,100,000
Stephen J. Senkowski	529,412	70	1,138,200
F. Nicholas Grasberger	450,000	60	810,000
Matthew J. Angello	368,000	50	552,000
John N. Rigas	370,000	50	555,000

The form of LTIP award letter is a separate exhibit to this filing. There is no award letter used for the MAP. Executives are eligible to receive a merit-based salary increase effective April 1, 2005. Any increase to an executive's base salary earnings will be factored in to their MAP bonus to be paid in 2006.

**Exhibit No. 10.30**

### **Long-Term Incentive Plan 2005 Award Letter to Participants**

February xx, 2005

«FullName»

«Title»

«Location»

Dear «FirstName»:

The Management Development and Compensation Committee of the Board of Directors has granted performance-based 2005 Cash Incentive Awards that may be earned over the two-year period extending from January 1, 2005 to December 31, 2006. The Cash Incentive Award represents the long-term incentive plan (LTIP) component of Armstrong's senior management compensation program, and is subject to the terms of the 1999 Long-Term Incentive Plan.

The target amount of your grant for the 2005 Cash Incentive Award is <<amount>>. You are eligible to earn a cash payment based on Armstrong's <<performance measure>> for 2005 and 2006 measured against a Committee-approved target performance of <<goal>>. The target and actual measures exclude the impact of factors specified by the Committee, namely <<exclusions>>. These cash payments will be in addition to short-term incentive opportunities under the Management Achievement and Sales Incentive Plans (where applicable).

The Committee approved a payout schedule which establishes the expected and maximum payout achievement at varying levels of financial results. You should expect a Cash Incentive Award payout based on the "Expected Payout" column. You will note that the threshold financial performance for a partial payout has been set at <<threshold>> of the financial target. Following the completion of the two-year performance period, your calculated Cash Incentive Award payout will be subject to adjustment (up or down) on the basis of your individual performance. All cash payments earned will be paid in early 2007.

If you terminate employment with the Company (other than due to death or disability) prior to the date of payment, you will not receive a payout under this Cash Incentive Award. Participants who terminate employment due to death or disability after December 31, 2005 but prior to the payment date will be eligible for a pro-rated payment based on their length of employment during the two-year performance period to the extent financial results warrant a payment. If death or disability occurs prior to January 1, 2006, no payment will be made.

In the event of a change in control (CIC) of Armstrong World Industries after it emerges from Chapter 11 and prior to the completion of the performance period, all participants eligible to receive an award payment (active employees, disabled employees and beneficiaries of deceased employees) will receive a cash payment equal to the full LTIP award grant amount. This payment will be made at the time of the CIC.

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All payments will be subject to normal tax withholding and will not be considered income for benefits purposes such as for pensions, savings plan contributions and life insurance coverage.

The 1999 Long-Term Incentive Plan provisions under Section 8.9, Termination of Employment – Certain Forfeitures, limit your rights with respect to this Cash Incentive Award. The Committee may revoke your rights to receive or retain payments where you have been discharged for misconduct or you have engaged in any business or employment determined to be competitive with or injurious to the Company's interests. You may be required to return any cash payment you received in the 12 months prior to your termination of employment if within 24 months after your termination date, you engage in activities that are injurious to Armstrong. A copy of this Plan document is available upon request.

The value of this Cash Incentive Award will depend on our collective ability to meet and exceed the performance target. You may discuss any questions you have with your manager, the Compensation Department or me.

**Exhibit No. 10.31**

### **Armstrong World Industries, Inc.'s Nonqualified Deferred Compensation Plan**

Effective January 1, 2005, Armstrong closed its defined benefit pension plan, the Retirement Income Plan, to newly hired salaried employees. These new hires will participate in a 401(k) plan with an enhanced company match. Existing salaried employees will be given a choice to continue their participation in the pension plan or elect to participate in the 401(k) plan with the enhanced company match starting July 1, 2005. In order to provide a competitive retirement benefit to those salaried employees who do not participate in the pension plan and who are subject to the annual limit on before-tax contributions to the 401(k) plan, Armstrong's Management Development and Compensation Committee has authorized the establishment of an unfunded, nonqualified deferred compensation plan. This plan will allow higher paid participants in the 401(k) plan with the enhanced company match to defer receipt of up to 8% of their eligible compensation above a specified pay level (\$175,000 for 2005) and receive credit for the corresponding company matching contribution. With respect to these participants, the plan will also provide credit for the company match related to Armstrong contributions to the Bonus Replacement Retirement Plan to the extent the participant made a bonus deferral election.

The plan will provide for retirement supplement credits for designated employees as authorized by the Retirement Committee of Armstrong World Industries. This provision may be used for mid-career executive hires in order to provide a competitive retirement benefit.

