

ARMSTRONG WORLD INDUSTRIES INC

FORM 10-K (Annual Report)

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

Address	2500 COLUMBIA AVE LANCASTER, PA 17603
Telephone	7173970611
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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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(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, 2003

OR

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

For the transition period from _____ to _____

ARMSTRONG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

333-32530
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

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

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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 (\$1.98 per share) on the over-the-counter (OTC) Bulletin Board (trading symbol ACKHQ) on June 30, 2003, was approximately \$73.9 million. As of February 10, 2004, the number of shares outstanding of registrant's Common Stock was 40,668,892. This amount includes the 1,911,533 shares of Common Stock as of December 31, 2003, 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 the 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.

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; AWI’s debt service costs for debt planned to be issued to finance its plan of reorganization and to meet operating cash requirements after emergence. 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 structure than us 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 and those of our competitors will impact our market share, as well as new patents.
- 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.

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.

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 if sales shift to developing markets with lower profitability.
- 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.

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- Fluctuations in exchange rates, particularly the Euro, can significantly affect our reported results from one period to the next. Tax inefficiencies in repatriating cash flow from non-U.S. subsidiaries could adversely affect us.

Legal Claims

- 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.

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 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.

Environmental Regulations

- We are subject to a wide variety of increasingly complex and stringent federal, state and local laws and regulations pertinent to our operations. Changes in environmental regulations that affect our business could lead to significant, unforeseen expenses.

PART I

ITEM 1. BUSINESS

General

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Delaware corporation and the publicly held parent holding company of AWI. AHI’s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc., 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 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. However, there are no differences in the income statements of AHI and AWI and its subsidiaries and minimal differences in the remaining three financial statements of each entity. 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 Web site 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. We own and operate 44 manufacturing plants in 12 countries, including 26 plants located throughout the United States. Through WAVE, our joint venture with Worthington Industries, Inc., we also have an interest in 8 additional plants in 5 countries that produce suspension system (grid) products for our ceiling systems.

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 their 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 products, adhesives, installation and maintenance materials and accessories, and has recently introduced ceramic tile products. Resilient Flooring products are offered in a wide variety of types, designs, and colors, and provide ease of installation and reduced maintenance (no-wax). We sell these products to wholesalers, large home centers, retailers, contractors, and to the manufactured homes industry.

Wood Flooring — produces 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) and engineered wood floors in various wood species (with oak being the primary species of choice). Virtually all of our Wood Flooring's sales are in the U.S. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce[®], Hartco[®] and Robbins[®].

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). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and the 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 IXL[®], Bruce[®] and Armstrong[™].

We also report on two other segments, All Other (which relates to a corporate equity investment) and Unallocated Corporate Expense.

The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2003 by segment:

2003 Consolidated Net Sales By Segment
(in \$ millions)

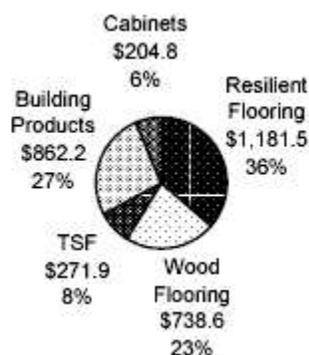


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See Note 3 of the Consolidated Financial Statements for additional financial information on our reportable segments.

Markets

The major markets we compete in are as follows:

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 recently introduced 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.

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 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.

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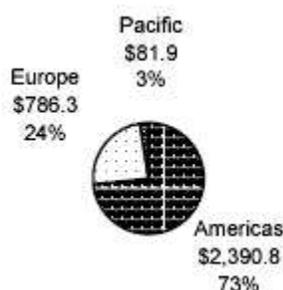
The following table provides an estimate of our segments' 2003 net sales, by major markets.

(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	—	—	100%	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 2003 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, 2003 by region, based on where the sale was made:

2003 Consolidated Net Sales by Region
(in \$ million)



See Note 3 of the Consolidated Financial Statements for financial information by geographic areas.

Customers

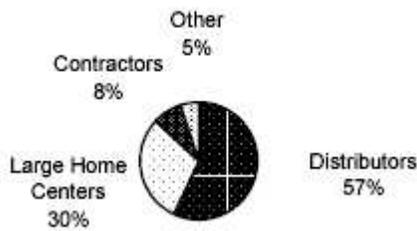
We have used our market positions and brand recognition to develop long-standing relationships with our customers. We principally sell products through building materials distributors, who re-sell our products to retailers, builders, contractors, installers and others. In the retail market, which sells 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, which is experiencing consolidation within the homebuilding industry, we have important relationships with major homebuilders and buying groups. In the commercial market, we are a long-standing supplier to several building materials distributors who in turn sell our products to major national contractors and to national subcontractors' alliances.

In 2003, our net sales to The Home Depot, Inc. and Lowe's Companies, Inc. were \$400.0 million and \$318.7 million, respectively. In 2002 and 2001, our net sales to The Home Depot, Inc., were \$380.3 million and \$340.8 million, respectively. Our net sales to Lowe's Companies, Inc. in years prior to 2003 were less than 10% of our total consolidated net sales. No other customers accounted for 10% or more of our total consolidated net sales.

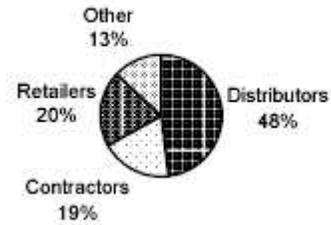
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The following charts illustrate the estimated breakdown of our 2003 consolidated net sales geographically by distribution channel:

2003 Americas Sales by Customer Type



2003 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 the general market place:

Flooring segments – Congoleum Corporation, 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

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, soft fibers, 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 countertops

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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.

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 approximately 10% of our total consolidated revenue in both 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 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 Disclosure About Market Risk” 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 in the country. 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.

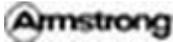
Certain of our trademarks, including without limitation, house marks , Armstrong™, Bruce®, Hartco®, Robbins®, and DLW™, and product line marks Allwood™, Cirrus®, Corlon®, Cortega®, Designer Solarian®, Excelon®, Fundamentals®, i-ceilings®, IXL®, Medintech®, Natural Inspirations™, Nature’s Gallery™, Second Look®, Solarian®, SuperLock™, SwiftLock™, ToughGuard® and Ultima™ 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

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continues in other countries, as long as the mark is registered. Registrations are generally for fixed, but renewable, terms.

Employees

As of December 31, 2003, we had approximately 15,200 full-time and part-time employees worldwide, with approximately 10,600 employees located in the United States. Approximately 10,000 of the 15,200 are production and maintenance employees, of whom approximately 7,400 are located in the U.S. and 2,600 located outside the U.S. Approximately 69% 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. About 71% of our total international employees are represented by labor unions.

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 \$44.4 million in 2003, \$49.2 million in 2002 and \$56.3 million in 2001 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 26 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 and 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 discussions of the information that AWI has filed with the Bankruptcy Court.

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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 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, owning and operating 44 manufacturing plants in 12 countries as of December 31, 2003. Twenty-six of these facilities are located throughout the United States. In addition, Armstrong has an interest through a joint venture in 8 additional plants in 5 countries.

<u>Business Segment</u>	<u>Number of Plants</u>	<u>Location of Principal Facilities</u>
Resilient Flooring	13	California, Illinois, Mississippi, Oklahoma, Pennsylvania, Australia, Canada, Germany, Sweden and the U.K.
Wood Flooring	10	Arkansas, Kentucky, Tennessee, Texas and West Virginia
Textiles and Sports Flooring	3	Belgium, Germany and The Netherlands
Building Products	15	Alabama, Florida, Georgia, Oregon, Pennsylvania, China, France, Germany and the U.K.
Cabinets	3	Nebraska, Pennsylvania and Tennessee

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

For information on plants that were closed during 2003, see Note 15 of the Consolidated Financial Statements and "Item 7. Management Discussion and Analysis—Cost Reduction Initiatives." In January 2004, we announced that we will cease production at one of our Building Products plants by the end of 2004. See Note 33 of the Consolidated Financial Statements.

Productive 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 the product that is being manufactured, and individual facilities manufacture multiple products. We believe our facilities have sufficient production capacity to meet anticipated needs for the next two to three years. Additional incremental investments in plant facilities are made as appropriate to balance capacity with anticipated demand, improve quality and service, and to reduce costs.

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ITEM 3. LEGAL PROCEEDINGS

See Note 32 of the Consolidated Financial Statements for a full description of our legal proceedings.

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

At a special meeting on January 7, 2004, shareholders of Armstrong Holdings, Inc. voted to approve a Plan of Dissolution for that company. The dissolution will occur following AWI's Chapter 11 Plan of Reorganization (POR) becoming effective.

See "AHI's Plan of Dissolution" in Note 1 of the Consolidated Financial Statements for a description of the dissolution.

The holders of 22,468,250 shares of common stock were represented at the January 7, 2004 meeting, which constituted over 55% of the outstanding shares. These shares were voted as follows on the proposal for dissolution:

FOR -	17,183,055
AGAINST -	4,818,280

The balance of the shares represented (about 466,900) abstained.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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 February 10, 2004, there were approximately 7,039 holders of record of Armstrong Holding's Common Stock.

	<u>2003</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total Year</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
	<u>2002</u>					
Price range of common stock—high		\$4.10	\$ 3.82	\$1.98	\$ 1.85	\$ 4.10
Price range of common stock—low		\$2.70	\$ 1.79	\$1.28	\$ 0.24	\$ 0.24

There were no dividends declared or paid during 2003 or 2002. 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.

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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	2003	2002	2001	2000	1999
Income statement data						
Net sales		\$ 3,259.0	\$ 3,172.3	\$3,138.7	\$3,248.9	\$3,322.0
Cost of goods sold		2,597.4	2,404.5	2,364.7	2,386.2	2,291.5
Selling, general and administrative expenses		603.1	624.9	596.6	595.3	605.9
Charge for asbestos liability, net		81.0	2,500.0	22.0	236.0	335.4
Restructuring and reorganization charges (reversals), net		8.6	1.9	9.0	18.8	(1.4)
Goodwill amortization		—	—	22.8	23.9	25.5
Equity (earnings) from affiliates, net		(20.7)	(21.7)	(16.5)	(18.0)	(16.8)
Operating income (loss)		(10.4)	(2,337.3)	140.1	6.7	81.9
Interest expense		10.3	13.8	13.1	102.9	105.2
Other non-operating expense		15.7	8.2	11.8	3.7	10.4
Other non-operating (income)		(4.8)	(6.0)	(13.0)	(80.4)	(17.0)
Chapter 11 reorganization costs, net		9.4	23.5	12.5	103.3	—
Income tax expense (benefit)		(1.7)	(827.8)	42.5	(37.7)	(0.5)
Earnings (loss) from continuing operations before cumulative change in accounting principle		(39.3)	(1,549.0)	73.2	(85.1)	(16.2)
Per common share – basic ^(a)		(0.97)	(38.25)	1.81	(2.12)	(0.41)
Per common share – diluted ^(a)		(0.97)	(38.25)	1.79	(2.12)	(0.41)
Cumulative effect of a change in accounting principle, Net of tax of \$2.2		—	(593.8)	—	—	—
Net earnings (loss)		(39.3)	(2,142.8)	92.8	12.2	14.3
Per common share – basic ^(a)		(0.97)	(52.91)	2.29	0.30	0.36
Per common share – diluted ^(a)		(0.97)	(52.91)	2.27	0.30	0.36
Dividends declared per share of common stock		—	—	—	\$ 1.44	\$ 1.92

(Dollars in millions except for per-share data)

	For Year	2003	2002	2001	2000	1999
Average number of common shares outstanding (millions)		40.5	40.5	40.5	40.2	39.9
Average number of employees		15,800	16,700	16,800	16,500	16,900

Balance sheet data (December 31)

Working capital	\$ 943.3	\$ 859.3	\$ 748.0	\$ 618.3	\$ 322.5
Total assets	4,647.8	4,504.8	4,038.1	4,005.2	4,081.6
Liabilities subject to compromise	4,858.5	4,861.1	2,357.6	2,385.2	—
Net long-term debt ^(b)	39.4	39.9	50.3	56.9	1,412.9
Shareholders' equity (deficit)	(1,330.2)	(1,346.7)	760.4	665.1	679.2

Notes:

(a) See definition of basic and diluted earnings per share in Note 2 of the Consolidated Financial Statements.

(b) 2003, 2002, 2001 and 2000 net long-term debt excludes debt subject to compromise.

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. However, there are no differences in the income statement and minimal differences in the remaining three financial statements. Due to the lack of 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. It 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, and operating income prior to asbestos-related charges and goodwill amortization, 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, the impacts of charges related to our prepetition asbestos liability and the change in accounting for goodwill. 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.

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 44 manufacturing plants in 12 countries, including 26 plants located throughout the United States. Through WAVE, our joint venture with Worthington Industries, Inc., we also have an interest in 8 additional plants in 5 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, All Other and Unallocated Corporate Expense. See "Reportable Segment Results" for additional financial information on our segments.

See "Item 1. Business" for a description of our segments, customers, markets and other information about our business.

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 "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Proceedings Under Chapter 11" for information on the Chapter 11 Case and Note 32 of the Consolidated Financial Statements for information on asbestos litigation.

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Our consolidated net sales for 2003 were approximately \$3.26 billion, which were approximately 3% greater than consolidated net sales in 2002. After excluding the translation effect of changes in foreign exchange rates, net sales in 2003 declined by approximately 2% from net sales in 2002. Operating income prior to asbestos-related charges was approximately \$71 million in 2003, as compared to approximately \$163 million in 2002. Cash and cash equivalents increased by approximately \$104 million of cash in 2003, which was slightly higher than the cash increase in 2002. In 2003:

- Demand for Resilient Flooring products continued to shift from high-end vinyl products to lower margin vinyl and laminate products, and to Wood Flooring products, for both new construction and renovation.
- Resilient Flooring's performance in commercial markets was mixed, but was helped by our good position in product offering and service.
- Building Products generated good results in North America, despite lower sales in a difficult commercial market.
- Both Resilient Flooring and Building Products experienced lower sales in Europe but profitable growth in the Pacific area.
- We incurred significant cost increases for certain items, such as the cost of lumber.
- We implemented several initiatives to improve our cost structure and enhance our competitive position, the cost of which adversely affected 2003's results.
- We reduced the amount of capital investment activities, in consideration of both market conditions and the cost reduction initiatives.

Factors Affecting Revenues

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 2003, these markets experienced the following:

- In the North American residential market, housing construction remained very strong, with approximately 1.85 million housing units started in 2003 compared to approximately 1.7 million in 2002. Sales of existing homes were also very strong in 2003, with approximately 6.1 million homes sold in 2003 compared to approximately 5.56 million in 2002. 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.
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 2003. For 2004, we estimate the residential replacement markets will be flat to up slightly, but it is unlikely that new construction demand will exceed record 2003 levels. 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.
- In the North American commercial market, we estimate that the overall market declined in 2003 by approximately 3-4% compared to 2002, with renovation declining slightly and construction starts in the office, healthcare and education segments declining by approximately 12%, 7% and 6%, respectively. Retail construction starts increased by approximately 9%. Industry statistics indicate that commercial starts will marginally improve in 2004, with improvements anticipated in retail, office and health care, while the education segment will decline slightly. Further, indications are for a decline in office vacancy rates, which could also positively impact the renovation segment of this market.

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- In Europe, we experienced significant market slowdown in the Western European countries, especially in Germany and the U.K. The economic environment has adversely impacted both price and volume. While Germany is a very important European market for Resilient Flooring and Textiles and Sports Flooring, it is not a significant market for Building Products. As a result, performance of the flooring segments in Western Europe has suffered more than that of Building Products. At the same time, we benefited from growth in opportunities in Eastern Europe, particularly Russia. In 2004, we anticipate marginal improvement in the Western Europe markets and difficult growth conditions in Eastern Europe.

Quality and Customer Service. Our quality and customer service is a critical component of the total value proposition we offer our customers. In 2003, we experienced the following:

- In Wood Flooring, our sales increased during the year, but not as much as the market grew. This was partly the result of product quality that was not competitive. Our quality did not decline, but the quality of competing products improved substantially, led by imported engineered wood flooring products.
Since the middle of 2003, we have had Six Sigma teams working on improving our wood product quality. The dimensional consistency of our products (both solid and engineered) is dramatically better. The number of defects a customer might find in a typical order has declined by almost 70%, and are now at a rate that is equal to or better than industry norms.
- In Cabinets, we experienced severe customer service problems starting in 2002. As a result of this, we lost sales opportunities in 2003 as the customers decided to source their products from other suppliers.
Customer service (product quality, on-time performance) has been restored to excellent levels. For the three months ending January 31, 2004, we shipped an average of 98% of our orders on time and complete. We are slowly regaining the trust of our customers.
- In Building Products we continued to provide our customers with extremely high levels of quality and customer service.

Pricing Initiatives . During 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. The most significant of these increases included the following.

- 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.

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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 during 2003, we made several price concessions in some of our segments and geographic regions, again to respond to competition and market conditions. Sales were also adversely affected due to reducing our Euro-based prices to compete with U.S. producers' U.S. dollar-based selling prices in Europe.

We estimate that the various pricing actions provided a net increase to our total consolidated net sales in 2003 compared to 2002 by approximately \$12 million.

Asbestos-Related Charges

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 this section for additional information.

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 expenses ("SG&A").

Our largest individual raw material expenditures are for lumber and veneers, PVC, 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. The most significant change in raw material costs in 2003 was for hardwood lumber used by Wood Flooring. Starting in late 2002 and continuing throughout 2003, lumber prices increased, as the availability of lumber for flooring decreased due to poor weather conditions for timbering and reductions in industry saw mill capacity, while demand for the lumber (for flooring and other products such as railroad ties and pallets) remained strong. Our cost for acquiring lumber in 2003 was approximately \$40 million greater than in 2002. Since December 2003, lumber costs have continued to increase. We believe that lumber costs for the year 2004 could exceed those in 2003, with the amount of increase dependent on the same factors that impacted costs in 2003.

PVC is an oil-based raw material and is used in many industries. Generally, we experience cost pressures on PVC when energy prices increase and when industrial demand for the material increases to support a growing economy. The cost to purchase PVC resins and film increased by approximately \$9 million in 2003 compared to 2002.

We consume large quantities of energy in our manufacturing processes, in particular natural gas in our mineral fiber ceilings manufacturing process. Costs for natural gas have increased significantly over the past several years. In 2003, we incurred approximately \$7 million of additional costs for natural gas compared to 2002.

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 2003 compared to 2002 was approximately \$30 million.

Our 2003 costs also increased by approximately \$28 million compared to 2002 due to a lower U.S. pension credit. This resulted primarily from changes in actuarial assumptions. We do not anticipate a material change in the net periodic pension credit in 2004.

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Cost Reduction Initiatives. During 2003, we implemented several manufacturing and organizational changes to improve our cost structure and enhance our competitive position. Specifically:

- We ceased production of our residential stencil product line.
- 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.