**ARMSTRONG NONEMPLOYEE DIRECTOR COMPENSATION**

Effective April 1, 2004

Annual Retainer Fees : <sup>1</sup>

- Board retainer of \$90,000 <sup>2</sup>
- Committee chair retainer as follows:
  - \$20,000 for the Audit Committee
  - \$10,000 for the Management Development and Compensation Committee
  - \$10,000 for the Nominating and Governance Committee

Meeting/Daily Fees (paid in cash)

- Special assignment fee \$2,500 per diem (or \$1,250 for less than 4 hours). (Applies to special meetings, plant visits, and other non-scheduled significant activities)

Other items :

- Annual Physical Exam up to \$2,000 reimbursement
- Directors & Officers Liability Insurance
- Travel Accident Insurance
- Participation in Armstrong Foundation's Higher Education Gift-Matching Program (Provided by the Foundation, a separate legal entity, subject to its discretion.)
- Participation in Armstrong's Employee Purchase Programs
- Participation in "compassionate use" provision of the Company's Aircraft Operation policy (B-200)

<sup>1</sup> Annual service term runs from late April (after the annual shareholder meeting) for one year. Retainers for positions starting after the first meeting of the board after the customary date for the annual shareholder meeting are pro-rated by the number of days remaining in the then-current payment period.

<sup>2</sup> Cash paid quarterly in arrears, and all payments pro-rated as appropriate.

**EXHIBIT NO. 11.1**

ARMSTRONG HOLDINGS, INC. AND SUBSIDIARIES

COMPUTATION FOR BASIC EARNINGS (LOSS) PER SHARE  
FOR THE YEARS ENDED DECEMBER 31  
(AMOUNTS IN MILLIONS EXCEPT FOR PER-SHARE DATA)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Basic (loss) per share</u>			
Net (loss)	\$(80.8)	\$(39.3)	\$(2,142.8)
Average number of common shares outstanding	40.5	40.5	40.5
Basic (loss) per share	\$(2.00)	\$(0.97)	\$ (52.91)

**EXHIBIT NO. 11.2**

COMPUTATION FOR DILUTED EARNINGS (LOSS) PER SHARE  
FOR THE YEARS ENDED DECEMBER 31  
(AMOUNTS IN MILLIONS EXCEPT FOR PER-SHARE DATA)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Diluted (loss) per share</u>			
Net (loss)	\$(80.8)	\$(39.3)	\$(2,142.8)
Average number of common shares outstanding	40.5	40.5	40.5
Average number of common shares issuable under stock options or restricted stock grants	0.2	0.2	0.2
Average number of common and common stock equivalents outstanding	40.7	40.7	40.7
Diluted (loss) per share	\$(2.00)	\$(0.97)	\$ (52.91)

**Subsidiaries of Armstrong World Industries, Inc.  
As of December 31, 2004**

Armstrong Holdings, Inc. (“AHI”) owns 100% of Armstrong Worldwide, Inc. (“AWW”). AWW owns 100% of Armstrong World Industries, Inc. (“AWW”). AHI and AWW have no other subsidiary holdings.

The following is a list of subsidiaries of Armstrong World Industries, Inc. as of the date hereof, omitting certain subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

AWI Domestic Subsidiaries

Armstrong Cork Finance Corporation  
 Armstrong Enterprises, Inc.  
 Armstrong Realty Group, Inc.  
 Armstrong Ventures, Inc.  
 Armstrong Wood Products, Inc.  
 Armstrong World Industries (Delaware) Inc.  
 AWI Licensing Company  
 Bruce Hardwood Flooring LLC  
 Charleswater Products, Inc.  
 Hartco Flooring Company  
 Interface Solutions Holding, Inc. (35% owned parent of Interface Solutions, Inc.)  
 Robbins Hardwood Flooring, Inc  
 Worthington Armstrong Venture (50%-owned unincorporated affiliate)

Jurisdiction of Incorporation

Delaware  
 Vermont  
 Pennsylvania  
 Delaware  
 Delaware  
 Delaware  
 Delaware  
 Delaware  
 Delaware  
 Tennessee  
 Delaware  
 Delaware

AWI Foreign Significant Subsidiaries

Armstrong (U.K.) Investments  
 Armstrong Architectural Products S.L.  
 Armstrong Building Products B.V.  
 Armstrong Building Products Company (Shanghai) Ltd. (80% owned affiliate)  
 Armstrong Building Products G.m.b.H.  
 Armstrong DLW AG (97% owned)  
 Armstrong DLW Belgium N.V.  
 Armstrong DLW Licensing GmbH  
 Armstrong Metal Ceilings Limited  
 Armstrong Metalldecken AG  
 Armstrong Metalldecken GmbH  
 Armstrong Metalldecken Holdings AG  
 Armstrong World Industries (Australia) Pty. Ltd.  
 Armstrong World Industries AB  
 Armstrong World Industries Canada Ltd.  
 Armstrong World Industries Holding G.m.b.H.  
 Armstrong World Industries Ltd.  
 Desso Dendermonde N.V.  
 Desso DLW Sports Systems  
 Desso DLW Textil GmgH  
 Tapijtfabriek H. Desseaux N.V.

Jurisdiction of Incorporation

United Kingdom  
 Spain  
 Netherlands  
 PRC  
 Germany  
 Germany  
 Belgium  
 Germany  
 United Kingdom  
 Switzerland  
 Austria  
 Switzerland  
 Australia  
 Sweden  
 Canada  
 Germany  
 United Kingdom  
 Netherlands  
 Belgium  
 GermanyDesso Waalwijk B.V.  
 Netherlands

**Subsidiaries of Armstrong Holdings, Inc.  
as of December 31, 2004**

Armstrong Holdings, Inc.'s subsidiaries include all of the Armstrong World Industries, Inc. subsidiaries, plus Armstrong World Industries, Inc. (Pennsylvania) and its direct parent company, Armstrong Worldwide, Inc. (Delaware).

**EXHIBIT NO. 23.1**

Consent of Independent Registered Public Accounting Firm

The Board of Directors  
Armstrong Holdings, Inc.:

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No., 33-91890, 33-18996, 33-18997, 33-65768, 333-79093 and 333-43872 on Form S-8 of Armstrong Holdings, Inc. of our report dated March 14, 2005, with respect to the consolidated balance sheets of Armstrong Holdings, Inc., and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of earnings, cash flows and shareholders' equity and the related financial statement schedule for each of the years in the three-year period ended December 31, 2004, which report appears in the December 31, 2004 annual report on Form 10-K of Armstrong Holdings, Inc.

Our report dated March 14, 2005, contains an explanatory paragraph that states three of the Company's domestic subsidiaries, including Armstrong World Industries, Inc. filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 6, 2000 and Armstrong World Industries, Inc. has also defaulted on certain debt obligations. Our report also states that the filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 28, 2005

**EXHIBIT NO. 23.2**

Consent of Independent Registered Public Accounting Firm

The Board of Directors  
Armstrong World Industries, Inc.:

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No., 33-91890, 33-18996, 33-18997, 33-65768 and 333-79093 on Form S-8 of Armstrong World Industries, Inc. of our report dated March 14, 2005, with respect to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of earnings, cash flows and shareholder's equity and the related financial statement schedule for each of the years in the three-year period ended December 31, 2004, which report appears in the December 31, 2004 annual report on Form 10-K of Armstrong World Industries, Inc.

Our report dated March 14, 2005, contains an explanatory paragraph that states the Company and two of its domestic subsidiaries filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 6, 2000 and the Company has also defaulted on certain debt obligations. Our report also states that the filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 28, 2005

**Exhibit 23.3**

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No. 33-91890, 33-18996, 33-18997, 33-65768, 333-79093 and 333-43872 on Form S-8 of Armstrong Holdings, Inc. of our report dated February 25, 2005, with respect to the consolidated balance sheets of Worthington Armstrong Venture as of December 31, 2004 and 2003, and the related consolidated statements of income, partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2004, which report appears in the December 31, 2004 annual report on Form 10-K of Armstrong Holdings, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 23, 2005

**Exhibit 23.4**

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No. 33-91890, 33-18996, 33-18997, 33-65768 and 333-79093 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 25, 2005, with respect to the consolidated balance sheets of Worthington Armstrong Venture as of December 31, 2004 and 2003, and the related consolidated statements of income, partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2004, which report appears in the December 31, 2004 annual report on Form 10-K of Armstrong World Industries, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 23, 2005

**EXHIBIT NO. 24**

ARMSTRONG HOLDINGS, INC.

POWER OF ATTORNEY

I, John N. Rigas, Senior Vice President, Secretary and General Counsel of Armstrong Holdings, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, do hereby certify that at a meeting of the Board of Directors of said corporation duly held on the 21<sup>st</sup> day of February, 2005, at which a quorum was present and acting throughout, the following resolution was adopted and is now in full force and effect.

RESOLVED that the execution of Armstrong Holdings, Inc.'s 2004 Annual Report on Form 10-K by members of the Board of Directors through powers of attorney granting Messrs. Lockhart, Rigas and Gangl the power to sign on their behalf is authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 21<sup>st</sup> day of February, 2005.

/s/ John N. Rigas

\_\_\_\_\_  
John N. Rigas  
Senior Vice President, Secretary and  
General Counsel

## ARMSTRONG HOLDINGS, INC.

POWER OF ATTORNEY

RE: 2004 ANNUAL REPORT ON FORM 10-K

I, H. Jesse Arnelle, as a Director of Armstrong Holdings, Inc., do hereby constitute and appoint, MICHAEL D. LOCKHART or, in the case of his absence or inability to act as such, JOHN N. RIGAS or, in the case of his absence or inability to act as such, WALTER T. GANGL, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and any amendments thereto, to be filed by the Company with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, with the same effect as if such signature were made by me personally.