The costs for these initiatives incurred in 2003 totaled approximately \$55 million, of which approximately \$33 million was for accelerated depreciation (reported as a component of cost of goods sold and SG&A). The remaining amount was primarily for severances (reported as a component of cost of goods sold, restructuring or SG&A) and related inventory obsolescence (reported as a component of cost of goods sold). These initiatives also reduced our headcount (see “Overview – Employees”). The expenses associated with the 2003 cost reduction initiatives, by segment, are as follows:

2003 Expenses for Cost Reduction Initiatives

(amounts in millions)	Accelerated	Total	
	Depreciation	Other	Expenses
Resilient Flooring	\$ 7.0	\$ 6.3	\$ 13.3
Wood Flooring	24.6	3.6	28.2
Textiles & Sports Flooring	0.3	7.2	7.5
Building Products	—	2.1	2.1
Cabinets	0.8	—	0.8
Corporate Unallocated	—	2.8	2.8
Total Consolidated	\$ 32.7	\$22.0	\$ 54.7

We also implemented several initiatives in 2002, primarily for reorganizing our flooring organizations in Europe. The cost of these initiatives was approximately \$2 million. We believe that the incremental cost savings in 2004 generated from both years’ initiatives will be approximately \$30 million.

We anticipate implementing additional cost reduction actions in 2004. In January 2004, we announced that we will cease production at our Building Products plant in The Netherlands by the end of 2004, subject to positive advice from the Works Council, in order to eliminate excess capacity for serving the European markets.

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 2003, our cash and cash equivalents balance increased by \$104.3 million, which was \$1.7 million more than during 2002. The increase was primarily due to reducing 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 has not, and will not, negatively impact our

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business. We anticipate using more cash for investing activities in 2004 than was used in 2003, but less than the amounts used in 2002 or recent prior years.

We used approximately \$10 million less in financing activities during 2003 than in 2002, primarily due to lower short-term debt payment requirements in 2003.

Operating activities generated \$165.8 million of net cash, which was approximately \$58 million less than in 2002. Cash generated from the net earnings, after adjusting for non-cash charges, restructuring and reorganization activities, accounted for the decline, primarily from the increased operating costs discussed above. The amount by which operating assets and liabilities (primarily receivables, inventories and payables) were reduced' was greater than the reductions achieved in 2002.

Employees

As of December 31, 2003, we had approximately 15,200 full-time and part-time employees worldwide. This compares to approximately 16,300 employees as of December 31, 2002. The reduction of employees in 2003 is primarily due to the previously described cost reduction initiatives.

During 2003, we negotiated 11 collective bargaining agreements, with one location experiencing a five day work stoppage. There was no negative effect on the business as a result of the work stoppage. Throughout 2004, collective bargaining agreements covering certain employees at eight plants and two warehouses will expire. As of the date of this filing, approximately 330 employees at one plant are working under an expired contract. The timing of resolution is uncertain and a work stoppage at this location is possible. A work stoppage, if one should occur, could have a significant effect on the results of operations during the period of the event.

CRITICAL ACCOUNTING POLICIES

Many accounting entries require us to make estimates. These entries include asbestos-related liability, 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.

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

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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, 2003 and 2002, 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” for further discussion on the Asbestos PI Trust and the treatment of asbestos-related claims under the POR.

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”. 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 \$103.1 million as of December 31, 2003 representing estimated insurance recoveries related to its asbestos liability. Of the total recorded asset at December 31, 2003, approximately \$14.0 million represents partial settlement for previous claims that will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.50%. Approximately \$79 million of the \$103.1 million asset is determined from agreed coverage in place and is therefore directly related to the amount of the asbestos liability. 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” 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. Our defined benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions. These assumptions 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 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 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,

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as well as the yield for Moody's AA-rated long-term corporate bonds. As of December 31, 2003, we assumed a discount rate of 6.00% compared with a discount rate of 6.50% as of December 31, 2002 for the U.S. plans. This decrease is consistent with the decline in U.S. corporate bond yields during the year. The effects of the decreased discount rate, which increases our liabilities, will be amortized against earnings as described below. A one-quarter percentage point decrease in the discount rate would reduce 2004 operating income by \$0.8 million, while a one-quarter percentage point increase in the discount rate would increase 2004 operating income by \$0.8 million.

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.

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 percentage is determined based on 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 approximately 10 to 20 years. Over the last 10 years, the annualized return on the fund was approximately 9.8% compared to an average expected return of 8.75%. The expected long-term return on plan assets used in determining our 2003 U.S. pension credit was 8.00%. The actual return on plan assets achieved for 2003 was 24.4%. 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 2004. We have assumed a return on plan assets during 2004 of 8.00%. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2004 operating income by approximately \$4.6 million. Contributions to the unfunded plan were \$3.2 million in 2003 and are made on a monthly basis to fund benefit payments. We estimate the contributions to be approximately \$3 million in 2004. See Note 18 of the Consolidated Financial Statements for more details.

The estimated inflation in health care costs represents a long-term view (approximately 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
2002	13%	11%	12%	5%	11%	6%
2003	12	10	11	7	7	7
2004	11	9	10			

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 2004 operating income by \$3.1 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2004 operating income by \$3.0 million. See Note 18 of the Consolidated Financial Statements for more details.

Actual results that differ from the estimates made for a year 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.

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We recorded U.S. pension credits of \$11.6 million, \$39.2 million and \$56.8 million in 2003, 2002 and 2001, respectively, reflecting the net overfunded status of our U.S. pension plans at year-end and the amortization into earnings as described above of the difference between our actual costs for each such year and certain prior years and the estimates used at the beginning of such years in the valuation of our costs. We recorded U.S. postretirement benefit costs of \$36.8 million, \$45.1 million and \$26.2 million in 2003, 2002 and 2001, 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” and 144 – “Accounting for the Impairment or Disposal of Long-Lived Assets.” 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 lower than the estimate would lead to significant future impairments.

Subsequent to our initial FAS 142 transition charge, our assessments have indicated that goodwill and intangible assets have not been impaired. In the second quarter of 2002, we completed an assessment of goodwill and intangible assets and recorded a non-cash transitional impairment charge of \$596.0 million (\$593.8 million, net of tax) as of January 1, 2002. See Note 12 of the Consolidated Financial Statements for further information.

During 2003 and 2002, we recorded accelerated depreciation for fixed asset impairment charges of \$39.9 million and \$4.8 million, respectively, in cost of goods sold and SG&A throughout our business segments. In 2003, \$23.0 million of these impairment charges primarily related to the announced closure of 4 plant locations. See Note 12 of the Consolidated Financial Statements for further discussion. In 2002, these impairments related primarily to idle property, plant and equipment.

During 2001, we recorded an impairment charge of \$8.4 million in cost of goods sold within Textiles and Sports Flooring. The impairment was related to property, plant and equipment that produce certain products for which we anticipated lower demand.

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 \$76.7 million and \$72.6 million as of December 31, 2003 and 2002, respectively. We record the costs of these accruals as a reduction of gross sales.

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NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB Statements No. 87, 88, and 106," which increases disclosure requirements. Disclosure requirements for U.S. pension and other postretirement benefit plans have been adopted in this Form 10-K as required. Disclosure requirements for foreign plans and estimated present value of future benefit payments will be adopted in 2004 as required. As this standard only impacts disclosures, the adoption of this standard will not have a material impact on our consolidated results of operations or financial condition.

RESULTS OF OPERATIONS

Unless otherwise indicated, net sales in these results of operations are reported based upon the location where the sale was made.

2003 COMPARED TO 2002 CONSOLIDATED RESULTS

	(amounts in millions)		Favorable/(Unfavorable)	
	2003	2002	As Reported	Excluding Effects of Foreign Exchange Rates ⁽¹⁾
Net Sales:				
Americas	\$2,390.8	\$ 2,368.1	1.0%	0.6%
Europe	786.3	732.9	7.3%	(8.8)%
Pacific	81.9	71.3	14.9%	7.5%
Total Consolidated Net Sales	\$3,259.0	\$ 3,172.3	2.7%	(1.7)%
Operating (Loss)	\$ (10.4)	\$ (2,337.3)	Favorable	Favorable
Operating Income, prior to charge for asbestos liability, net	\$ 70.6	\$ 162.7	(56.6%)	(57.2)%
Operating Income Margin, prior to charge for asbestos liability, net	2.2%	5.1%		

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

Excluding the translation effect of changes in foreign exchange rates, net sales in the Americas increased by 0.6%, 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 8.8%, 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 \$5.7 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").

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SG&A expenses in 2003 were \$603.1 million, or 18.5% of net sales compared to \$624.9 million, or 19.7% of net sales in 2002. Excluding the translation effect of changes in foreign exchange rates, SG&A expenses in 2003 declined by approximately \$60 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.

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 this section 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. These restructuring efforts and their expenses are part of the cost reduction initiatives undertaken during 2003 and 2002 (see "Overview – Factors Affecting Operating Costs"), which are expected to provide incremental cost savings in 2004 of approximately \$30 million.

We incurred an operating loss of \$10.4 million in 2003, compared to an operating loss of \$2,337.3 million in 2002. Operating income prior to the asbestos-related charges for 2003 and 2002 was \$70.6 million and \$162.7 million, respectively.

Interest expense was \$10.3 million in 2003, compared to \$13.8 million in 2002. The decrease in interest expense is due to lower fees on the reduced DIP facility, lower interest rate differentials on foreign exchange hedging instruments 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.

Other non-operating expense of \$15.7 million in 2003 was \$7.5 million higher than the \$8.2 million expense recorded in 2002. The increase was due to \$9.6 million of expenses for impairing several notes receivable related to certain previous divestitures and \$2.3 million of additional foreign currency transaction losses, while in 2002 a \$5.3 million charge for environmental expense related to a divested business was incurred.

Other non-operating income in 2003 was \$4.8 million compared to \$6.0 million in 2002. The reduction was due to lower interest rate returns on invested cash and lower foreign currency transaction gains, partially offset by interest income received from asbestos-related insurance proceeds received in the fourth quarter.

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.

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The effective tax rate benefit 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.

REPORTABLE SEGMENT RESULTS

Resilient Flooring

	<u>(amounts in millions)</u>		<u>Favorable/(Unfavorable)</u>	
	<u>2003</u>	<u>2002</u>	<u>As Reported</u>	<u>Excluding Effects of Foreign Exchange Rates (1)</u>
Net Sales:				
Americas	\$ 935.1	\$ 914.8	2.2%	1.6%
Europe	206.4	204.3	1.0%	(13.9)%
Pacific	40.0	33.2	20.5%	9.9%
Total Segment Net Sales	\$1,181.5	\$1,152.3	2.5%	(1.2)%
Operating Income	\$ 55.9	\$ 64.5	(13.3)%	(13.5)%
Operating Income Margin	4.7%	5.6%		

(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 (see "Overview – Factors Affecting Revenues") 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 approximately 14%. 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 \$3.6 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 costs 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.

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Wood Flooring

	(amounts in millions)		Favorable/ (Unfavorable)
	2003	2002	
Total Segment Net Sales ⁽¹⁾	\$738.6	\$719.3	2.7%
Operating (Loss) / Income	\$ (4.0)	\$ 53.0	Unfavorable
Operating (Loss) / Income Margin	(0.5)%	7.4%	

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

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 Expenses”) 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, the latter partially as an effect of the cost reduction initiatives.

Textiles and Sports Flooring (“TSF”)

	(amounts in millions)		Favorable/(Unfavorable)	
	2003	2002	As Reported	Excluding Effects of Foreign Exchange Rates ⁽¹⁾
Total Segment Net Sales	\$271.9	\$247.2	10.0%	(8.4)%
Operating (Loss)	\$ (9.8)	\$ (4.7)	Unfavorable	Unfavorable
Operating (Loss) Margin	(3.6)%	(1.9)%		

⁽¹⁾ Excludes favorable 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 by approximately 8%, 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 expenditures.

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Building Products

	(amounts in millions)		Favorable/(Unfavorable)	
	2003	2002	As	Excluding Effects
			Reported	of Foreign
			Exchange Rates ⁽¹⁾	
Net Sales:				
Americas	\$515.6	\$511.8	0.7%	0.0%
Europe	304.7	276.7	10.1%	(4.9)%
Pacific	41.9	38.1	10.0%	5.3%
Total Segment Net Sales	\$862.2	\$826.6	4.3%	(1.5)%
Operating Income	\$ 95.2	\$ 96.5	(1.4)%	(5.4)%
Operating Income Margin	11.0%	11.7%		

(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 (see “Overview – Factors Affecting Revenues”). Offsetting 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 approximately 5% from 2002. Net sales of mineral fiber products declined by approximately 4%. Units sold of these products, which constitute the majority of our European sales, were virtually unchanged. 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 \$2.1 million due to strong activity in Australia and growth in the China market.

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 (see “Overview – Factors Affecting Operating Costs”) were only partially offset by the positive effects of the price increases in the U.S. and manufacturing cost improvements.

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Cabinets

	(amounts in millions)		
	2003	2002	(Unfavorable)
Total Segment Net Sales ⁽¹⁾	\$204.8	\$226.9	(9.7)%
Operating (Loss)	\$ (11.1)	\$ (3.9)	Unfavorable
Operating (Loss) Margin	(5.4)%	(1.7)%	

(1) 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.

All Other

The All Other segment contributed operating income of \$0.3 million and \$2.1 million for 2003 and 2002, respectively, reflecting the equity in earnings from the investment in Interface Solutions, Inc. Approximately \$1 million of the decline was due to an adjustment to the equity in earnings for prior years.

Unallocated Corporate Expense

Unallocated corporate expense of \$136.9 million in 2003 decreased from \$2,544.8 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. Litigation and Other Matters, Asbestos"). Excluding these charges, unallocated corporate expense increased in 2003 by \$11.1 million, primarily from our U.S. pension credit decreasing by approximately \$28 million (see "Overview – Factors Affecting Operating Costs"), 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. Litigation and Other Matters, Environmental Liabilities"), 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.

FINANCIAL CONDITION AND LIQUIDITY

Cash Flow

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.

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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 has not, and will not, negatively impact our business. We anticipate using more cash for investing activities in 2004 than was used in 2003, but less than the amounts used in 2002 or recent prior years.

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.

Balance Sheet and Liquidity

Changes in significant balance sheet accounts and groups of accounts from December 31, 2002 to December 31, 2003 are as follows:

<u>(amounts in millions)</u>	<u>As of December 31,</u>		<u>Increase</u>
	<u>2003</u>	<u>2002</u>	
Cash and cash equivalents	\$ 484.3	\$ 380.0	\$104.3
Current assets	\$1,358.8	\$1,255.9	\$102.9

The increase in cash and cash equivalents was described above (see “Cash Flow”). The increase in current assets was primarily due to the increase in cash and cash equivalents, as moderate changes in receivable and inventory balances offset each other.

<u>(amounts in millions)</u>	<u>As of December 31,</u>		<u>(Decrease)</u>
	<u>2003</u>	<u>2002</u>	
Property, plant and equipment, less accumulated depreciation and amortization (“PP&E”)	\$1,267.3	\$1,303.7	\$ (36.4)

The decrease in PP&E was due to lower investments in 2003 and increased depreciation from closure of certain facilities as part of cost reduction initiatives (see “Overview – Factors Affecting Operating Costs”), partially offset by the impact of translating foreign locations’ balances at weaker U.S. dollar exchange rates.

<u>(amounts in millions)</u>	<u>As of December 31,</u>		<u>(Decrease)</u>
	<u>2003</u>	<u>2002</u>	
Short-term debt and current installments of long-term debt	\$12.1	\$19.0	\$ (6.9)
Long-term debt	\$39.4	\$39.9	\$ (0.5)

The table above represents debt owed by subsidiaries that are not participating in the Chapter 11 Case. All other outstanding prepetition long-term debt is owed by entities that filed for Chapter 11 protection, and therefore has been classified as liabilities subject to compromise at December 31, 2003 and 2002.

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DIP Facility

AWI has a \$75 million debtor-in-possession credit facility that currently is limited to issuances of letters of credit. This facility was scheduled to mature on December 8, 2003, but the maturity date was extended to December 8, 2004 with approval of the Bankruptcy Court, granted on September 29, 2003. Obligations to reimburse drawings under the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. There were no outstanding borrowings under the DIP Credit Facility as of December 31, 2003 or 2002 but, as of December 31, 2003 and 2002, AWI had approximately \$22.8 million and \$28.7 million, respectively, in letters of credit outstanding that were issued pursuant to the DIP Credit Facility. The DIP Credit 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. In connection with implementation of the POR, 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 defined. In the event the POR has not been implemented by December 8, 2004, we will pursue a third 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 \$45.9 million at December 31, 2003, of which \$9.6 million was used and \$36.3 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. One credit provider has indicated they wish us to seek alternative financing for a credit line equivalent to approximately \$6 million by the fourth quarter of 2004. The credit line is not in violation of any covenants. We believe that we will be able to obtain replacement financing. Additionally, we have letter of credit issuance capabilities under the DIP facility (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 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 provides a plan to meet these requirements (see "Note 1 – Business and Chapter 11 Reorganization, Consideration to be Distributed Under the POR").

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2002 COMPARED WITH 2001 **CONSOLIDATED RESULTS**

The following discussions of consolidated results are on a continuing operations basis.

	(amounts in millions)		Favorable/(Unfavorable)	
	2002	2001	As Reported	Excluding Effects of Foreign Exchange Rates ⁽¹⁾
Net Sales:				
Americas	\$ 2,368.1	\$2,324.0	1.9%	2.0%
Europe	732.9	743.6	(1.4)%	(5.9)%
Pacific	71.3	71.1	0.3%	(1.5)%
Total Consolidated Net Sales	\$ 3,172.3	\$3,138.7	1.1%	(0.0)%
Operating (Loss) / Income	\$(2,337.3)	\$ 140.1	Unfavorable	Unfavorable
Operating Income, prior to charge for asbestos liability, net and goodwill amortization	\$ 162.7	\$ 184.9	(12.0)%	(12.0)%
Operating Income Margin, prior to charge for asbestos liability, net and goodwill amortization	5.1%	5.9%		

(1) Excludes foreign exchange rate effect in translation of \$35.1 million on net sales and \$(0.1) million on operating income.

Net sales in 2002 increased in the Americas due to increased sales by the Wood Flooring segment. Excluding the translation effect of changes in foreign exchange rates, net sales in Europe decreased by approximately 6%, with declines experienced in Resilient Flooring and Textiles and Sports Flooring partially offset by increases in Building Products sales. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Area decreased by \$1.1 million. (See Reportable Segment Results for further discussion.)

Cost of goods sold in 2002 was 75.8% of net sales, compared to cost of goods sold of 75.3% of net sales in 2001. The half percentage point increase was primarily due to higher manufacturing and medical costs and a \$9.6 million decreased U.S. pension credit, which were partially offset by lower raw material and energy costs. Also, costs of goods sold in 2002 included \$16.5 million of fixed asset impairment charges and inventory adjustments throughout the business segments and in 2001 included \$10.5 million of fixed asset impairments and inventory write-downs within the Textiles and Sports Flooring segment.