/s/ H. Jesse Arnelle

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Dated: February 21, 2005

All powers of attorney required to be filed are substantially identical in all material respects. Therefore, in accordance with SEC Regulation 229.601(a) Instruction 2, only the foregoing copy is being included except, however, that the manually signed copy filed with the Securities and Exchange Commission includes a complete set of powers of attorney.

All powers of attorney differ only from the form of the foregoing in that they are executed by the following parties in the capacities indicated on or about February 21, 2005.

H. Jesse Arnelle	Director
Judith R. Haberkorn	Director
John A. Krol	Director
James E. Marley	Director
Ruth M. Owades	Director
John J. Roberts	Director
M. Edward Sellers	Director
Jerre L. Stead	Director

ARMSTRONG HOLDINGS, INC.

POWER OF ATTORNEY

I, John N. Rigas, Senior Vice President, Secretary and General Counsel of Armstrong World Industries, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, do hereby certify that at a meeting of the Board of Directors of said corporation duly held on the 21st day of February, 2005, at which a quorum was present and acting throughout, the following resolution was adopted and is now in full force and effect.

RESOLVED that the execution of Armstrong Holdings, Inc.'s 2004 Annual Report on Form 10-K by members of the Board of Directors through powers of attorney granting Messrs. Lockhart, Rigas and Gangl the power to sign on their behalf is authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 21<sup>st</sup> day of February, 2005.

/s/ John N. Rigas

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John N. Rigas  
Senior Vice President, Secretary and  
General Counsel

## ARMSTRONG HOLDINGS, INC.

POWER OF ATTORNEY

RE: 2004 ANNUAL REPORT ON FORM 10-K

I, James E. Marley, as a Director of Armstrong Holdings, Inc., do hereby constitute and appoint, MICHAEL D. LOCKHART or, in the case of his absence or inability to act as such, JOHN N. RIGAS or, in the case of his absence or inability to act as such, WALTER T. GANGL, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and any amendments thereto, to be filed by the Company with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, with the same effect as if such signature were made by me personally.

/s/ James E. Marley

Dated: February 21, 2005

**Exhibit 31.1**

I, Michael D. Lockhart, certify that:

- 1) I have reviewed this report on Form 10-K of Armstrong Holdings, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 29, 2005

/s/ Michael D. Lockhart

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Michael D. Lockhart  
Chairman, Chief Executive Officer and President

**Exhibit 31.2**

I, F. Nicholas Grasberger III, certify that:

- 1) I have reviewed this report on Form 10-K of Armstrong Holdings, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to

- us by others within those entities, particularly during the period in which this report is being prepared;
- b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 29, 2005

/s/ F. Nicholas Grasberger III

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F. Nicholas Grasberger III  
Senior Vice President and Chief Financial Officer

**Exhibit 31.3**

I, Michael D. Lockhart, certify that:

- 1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 29, 2005

/s/ Michael D. Lockhart

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Michael D. Lockhart  
Chairman, Chief Executive Officer and President

**Exhibit 31.4**

I, F. Nicholas Grasberger III, certify that:

- 1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material

- respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) for the registrant and have:
    - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  - 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
    - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 29, 2005

/s/ F. Nicholas Grasberger III

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F. Nicholas Grasberger III  
Senior Vice President and Chief Financial Officer

**Exhibit 32.1**

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong Holdings, Inc. and  
Armstrong World Industries, Inc.  
(the "Companies")

*Written Statement by Chief Executive Officer*  
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Companies' Form 10-K annual report containing their respective financial statements for the fiscal year ended December 31, 2004 fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Companies as of that date.

/s/ Michael D. Lockhart

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Michael D. Lockhart  
Chief Executive Officer and President  
Armstrong Holdings, Inc. and  
Armstrong World Industries, Inc.

Dated: March 29, 2005

**Exhibit 32.2**

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong Holdings, Inc. and  
Armstrong World Industries, Inc.  
(the "Companies")

*Written Statement by Chief Financial Officer*  
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Companies' Form 10-K annual report containing their respective financial statements for the fiscal year ended December 31, 2004 fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Companies as of that date.

/s/ F. Nicholas Grasberger III

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F. Nicholas Grasberger III  
Senior Vice President and Chief Financial Officer  
Armstrong Holdings, Inc. and  
Armstrong World Industries, Inc.

Dated: March 29, 2005

**Exhibit 99.1**



**WORTHINGTON ARMSTRONG VENTURE**

Consolidated Financial Statements

December 31, 2004, 2003, and 2002

(With Independent Auditors' Report Thereon)

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**WORTHINGTON ARMSTRONG VENTURE**

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**KPMG LLP**  
1601 Market Street  
Philadelphia, PA 19103-2499

**Independent Auditors' Report**

The Board of Directors  
Worthington Armstrong Venture:

We have audited the accompanying consolidated balance sheets of Worthington Armstrong Venture as of December 31, 2004 and 2003, and the related consolidated statements of income, partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Worthington Armstrong Venture as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 25, 2005

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

**WORTHINGTON ARMSTRONG VENTURE**

## Consolidated Balance Sheets

December 31, 2004 and 2003

(In thousands)

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 71,636	42,058
Accounts receivable, net	31,907	25,844
Inventory, net	40,771	24,656
Other current assets	739	500
Total current assets	<u>145,053</u>	<u>93,058</u>
Property, plant, and equipment, net	30,190	26,278
Goodwill and other intangibles, net	2,181	2,094
Other assets	1,498	3,942
Total assets	<u>\$178,922</u>	<u>125,372</u>
<b>Liabilities and Partners' Equity</b>		
Current liabilities:		
Current installments of long-term debt	\$ 50,000	50,000
Accounts payable	14,581	10,229
Accrued expenses	5,857	3,090
Taxes payable	959	827
Total current liabilities	<u>71,397</u>	<u>64,146</u>
Long-term liabilities:		
Deferred income taxes	587	870
Other long-term liabilities	4,496	3,060
Total long-term liabilities	<u>5,083</u>	<u>3,930</u>
Total liabilities	<u>76,480</u>	<u>68,076</u>
Partners' equity:		
Contributed capital	22,638	22,638
Retained earnings	76,231	33,080
Accumulated other comprehensive income	3,573	1,578
Total partners' equity	<u>102,442</u>	<u>57,296</u>
Total liabilities and partners' equity	<u>\$178,922</u>	<u>125,372</u>

See accompanying notes to consolidated financial statements.

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**WORTHINGTON ARMSTRONG VENTURE**

## Consolidated Statements of Income

Years ended December 31, 2004, 2003, and 2002

(In thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net sales	\$ 278,637	213,819	201,363
Cost of sales	(192,304)	(152,087)	(142,181)
Gross margin	86,333	61,732	59,182
Selling, general, and administrative expenses	(20,505)	(17,952)	(18,054)
	65,828	43,780	41,128
Other income, net	96	40	78
Interest expense, net	(444)	(862)	(1,060)
Income before income tax expense	65,480	42,958	40,146
Income tax expense	(2,329)	(1,217)	(917)
Net income	<u>\$ 63,151</u>	<u>41,741</u>	<u>39,229</u>

See accompanying notes to consolidated financial statements.

**WORTHINGTON ARMSTRONG VENTURE**

Consolidated Statements of Partners' Equity

Years ended December 31, 2004, 2003, and 2002

(In thousands)

	Contributed capital			Accumulated other comprehensive income/(loss)	Total partners' equity	Comprehensive income/(loss)
	Armstrong Ventures Inc.	Worthington Ventures Inc.	Retained earnings			
Balance, December 31, 2001	\$ 12,925	9,713	19,110	(3,209)	38,539	—
Net income	—	—	39,229	—	39,229	39,229
Distributions	—	—	(35,000)	—	(35,000)	—
Additional minimum pension liability	—	—	—	(1,367)	(1,367)	(1,367)
Foreign currency translation adjustments	—	—	—	3,382	3,382	3,382
Balance, December 31, 2002	12,925	9,713	23,339	(1,194)	44,783	41,244
Net income	—	—	41,741	—	41,741	41,741
Distributions	—	—	(32,000)	—	(32,000)	—
Additional minimum pension liability	—	—	—	(233)	(233)	(233)
Foreign currency translation adjustments	—	—	—	3,005	3,005	3,005
Balance, December 31, 2003	12,925	9,713	33,080	1,578	57,296	44,513
Net income	—	—	63,151	—	63,151	63,151
Distributions	—	—	(20,000)	—	(20,000)	—
Additional minimum pension liability	—	—	—	(564)	(564)	(564)
Foreign currency translation adjustments	—	—	—	2,559	2,559	2,559
Balance, December 31, 2004	\$ 12,925	9,713	76,231	3,573	102,442	65,146

See accompanying notes to consolidated financial statements.

**WORTHINGTON ARMSTRONG VENTURE**

Consolidated Statements of Cash Flows

Years ended December 31, 2004, 2003, and 2002

(In thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities:</b>			
Net income	\$ 63,151	41,741	39,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,177	5,244	5,046
Deferred income taxes	(171)	314	(417)
Change in accounts receivable	(5,335)	(3,284)	(306)
Change in inventory	(15,317)	5,057	(5,240)
Change in accounts payable and accrued expenses	5,841	(1,248)	1,339
Other	3,811	(3,487)	1,188
	<u>57,157</u>	<u>44,337</u>	<u>40,839</u>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant, and equipment	(8,663)	(2,167)	(3,021)
Sale of property, plant, and equipment	23	30	6
	<u>(8,640)</u>	<u>(2,137)</u>	<u>(3,015)</u>
<b>Cash flows from financing activities:</b>			
Change in short-term borrowings, net	—	—	(903)
Reduction of long-term debt	—	—	(841)
Distributions paid	(20,000)	(32,000)	(35,000)
	<u>(20,000)</u>	<u>(32,000)</u>	<u>(36,744)</u>
Effect of exchange rate changes on cash and cash equivalents	1,061	1,025	1,138
	<u>29,578</u>	<u>11,225</u>	<u>2,218</u>
Cash and cash equivalents at beginning of year	42,058	30,833	28,615
Cash and cash equivalents at end of year	<u>\$ 71,636</u>	<u>42,058</u>	<u>30,833</u>
<b>Supplemental disclosures:</b>			
Cash and cash equivalents paid for interest	\$ 1,088	1,212	1,604
Cash and cash equivalents paid for income taxes	2,124	1,115	1,139