SG&A expenses in 2002 were \$624.9 million, or 19.7% of net sales compared to \$596.6 million, or 19.0% of net sales in 2001. The increase was primarily due to a \$8.0 million decreased U.S. pension credit, \$6.4 million of non-restructuring severance costs, higher medical costs, \$2.9 million of additional research and development expense and increased management incentive compensation costs, partially offset by decreased advertising expense.

During 2002, we recorded a non-cash asbestos charge of \$2.5 billion to increase our estimate of probable asbestos-related liability. During 2001, we recorded non-cash charges of \$22.0 million related to a revision of management's estimate of probable asbestos-related insurance asset recoveries. See Note 32 of the Consolidated Financial Statements for further discussion.

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We recorded net restructuring costs of \$1.9 million in 2002, 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. These restructuring efforts are expected to result in \$5.5 million of annual cost savings. In 2001, we recorded net restructuring costs of \$9.0 million, which included \$11.8 million for severance payments and pension benefits for approximately 75 employees, including the former Chief Operating Officer of AHI, and a \$1.7 million reversal of previous restructuring charges for certain severance accruals that were no longer necessary as certain individuals remained employed by Armstrong. We also reversed \$1.1 million related to a formerly occupied building, due to a revised estimate of the building's future costs.

In accordance with FAS 142, which was effective January 1, 2002, goodwill is no longer amortized. As such, 2002 includes no goodwill amortization, which compares to \$22.8 million of goodwill amortization in 2001.

An operating loss in 2002 was \$2,337.3 million compared to operating income of \$140.1 million in 2001 (see Reportable Segment Results for further discussion). Operating income prior to the charge for asbestos reserves for 2002 was \$162.7 million. Operating income prior to goodwill amortization and the asbestos-related insurance asset recovery charge for 2001 was \$184.9 million.

Interest expense of \$13.8 million in 2002 was higher than interest expense of \$13.1 million in 2001, due to higher average outstanding borrowings among 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 \$99.9 million in 2002 and \$100.2 million in 2001.

Other non-operating expense of \$8.2 million in 2002 was lower than other non-operating expense of \$11.8 million in 2001. The reduction was due to \$3.5 million of less foreign currency transaction losses than in 2002, a loss of \$3.2 million in 2001 resulting from the impairment of certain equity investments, and a \$2.0 million impairment charge in 2001 of a note receivable related to a previous divestiture, which were offset by a \$5.3 million charge in 2002 for environmental expense related to a divested business.

Other non-operating income of \$6.0 million in 2002 was lower than other non-operating income of \$13.0 million in 2001. The reduction was due to a gain recorded in 2001 of \$3.5 million resulting from the demutualization of an insurance company (Prudential Insurance Co.), with whom we have company-owned life insurance policies, and \$3.6 million of less foreign currency transaction gains in 2002 versus 2001.

We recorded \$23.5 million of Chapter 11 reorganization costs, net in 2002, compared to \$12.5 million in 2001. See Note 1 of the Consolidated Financial Statements.

The 2002 effective tax rate benefit from continuing operations was 34.8% compared with an effective tax rate of 36.7% for 2001. The reduction in the effective rate benefit was due to an increase in permanent book/tax differences in 2002, partially offset by a favorable change in reserves for audit settlements. The 2002 cumulative effect of a change in accounting principle of \$593.8 million (net of \$2.2 million tax) was due to a non-cash transitional impairment charge in accordance with FAS 142 as discussed in Note 12 of the Consolidated Financial Statements.

A net loss of \$2,142.8 million was recorded for 2002, compared to net earnings \$92.8 million in 2001.

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REPORTABLE SEGMENT RESULTS

Resilient Flooring

	(amounts in millions)		Favorable/(Unfavorable)	
	2002	2001	As Reported	Excluding Effects of Foreign Exchange Rates ⁽¹⁾
Net Sales:				
Americas	\$ 914.8	\$ 918.9	(0.4)%	(0.4)%
Europe	204.3	214.4	(4.7)%	(8.6)%
Pacific	33.2	30.9	7.4%	4.4%
Total Segment Net Sales	\$1,152.3	\$1,164.2	(1.0)%	(1.8)%
Operating Income	\$ 64.5	\$ 70.8	(8.9)%	(8.3)%
Operating Income Margin	5.6%	6.1%		

(1) Excludes favorable foreign exchange rate effect in translation of \$9.4 million on net sales and \$0.5 million on operating income.

Net sales in the Americas decreased by 0.4% primarily due to the effects of amendments to distribution agreements described below and reductions in price, partially offset by increases in volume in the independent retailer channel. Excluding the translation effect of changes in foreign exchange rates, net sales in Europe decreased by approximately 9%, primarily due to weak European markets, particularly Germany. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific area increased by \$1.4 million.

Operating income of \$64.5 million in 2002 declined from \$70.8 million in 2001, primarily due to the effects of amendments to distribution agreements described below and fixed asset impairment charges of \$2.7 million, which was partially offset by \$3.1 million of lower cost from changes in certain employee benefits. Operating income in 2001 included \$2.4 million of goodwill amortization, \$2.8 million of income from the reversal of previously accrued potential preference claims that have been resolved and \$2.8 million of environmental and building demolition expenses at one manufacturing facility.

During the fourth quarter of 2002, we amended the agreements with our independent U.S. distributors related to sales of certain products to large home center retailers. Sales are recorded under these agreements when the products are shipped from the distributor's location to these retailers. Approximately \$19.2 million of revenue, the equivalent of approximately 1.6% of Resilient Flooring net sales in 2002, and \$7.4 million of operating income were recorded in 2003 for products shipped to these distributors during the fourth quarter of 2002.

Wood Flooring

	(amounts in millions)		
	2002	2001	Favorable
Total Segment Net Sales ⁽¹⁾	\$ 719.3	\$ 655.3	9.8%
Operating Income	\$ 53.0	\$ 0.9	Favorable
Operating Income Margin	7.4%	0.1%	

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

Wood Flooring net sales in 2002 increased by approximately 10% from net sales in 2001, primarily due to increased volume, the impact of more effective promotional campaigns, and improved product mix in both the independent wholesaler channel and with large home center retailers.

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Operating income was \$53.0 million in 2002, compared to \$0.9 million in 2001. Excluding \$19.8 million of goodwill amortization expense recorded in 2001, operating income in 2001 would have been \$20.7 million. The increase in operating income was driven by higher net sales, improved production efficiencies, lower lumber costs, lower selling expense, and a change in vacation policy resulting in a \$1.9 million benefit, which were partially offset by \$2.5 million of costs related to exiting a product line, and increased medical costs. Operating income in 2001 also included \$4.1 million of employee severance costs related to restructuring efforts.

Textiles and Sports Flooring

	<u>(amounts in millions)</u>		<u>(Unfavorable)</u>	
	<u>2002</u>	<u>2001</u>	<u>As Reported</u>	<u>Excluding Effects of Foreign Exchange Rates ⁽¹⁾</u>
Total Segment Net Sales	\$247.2	\$262.9	(6.0)%	(10.2)%
Operating (Loss)	\$ (4.7)	\$ (0.7)	Unfavorable	Unfavorable
Operating (Loss) Margin	(1.9)%	(0.3)%		

(1) Excludes favorable foreign exchange rate effect in translation of \$12.5 million on net sales and \$0.5 million on operating loss.

Excluding the translation effect of changes in foreign exchange rates, net sales decreased by approximately 10% due to the weak European market, particularly in Germany. An operating loss of \$4.7 million in 2002 was incurred, compared to an operating loss of \$0.7 million in 2001. The increased loss was primarily due to the unfavorable impact of lower net sales and a \$1.5 million product warranty claims provision. 2002 included restructuring reversals of \$0.3 million, compared to restructuring charges of \$1.2 million in 2001. Additionally, 2001 included a fixed asset impairment charge of \$8.4 million and a \$2.1 million inventory write-down.

Building Products

	<u>(amounts in millions)</u>		<u>Favorable/(Unfavorable)</u>	
	<u>2002</u>	<u>2001</u>	<u>As Reported</u>	<u>Excluding Effects of Foreign Exchange Rates ⁽¹⁾</u>
Net Sales:				
Americas	\$511.8	\$528.4	(3.1)%	(3.1)%
Europe	276.7	262.4	5.5%	0.4%
Pacific	38.1	40.2	(5.2)%	(6.2)%
Total Segment Net Sales	\$826.6	\$831.0	(0.5)%	(2.1)%
Operating Income	\$ 96.5	\$ 92.4	4.4%	3.3%
Operating Income Margin	11.7%	11.1%		

(1) Excludes favorable foreign exchange rate effect in translation of \$13.3 million on net sales and \$1.0 million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales decreased by approximately 2%, primarily due to lower volume in the U.S. commercial market. Operating income increased by \$4.1 million to \$96.5 million in 2002, primarily due to lower energy costs and lower selling expenses.

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Cabinets

	(amounts in millions)		
	2002	2001	Favorable/ (Unfavorable)
Total Segment Net Sales ⁽¹⁾	\$226.9	\$225.3	0.7%
Operating (Loss) Income	\$ (3.9)	\$ 15.2	Unfavorable
Operating (Loss) / Income Margin	(1.7)%	6.8%	

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

Net sales in 2002 increased from net sales in 2001, due primarily to increased volume. An operating loss of \$3.9 million in 2002 compared to operating income of \$15.2 million in 2001. This decline resulted primarily from approximately \$11 million of increased manufacturing costs for material, labor and supply chain inefficiencies, and approximately \$7 million in charges for inventory write-downs.

All Other

The All Other segment contributed operating income of \$2.1 million and \$0.3 million for 2002 and 2001, respectively, reflecting the equity earnings from the investment in Interface Solutions, Inc.

Unallocated Corporate Expense

Unallocated corporate expense of \$2,544.8 million in 2002 increased from \$38.8 million in 2001, primarily due to a \$2.5 billion non-cash asbestos charge, \$17.6 million decreased U.S. pension credit, increased professional and advertising expenses, and increased management incentive compensation costs.

FINANCIAL CONDITION AND LIQUIDITY

As shown on the Consolidated Statements of Cash Flows, net cash provided by operating activities for the year ended December 31, 2002, was \$223.5 million compared with \$272.1 million in 2001. The decrease was primarily due to an increase in income taxes paid and lower asbestos insurance asset recoveries.

Net cash used for investing activities was \$104.1 million for the year ended December 31, 2002, compared with \$113.9 million in 2001. The decrease was primarily due to \$5.6 million spent in 2001 to purchase some of the remaining minority equity interest of majority owned entities consolidated within the Resilient Flooring segment.

Net cash used for financing activities was \$23.8 million for the year ended December 31, 2002, compared with \$37.9 million in 2001. The decrease was primarily due to lower payments of long-term debt.

ACQUISITIONS AND DISPOSITIONS

Discontinued Operations

In February 2001, we determined to permanently exit the Textiles and Sports Flooring segment and on February 20, 2001 entered into negotiations to sell substantially all of the businesses comprising this segment to a private equity investor based in Europe. Based on these events, the segment was classified as a discontinued operation starting with the fourth quarter of 2000. On June 12, 2001, negotiations with this investor were terminated. During the third quarter of 2001, we terminated our plans to permanently exit this segment. This decision was based on the difficulty encountered in selling the business and a new review of the business, industry and overall economy conducted by new senior management. Accordingly, this segment is no longer classified as a discontinued operation and amounts have been reclassified into operations as required by Emerging Issues Task Force ("EITF") Issue No. 90-16 – "Accounting for Discontinued Operations Subsequently Retained". All previous periods have been reclassified to conform to the current presentation.

See Note 6 of the Consolidated Financial Statements for further discussion of discontinued operations.

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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 other non-operating expense.

Acquisitions

During 2001, we spent \$5.6 million to purchase some of the remaining minority interest of already-consolidated entities within the Resilient Flooring segment. Approximately \$5.0 million of the purchase price was allocated to goodwill.

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, the former owners of Gema were advised that the contingent consideration was \$2.0 million. The former owners did not accept such calculation. Therefore, as permitted by the agreement, the contingent consideration calculation will be reviewed by a third party.

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 \$2.0 million was accounted for as additional purchase price in the third quarter of 2003, with a corresponding amount recorded in accounts payable.

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, 2003. 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.

(amounts in millions)	2004	2005	2006	2007	2008	Thereafter	Total
Long-Term Debt ⁽¹⁾	\$ 8.2	\$ 8.6	\$ 6.7	\$2.5	\$2.1	\$ 19.5	\$ 47.6
Capital Lease Obligations ⁽²⁾	1.2	1.6	1.0	0.7	0.3	0.1	4.9
Operating Lease Obligations ⁽²⁾	15.7	12.0	9.4	5.8	4.1	10.9	57.9
Unconditional Purchase Obligations ⁽³⁾⁽⁴⁾	9.8	6.3	2.9	0.8	0.2	0.3	20.3
Other Long-Term Obligations ⁽⁵⁾	6.0	0.2	0.2	0.1	0.1	—	6.6
Total Contractual Obligations	40.9	28.7	20.2	9.9	6.8	30.8	\$137.3

(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

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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, 2003, we maintained agreements with the lending institutions of two of our distributors. Under these agreements, if a 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. One agreement expired February 2004 and the remaining agreement will expire in September 2004. At December 31, 2003, the amount of inventory held at the remaining distributor was approximately \$3.8 million. No claim has been made under any of these agreements and we do not anticipate any such claims in the future. As such, no liability has been recorded for these agreements.

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 October 31, 2005. Had these agreements terminated at December 31, 2003, Armstrong would have been obligated to purchase approximately \$7.4 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, 2003, we carried a cash surrender value asset of \$6.0 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	\$ 62.6	\$ 62.0	\$ 0.6	—	—

In addition, we have lines of credit for certain international operations totaling \$45.9 million, of which \$9.6 million was used at December 31, 2003 and \$36.3 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

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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 Item 1 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 \$1.4 million has been recorded as of December 31, 2003. See Item 3 regarding Litigation 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, 2003, we maintained a \$1.4 million liability for this guarantee and the maximum payments could be approximately \$3.3 million, excluding any amounts paid for tax reimbursement.

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

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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, 2003. 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. 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. Currently, we are required to purchase at least 75% of our felt requirements from ISI. We can purchase felt products from another supplier if ISI’s prices are more than 10% higher than another supplier’s prices. Armstrong and ISI are 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. ISI had filed a proof of claim in AWI’s Chapter 11 Case requesting payment for AWI’s 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 “Other Divestitures” for a discussion of our relationship with Ardex.

We purchase some grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately \$51 million, \$44 million and \$40 million for the years ended December 31, 2003, 2002 and 2001, respectively. We also provide certain selling and administrative processing services to WAVE for which we receive reimbursement. Additionally, WAVE leases certain land and buildings from us.

Material 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 Disclosure 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, 2003 and December 31, 2002, 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>Scheduled maturity date</u> <u>(amounts in millions)</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>After</u> <u>2009</u>	<u>Total</u>
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%
<u>Scheduled maturity date</u> <u>(amounts in millions)</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>After</u> <u>2008</u>	<u>Total</u>
As of December 31, 2002							
Long-term debt:							
Fixed rate	\$ 6.2	\$ 7.1	\$ 6.2	\$ 4.6	\$ 1.4	\$ 8.0	\$33.5
Avg. interest rate	6.34%	6.57%	6.45%	6.41%	7.17%	6.74%	6.54%
Variable rate	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.2	\$10.9	\$13.1
Avg. interest rate	3.01%	2.77%	2.77%	2.77%	1.25%	1.80%	1.95%

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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, 2003, 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, 2003 and 2002. All the instruments outstanding as of December 31, 2003 have scheduled maturity before dates before March 31, 2005.

(amounts in millions)	Maturing in:		
	2004	2005	Total
Forward contracts			
As of December 31, 2003			
Notional Amount	\$368.5	\$10.6	\$379.1
Fair Value (Liability)	\$ (1.0)	—	\$ (1.0)
Maturing in:			
	2003	2004	Total
As of December 31, 2002			
Notional Amount	\$277.5	—	\$277.5
Fair Value (Liability)	\$ (4.6)	—	\$ (4.6)

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, 2003 and 2002 that are sensitive to changes in commodity prices. Notional amounts and price ranges are in millions of Btu's (MMBtu).

	Maturing in:		
	2004	2005	Total
On balance sheet commodity related derivatives			
As of December 31, 2003			
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
Maturing in:			
	2003	2004	Total
As of December 31, 2002			
Contract amounts (MMBtu)	5,250,000	1,840,000	7,090,000
Contract price range (\$/MMBtu)	\$2.83 -\$4.95	\$3.68 -\$5.00	\$2.83 -\$5.00
Assets at fair value (millions)	\$3.3	\$0.6	\$3.9

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ARMSTRONG HOLDINGS, INC. AND SUBSIDIARIES

The following consolidated financial statements are filed as part of this Annual Report on Form 10-K:

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Earnings for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Shareholders' Equity (Deficit) for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

Independent Auditors' Report

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:

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Earnings for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Shareholder's Equity (Deficit) for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

Independent Auditors' Report

Schedule II - Valuation and Qualifying Reserves

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QUARTERLY FINANCIAL INFORMATION ARMSTRONG HOLDINGS, INC.

(millions except for per share data)

	First	Second	Third	Fourth	Total year
2003					
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)	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
2002					
Net sales	\$ 748.0	\$825.7	\$846.5	\$ 752.1	\$ 3,172.3
Gross profit	194.2	207.6	205.6	160.4	767.8
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle	21.9	27.7	29.4	(1,628.0)	(1,549.0)
Per share of common stock:					
Basic	0.54	0.68	0.73	(40.20)	(38.25)
Diluted	0.54	0.68	0.72	(40.20)	(38.25)
Net earnings (loss)	(571.9)	27.7	29.4	(1,628.0)	(2,142.8)
Per share of common stock:					
Basic	(14.12)	0.68	0.73	(40.20)	(52.91)
Diluted	(14.12)	0.68	0.72	(40.20)	(52.91)
Price range of common stock—high	4.10	3.82	1.98	1.85	4.10
Price range of common stock—low	2.70	1.79	1.28	0.24	0.24

There were no dividends paid in 2003 or 2002. 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.

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 2003 Compared With Fourth Quarter 2002

Net sales of \$805.8 million in the fourth quarter of 2003 increased from net sales of \$752.1 million in the fourth quarter of 2002, an increase of 7.1%. Excluding the favorable effects of foreign exchange rates of \$36.9 million, net sales increased 2.1% primarily due to lower sales volume. Resilient Flooring net sales increased 7.5% 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 product to large home centers (see Results of Operations of Management's Discussion and Analysis). Wood Flooring net sales increased by 9.6% due to overall increases in volume and price. Textiles and Sports Flooring increased 7.8%, but excluding the favorable effects of foreign exchange rates of \$12.6 million, decreased 9.9% due to lower sales volume and pricing. Building Products net sales increased by 5.1% due to favorable effects of foreign exchange and price increases. Cabinets increased by 3.0% due to lower discounts and increased pricing. Net sales increased 7.2% and 5.4% in the Americas and Europe, respectively, with the Pacific area increasing \$3.9 million. Excluding the favorable effects of foreign exchange rates of \$31.7 million, Europe net sales decreased 9.9%.

For the fourth quarter of 2003, the cost of goods sold was 82.5% of sales, compared to 78.7% in 2002. The 3.8 percentage point increase was primarily due to increased raw material and energy costs and a

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decreased U.S. pension credit. Fixed asset impairment charges and inventory adjustments were \$15.3 million and \$9.3 million in the fourth quarter of 2003 and 2002, respectively.

Selling, general and administrative (SG&A) expenses for the fourth quarter of 2003 were \$148.7 million as compared to \$150.0 million for the fourth quarter of 2001. The decrease is primarily due to a \$3.0 million reduction to environmental liabilities (see Note 32 of the Consolidated Financial Statements) and reducing selling and advertising expenses, offset by a decreased U.S. pension credit and increased medical accruals.

The fourth quarter of 2002 included a non-cash asbestos charge of \$2.5 billion to increase our estimate of probable asbestos-related liability. See Note 32 of the Consolidated Financial Statements.

An operating loss from continuing operations of \$6.1 million in the fourth quarter of 2003 compared to an operating loss of \$2,485.8 million in the fourth quarter of 2002. Operating income prior to the asbestos charge in the fourth quarter of 2002 was \$14.2 million.

Other non-operating expense in the fourth quarter of 2003 of \$8.7 million compared to \$5.6 million in 2002. This increase was due to \$7.5 million of expense for impairing certain note receivables related to previous divestitures, while in 2002 a \$5.3 million charge for environmental expense related to a divested business was incurred.

Chapter 11 reorganization costs, net was income of \$6.8 million in the fourth quarter of 2003, compared to expense of \$4.4 million in the same period of 2002. The change is primarily due to a \$12.1 million 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 rate benefit for the fourth quarter of 2003 was 72.8% compared to a tax benefit rate of 34.8% for the same period of 2002. The income tax benefit was primarily related to the reduced impact of permanent differences (primarily Chapter 11 reorganization costs) on a significantly smaller amount of pre-tax loss in 2003, offset by higher overall foreign tax rates caused by increased valuation allowances for foreign losses generated during 2003.

Net loss of \$2.2 million in the fourth quarter of 2003 compared to net loss of \$1,628.0 million in the fourth quarter of 2002.

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

	Years Ended December 31,		
	2003	2002	2001
Net sales	\$3,259.0	\$ 3,172.3	\$3,138.7
Cost of goods sold	2,597.4	2,404.5	2,364.7
Gross profit	661.6	767.8	774.0
Selling, general and administrative expenses	603.1	624.9	596.6
Charge for asbestos liability, net	81.0	2,500.0	22.0
Restructuring and reorganization charges, net	8.6	1.9	9.0
Goodwill amortization	—	—	22.8
Equity (earnings) from affiliates, net	(20.7)	(21.7)	(16.5)
Operating income (loss)	(10.4)	(2,337.3)	140.1
Interest expense (unrecorded contractual interest of \$95.1, \$99.9 and \$100.2, respectively)	10.3	13.8	13.1
Other non-operating expense	15.7	8.2	11.8
Other non-operating (income)	(4.8)	(6.0)	(13.0)
Chapter 11 reorganization costs, net	9.4	23.5	12.5
Earnings (loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle	(41.0)	(2,376.8)	115.7
Income tax expense (benefit)	(1.7)	(827.8)	42.5
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle	(39.3)	(1,549.0)	73.2
Cumulative effect of a change in accounting principle, net of tax of \$2.2	—	(593.8)	—
Earnings (loss) from continuing operations	\$ (39.3)	\$(2,142.8)	\$ 73.2
(Loss) on sale of discontinued operations	—	—	(1.1)
Net loss on expected disposal of discontinued operations	—	—	(3.3)
Net reversal of income on discontinued operations no longer to be disposed of, net of tax of \$10.7	—	—	24.0
Earnings from discontinued operations	—	—	19.6
Net earnings (loss)	\$ (39.3)	\$(2,142.8)	\$ 92.8
Earnings (loss) per share of common stock, continuing operations before cumulative effect of a change in accounting principle:			
Basic	\$ (0.97)	\$ (38.25)	\$ 1.81
Diluted	\$ (0.97)	\$ (38.25)	\$ 1.79
Loss per share of common stock, cumulative effect of a change in accounting principle:			
Basic	—	\$ (14.66)	—
Diluted	—	\$ (14.66)	—
Earnings per share of common stock, discontinued operations:			
Basic	—	—	\$ 0.48
Diluted	—	—	\$ 0.48
Net earnings (loss) per share of common stock:			
Basic	\$ (0.97)	\$ (52.91)	\$ 2.29
Diluted	\$ (0.97)	\$ (52.91)	\$ 2.27
Average number of common shares outstanding:			
Basic	40.5	40.5	40.5
Diluted	40.7	40.7	40.8

See accompanying notes to consolidated financial statements beginning on page 53.

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

	December 31, 2003	December 31, 2002
Assets		
Current Assets:		
Cash and cash equivalents	\$ 484.3	\$ 380.0
Accounts and notes receivable, net	315.4	332.4
Inventories, net	454.4	435.5
Deferred income taxes	19.2	14.7
Other current assets	85.5	93.3
	<u>1,358.8</u>	<u>1,255.9</u>
Total current assets	1,358.8	1,255.9
Property, plant and equipment, less accumulated depreciation and amortization of \$1,434.8 and \$1,263.8, respectively	1,267.3	1,303.7
Insurance receivable for asbestos-related liabilities, noncurrent	95.1	174.1
Prepaid pension costs	455.1	435.2
Investment in affiliates	48.9	43.9
Goodwill, net	244.1	227.6
Other intangibles, net	79.0	88.6
Deferred income taxes, noncurrent	988.3	869.7
Other noncurrent assets	111.2	106.1
	<u>4,647.8</u>	<u>4,504.8</u>
Total assets	\$ 4,647.8	\$ 4,504.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	\$ 3.9	\$ 12.3
Current installments of long-term debt	8.2	6.7
Accounts payable and accrued expenses	354.2	351.6
Income taxes	45.9	26.0
Deferred income taxes	3.3	—
	<u>415.5</u>	<u>396.6</u>
Total current liabilities	415.5	396.6
Liabilities subject to compromise	4,858.5	4,861.1
Long-term debt, less current installments	39.4	39.9
Postretirement and postemployment benefit liabilities	262.3	255.1
Pension benefit liabilities	216.4	185.9
Other long-term liabilities	81.2	82.7
Deferred income taxes	95.0	20.7
Minority interest in subsidiaries	9.7	9.5
	<u>5,562.5</u>	<u>5,454.9</u>
Total noncurrent liabilities	5,562.5	5,454.9
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	167.9	167.6
Reduction for ESOP loan guarantee	(142.2)	(142.2)
Accumulated deficit	(937.8)	(898.5)
Accumulated other comprehensive income (loss)	43.3	(12.2)
Less common stock in treasury, at cost 2003 – 11,210,018 shares; 2002 – 11,201,326 shares	(513.3)	(513.3)
	<u>(1,330.2)</u>	<u>(1,346.7)</u>
Total shareholders' (deficit)	(1,330.2)	(1,346.7)
Total liabilities and shareholders' equity	\$ 4,647.8	\$ 4,504.8

See accompanying notes to consolidated financial statements beginning on page 53.

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

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
Common stock, \$1 par value:						
Balance at beginning and end of year	\$	51.9	\$	51.9	\$	51.9
Capital in excess of par value:						
Balance at beginning of year	\$	167.6	\$	166.8	\$	162.2
Stock issuances and other		0.3		0.8		4.6
Balance at December 31	\$	167.9	\$	167.6	\$	166.8
Reduction for ESOP loan guarantee:						
Balance at beginning and end of year	\$	(142.2)	\$	(142.2)	\$	(142.2)
Retained earnings (accumulated deficit):						
Balance at beginning of year	\$	(898.5)	\$	1,244.3	\$	1,151.5
Net earnings (loss) for year		(39.3)	\$(39.3)	(2,142.8)	\$(2,142.8)	92.8
Balance at end of year	\$	(937.8)	\$	(898.5)	\$	1,244.3
Accumulated other comprehensive income (loss):						
Balance at beginning of year	\$	(12.2)	\$	(47.1)	\$	(45.2)
Foreign currency translation adjustments		56.8		37.7		(3.3)
Derivative (loss) gain, net		(0.3)		6.9		(3.3)
Realized loss on available for sale securities		—		—		2.0
Minimum pension liability adjustments		(1.0)		(9.7)		2.7
Total other comprehensive income (loss)		55.5	55.5	34.9	34.9	(1.9)
Balance at end of year	\$	43.3	\$	(12.2)	\$	(47.1)
Comprehensive income (loss)			\$ 16.2		\$(2,107.9)	\$90.9
Less treasury stock at cost:						
Balance at beginning of year	\$	(513.3)	\$	(513.3)	\$	(513.1)
Stock purchases		—		—		(0.3)
Stock issuance activity, net		—		—		0.1
Balance at beginning and end of year	\$	(513.3)	\$	(513.3)	\$	(513.3)
Total shareholders' equity (deficit)		\$(1,330.2)		\$(1,346.7)		\$ 760.4

See accompanying notes to consolidated financial statements beginning on page 53.

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Armstrong Holdings, Inc., and Subsidiaries
Consolidated Statements of Cash Flows
(amounts in millions)

	Year Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income (loss)	\$ (39.3)	\$ (2,142.8)	\$ 92.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net	—	593.8	—
Depreciation and amortization	173.6	136.7	156.8
Loss on sale of business, net	—	—	0.9
Reversal of loss on expected disposal of discontinued business	—	—	(31.4)
Deferred income taxes	(51.5)	(870.4)	23.7
Equity (earnings) from affiliates, net	(20.7)	(21.7)	(16.5)
Chapter 11 reorganization costs, net	9.4	23.5	12.5
Chapter 11 reorganization costs payments	(25.8)	(23.0)	(15.0)
Restructuring and reorganization charges, net of reversals	8.6	1.9	9.0
Restructuring and reorganization payments	(8.7)	(2.1)	(14.1)
Asbestos-related insurance recoveries	31.0	16.0	32.2
Payments for asbestos-related claims	(9.0)	—	—
Charge for asbestos liability, net	81.0	2,500.0	22.0
Cash effect of hedging activities	(27.0)	(22.0)	(2.0)
Increase (decrease) in cash from change in:			
Receivables	40.6	11.7	45.8
Inventories	6.6	18.1	(50.7)
Other current assets	(4.6)	(16.1)	27.5
Other noncurrent assets	(18.6)	(42.0)	(71.0)
Accounts payable and accrued expenses	(15.6)	29.0	9.8
Income taxes payable	21.9	0.2	10.1
Other long-term liabilities	4.0	11.9	3.0
Other, net	9.9	20.8	26.7
Net cash provided by operating activities	<u>165.8</u>	<u>223.5</u>	<u>272.1</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment and computer software	(78.1)	(125.1)	(127.8)
Acquisitions, net of cash required	—	—	(5.6)
Distributions from equity affiliates	16.0	17.5	13.5
Proceeds from the sale of assets	4.9	3.5	6.0
Net cash (used for) investing activities	<u>(57.2)</u>	<u>(104.1)</u>	<u>(113.9)</u>
Cash flows from financing activities:			
(Decrease) in short-term debt, net	(5.3)	(13.9)	(15.8)
Payments of long-term debt	(8.2)	(9.0)	(17.6)
Purchase of common stock for the treasury, net	—	—	(0.3)
Other, net	(0.6)	(0.9)	(4.2)
Net cash (used for) financing activities	<u>(14.1)</u>	<u>(23.8)</u>	<u>(37.9)</u>
Effect of exchange rate changes on cash and cash equivalents	9.8	7.0	(2.0)
Net increase in cash and cash equivalents	<u>\$104.3</u>	<u>\$ 102.6</u>	<u>\$ 118.3</u>
Cash and cash equivalents at beginning of year	<u>\$380.0</u>	<u>\$ 277.4</u>	<u>\$ 159.1</u>
Cash and cash equivalents at end of period	<u>\$484.3</u>	<u>\$ 380.0</u>	<u>\$ 277.4</u>

See accompanying notes to consolidated financial statements beginning on page 53.

Armstrong Holdings, Inc., and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Delaware corporation and the publicly held parent holding company of AWI. AHI’s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc., 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 until the termination of his appointment as a visiting judge in the District of Delaware 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, as described under Asbestos-Related Property Damage Litigation, the Asbestos Property Damage Committee was disbanded.

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Plan of Reorganization

On November 4, 2002, AWI filed a Plan of Reorganization with the Bankruptcy Court. During 2003, AWI filed several amendments to the plan with the Bankruptcy Court, 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 and November 10, 2003, 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.

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. This objection remains pending with the U.S. District Court. Confirmation of the POR requires action of the U.S. District Court, as well as the Bankruptcy Court, in accordance with the Bankruptcy Code. At this time, the District Court judge involved in the Chapter 11 Case has stayed all proceedings before him concerning the Chapter 11 Case. See “Recent Developments and Next Steps in the Chapter 11 Process.”

Disclosure Statement

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, 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.

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Asbestos Personal Injury Trust

A principal feature of the POR is the creation of a trust (the “Asbestos P I 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 P I Trust.

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

However, although AWI’s domestic and foreign subsidiaries and other affiliates will be protected parties, asbestos-related personal injury claims against them will be channeled to the Asbestos P I 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 will not be channeled to the Asbestos P I Trust and will 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 only three pending workers’ compensation 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, material in amount to reorganized Armstrong, that would not be channeled to the Asbestos P I Trust.

Consideration to Be Distributed under the POR (unaudited)

The Asbestos P I Trust and the holders of allowed unsecured claims will 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 shall 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.

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The total amount of Plan Notes will be the greater of (i) \$1.125 billion less Available Cash and (ii) \$775 million. However, AWI will use reasonable efforts to issue one or more private offerings of debt securities on, or as soon as practicable after, the Effective Date that would 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 will 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 will be issued to the Asbestos P I Trust and the holders of unsecured claims.

The POR provides that unsecured creditors, other than convenience creditors described below, will 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 P I 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 will be distributed to the Asbestos P I Trust.

Under the POR, unsecured creditors whose claims (other than claims on debt securities) are less than \$10,000 or who elect to reduce their claims to \$10,000 will be treated as "convenience creditors" and will receive payment of 75% of their allowed claim amount in cash (which payments will reduce the amount of Available Cash).

Under the POR, the existing equity interests in AWI (including all of its outstanding shares of common stock) will 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 will be realized from the Warrants will 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.

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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 will 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.

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

Based upon many assumptions, see Disclosure Statement discussion above, AWI estimated a \$2.7 billion value for reorganized Armstrong, which is the mid-point of the range of estimated values of \$2.4 billion and \$3.0 billion. AWI's estimated value of the consideration to be distributed under the POR to the Asbestos P I 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 P I 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 P I 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) will total approximately \$1.65 billion, AWI estimated that holders of allowed unsecured claims (other than convenience claims) will receive a recovery having a value equal to approximately 59.5% of their allowed claims.

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

In connection with the implementation of the POR, the Warrants will 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 will 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 will 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 held on January 7, 2004, the Plan of Dissolution was approved by the AHI shareholders. The POR provides that AWI will pay the costs and expenses incurred in connection with administering AHI's Plan of Dissolution.

Recent Developments and Next Steps in the Chapter 11 Process

In order for the POR to be confirmed, the U.S. District Court must 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. In certain other companies' asbestos-related Chapter 11 cases, motions for recusal were filed in 2003 against U.S. District Court Judge Alfred M. Wolin, who is jointly administering with the Bankruptcy Court the asbestos-related issues in the Chapter 11 cases of five companies, including AWI. The Unsecured Creditors' Committee requested that in the event Judge Wolin is recused in the other cases, he also be recused in AWI's case. Judge Wolin has stayed further proceedings in all five cases before him, including AWI's Chapter 11 Case. On February 2, 2004, Judge Wolin denied the motions for recusal. An appeal of Judge Wolin's ruling is currently pending, with oral argument before the U.S. Court of Appeals for the Third Circuit scheduled for April 19, 2004. AWI is uncertain as to the impact, if any, beyond the present delay in confirmation of the POR that the motions and appeal will have on AWI's Chapter 11 proceedings, and when confirmation of the POR will be considered by the U.S. District Court is uncertain.

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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 P I 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 2,100 claims totaling \$2.4 billion. The Bankruptcy Court disallowed these claims with prejudice.

Approximately 1,100 proofs of claim totaling approximately \$1.5 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 P I Trust developed in connection with the POR. See further discussion regarding AWI’s liability for asbestos-related matters in Note 32.

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. See Note 32 for further discussion of property damage litigation.

Approximately 1,200 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. During the fourth quarter of 2002, AWI recorded a \$2.5 billion charge to increase its estimate of probable asbestos-related liability for personal injury claims based on the developments in the Chapter 11 Case. See Note 32 for further discussion. 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 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.

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Financing

AWI's current debtor-in-possession credit facility ("DIP Facility"), which extends to December 8, 2004, constitutes a \$75 million letter of credit facility. At AWI's request, the previous revolving loan feature was dropped since it had never been used. As of December 31, 2003, AWI had approximately \$22.8 million in letters of credit which were issued pursuant to the DIP Facility. As of December 31, 2003, AWI had \$323.2 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, 2003 and 2002. 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.

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 2003 and 2002:

<u>(amounts in millions)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Professional fees	\$ 25.2	\$27.8	\$24.5
Interest income, post-Filing	(3.4)	(3.5)	(5.1)
Reductions to pre-Filing liabilities	(12.9)	(1.1)	(2.0)
Termination of pre-Filing lease obligation	—	—	(5.9)
Other expense directly related to bankruptcy, net	0.5	0.3	1.0
Total Chapter 11 reorganization costs, net	\$ 9.4	\$23.5	\$12.5

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.

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Termination of pre-Filing lease obligation represents the reversal of an accrual for future lease payments for office space in the U.S. that AWI will not pay due to the termination of the lease contract. This amount was previously accrued in the third quarter of 2000 as part of a restructuring charge when the decision to vacate the premises was made.

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 consolidated financial statements.

If and when the POR is confirmed and made effective, reorganized AWI's consolidated financial statements will change materially in amounts and classifications through the implementation of the Fresh Start Accounting rules of SOP 97-7.

Conclusion

Although the POR has been developed, implementation of the POR is subject to confirmation of the POR in accordance with the provisions of the Bankruptcy Code and satisfaction after consummation of certain conditions, as provided by the POR. AWI is unable to predict when and if the POR will be confirmed. 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

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 all known relevant information. Management also confers with outside parties, including outside counsel, where appropriate. Actual results may differ from these estimates.

Revenue Recognition. We recognize revenue from the sale of products and the related accounts receivable no earlier than the date on which title transfers, generally on the date of shipment. A provision is made for the estimated cost of rebates and promotional programs. Provisions for estimated discounts and bad debt losses are based on knowledge of specific customers and a review of outstanding accounts receivable balances.

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.