See accompanying notes to consolidated financial statements.

## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

#### (1) Description of Business

Worthington Armstrong Venture (the Company or WAVE) is a general partnership, formed in June 1992, between Armstrong Ventures, Inc., a subsidiary of Armstrong Holdings, Inc. and Worthington Ventures, Inc., a subsidiary of Worthington Industries, Inc. Its business is to manufacture and market suspension systems for commercial and residential ceiling markets throughout the world. The Company has manufacturing plants located in the United States, France, Spain, the United Kingdom, and the Peoples Republic of China.

#### (2) Summary of Significant Accounting Policies

##### (a) Use of Estimates

These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include management estimates and judgments, where appropriate. Actual results could differ from those estimates.

##### (b) Consolidation Policy

The consolidated financial statements include the accounts of the Worthington Armstrong Venture and its subsidiaries. All significant intercompany transactions have been eliminated.

##### (c) Revenue Recognition

The Company recognizes revenue from the sale of products and the related accounts receivable when title transfers, generally on the date of shipment. Provision is made for estimated applicable discounts and losses. Sales with independent U.S. distributors of certain products to major home center retailers are recorded when the products are shipped from the distributor's locations to these retailers.

##### (d) Advertising Costs

The Company recognizes advertising expenses as they are incurred. Advertising expense was \$837,000, \$897,000, and \$1,002,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

##### (e) Research and Development Expenditures

The Company recognizes research and development expense as expenditures are incurred. Total research and development expense was \$1,459,000, \$1,080,000, and \$1,354,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

##### (f) Taxes

The Company is a joint venture partnership in the United States, and accordingly, all U.S. federal and state income taxes are the responsibility of the two joint venture partners. Deferred income taxes and liabilities are recognized for foreign subsidiaries for taxes estimated to be payable in future years based upon differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are determined using enacted rates expected to apply to taxable income in the years the temporary differences are expected to be recovered or settled.

(Continued)

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## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

**(g) Inventories**

Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method.

**(h) Long-Lived Assets**

Property, plant, and equipment are stated at acquisition cost, with accumulated depreciation and amortization deducted to arrive at net book value. Depreciation charges are determined generally on the straight-line basis over the useful lives as follows: buildings, 40 years; machinery and equipment, 5 to 12 years, and leasehold improvements over the shorter of 10 years or the life of the lease. Impairment losses are recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

**(i) Goodwill and Other Intangibles**

Effective January 1, 2002, WAVE adopted Statement of Financial Accounting Standards (FAS) No. 142, *Goodwill and Other Intangible Assets* (FAS 142), which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. FAS 142 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives to their residual values and reviewed for impairment. The impairment tests performed in 2004, 2003, and 2002 did not result in an impairment of the company's goodwill.

**(j) Foreign Currency Translation and Transactions**

For subsidiaries with functional currencies other than the U.S. dollar, income statement items are translated into dollars at average exchange rates throughout the year and balance sheet items are translated at year-end exchange rates. Gains or losses on foreign currency transactions are recognized in "other income, net" in the income statement.

**(k) Cash and Cash Equivalents**

Short-term cash investments that have maturities of three months or less when purchased are considered to be cash equivalents.

**(3) Accounts Receivable**

The Company sells its products to select, preapproved customers whose businesses are directly affected by changes in economic and market conditions. The Company considers these factors and the financial condition of each customer when establishing its allowance for losses from doubtful accounts. The allowance for doubtful accounts was \$685,000 and \$399,000 at December 31, 2004 and 2003, respectively.

(Continued)

**WORTHINGTON ARMSTRONG VENTURE**

Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

**(4) Inventory**

	2004	2003
	(In thousands)	
Finished goods	\$13,393	12,806
Goods in process	144	49
Raw materials	16,620	9,532
Supplies	3,391	3,004
	33,548	25,391
Inventory reserves and adjustment to actual cost	7,223	(735)
	\$40,771	24,656

The adjustment to actual cost represents the allocation of purchasing and production variances to inventory in order to record it at actual cost.