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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 some periods 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. In 2003, our net sales to The Home Depot, Inc. and Lowe's Companies, Inc. were \$400.0 million and \$318.7 million, respectively. In 2002 and 2001, our net sales to Home Depot, Inc. were \$380.3 million and \$340.8 million, respectively. Our net sales to Lowe's Companies, Inc. in years prior to 2003 were less than 10% of our total consolidated net sales. No other customer 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 23% and 22% of our trade receivables as of December 31, 2003 and 2002, respectively. We continuously evaluate the creditworthiness of our customers and generally do not require collateral.

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 the straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally as follows: buildings, 20 to 40 years; machinery and equipment, 3 to 20 years.

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," 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 Selling, general and administrative expenses (SG&A).

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 2003, 2002 and 2001 due to the Chapter 11 Filing.

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Goodwill and Other Intangibles. Effective January 1, 2002, we adopted SFAS 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 the average exchange rates effective during the year. 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 19 for further discussion.

Stock-based Employee Compensation. At December 31, 2003, we had three stock-based employee compensation plans, which are described more fully in Note 25. 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,” to stock-based employee compensation.

	2003	2002	2001
Net income (loss), as reported	\$(39.3)	\$(2,142.8)	\$92.8
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	0.1	0.6	1.8
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)	(4.0)
Pro forma net income (loss)	\$(39.4)	\$(2,143.3)	\$90.6
Earnings (loss) per share:			
Basic – as reported	\$(0.97)	\$ (52.91)	\$2.29
Basic – pro forma	\$(0.97)	\$ (52.92)	\$2.24
Diluted – as reported	\$(0.97)	\$ (52.91)	\$2.27
Diluted – pro forma	\$(0.97)	\$ (52.92)	\$2.22

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 and December 29, 2001. 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.

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New Accounting Standards

In December 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This standard amends the disclosure requirements of SFAS 132 to require additional disclosures about assets, obligations, cash flow and net periodic benefit cost. The revised standard is effective in 2003, except for foreign plans, and the related disclosures have been included in Note 18.

Effective January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," which provides guidance on the accounting and disclosure for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Our current results of operations and financial position have not been affected.

Effective January 1, 2003, we adopted SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities," which addresses accounting for restructuring and similar costs. This standard affects the timing of expenses associated with restructurings, but is not expected to change the long-term results of operations and financial position.

Effective July 1, 2003, we adopted SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which addresses accounting for certain financial instruments with characteristics of both liabilities and equity. Our current results of operations and financial position have not been affected.

Effective with revenue arrangements entered into after June 30, 2003, we adopted Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," which provides the criteria for identifying and allocating separate units of accounting related to revenue arrangements with multiple deliverables. Our current results of operations and financial position have not been affected.

Effective January 1, 2003, we adopted Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," which provides guidance on the accounting for consideration received from a vendor. Our current results of operations and financial position have not been affected.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The disclosure requirements were adopted December 31, 2002. The recognition and initial measurement provisions were adopted January 1, 2003. Our current results of operations and financial position have not been affected.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." The requirements for variable interest entities created after January 31, 2003 were adopted on February 1, 2003. Our current results of operations and financial position have not been affected. In December 2003, a modification to FIN 46 was issued (FIN 46R) which delayed the effective date until no later than fiscal periods ending after March 15, 2004 and provided additional technical clarifications to implementation issues. We currently do not have any variable interest entities as defined in FIN 46R. We do not expect that the adoption of this statement will have a material impact on our consolidated financial statements.

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NOTE 3. NATURE OF OPERATIONS

Reportable Segments

<u>For the year ended 2003</u>	<u>Resilient Flooring</u>	<u>Wood Flooring</u>	<u>Textiles & Sports Flooring</u>	<u>Building Products</u>	<u>Cabinets</u>	<u>All Other</u>	<u>Unallocated Corporate</u>	<u>Total</u>
(amounts in millions)								
Net sales to external customers	\$1,181.5	\$ 738.6	\$ 271.9	\$ 862.2	\$ 204.8	—	—	\$ 3,259.0
Equity loss (earnings) from affiliates	0.4	—	—	(20.8)	—	\$(0.3)	—	(20.7)
Segment operating income (loss)	55.9	(4.0)	(9.8)	95.2	(11.1)	0.3	(136.9)	(10.4)
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	18.8	2,276.2	4,647.8
Depreciation and amortization	61.7	42.8	5.2	34.0	3.2	—	26.7	173.6
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

<u>For the year ended 2002</u>	<u>Resilient Flooring</u>	<u>Wood Flooring</u>	<u>Textiles & Sports Flooring</u>	<u>Building Products</u>	<u>Cabinets</u>	<u>All Other</u>	<u>Unallocated Corporate</u>	<u>Total</u>
(amounts in millions)								
Net sales to external customers	\$1,152.3	\$ 719.3	\$ 247.2	\$ 826.6	\$ 226.9	—	—	\$ 3,172.3
Equity loss (earnings) from affiliates	0.1	—	—	(19.7)	—	\$(2.1)	—	(21.7)
Segment operating income (loss)	64.5	53.0	(4.7)	96.5	(3.9)	2.1	\$(2,544.8)	(2,337.3)
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	18.4	2,111.4	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

<u>For the year ended 2001</u>	<u>Resilient Flooring</u>	<u>Wood Flooring</u>	<u>Textiles & Sports Flooring</u>	<u>Building Products</u>	<u>Cabinets</u>	<u>All Other</u>	<u>Unallocated Corporate</u>	<u>Total</u>
(amounts in millions)								
Net sales to external customers	\$1,164.2	\$ 655.3	\$ 262.9	\$ 831.0	\$ 225.3	—	—	\$ 3,138.7
Equity (earnings) from affiliates	(0.1)	—	—	(16.1)	—	\$(0.3)	—	(16.5)
Segment operating income (loss)	70.8	0.9	(0.7)	92.4	15.2	0.3	\$(38.8)	140.1
Restructuring and reorganization charges, net of reversals	0.2	4.1	1.2	1.1	1.1	—	1.3	9.0
Segment assets	855.3	1,260.6	177.7	527.0	108.0	16.3	1,093.2	4,038.1
Depreciation and amortization	57.3	36.0	4.7	33.0	2.3	—	23.5	156.8
Investment in affiliates	0.9	—	—	22.4	—	16.3	—	39.6
Capital additions	43.9	22.7	8.6	32.2	2.1	—	18.3	127.8

Accounting policies of the segments are the same as those described in the summary of significant accounting policies. Performance of the segments is evaluated on operating income before income taxes, unusual gains and losses, and interest expense.

The 2002 decrease in the assets of the Wood Flooring segment is primarily due to the \$596.0 million (\$593.8 million, net of tax) goodwill and intangible asset impairment write down recorded as a cumulative effect of a change in accounting principle as of January 1, 2002. See Note 12 for further details.

The 2002 increase in the assets of the Unallocated Corporate segment is primarily due to the \$869.7 million increase in the deferred tax asset primarily created by the fourth quarter 2002 asbestos charge described in Notes 1 and 32.

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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 products, adhesives, installation and maintenance materials and accessories, and has recently introduced ceramic tile products. Resilient Flooring products are offered in a wide variety of types, designs, and colors, and provide ease of installation and reduced maintenance (no-wax). We sell these products to wholesalers, large home centers, retailers, contractors, and to the manufactured homes industry.

Wood Flooring — produces 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) and engineered wood floors in various wood species (with oak being the primary species of choice). Virtually all of our Wood Flooring's sales are in the U.S. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce[®], Hartco[®] and Robbins[®].

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 fibers 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). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and the 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 IXL[®], Bruce[®] and Armstrong[™].

All Other — contributes operating income related to the equity investment in Interface Solutions, Inc.

Unallocated Corporate — includes expenses that have not been allocated to the business units. The most significant of these expenses relate to asbestos charges as discussed in Note 32.

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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 (amounts in millions)	2003	2002	2001
Americas:			
United States	\$2,247.3	\$2,229.1	\$2,188.1
Canada	125.8	120.5	114.4
Other Americas	24.8	26.4	23.5
Total Americas	\$2,397.9	\$2,376.0	\$2,326.0
Europe:			
Germany	\$ 178.2	\$ 172.6	\$ 182.2
England	125.5	129.8	135.6
France	80.3	69.3	67.8
Netherlands	76.1	69.8	73.8
Italy	37.0	33.2	31.1
Switzerland	35.4	36.8	34.1
Russia	33.2	27.2	25.9
Spain	33.2	26.2	12.5
Belgium	20.6	19.9	16.2
Sweden	19.5	15.8	15.9
Other Europe	104.0	89.7	118.0
Total Europe	\$ 743.0	\$ 690.3	\$ 713.1
Pacific area:			
Australia	\$ 35.3	\$ 27.2	\$ 25.3
China	26.1	22.9	24.1
Other Pacific area	56.7	55.9	50.2
Total Pacific area	\$ 118.1	\$ 106.0	\$ 99.6
Total net trade sales	\$3,259.0	\$3,172.3	\$3,138.7

Long-lived assets (property, plant and equipment), net at December 31 (amounts in millions)	2003	2002
Americas:		
United States	\$ 848.5	\$ 930.9
Canada	15.0	14.1
Total Americas	\$ 863.5	\$ 945.0
Europe:		
Belgium	\$ 32.8	\$ 25.4
England	38.1	39.2
France	15.9	13.9
Germany	224.0	192.5
Netherlands	42.1	42.8
Sweden	10.8	10.0
Other Europe	11.1	5.8
Total Europe	\$ 374.8	\$ 329.6
Pacific area:		
China	\$ 22.0	\$ 23.2
Other Pacific area	7.0	5.9
Total Pacific area	\$ 29.0	\$ 29.1
Total long-lived assets, net	\$1,267.3	\$1,303.7

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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. During the fourth quarter of 2002, AWI recorded a non-cash charge of \$2.5 billion to increase its estimate of probable asbestos-related liability. 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, 2003 and December 31, 2002 are as follows:

(amounts in millions)	2003	2002
Debt (at face value)	\$1,388.6	\$1,400.7
Asbestos-related liability	3,190.6	3,190.6
Prepetition trade payables	58.9	51.7
Prepetition other payables and accrued interest	62.7	60.4
ESOP loan guarantee	157.7	157.7
Total liabilities subject to compromise	\$4,858.5	\$4,861.1

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

During 2001, we spent \$5.6 million to purchase some of the remaining minority interest of already-consolidated entities within the Resilient Flooring segment. Approximately \$5.0 million of the purchase price was allocated to goodwill.

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, the former owners of Gema were advised that the contingent consideration was \$2.0 million. The former owners did not accept such calculation. Therefore, as permitted by the agreement, the contingent consideration calculation will be reviewed by a third party.

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 \$2.0 million was accounted for as additional purchase price in the third quarter of 2003, with a corresponding amount recorded in accounts payable.

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NOTE 6. DISCONTINUED OPERATIONS

In February 2001, we determined to permanently exit the Textiles and Sports Flooring segment and on February 20, 2001 entered into negotiations to sell substantially all of the businesses comprising this segment to a private equity investor based in Europe. Based on these events, the segment was classified as a discontinued operation starting with the fourth quarter of 2000. On June 12, 2001, negotiations with this investor were terminated. During the third quarter of 2001, we terminated our plans to permanently exit this segment. This decision was based on the difficulty encountered in selling the business and a new review of the business, industry and overall economy conducted by new senior management. Accordingly, this segment is no longer classified as a discontinued operation and amounts have been reclassified into operations as required by EITF Issue No. 90-16 – “Accounting for Discontinued Operations Subsequently Retained”.

Based on the expected net realizable value of the business determined during the negotiations to sell the business, we had recorded a pretax net loss of \$34.5 million in the fourth quarter of 2000, \$23.8 million net of tax benefit. We also had recorded an additional net loss of \$3.3 million in the first quarter of 2001, as a result of price adjustments resulting from the negotiations. Concurrent with the decision to no longer classify the business as a discontinued operation, the remaining accrued loss of \$37.8 million (\$27.1 million net of tax) was reversed in the third quarter of 2001 and recorded as part of earnings from discontinued operations. Additionally, the segment’s net income of \$3.1 million for the first and second quarter of 2001 was reclassified into earnings from continuing operations for those periods.

During the third quarter of 2001, we concluded there were indicators of impairment related to certain assets in this segment, and accordingly, an impairment evaluation was conducted. This evaluation led to an impairment charge of \$8.4 million, representing the excess of book value over estimated fair value which was determined using a net discounted cash flows approach. The charge was included in cost of sales. The impairment was related to property, plant and equipment that produce certain products for which we anticipate lower demand in the future. Additionally, an inventory write-down of \$2.1 million was recorded in the third quarter of 2001 within cost of sales related to certain products that will no longer be sold.

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. 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 will be treated as an allowed unsecured claim. This claim resulted in a fourth quarter 2002 charge of \$5.3 million, which was recorded in other non-operating expense.

NOTE 8. ACCOUNTS AND NOTES RECEIVABLE

(amounts in millions)	2003	2002
Customer receivables	\$358.4	\$370.0
Customer notes	6.2	6.9
Miscellaneous receivables	17.0	17.2
Less allowance for discounts and losses	(66.2)	(61.7)
Net accounts and notes receivable	\$315.4	\$332.4

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

Approximately 39% and 42% of our total inventory in 2003 and 2002 was valued on a LIFO (last-in, first-out) basis. The remaining approximately 60% of our total inventory was valued on a FIFO (first-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis, by \$62.0 million at the end of 2003 and \$52.6 million at year-end 2002.

<u>(amounts in millions)</u>	<u>2003</u>	<u>2002</u>
Finished goods	\$330.7	\$294.3
Goods in process	40.6	44.8
Raw materials and supplies	165.3	166.0
Less LIFO and other reserves	(82.2)	(69.6)
Total inventories, net	\$454.4	\$435.5

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

<u>(amounts in millions)</u>	<u>2003</u>	<u>2002</u>
Land	\$ 105.4	\$ 94.3
Buildings	659.7	624.9
Machinery and equipment	1,893.7	1,786.0
Construction in progress	43.3	62.3
Less accumulated depreciation and amortization	(1,434.8)	(1,263.8)
Net property, plant and equipment	\$ 1,267.3	\$ 1,303.7

NOTE 11. EQUITY INVESTMENTS

Investments in affiliates were \$48.9 million at December 31, 2003, an increase of \$5.0 million, reflecting the equity earnings of our 50% interest in our WAVE joint venture and our remaining 35% interest in Interface Solutions, Inc. ("ISI"). We continue to purchase certain raw materials from ISI under a long-term supply agreement. Equity earnings from affiliates for 2003, 2002 and 2001 consisted primarily of income from a 50% interest in the WAVE joint venture and the 35% interest in ISI.

We purchase some grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately \$51 million, \$44 million and \$40 million for the years ended December 31, 2003, 2002 and 2001, respectively. We also provide certain selling and administrative processing services to WAVE for which we receive reimbursement. Additionally, WAVE leases certain land and buildings from us.

Condensed financial data for significant investments in affiliates accounted for under the equity method of accounting are summarized below:

<u>(amounts in millions)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current assets	\$93.1	\$82.1	
Non-current assets	32.3	31.6	
Current liabilities	65.1	16.0	
Long-term debt	—	50.0	
Other non-current liabilities	3.0	3.0	
(amounts in millions)	2003	2002	2001
Net sales	\$213.8	\$201.4	\$200.1
Gross profit	63.7	61.2	57.1
Net earnings	41.7	39.2	32.3

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NOTE 12. GOODWILL AND INTANGIBLE ASSETS

Effective January 1, 2002, we adopted SFAS 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 estimated residual values and reviewed for impairment.

As of January 1, 2002, we had unamortized goodwill of \$822.8 million, of which \$717.2 million was attributable to the Wood Flooring segment. In the second quarter of 2002, we completed the assessment of goodwill 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.

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 since December 31, 2001.

(amounts in millions) Goodwill by segment	January 1, 2002	Adjustments, net ⁽¹⁾	Impairments	December 31, 2002
Resilient Flooring	\$ 82.9	\$ 6.4		\$ 89.3
Wood Flooring	717.2	(13.4)	\$ (590.0)	113.8
Building Products	10.1	1.8	—	11.9
Cabinets	12.6	—	—	12.6
Total consolidated goodwill	\$ 822.8	\$ (5.2)	\$ (590.0)	\$ 227.6

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

The following table represents the changes in goodwill since December 31, 2002.

(amounts in millions) Goodwill by segment	January 1, 2003	Adjustments, net ⁽¹⁾	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
Total consolidated goodwill	\$ 227.6	\$ 16.5	\$ —	\$ 244.1

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

As of January 1, 2002, we had unamortized identifiable intangible assets of \$94.1 million. 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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The following table details amounts related to our intangible assets as of December 31, 2003.

(amounts in millions)	December 31, 2003		December 31, 2002	
	Gross Carrying	Accumulated	Gross Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
Amortized intangible assets				
Computer software	\$ 104.1	\$ 57.7	\$ 100.6	\$ 44.7
Land use rights and other	4.4	0.9	4.4	0.8
Total	\$ 108.5	\$ 58.6	\$ 105.0	\$ 45.5
Unamortized intangible assets				
Trademarks and brand names	29.1		29.1	
Total intangible assets	\$ 137.6		\$ 134.1	
Aggregate Amortization Expense				
For the year ended December 31	\$ 15.5		\$ 14.8	

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 2004 through 2008 is as follows:

2004	\$14.8
2005	13.2
2006	8.7
2007	3.7
2008	3.4

Comparison to prior year "As Adjusted"

The following table presents prior year reported amounts adjusted to eliminate the effect of goodwill and certain identifiable intangible asset amortization in accordance with FAS 142.

(in millions except per share amounts)	December 31,		
	2003	2002	2001
Reported net income (loss)	\$(39.3)	\$(2,142.8)	\$ 92.8
Add back: Goodwill amortization	—	—	22.8
Add back: Trademark and brand names amortization	—	—	0.8
Adjusted net income (loss)	\$(39.3)	\$(2,142.8)	\$116.4
Basic net earnings (loss) per share:			
Reported net income (loss)	\$(0.97)	\$ (52.91)	\$ 2.29
Goodwill amortization	—	—	0.56
Trademark and brand names amortization	—	—	0.02
Adjusted net income (loss)	\$(0.97)	\$ (52.91)	\$ 2.87
Diluted net earnings (loss) per share:			
Reported net income (loss)	\$(0.97)	\$ (52.91)	\$ 2.27
Goodwill amortization	—	—	0.56
Trademark and brand names amortization	—	—	0.02
Adjusted net income (loss)	\$(0.97)	\$ (52.91)	\$ 2.85

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NOTE 13. OTHER NON-CURRENT ASSETS

(amounts in millions)	2003	2002
Cash surrender value of company owned life insurance policies	\$ 62.1	\$ 58.8
Long term notes receivable	27.9	22.4
Other	21.2	24.9
Total other non-current assets	\$111.2	\$106.1

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(amounts in millions)	2003	2002
Payables, trade and other	\$221.9	\$206.6
Employment costs	41.8	65.8
Reorganization and severance expenses	3.4	1.9
Other	87.1	77.3
Total accounts payable and accrued expenses	\$354.2	\$351.6

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

NOTE 15. RESTRUCTURING AND OTHER ACTIONS

Restructuring charges of \$1.7 million were recorded in the fourth quarter of 2003. \$1.2 million related to severance and retirement benefits for employees in Textiles and Sports Flooring (\$1.0 million) and Resilient Flooring (\$0.2 million) segments, as part of the restructuring plan to consolidate certain functions in the European flooring business. Of the \$1.2 million, \$0.3 million represented a non-cash charge for retirement benefits, which is accounted for as a reduction of the prepaid pension asset. \$0.3 million of the charge related to the closing of a Wood Flooring manufacturing location in Warren, Arkansas. Approximately 120 employees were impacted by this plant closure. The remaining \$0.2 million of the charge related to the closing of a Resilient Flooring plant in Baroda, India. Approximately 70 employees were impacted by this plant closure. In addition, \$0.4 of the remaining accruals from the 2003 charges in the Textiles and Sports Flooring (\$0.3 million) and Resilient Flooring (\$0.1 million) segments was reversed, comprising certain severance accruals that were no longer necessary.