**(5) Property, Plant, and Equipment**

	2004	2003
	(In thousands)	
Land	\$ 1,356	1,302
Buildings	13,202	9,140
Machinery and equipment	59,217	59,270
Construction in process	1,058	843
	74,833	70,555
Accumulated depreciation	(44,643)	(44,277)
	\$ 30,190	26,278

Depreciation expense was \$5,115,000, \$5,127,000, and \$4,969,000 in 2004, 2003, and 2002, respectively.

**(6) Goodwill and Other Intangibles**

Goodwill increased by \$167,000, \$322,000, and \$252,000 during 2004, 2003, and 2002, respectively, due to foreign currency translation. The following table details amounts related to intangible assets as of December 31, 2004 and 2003:

	2004	2003
	(In thousands)	
Computer software and other	\$ 982	1,038
Accumulated amortization	(921)	(897)
	\$ 61	141

(Continued)

# WORTHINGTON ARMSTRONG VENTURE

## Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

Computer software is amortized on a straight-line basis using useful lives of three to seven years. Amortization expense was \$62,000, \$93,000, and \$77,000 in 2004, 2003, and 2002, respectively.

The expected annual amortization expense for intangible assets is as follows: \$53,000 in 2005 and \$8,000 in 2006.

### (7) Financial Instruments

The Company does not hold or issue financial instruments for trading purposes. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate their fair value due to the short-term maturity of these instruments. The carrying value of debt approximates fair value as the debt carries a variable interest rate.

### (8) Debt

Outstanding debt and the related average interest rate at December 31, 2004 and 2003, are as follows:

	2004		2003	
	(In thousands)			
Long-term debt:				
Floating rate bank loan, payable quarterly, principal due 2005	50,000	2.24%	50,000	2.12%
Less current installments	50,000	2.24%	50,000	2.12%
Long-term debt	\$ —	0.00%	—	0.00%

The floating rate bank loan agreement contains restrictive financial covenants regarding cash flow coverage ratios and leverage ratios. The Company was in compliance with these covenants as of December 31, 2004 and 2003. The loan was originally due on October 13, 2004, but was extended. The full amount of the loan is now due on September 30, 2005.

### (9) Pension Benefit Programs

The Company has a defined benefit pension plan for eligible hourly employees in its manufacturing plant located in Malvern, Pennsylvania. This plan was curtailed in January 2004 due to the consolidation of the company's East coast operations, which eliminated the expected future years of service for participants in the plan (note 14). The curtailment event resulted in additional expense of the remaining unrecognized prior service cost of \$937,000. The Company also contributes to the Worthington defined-contribution pension plan for all other eligible U.S. employees. Cost for this plan was \$630,000, \$387,000, and \$497,000 for 2004, 2003, and 2002, respectively. The Company also contributes to government-related pension programs in a number of foreign countries. The cost for these plans amounted to \$154,000, \$82,000, and \$60,000 for 2004, 2003, and 2002, respectively.

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**WORTHINGTON ARMSTRONG VENTURE**

Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

The following table summarizes the balance sheet amounts, as well as the benefit obligations, assets, funded status, and rate assumptions associated with the Company's defined benefit plan. The defined benefit pension plan uses a December 31 measurement date.

	<u>2004</u>	<u>2003</u>
	<u>(In thousands)</u>	
Benefit obligation at December 31	\$ 8,896	8,051
Fair value of plan assets as of December 31	7,902	7,913
<b>Funded status</b>	<b>(994)</b>	<b>(138)</b>
Unrecognized prior service cost	—	1,062
Unrecognized net loss	2,295	1,731
<b>Prepaid benefit cost</b>	<b>1,301</b>	<b>2,655</b>
Accrued benefit liability, after recognition of additional minimum liability	(2,295)	(2,793)
Intangible asset	—	1,062
Accumulated other comprehensive income	2,295	1,731
<b>Net amount recognized</b>	<b>\$ 1,301</b>	<b>2,655</b>
Benefit cost	\$ 417	490
Curtailed cost	937	—
Employer contribution	—	2,902
Benefits paid	345	204
	<u>2004</u>	<u>2003</u>
<b>Weighted average assumptions for year ended December 31:</b>		
Discount rate	6.00%	6.75%
Rate of compensation increase	N/A	N/A
Expected long-term rate of return on plan assets	8.00%	8.00%
<b>Weighted average assumptions as of December 31:</b>		
Discount rate	5.75%	6.00%
Rate of compensation increase	N/A	N/A

The Company does not expect to contribute to our U.S. defined benefit pension plan in 2005.

Investment Policies

The primary investment objective of the defined benefit pension plan is to achieve long-term growth of capital in excess of 8% annually, exclusive of contributions or withdrawals. These two objectives are to be achieved through a balanced portfolio comprised of equities, fixed income, and cash investments.

(Continued)

# WORTHINGTON ARMSTRONG VENTURE

## Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

Each asset class utilized by the defined benefit pension plan has a targeted percentage. The table below shows the asset allocation target and the December 31, 2004 and 2003 position:

	Target weight	Position at December 31	
		2004	2003
Equity securities	65%	71%	48%
Fixed income securities	35%	26%	20%
Cash and equivalents	0%	3%	32%

### Basis of Rate-of-Return Assumption

For 2004, the Company assumed a long-term rate of return of plan assets of 8%. In developing the 8% expected long-term rate of return assumption, the Company considered its historical compounded return and reviewed asset class return expectations and long-term inflation assumptions.

### Future Benefit Payments

The benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are shown in the table below.

Expected future payments for period ending December 31 :	
2005	\$ 345
2006	339
2007	332
2008	325
2009	317
2010-2014	1,494

## (10) Income Taxes

The Company is a joint venture partnership in the United States, and accordingly, all U.S. federal and state income taxes are the responsibility of the two joint venture partners. Therefore, no income tax provision has been recorded on U.S. income. There are no significant differences between the statutory income tax rates in foreign countries where the Company operates and the income tax provision recorded in the income statements.

Deferred tax balances recorded on the balance sheets relate primarily to depreciation and accrued expenses. In 2004, the provision for income tax expense (benefit) was \$2,329,000 comprising \$2,437,000 current and \$(108,000) deferred. In 2003, the provision for income tax expense (benefit) was \$1,217,000 comprising \$1,531,000 current and \$(314,000) deferred. In 2002, the provision for income tax expense (benefit) was \$917,000 comprising \$1,334,000 current and \$(417,000) deferred.

(Continued)

# WORTHINGTON ARMSTRONG VENTURE

## Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

### (11) Leases

The Company rents certain real estate and equipment. Several leases include options for renewal or purchase and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. Rent expense during 2004, 2003, and 2002 amounted to \$2,756,000, \$2,110,000, and \$1,774,000, respectively. Future minimum payments by year and in the aggregate for operating leases having noncancelable lease terms in excess of one year are as follows (in thousands):

Year:	
2005	\$ 2,607
2006	2,227
2007	2,138
2008	1,778
2009	1,770
Thereafter	8,308
Total	\$18,828

### (12) Related Parties

Armstrong provides certain selling, promotional, and administrative processing services to the Company for which it receives reimbursement. In 2004, 2003, and 2002, the Company paid \$11,765,000, \$9,820,000, and \$9,993,000 for these services, respectively. The Company also leases certain land and buildings from Armstrong and, accordingly, paid rent of \$356,000, \$385,000, and \$330,000 in 2004, 2003, and 2002, respectively. No amounts were owed to Armstrong as of December 31, 2004, 2003, or 2002. Armstrong purchases some grid products from the Company, which is then resold along with Armstrong inventory to the customer. The total amount of sales to Armstrong was approximately \$59,952,000, \$50,975,000, and \$41,168,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

Worthington also provides certain administrative processing services to the Company and received \$18,000, \$17,000, and \$16,000 as reimbursement in 2004, 2003, and 2002, respectively. The Company purchased \$11,102,000, \$6,904,000, and \$7,685,000 of raw materials from Worthington and related companies in 2004, 2003, and 2002, respectively. The Company also leases certain land and buildings from Worthington, and accordingly, paid rent of \$0 in 2004, \$0 in 2003, and \$449,000 in 2002. The Company paid Worthington \$1,145,000, \$850,000, and \$682,000 for worker's compensation, automobile and general liability insurance coverage in 2004, 2003, and 2002, respectively. The Company owed \$2,022,000, \$607,000, and \$956,000 to Worthington as of December 31, 2004, 2003, and 2002, respectively.

On December 6, 2000, Armstrong filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. The Company was not part of this filing. Management does not expect this event to have an adverse effect on the Company's financial condition, liquidity, or results of operations.

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**WORTHINGTON ARMSTRONG VENTURE**

Notes to Consolidated Financial Statements

December 31, 2004, 2003, and 2002

**(13) Legal Proceedings**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

**(14) Plant Consolidation**

The Company consolidated its East coast manufacturing operations from facilities located in Malvern, Pennsylvania, and Sparrow's Point, Maryland, into one facility located in Aberdeen, Maryland. The consolidation began in May 2004 and was completed by December 2004. In connection with this, approximately 131 employees were provided severance benefits.

The total cost incurred as a result of the consolidation was \$4.3 million. These costs have all been expensed in 2004 in the cost of goods sold line of the income statement. The table below contains the significant categories of costs and their impact on the company's financial statements in 2004.

	<u>Total amount expected</u>	
	(In thousands)	
Consolidation expenses:		
Severance and relocation	\$1,877	1,877
Pension curtailment	937	937
Equipment relocation and miscellaneous	1,526	1,526
	<u>          </u>	<u>          </u>
Total	\$4,340	4,340
	<u>          </u>	<u>          </u>

Liability related to severance and relocation (in thousands):

Balance, January 1, 2004	\$ —
Amount expensed	1,877
Amount paid or settled	(1,516)
	<u>          </u>
Balance, December 31, 2004	\$ 361
	<u>          </u>