In July 2003, we announced our plans to close the Wood Flooring manufacturing location in Port Gibson, Mississippi, effective September 2003, due to excess production capacity. The production has been transferred to another Wood Flooring location, resulting in a net reduction of approximately 145 positions. A \$0.5 million restructuring charge was recorded for severance benefits. In addition, a charge of \$15.1 million, related to accelerated depreciation, was recorded in the third quarter of 2003 as a component of cost of goods sold. Further analysis of the remaining fair value of certain fixed assets in the fourth quarter of 2003 lead to an additional charge to cost of goods sold of \$0.8 million.

A \$3.7 million restructuring charge was recorded in the third quarter of 2003. The charge related primarily to severance benefits for approximately 72 employees in a Textiles and Sports Flooring plant in The Netherlands, as part of the continuing 2002 restructuring plan to consolidate certain functions in the European flooring business. Separately, \$0.8 million of the remaining reserve related to a noncancelable operating lease in the U.K. was reversed in the Unallocated Corporate segment as a result of reaching agreement with outside parties on future rent increases and disputed rent payments by a sublessee. \$0.2 million of the remaining accruals from the second quarter 2003 and second quarter 2002 charges in the Resilient Flooring segment was also reversed, comprising certain severance accruals that were no longer necessary.

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A \$1.3 million restructuring charge was recorded in the second quarter of 2003. The charge related primarily to severance benefits for approximately 11 employees in the Textiles and Sports Flooring (\$0.7 million) and Resilient Flooring (\$0.6 million) segments, as part of the continuing restructuring plan to consolidate certain functions in the European flooring business. In addition, \$0.4 million of the remaining accrual from the second quarter 2002 charge in the Resilient Flooring segment was reversed, comprising certain severance accruals that were no longer necessary.

A \$3.2 million restructuring charge was recorded in the first quarter of 2003. The charge related to severance benefits for approximately 52 employees in the Textiles and Sports Flooring (\$2.3 million) and Resilient Flooring (\$0.9 million) segments, as part of the restructuring plan to consolidate certain functions in the European flooring business.

In the fourth quarter of 2002 and in the third quarter of 2002, \$0.2 million and \$0.6 million, respectively, of the remaining accrual related to the first quarter 2002 and fourth quarter 2001 charges in the Textiles and Sports Flooring segment was reversed, comprising certain severance accruals that were no longer necessary.

A \$2.2 million restructuring charge was recorded in the second quarter of 2002. The charge primarily related to severance benefits for approximately 120 employees in the European Resilient Flooring business due to a slow European economy and a consolidation of worldwide research and development activities. Of the \$2.2 million, \$0.4 million represented a non-cash charge for enhanced retirement benefits, which is accounted for as an increase to pension benefit liabilities.

A \$0.5 million restructuring charge was recorded in the first quarter of 2002. The charge related to severance benefits for 11 employees in the Textiles and Sports Flooring segment to reflect staffing needs for current business conditions and continued efforts initiated in the fourth quarter of 2001.

The following table summarizes activity in the reorganization and restructuring accruals for the first nine months of 2003 and 2002. 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.

(amounts in millions)	Beginning Balance	Cash Payments	Charges	Reversals	Other	Ending Balance
2003	\$ 9.1	\$ (8.7)	\$ 10.1	\$ (1.8)	\$ 1.3	\$ 10.0
2002	8.9	(2.1)	2.3	(0.8)	0.8	9.1

The amount in “other” for 2003 and 2002 is primarily related to foreign currency translation.

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2003 relates to a noncancelable-operating lease, which extends through 2017, and severance for terminated employees with extended payouts, the majority of which will be paid by the second quarter of 2004.

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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 foreign tax credit, state and foreign net operating loss carryforwards and other basis adjustments for which we have provided a valuation allowance of \$222.4 million. The \$2.3 million of U.S. foreign tax credits will expire in 2005. We have \$1,351.6 million of state net operating loss carryforwards with expirations between 2004 and 2023, and \$268.1 million of foreign net operating loss carryforwards, which will be carried forward indefinitely. The valuation allowance decreased by \$6.4 million in 2003 primarily due to the expiration of the state net operating loss carryforwards offset by additional foreign net operating losses.

Deferred income tax assets (liabilities) (amounts in millions)	2003	2002
Postretirement and postemployment benefits	\$ 91.0	\$ 88.4
Chapter 11 reorganization costs and restructuring costs	16.4	17.9
Asbestos-related liabilities	1,153.9	1,153.5
Foreign tax credit carryforward	2.3	4.9
Net operating losses	211.2	205.5
Other	135.4	96.5
Total deferred tax assets	1,610.2	1,566.7
Valuation allowance	(222.4)	(228.8)
Net deferred tax assets	1,387.8	1,337.9
Accumulated depreciation	(200.6)	(175.4)
Pension credit	(144.1)	(138.5)
Insurance for asbestos-related liabilities	(33.2)	(66.5)
Tax on unremitted earnings	(27.0)	(27.0)
Other	(73.7)	(66.8)
Total deferred income tax liabilities	(478.6)	(474.2)
Net deferred income tax assets	\$ 909.2	\$ 863.7
Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset – current	\$ 19.2	\$ 14.7
Deferred income tax asset – non-current	988.3	869.7
Deferred income tax liability – current	(3.3)	—
Deferred income tax liability – non-current	(95.0)	(20.7)
Net deferred income tax assets (liabilities)	\$ 909.2	\$ 863.7

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Details of taxes (amounts in millions)	2003	2002	2001
Earnings (loss) from continuing operations before income taxes:			
Domestic	\$(53.9)	\$(2,398.0)	\$117.1
Foreign	17.6	21.2	14.1
Eliminations	(4.7)	—	(15.5)
Total	\$(41.0)	\$(2,376.8)	\$115.7
Income tax provision (benefit):			
Current:			
Federal	\$ 25.1	\$ 35.2	\$ 5.0
Foreign	20.8	10.6	13.2
State	3.9	1.4	(0.6)
Total current	49.8	47.2	17.6
Deferred:			
Federal	(41.5)	(874.1)	33.3
Foreign	(9.3)	(1.6)	(8.4)
State	(0.7)	0.7	—
Total deferred	(51.5)	(875.0)	24.9
Total income taxes (benefit)	\$ (1.7)	\$ (827.8)	\$ 42.5

At December 31, 2003, unremitted earnings of subsidiaries outside the U.S. were \$294.9 million (at December 31, 2003 balance sheet foreign exchange rates). We expect to repatriate \$77.0 million of earnings for which \$27.0 million of U.S. taxes were provided in 2000. No U.S. taxes have been provided on the remaining unremitted earnings as we intend to invest these earnings permanently. If such earnings were to be remitted without offsetting tax credits in the U.S., withholding taxes would be \$7.5 million. The 2003, 2002 and 2001 tax provisions reflect the reversal of certain state and foreign tax and other accruals no longer required due to the completion of tax audits and/or expiration of statutes of limitation partially offset by certain nondeductible expenses.

Reconciliation to U.S. statutory tax rate (amounts in millions)	2003	2002	2001
Continuing operations tax (benefit) at statutory rate	\$(14.4)	\$(831.9)	\$40.5
State income taxes, net of federal benefit	0.4	1.7	(1.9)
Foreign losses	7.8	7.2	1.1
Tax on foreign and foreign-source income	(4.9)	(15.9)	(8.4)
Goodwill amortization	—	—	6.7
Permanent book/tax differences	9.3	10.8	5.9
Other items, net	0.1	0.3	(1.4)
Tax expense (benefit) at effective rate	\$ (1.7)	\$(827.8)	\$42.5
Other taxes (amounts in millions)	2003	2002	2001
Payroll taxes	\$79.1	\$77.3	\$74.2
Property, franchise and capital stock taxes	15.8	12.6	16.3

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NOTE 17. DEBT

(See Note 4 regarding treatment of prepetition debt.)

(amounts in millions)	2003	Average year-end interest rate	2002	Average year-end interest rate
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	3.9	3.62%	12.3	4.58%
Bank loans due 2004-2015	34.1	5.65%	30.6	5.95%
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	3.85%	21.0	4.00%
Capital lease obligations	3.3	7.63%	5.6	7.63%
Other	15.3	8.56%	27.6	10.65%
Subtotal	1,440.1	7.20%	1,459.6	7.26%
Less debt subject to compromise	1,388.6	7.29%	1,400.7	7.35%
Less current portion and short-term debt	12.1	5.13%	19.0	5.14%
Total long-term debt, less current portion	\$ 39.4	4.72%	\$ 39.9	5.10%

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. Approximately \$35.2 million of the \$58.9 million of total debt not subject to compromise outstanding as of December 31, 2002 was secured with buildings and other assets.

Scheduled payments of long-term debt, excluding debt subject to compromise (amounts in millions):

2004	\$8.2
2005	8.6
2006	6.7
2007	\$2.5
2008	2.1

Debt from the table above included in liabilities subject to compromise consisted of the following at December 31, 2003 and 2002.

(amounts in millions)	2003	2002
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	27.2
Total debt subject to compromise	\$1,388.6	\$1,400.7

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On November 1, 2002, the Bankruptcy Court announced it had approved AWI's motion to reduce the amount of its DIP Facility from \$200 million to \$75 million, eliminate the revolving credit borrowing feature, retain the letter of credit issuance facility and extend the maturity date to December 8, 2003. On September 29, 2003, the Bankruptcy Court announced it had approved AWI's motion to extend the maturity date from December 8, 2003, to December 8, 2004, on its \$75 million DIP Credit 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, 2003 and 2002, AWI had approximately \$22.8 million and \$28.7 million, respectively, in letters of credit that were issued under the DIP Facility.

Other debt includes a \$6.5 million zero-coupon note due in 2013 that was fully accreted to its face value of \$18.6 million during 2000 due to the Chapter 11 Filing. This zero-coupon note was subsequently reduced by \$12.1 million in December 2003 due to an agreement reached between AWI and the holder of the note as to the claim amount.

In addition, certain foreign subsidiaries have approximately \$36.3 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 as and when required. 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.

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 expands Medicare, primarily by adding a prescription drug benefit for Medicare-eligible participants starting in 2006. 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 from the FASB, we have chosen to defer recognition of the potential effects of the Act in these 2003 disclosures. Therefore, the retiree health obligations and costs reported in the financial statements do not yet reflect any potential impact of the Act. FASB guidance, when issued, is likely to require the company to change previously reported information.

We will review our retiree health care strategy in light of the Act. In 2003, we paid approximately \$8 million for prescription drug coverage for our Medicare-eligible retirees. We anticipate that our retiree health costs could be reduced in the future.

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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, 2003 and 2002 position for each asset class:

Asset Class	Target Weight at December 31, 2003	Position at December 31,	
		2003	2002
Domestic equity	41%	43%	40%
International equity	22%	25%	21%
High yield bonds	5%	6%	6%
Long duration bonds	25%	22%	27%
Real estate	7%	1%	1%
Other fixed income	0%	3%	5%

Domestic equity includes AHI common stock in the amounts of \$1.6 million (0.08% of total RIP assets) and \$0.5 million (0.03% of total RIP assets) at December 31, 2003 and 2002, respectively.

Basis of Rate-of-Return Assumption

Long-term asset class return forecasts were obtained from several investment firms. 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:

(amounts in millions)	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2003	2002	2003	2002
Prepaid benefit costs	\$445.8	\$428.9		
Accrued benefit liability	(38.3)	(33.3)	\$ (242.2)	\$ (234.1)
Intangible asset	0.8	1.0	—	—
Other comprehensive income	19.5	16.4	—	—
Net asset/(liability) recognized	\$427.8	\$413.0	\$ (242.2)	\$ (234.1)

The accumulated benefit obligation for the U.S. defined benefit pension plans was \$1,464.1 million and \$1,364.9 million at December 31, 2003 and 2002, respectively.

U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits	
	2003	2002
Projected benefit obligation, December 31	\$43.4	\$35.5
Accrued benefit obligation, December 31	38.3	33.3
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.

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The components of pension credit are as follows:

U.S. defined-benefit plans (amounts in millions)	Pension Benefits		
	2003	2002	2001
Service cost of benefits earned during the year	\$ 21.8	\$ 17.2	\$ 14.9
Interest cost on projected benefit obligation	91.8	89.1	93.0
Expected return on plan assets	(144.5)	(154.4)	(164.4)
Amortization of transition asset	—	(2.1)	(6.2)
Amortization of prior service cost	17.9	17.6	17.5
Amortization of net actuarial loss/(gain)	1.4	(6.6)	(11.6)
Net periodic pension credit	\$ (11.6)	\$ (39.2)	\$ (56.8)

The components of postretirement benefits cost are as follows:

U.S. defined-benefit plans (amounts in millions)	Retiree Health and Life Insurance Benefits		
	2003	2002	2001
Service cost of benefits earned during the year	\$ 3.4	\$ 5.6	\$ 3.6
Interest cost on accumulated postretirement benefit obligation	26.2	28.1	20.2
Amortization of prior service cost (benefit)	(5.1)	0.2	0.3
Amortization of net actuarial loss	12.3	11.2	2.1
Net periodic postretirement benefit cost	\$36.8	\$45.1	\$26.2

For measurement purposes, an average rate of 10% annual increase in the per capita cost of covered health care benefits was assumed for 2004, 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.S. retiree health and life insurance benefit plans (amounts in millions)	One percentage point	
	Increase	Decrease
Effect on total of service and interest cost components	\$ 1.9	\$ (1.7)
Effect on postretirement benefit obligation	25.4	(22.2)

We expect to contribute \$3.5 million to our U.S. defined benefit pension plans and \$29.4 million to our U.S. other postretirement benefit plans in 2004.

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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.

Non-U.S. defined-benefit plans (amounts in millions)	Pension Benefits	
	2003	2002
Change in benefit obligation:		
Benefit obligation as of January 1	\$ 340.1	\$ 283.6
Service cost	8.2	8.1
Interest cost	19.4	15.9
Plan participants' contributions	2.8	2.3
Plan amendments	(5.7)	0.1
Effect of settlements and curtailments	(0.9)	0.1
Foreign currency translation adjustment	57.1	44.3
Actuarial loss (gain)	2.4	4.0
Benefits paid	(19.6)	(18.3)
Benefit obligation as of December 31	\$ 403.8	\$ 340.1
Change in plan assets:		
Fair value of plan assets as of January 1	\$ 153.7	\$ 156.8
Actual return on plan assets gain/(loss)	19.4	(20.9)
Employer contributions	19.4	15.1
Plan participants' contributions	2.8	2.3
Foreign currency translation adjustment	24.7	18.7
Benefits paid	(19.6)	(18.3)
Fair value of plan assets as of December 31	\$ 200.4	\$ 153.7
Funded status of the plans	\$(203.4)	\$(186.4)
Unrecognized net actuarial loss	53.0	53.4
Unrecognized transition obligation	(0.1)	0.2
Unrecognized prior service (benefit) cost	(0.5)	5.9
Net liability recognized	\$(151.0)	\$(126.9)

Amounts recognized in the consolidated balance sheets consist of:

(amounts in millions)	Pension Benefits	
	2003	2002
Prepaid benefit cost	\$ 9.3	\$ 6.3
Accrued benefit liability	(178.1)	(152.6)
Intangible asset	3.5	3.9
Other comprehensive income	14.3	15.5
Net liability recognized	\$(151.0)	\$(126.9)

Non-U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits	
	2003	2002
Projected benefit obligation, December 31	\$335.0	\$340.1
Accrued benefit obligation, December 31	300.6	300.2
Fair value of plan assets, December 31	131.2	153.7

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The components of pension cost are as follows:

Non-U.S. defined-benefit plans (amounts in millions)	2003	2002	2001
Service cost of benefits earned during the year	\$ 8.2	\$ 8.1	\$ 7.9
Interest cost on projected benefit obligation	19.4	15.9	15.4
Expected return on plan assets	(12.8)	(11.2)	(11.0)
Amortization of transition obligation	0.3	0.1	0.4
Amortization of prior service cost	0.6	0.6	0.2
Amortization of net actuarial loss	0.5	0.2	—
Net periodic pension cost	\$ 16.2	\$ 13.7	\$ 12.9

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

Non-U.S. defined-benefit plans	Pension Benefits	
	2003	2002
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	5.40%	5.50%
Rate of compensation increase	3.40%	3.40%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	5.50%	5.50%
Expected return on plan assets	6.40%	6.40%
Rate of compensation increase	3.40%	3.70%

Costs for other defined contribution benefit plans and multiemployer pension plans were \$11.3 million in 2003, \$9.9 million in 2002, and \$11.9 million in 2001.

NOTE 19. FINANCIAL INSTRUMENTS

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments are as follows:

(millions at December 31)	2003		2002	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets/(Liabilities):				
Debt subject to compromise	\$(1,388.6)	\$ (752.2)	\$(1,400.7)	\$ (600.2)
Long-term debt, including current portion	(47.6)	(47.6)	(46.6)	(46.6)
Foreign currency contract obligations	(1.0)	(1.0)	(4.6)	(4.6)
Natural gas contracts	3.5	3.5	3.9	3.9

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 value estimates 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, 2003, our foreign subsidiaries had available lines of credit totaling \$45.9 million, of which \$9.6 million was used, leaving \$36.3 million of unused lines of credit for borrowing on December 31, 2003.

On December 31, 2003, we had outstanding letters of credit totaling \$62.6 million, of which \$22.8 million was issued under the DIP Facility. The DIP Facility had \$52.2 million that remained available for issuance of letters of credit as of December 31, 2003. 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. 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 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 potential 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, 2003 and 2002.

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, 2003, 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, 2003 was an asset of \$1.6 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, cost of goods sold or other expense to match the underlying transaction being hedged. The earnings impact of these hedges was a \$1.2 million gain during 2003.

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, 2003 was a \$2.6 million liability, all of which is expected to be taken to earnings in the next twelve months. During 2003, the net earnings impact of these hedges was a loss of \$0.1 million, recorded in other income, which was comprised of a loss of approximately \$32.2 million from the foreign currency forward exchange contracts substantially

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offset by the 2003 translation adjustment of approximately \$32.1 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, 2003 was a \$3.5 million asset, of which \$3.1 million is expected to be taken to earnings in the next twelve months. The earnings impact of hedges that matured during 2003, recorded in cost of goods sold, was \$7.8 million of income. The earnings impact of the ineffective portion of these hedges was not material during 2003.

NOTE 21. GUARANTEES

As of December 31, 2003, we maintained agreements with the lending institutions of two of our distributors. Under these agreements, if a 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. One agreement expired February 2004 and the remaining agreement will expire in September 2004. At December 31, 2003, the amount of inventory held at the remaining distributor was approximately \$3.8 million. No claim has been made under any of these agreements and we do not anticipate any such claims in the future. As such, no liability has been recorded for these agreements.

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 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 \$1.4 million has been recorded as of December 31, 2003. See Item 3 regarding Litigation 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, 2003, we maintained a \$1.4 million liability for this guarantee and the maximum payments could be approximately \$3.3 million, excluding any amounts paid for tax reimbursement.

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

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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 product warranties for 2003 and 2002:

<u>(amounts in millions)</u>	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ 22.7	\$ 19.2
Reductions for payments	(38.9)	(38.5)
Current year warranty accruals	40.6	41.8
Preexisting warranty accrual changes	(0.3)	(1.2)
Effects of foreign exchange translation	1.8	1.4
Balance at end of year	<u>\$ 25.9</u>	<u>\$ 22.7</u>

NOTE 23. OTHER LONG-TERM LIABILITIES

<u>(amounts in millions)</u>	<u>2003</u>	<u>2002</u>
Long-term deferred compensation arrangements	\$41.1	\$41.5
Environmental liabilities not subject to compromise	8.4	9.8
Other	31.7	31.4
Total other long-term liabilities	<u>\$81.2</u>	<u>\$82.7</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, 2003, the RSSOP allocated 2,374,000 shares to participants that remain outstanding, participants retired 2,049,000 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. As of December 31, 2003, there were approximately 1,912,000 shares in the RSSOP that had yet to be allocated to participants.

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.

We recorded costs for the RSSOP of \$5.6 million in 2003, \$4.5 million in 2002 and \$3.5 million in 2001, which related to company cash matching contributions.

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

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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 will be terminated upon the effective date of AWI's plan of reorganization.

Approximately 1,702,000 stock options were cancelled as a result of a restricted stock for stock option exchange program offered to employees in 2000. Employees other than the CEO holding stock options were given a one-time opportunity to exchange their stock options with exercise prices above \$50 per share for shares of AHI restricted stock based on specified conversion ratios. The shares issued under this exchange program were issued under the 2000 Plan and were fully vested by August 2002. Expenses related to this event were \$0.1 million in 2002 and \$0.7 million in 2001.

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Options are granted to purchase shares at prices not less than the closing market price of the shares on the dates the options are granted. The options generally become 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)	2003	2002	2001
Option shares at beginning of year	2,508.8	2,682.6	2,777.5
Options granted	—	—	100.0
Option shares exercised	—	—	—
Options cancelled	(131.9)	(173.8)	(194.9)
Option shares at end of year	2,376.9	2,508.8	2,682.6
Option shares exercisable at end of year	2,343.6	1,963.5	1,551.7
Shares available for grant	4,425.8	4,285.6	4,161.5
Weighted average price per share:			
Options outstanding	\$ 30.62	\$ 30.52	\$ 30.36
Options exercisable	\$ 31.01	34.50	39.51
Options granted	N/A	N/A	3.60
Option shares exercised	N/A	N/A	N/A

The table below summarizes information about stock options outstanding at December 31, 2003.
(thousands except for life and share price)

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at 12/31/03	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at 12/31/03	Weighted-average exercise price
\$1.19 - \$18.00	300.0	6.9	\$ 7.05	266.7	\$ 7.49
\$18.01 - \$19.50	1,256.2	6.2	19.44	1,256.2	19.44
\$19.51 - \$49.00	274.9	1.8	45.26	274.9	45.26
\$49.01 - \$69.00	366.6	2.3	56.49	366.6	56.49
\$69.01 - \$84.00	179.2	3.9	73.14	179.2	73.14
	2,376.9			2,343.6	

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 2003. At the end of 2003, there were 121,313 restricted shares of common stock outstanding with 1,026 accumulated dividend equivalent shares.

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SFAS No. 123, "Accounting for Stock-Based Compensation," 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 SFAS No. 123, our net earnings and earnings per share would have been reduced to the following pro forma amounts.

(amounts in millions)	2003	2002	2001
Net earnings (loss):			
As reported	\$(39.3)	\$(2,142.8)	\$92.8
Pro forma	\$(39.4)	(2,143.3)	90.6
Basic earnings (loss) per share:			
As reported	\$(0.97)	(52.91)	2.29
Pro forma	\$(0.97)	(52.92)	2.24
Diluted earnings (loss) per share:			
As reported	\$(0.97)	(52.91)	2.27
Pro forma	\$(0.97)	(52.92)	2.22

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model with the weighted-average assumptions for 2001 presented in the table below. The weighted-average fair value of stock options granted in 2001 was \$1.21 per share. There were no stock options granted in 2003 and 2002.

	2001
Risk-free interest rate	4.57%
Dividend yield	0%
Expected life	5 years
Volatility	28%

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 (amounts in millions)	2003	2002	2001
Wages and salaries	\$711.4	\$707.9	\$685.3
Payroll taxes	79.1	77.3	74.2
Pension expense (credits), net	15.9	(15.6)	(32.0)
Insurance and other benefit costs	112.4	106.7	92.3
Stock-based compensation	0.2	0.9	2.7
Total	\$919.0	\$877.2	\$822.5

The increases in insurance and other benefit costs are primarily related to increased medical benefit costs.

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.

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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 \$19.9 million in 2003, \$20.5 million in 2002 and \$19.1 million in 2001. Future minimum payments at December 31, 2003, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments (amounts in millions)	Capital Leases	Operating Leases
2004	\$ 1.2	\$ 15.7
2005	1.6	12.0
2006	1.0	9.4
2007	0.7	5.8
2008	0.3	4.1
Thereafter	0.1	10.9
Total	\$ 4.9	\$ 57.9

We have capital leases that have lease payments that extend until 2018. Assets under capital leases are included in the consolidated balance sheets as follows:

(amounts in millions)	2003	2002
Land	\$ 3.8	\$ 3.8
Building	4.1	4.1
Machinery	25.8	25.2
Less accumulated amortization	(11.6)	(9.5)
Net assets	\$ 22.1	\$23.6

NOTE 28. SHAREHOLDERS' EQUITY

Treasury share changes for 2003, 2002 and 2001 are as follows:

Years ended December 31 (thousands)	2003	2002	2001
Common shares			
Balance at beginning of year	11,201.3	11,176.6	11,034.3
Stock purchases and other	8.7	24.7	145.3
Stock issuance activity, net	—	—	(3.0)
Balance at end of year	11,210.0	11,201.3	11,176.6

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 (loss) as of December 31, 2003 and 2002 is presented in the table below.

(amounts in millions)	2003	2002
Foreign currency translation adjustments	\$ 61.9	\$ 5.1
Derivative gain, net	3.3	3.6
Minimum pension liability adjustments	(21.9)	(20.9)
Accumulated other comprehensive income/(loss)	\$ 43.3	\$(12.2)

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The related tax effects allocated to each component of other comprehensive income (loss) for 2003 are presented in the table below.

(amounts in millions)	Pre-tax Amount	Tax Expense (Benefit)	After tax Amount
Foreign currency translation adjustments	\$ 56.8	—	\$ 56.8
Derivative (loss), net	(0.4)	0.1	(0.3)
Minimum pension liability adjustments	(1.7)	0.7	(1.0)
Total other comprehensive income	\$ 54.7	\$ 0.8	\$ 55.5

NOTE 29. SUPPLEMENTAL FINANCIAL INFORMATION

(amounts in millions)	2003	2002	2001
Selected operating expenses			
Maintenance and repair costs	\$107.8	\$110.7	\$112.2
Research and development costs	44.4	49.2	56.3
Advertising costs	32.7	41.2	49.8
Other non-operating expense			
Foreign currency translation loss, net of hedging activity	\$ 2.6	\$ 0.3	\$ 3.8
Impairment of note receivable from previous divestitures	9.6	0.2	2.0
Former employees claim settlement	1.0	—	—
Impairment loss on available for sale securities	—	—	3.2
Other	2.5	7.7	2.8
Total	\$ 15.7	\$ 8.2	\$ 11.8
Other non-operating income			
Interest income	\$ 3.5	\$ 4.8	\$ 4.8
Interest on asbestos receivable payment	1.1	—	—
Demutualization proceeds	—	0.2	3.5
Foreign currency translation gain, net of hedging activity	0.1	0.7	4.3
Other	0.1	0.3	0.4
Total	\$ 4.8	\$ 6.0	\$ 13.0

NOTE 30. SUPPLEMENTAL CASH FLOW INFORMATION

(amounts in millions)	2003	2002	2001
Interest paid	\$ 4.9	\$ 5.9	\$ 8.4
Income taxes paid, net of refunds	27.5	44.4	13.3
Acquisitions:			
Fair value of assets acquired	—	—	0.6
Cost in excess of net assets acquired	—	—	5.0
Acquisitions cash paid, net of cash acquired	—	—	\$ 5.6

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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, 2003. 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. Armstrong and ISI are 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. 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 discussion of Ardex in Note 7.

See discussion of WAVE in Note 11.

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.

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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 and November 10, 2003, and is referred to in this report as the "POR". A principal feature of the POR is the creation of a trust (the "Asbestos P I 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. 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, 2003 and 2002, 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 P I Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos P I Trust that is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims. See Note 1 regarding the consideration to be distributed pursuant to the POR.

Pursuant to the POR, 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 P I Trust. In accordance with the 524(g) injunction to be issued by the District Court in connection with the confirmation of the POR, various entities will be protected from such present and future asbestos-related personal injury claims. These entities include, among others, AWI as it will be reorganized, AHI, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI will not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor will it participate in their resolution.

However, although AWI's domestic and foreign subsidiaries and other affiliates will be protected parties, asbestos-related personal injury claims against them will be channeled to the Asbestos P I 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, two asbestos-related personal injury litigations allegedly arising out of such independent activities are pending, both against the same domestic subsidiary of AWI and in California state court; these actions have not been stayed as a result of the Filing. It is asserted that the plaintiffs were exposed to asbestos for many years in various occupations, including while aboard various ships in the 1940s and 1950s, and as a result contracted various asbestos-related diseases. It is alleged that the subsidiary is a "successor in interest" to a company that, at certain times before the company was owned by AWI, allegedly owned some of these vessels. These claims will not be channeled to the Asbestos P I Trust under the POR inasmuch as they do not involve activities of AWI. Both cases have multiple defendants. The subsidiary denies liability and is 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 will not be channeled to the Asbestos P I Trust and will 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 only three pending workers' compensation claims involving alleged asbestos exposure.

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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 P I Trust and that are of a magnitude that, individually or collectively, would be material to reorganized Armstrong.

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. See Note 1 for discussion of recent developments and the next steps in AWI's Chapter 11 process. AWI is unable to predict when and if the POR will be confirmed and 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 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.

Collateral Requirements

Prior to the Filing in 2000, AWI had secured a bond for \$56.2 million to meet minimum collateral requirements established by the CCR with respect to asbestos-related personal injury claims asserted against AWI. On October 27, 2000, the insurance company that underwrote the surety bond informed AWI and the CCR of its intention not to renew the surety bond effective February 28, 2001. On February 6, 2001, the CCR advised the surety of the CCR's demand for payment of the face value of the bond. The surety filed a motion with the Bankruptcy Court seeking to restrain the CCR from drawing on the bond. The motion was not granted. On March 28, 2001, the surety filed an amended complaint in the Bankruptcy Court seeking similar relief. In addition, on April 27, 2001, AWI filed a complaint and a motion with the Bankruptcy Court seeking an order, among other things, enjoining the CCR from drawing on the bond or, in the event the CCR was permitted to draw on the bond, requiring that the proceeds of any such draw be deposited into a Court-approved account subject to further order of the Bankruptcy Court. Following further proceedings, during October 2003, AWI, the Asbestos Personal Injury Claimants' Committee and the Unsecured Creditors' Committee reached an agreement to settle all claims with the CCR and the surety bond insurance company. As a result, AWI recorded \$8.0 million in the third quarter of 2003 as a charge for asbestos liability, net.

Asbestos-Related Property Damage Litigation

Over the years, AWI was one of many defendants in asbestos-related property damage claims that were filed by public and private building owners. The claims that were resolved prior to the Filing resulted in aggregate indemnity obligations of less than \$10 million, which were entirely covered by insurance.

A separate creditors' committee representing the interests of asbestos-related property damage claimants was appointed in the Chapter 11 Case. Approximately 600 proofs of claim were filed with the Bankruptcy Court in response to the March 1, 2002 bar date for asbestos-related property damage claims (see Note 32 for further discussion.) On November 1, 2002, the Bankruptcy Court directed that all property damage claimants provide, in support of their claims, substantiation that Armstrong flooring products were used in the claimants' buildings. The Bankruptcy Court's deadline for submission of such product identification documentation was February 10, 2003. Claims that did not comply with the Bankruptcy Court's November 1, 2002 ruling were disallowed. During the first six months of 2003, AWI settled all of the approximately 460 remaining property damage claims for approximately \$9 million. Payments to claimants were made during the third quarter of 2003 and were funded by insurance. Based on the settlement of all remaining asbestos-related property damage claims, the Asbestos Property Damage Committee has been disbanded, and the actions that were pending against AWI as of the Filing, and all claims which were pursued in the Chapter 11 Case with respect to asbestos-related property damage have been dismissed.

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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 amount of these costs and fees is unknown and AWI is currently unable to estimate the amount. 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.

Another insurer, Century Indemnity Company, who previously settled its coverage issues with AWI, had made some of its required payments under the settlement to a trust of which AWI is a beneficiary. During January 2002, this insurer filed an adversary action in AWI's Chapter 11 Case disputing its payment obligations. On October 7, 2003, the Bankruptcy Court ruled that Century must pay the past due amounts plus interest. Century made the required payment in December 2003.

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 intends to file a proof of claim against Home by the June 2004 deadline. 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 \$103.1 million was recorded as of December 31, 2003 compared to \$198.1 million recorded at December 31, 2002. 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 assessment of probable insurance recoveries in light of the ADR appellate panel decision. The \$73 million was recorded as a charge for asbestos liability, net, in the accompanying consolidated statement of earnings. Additionally, the insurance asset was increased by \$9 million to reflect agreements reached during the first half of 2003 for asbestos property damage claims. During the second, third and fourth quarters of 2003, AWI received \$14.0, \$9.0 and \$8.0 million, respectively, of insurance proceeds related to the asbestos claims.

Approximately \$14.0 million of the total \$103.1 million recorded insurance asset at December 31, 2003 represents partial settlement for previous claims that will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.50%. The total amount recorded reflects AWI's belief

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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 is either available through settlement or probable of recovery through negotiation or litigation in our opinion. 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 AC and S (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 \$103.1 million asset is determined from agreed coverage in place. Of the \$103.1 million, \$8.0 million has been recorded as a current asset as of December 31, 2003 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 2002, when it revised its recorded asbestos liability for personal injury claims by \$2.5 billion, in 2002, nor was any change warranted in 2003.

Cash Flow Impact

As a result of the Chapter 11 Filing, AWI did not make any payments for asbestos-related personal injury claims in 2003, 2002 or 2001. During 2003, 2002 and 2001, AWI received asbestos-related personal injury insurance recoveries of \$22.0 million, \$16.0 million and \$32.2 million, respectively. During 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

In July 2003, the United States Senate Judiciary Committee reached an agreement on a proposed bill for comprehensive legislation to resolve asbestos litigation issues through a national asbestos-claimants trust, funded by industry and its insurers (the FAIR Act). However, no legislation was passed during 2003. In late 2003, Senator Frist, the Senate Majority Leader, announced that consideration of the FAIR Act and a vote in the Senate would occur by the end of March 2004. There is uncertainty as to whether the current or any other proposal will become law, and what impact there might be on AWI's asbestos liability and/or AWI's Chapter 11 Case. Prior efforts to enact asbestos legislation have not been successful.

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 \$3.7 million in 2003, \$4.5 million in 2002, and \$6.8 million in 2001 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.

Environmental Remediation

Summary

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), and similar state “Superfund” laws at approximately 26 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. 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 and 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.

AWI’s payments and remediation work on such sites for which AWI is the PRP is under review in light of the Chapter 11 Filing. The bar date for claims from the United States Environmental Protection Agency (“EPA”) expired during the third quarter of 2003. AWI received an unliquidated proof of claim from the EPA.

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. Accordingly, claims brought by the federal or a 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 multiple party sites. 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.

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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. Bankruptcy law is unsettled as to whether these injunctive rights are dischargeable or not. 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, even though the financial impact to AWI would be the same in both instances.

AWI's strategy has been to try to resolve as many of its environmental liabilities through its Chapter 11 Case as possible. AWI has been negotiating with the Department of Justice and the EPA to reach a global environmental settlement on approximately 30 sites. AWI has asked the federal government to agree, as it did in other settlements with debtors in their bankruptcies, to covenant not to sue us for either monetary or injunctive relief, 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 proposed settlement, AWI would have contribution protection under CERCLA with respect to private party claims. In addition, AWI would have the benefit of the discharge as to monetary claims. At this point, the parties are still in the process of negotiating the settlement.

If no global settlement is reached, AWI anticipates that it will ask the Bankruptcy Court to determine the amount of the EPA proof of claim and grant a discharge. At that time, the government may seek to have the amount of its claim determined as the total cost of cleanup under a theory of joint and several liability, not just AWI's share. As discussed above, although the government's right to monetary relief is subject to discharge, there is uncertainty in the law as to whether the government's right to injunctive relief would also be subject to discharge.

Specific Events

In the fourth quarter of 2003, we reduced the environmental liability by \$3.0 million, recording this as a reduction of SG&A expense in our Resilient Flooring segment. This reduction was the result of a change in our estimate of probable liability at four plants in Europe.

In the third quarter of 2003, we recorded a charge of \$2.4 million within SG&A expense based on an analysis of the sites being discussed in the EPA global settlement. Management estimated that AWI's probable share of the sites' future cleanup costs is \$3.1 million and we increased our liability to this new estimate.

In 2001, the EPA notified AWI that we may be a PRP at the Peterson Puritan site. However, AWI did not learn that the EPA may consider it a substantial contributor of waste to the site until July 2003. At which time, the EPA notified AWI of the EPA's estimate of the site's future cleanup costs, with its assessment of AWI's share of the costs being a range of \$17.8 million to \$26.2 million. Subsequently, AWI presented information to the EPA indicating that AWI's share should be much lower. Presently, the parties are continuing to negotiate. The EPA has not initiated any formal proceedings against AWI with respect to this site, other than sending information requests to AWI and filing a proof of claim in AWI's Chapter 11 Case. AWI continues to review this matter but disputes the assessment. As discussed above (Effects of Chapter 11), management is currently in discussions with the Department of Justice and the EPA to reach a global environmental settlement, which would resolve the proof of claim against AWI, including this site.

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 the 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.

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(including protection against common law and statutory contribution claims by AWI against OC) and a covenant not to sue. AWI has negotiated 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 \$21.2 million at December 31, 2003 and 2002 were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liability 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, \$12.8 million of the December 31, 2003 and \$11.4 million of the December 31, 2002 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 \$2.5 million and \$3.3 million at December 31, 2003 and December 31, 2002, 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 year ended December 31, 2003, our net expense was less than \$0.1 million. For the years ended December 31, 2002 and 2001, our net expense was \$4.5 million and \$2.1 million, respectively.

PATENT INFRINGEMENT CLAIMS

We are a defendant in two related lawsuits claiming patent infringement related to some of our laminate 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.

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 as an other non-operating expense.

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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 was recorded in the third quarter of 2003 as a SG&A expense.

OTHER CLAIMS

Additionally, we are involved in various other claims and legal actions involving product liability, patent infringement, 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. SUBSEQUENT EVENTS

In January 2004, we announced our plans to cease production at the Building Products manufacturing location in Hoogezand, The Netherlands by the end of December 2004, subject to positive advice from the local works council, due to excess production capacity in the European mineral and soft fiber ceiling industry. It is planned that the production will be transferred to another Building Products location in Münster, Germany and will result in a net reduction of approximately 72 positions. It is expected that charges of approximately \$18 million will be recorded during 2004, primarily to cover equipment write-downs, plant closure activities, transition costs for shifting production capabilities to another European facility and severances.

NOTE 34. DIFFERENCES BETWEEN ARMSTRONG HOLDINGS INC. AND ARMSTRONG WORLD INDUSTRIES, INC.

The difference between the financial statements of AHI and Armstrong is primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and employee compensation-related stock activity.

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NOTE 35. EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS

The table below provides a reconciliation of the numerators and denominators of the basic and diluted per share calculations for net earnings (loss). The diluted earnings (loss) per share computations for 2003 and 2002 use the basic number of shares due to the loss from continuing operations.

Millions except for per-share data	Net Earnings/ (Loss)	Shares	Per share Amount
For the year ended 2003			
BASIC LOSS PER SHARE			
Loss from continuing operations	\$ (39.3)	40.5	\$ (0.97)
DILUTED LOSS PER SHARE			
Dilutive options		0.2	
Loss from continuing operations	\$ (39.3)	40.7	\$ (0.97)
For the year ended 2002			
BASIC LOSS PER SHARE			
Loss from continuing operations	\$(2,142.8)	40.5	\$(52.91)
DILUTED LOSS PER SHARE			
Dilutive options		0.2	
Loss from continuing operations	\$(2,142.8)	40.7	\$(52.91)
For the year ended 2001			
BASIC EARNINGS PER SHARE			
Earnings from continuing operations	\$ 73.2	40.5	\$ 1.81
DILUTED EARNINGS PER SHARE			
Dilutive options		0.3	(0.02)
Earnings from continuing operations	\$ 73.2	40.8	\$ 1.79

NOTE 36. 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 is approved and becomes 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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Independent Auditors' Report

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 46. 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 46. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. 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.

As discussed in Note 12 of the consolidated financial statements, the Company changed its method of accounting for goodwill and intangible assets in 2002.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 25, 2004

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

	Years Ended December 31,		
	2003	2002	2001
Net sales	\$3,259.0	\$ 3,172.3	\$3,138.7
Cost of goods sold	2,597.4	2,404.5	2,364.7
Gross profit	661.6	767.8	774.0
Selling, general and administrative expenses	603.1	624.9	596.6
Charge for asbestos liability, net	81.0	2,500.0	22.0
Restructuring and reorganization charges, net	8.6	1.9	9.0
Goodwill amortization	—	—	22.8
Equity (earnings) from affiliates, net	(20.7)	(21.7)	(16.5)
Operating income (loss)	(10.4)	(2,337.3)	140.1
Interest expense (unrecorded contractual interest of \$95.1, \$99.9 and \$100.2, respectively)	10.3	13.8	13.1
Other non-operating expense	15.7	8.2	11.8
Other non-operating (income)	(4.8)	(6.0)	(13.0)
Chapter 11 reorganization costs, net	9.4	23.5	12.5
Earnings (loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle	(41.0)	(2,376.8)	115.7
Income tax expense (benefit)	(1.7)	(827.8)	42.5
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle	(39.3)	(1,549.0)	73.2
Cumulative effect of a change in accounting principle, net of tax of \$2.2	—	(593.8)	—
Earnings (loss) from continuing operations	\$ (39.3)	\$(2,142.8)	\$ 73.2
(Loss) on sale of discontinued operations	—	—	(1.1)
Net loss on expected disposal of discontinued operations	—	—	(3.3)
Net reversal of income on discontinued operations no longer to be disposed of, net of tax of \$10.7	—	—	24.0
Earnings from discontinued operations	—	—	19.6
Net earnings (loss)	\$ (39.3)	\$(2,142.8)	\$ 92.8

See accompanying notes to consolidated financial statements beginning on page 106.

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

	December 31, 2003	December 31, 2002
Assets		
Current Assets:		
Cash and cash equivalents	\$ 484.3	\$ 380.0
Accounts and notes receivable, net	315.4	332.4
Inventories, net	454.4	435.5
Deferred income taxes	19.2	14.7
Other current assets	85.5	93.3
Total current assets	1,358.8	1,255.9
Property, plant and equipment, less accumulated depreciation and amortization of \$1,434.8 and \$1,263.8, respectively	1,267.3	1,303.7
Insurance receivable for asbestos-related liabilities, noncurrent	95.1	174.1
Prepaid pension costs	455.1	435.2
Investment in affiliates	48.9	43.9
Goodwill, net	244.1	227.6
Other intangibles, net	79.0	88.6
Deferred income taxes, noncurrent	988.3	869.7
Other noncurrent assets	111.2	106.1
Total assets	\$ 4,647.8	\$ 4,504.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	\$ 3.9	\$ 12.3
Current installments of long-term debt	8.2	6.7
Accounts payable and accrued expenses	354.2	351.6
Short term amounts due to affiliates	10.0	9.4
Income taxes	45.9	26.1
Deferred income taxes	3.3	—
Total current liabilities	425.5	406.1
Liabilities subject to compromise	4,863.2	4,865.8
Long-term debt, less current installments	39.4	39.9
Postretirement and postemployment benefit liabilities	262.3	255.1
Pension benefit liabilities	216.4	185.9
Other long-term liabilities	81.2	82.7
Deferred income taxes	95.1	20.8
Minority interest in subsidiaries	9.7	9.5
Total noncurrent liabilities	5,567.3	5,459.7
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	172.7	172.9
Reduction for ESOP loan guarantee	(142.2)	(142.2)
Accumulated deficit	(942.2)	(902.9)
Accumulated other comprehensive income (loss)	43.3	(12.2)
Less common stock in treasury, at cost 2003 and 2002 – 11,393,170 shares	(528.5)	(528.5)
Total shareholder's (deficit)	(1,345.0)	(1,361.0)
Total liabilities and shareholder's equity	\$ 4,647.8	\$ 4,504.8

See accompanying notes to consolidated financial statements beginning on page 106.

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

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
Common stock, \$1 par value:						
Balance at beginning and end of year	\$	51.9	\$	51.9	\$	51.9
Capital in excess of par value:						
Balance at beginning of year	\$	172.9	\$	173.2	\$	173.4
Stock issuances and other		(0.2)		(0.3)		(0.2)
Balance at December 31	\$	172.7	\$	172.9	\$	173.2
Reduction for ESOP loan guarantee:						
Balance at beginning and end of year	\$	(142.2)	\$	(142.2)	\$	(142.2)
Retained earnings (accumulated deficit):						
Balance at beginning of year	\$	(902.9)	\$	1,239.9	\$	1,147.1
Net earnings (loss) for year		(39.3)	\$(39.3)	(2,142.8)	\$(2,142.8)	92.8
Balance at end of year	\$	(942.2)	\$	(902.9)	\$	1,239.9
Accumulated other comprehensive income (loss):						
Balance at beginning of year	\$	(12.2)	\$	(47.1)	\$	(45.2)
Foreign currency translation adjustments		56.8		37.7		(3.3)
Derivative (loss) gain, net		(0.3)		6.9		(3.3)
Realized loss on available for sale securities		—		—		2.0
Minimum pension liability adjustments		(1.0)		(9.7)		2.7
Total other comprehensive income (loss)		55.5	55.5	34.9	34.9	(1.9)
Balance at end of year	\$	43.3	\$	(12.2)	\$	(47.1)
Comprehensive income (loss)			\$ 16.2		\$(2,107.9)	\$90.9
Less treasury stock at cost:						
Balance at beginning and end of year	\$	(528.5)	\$	(528.5)	\$	(528.5)
Total shareholder's equity (deficit)		\$(1,345.0)		\$(1,361.0)		\$ 747.2

See accompanying notes to consolidated financial statements beginning on page 106.

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

	Year Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income (loss)	\$ (39.3)	\$ (2,142.8)	\$ 92.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net	—	593.8	—
Depreciation and amortization	173.6	136.7	156.8
Loss on sale of business, net	—	—	0.9
Reversal of loss on expected disposal of discontinued business	—	—	(31.4)
Deferred income taxes	(51.5)	(870.4)	23.7
Equity (earnings) from affiliates, net	(20.7)	(21.7)	(16.5)
Chapter 11 reorganization costs, net	9.4	23.5	12.5
Chapter 11 reorganization costs payments	(25.8)	(23.0)	(15.0)
Restructuring and reorganization charges, net of reversals	8.6	1.9	9.0
Restructuring and reorganization payments	(8.7)	(2.1)	(14.1)
Asbestos-related insurance recoveries	31.0	16.0	32.2
Payments for asbestos-related claims	(9.0)	—	—
Charge for asbestos liability, net	81.0	2,500.0	22.0
Cash effect of hedging activities	(27.0)	(22.0)	(2.0)
Increase (decrease) in cash from change in:			
Receivables	40.6	11.7	45.8
Inventories	6.6	18.1	(50.7)
Other current assets	(4.6)	(16.1)	27.5
Other noncurrent assets	(18.6)	(42.0)	(71.0)
Accounts payable and accrued expenses	(15.6)	29.0	9.8
Income taxes payable	21.9	0.2	10.1
Other long-term liabilities	4.0	11.9	3.0
Other, net	9.9	20.8	26.7
Net cash provided by operating activities	<u>165.8</u>	<u>223.5</u>	<u>272.1</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment and computer software	(78.1)	(125.1)	(127.8)
Acquisitions, net of cash required	—	—	(5.6)
Distributions from equity affiliates	16.0	17.5	13.5
Proceeds from the sale of assets	4.9	3.5	6.0
Net cash (used for) investing activities	<u>(57.2)</u>	<u>(104.1)</u>	<u>(113.9)</u>
Cash flows from financing activities:			
(Decrease) in short-term debt, net	(5.3)	(13.9)	(15.8)
Payments of long-term debt	(8.2)	(9.0)	(17.6)
Purchase of common stock for the treasury, net	—	—	(0.3)
Other, net	(0.6)	(0.9)	(4.2)
Net cash (used for) financing activities	<u>(14.1)</u>	<u>(23.8)</u>	<u>(37.9)</u>
Effect of exchange rate changes on cash and cash equivalents	9.8	7.0	(2.0)
Net increase in cash and cash equivalents	<u>\$104.3</u>	<u>\$ 102.6</u>	<u>\$ 118.3</u>
Cash and cash equivalents at beginning of year	<u>\$380.0</u>	<u>\$ 277.4</u>	<u>\$ 159.1</u>
Cash and cash equivalents at end of period	<u>\$484.3</u>	<u>\$ 380.0</u>	<u>\$ 277.4</u>

See accompanying notes to consolidated financial statements beginning on page 106.

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Armstrong World Industries, Inc., and Subsidiaries Notes to Consolidated Financial Statements

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Delaware corporation and the publicly held parent holding company of AWI. AHI’s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc., 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 until the termination of his appointment as a visiting judge in the District of Delaware 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, as described under Asbestos-Related Property Damage Litigation, the Asbestos Property Damage Committee was disbanded.

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Plan of Reorganization

On November 4, 2002, AWI filed a Plan of Reorganization with the Bankruptcy Court. During 2003, AWI filed several amendments to the plan with the Bankruptcy Court, 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 and November 10, 2003, 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.

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. This objection remains pending with the U.S. District Court. Confirmation of the POR requires action of the U.S. District Court, as well as the Bankruptcy Court, in accordance with the Bankruptcy Code. At this time, the District Court judge involved in the Chapter 11 Case has stayed all proceedings before him concerning the Chapter 11 Case. See “Recent Developments and Next Steps in the Chapter 11 Process.”

Disclosure Statement

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, 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.

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Asbestos Personal Injury Trust

A principal feature of the POR is the creation of a trust (the “Asbestos P I 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 P I Trust.

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

However, although AWI’s domestic and foreign subsidiaries and other affiliates will be protected parties, asbestos-related personal injury claims against them will be channeled to the Asbestos P I 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 will not be channeled to the Asbestos P I Trust and will 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 only three pending workers’ compensation 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, material in amount to reorganized Armstrong, that would not be channeled to the Asbestos P I Trust.

Consideration to Be Distributed under the POR (unaudited)

The Asbestos P I Trust and the holders of allowed unsecured claims will 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 shall 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.

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The total amount of Plan Notes will be the greater of (i) \$1.125 billion less Available Cash and (ii) \$775 million. However, AWI will use reasonable efforts to issue one or more private offerings of debt securities on, or as soon as practicable after, the Effective Date that would 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 will 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 will be issued to the Asbestos P I Trust and the holders of unsecured claims.

The POR provides that unsecured creditors, other than convenience creditors described below, will 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 P I 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 will be distributed to the Asbestos P I Trust.

Under the POR, unsecured creditors whose claims (other than claims on debt securities) are less than \$10,000 or who elect to reduce their claims to \$10,000 will be treated as "convenience creditors" and will receive payment of 75% of their allowed claim amount in cash (which payments will reduce the amount of Available Cash).

Under the POR, the existing equity interests in AWI (including all of its outstanding shares of common stock) will 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 will be realized from the Warrants will 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.

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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 will 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.

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

Based upon many assumptions, see Disclosure Statement discussion above, AWI estimated a \$2.7 billion value for reorganized Armstrong, which is the mid-point of the range of estimated values of \$2.4 billion and \$3.0 billion. AWI's estimated value of the consideration to be distributed under the POR to the Asbestos P I 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 P I 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 P I 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) will total approximately \$1.65 billion, AWI estimated that holders of allowed unsecured claims (other than convenience claims) will receive a recovery having a value equal to approximately 59.5% of their allowed claims.

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

In connection with the implementation of the POR, the Warrants will 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 will 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 will 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 held on January 7, 2004, the Plan of Dissolution was approved by the AHI shareholders. The POR provides that AWI will pay the costs and expenses incurred in connection with administering AHI's Plan of Dissolution.

Recent Developments and Next Steps in the Chapter 11 Process

In order for the POR to be confirmed, the U.S. District Court must 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. In certain other companies' asbestos-related Chapter 11 cases, motions for recusal were filed in 2003 against U.S. District Court Judge Alfred M. Wolin, who is jointly administering with the Bankruptcy Court the asbestos-related issues in the Chapter 11 cases of five companies, including AWI. The Unsecured Creditors' Committee requested that in the event Judge Wolin is recused in the other cases, he also be recused in AWI's case. Judge Wolin has stayed further proceedings in all five cases before him, including AWI's Chapter 11 Case. On February 2, 2004, Judge Wolin denied the motions for recusal. An appeal of Judge Wolin's ruling is currently pending, with oral argument before the U.S. Court of Appeals for the Third Circuit scheduled for April 19, 2004. AWI is uncertain as to the impact, if any, beyond the present delay in confirmation of the POR that the motions and appeal will have on AWI's Chapter 11 proceedings, and when confirmation of the POR will be considered by the U.S. District Court is uncertain.

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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 P I 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 2,100 claims totaling \$2.4 billion. The Bankruptcy Court disallowed these claims with prejudice.

Approximately 1,100 proofs of claim totaling approximately \$1.5 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 P I Trust developed in connection with the POR. See further discussion regarding AWI’s liability for asbestos-related matters in Note 32.

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. See Note 32 for further discussion of property damage litigation.

Approximately 1,200 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. During the fourth quarter of 2002, AWI recorded a \$2.5 billion charge to increase its estimate of probable asbestos-related liability for personal injury claims based on the developments in the Chapter 11 Case. See Note 32 for further discussion. 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 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.

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Financing

AWI's current debtor-in-possession credit facility ("DIP Facility"), which extends to December 8, 2004, constitutes a \$75 million letter of credit facility. At AWI's request, the previous revolving loan feature was dropped since it had never been used. As of December 31, 2003, AWI had approximately \$22.8 million in letters of credit which were issued pursuant to the DIP Facility. As of December 31, 2003, AWI had \$323.2 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, 2003 and 2002. 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.

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 2003 and 2002:

<u>(amounts in millions)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Professional fees	\$ 25.2	\$27.8	\$24.5
Interest income, post-Filing	(3.4)	(3.5)	(5.1)
Reductions to pre-Filing liabilities	(12.9)	(1.1)	(2.0)
Termination of pre-Filing lease obligation	—	—	(5.9)
Other expense directly related to bankruptcy, net	0.5	0.3	1.0
Total Chapter 11 reorganization costs, net	\$ 9.4	\$23.5	\$12.5

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.

Termination of pre-Filing lease obligation represents the reversal of an accrual for future lease payments for office space in the U.S. that AWI will not pay due to the termination of the lease contract. This amount was previously accrued in the third quarter of 2000 as part of a restructuring charge when the decision to vacate the premises was made.

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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 consolidated financial statements.

If and when the POR is confirmed and made effective, reorganized AWI's consolidated financial statements will change materially in amounts and classifications through the implementation of the Fresh Start Accounting rules of SOP 97-7.

Conclusion

Although the POR has been developed, implementation of the POR is subject to confirmation of the POR in accordance with the provisions of the Bankruptcy Code and satisfaction after consummation of certain conditions, as provided by the POR. AWI is unable to predict when and if the POR will be confirmed. 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

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 all known relevant information. Management also confers with outside parties, including outside counsel, where appropriate. Actual results may differ from these estimates.

Revenue Recognition. We recognize revenue from the sale of products and the related accounts receivable no earlier than the date on which title transfers, generally on the date of shipment. A provision is made for the estimated cost of rebates and promotional programs. Provisions for estimated discounts and bad debt losses are based on knowledge of specific customers and a review of outstanding accounts receivable balances.

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.

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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. In 2003, our net sales to The Home Depot, Inc. and Lowe's Companies, Inc. were \$400.0 million and \$318.7 million, respectively. In 2002 and 2001, our net sales to Home Depot, Inc. were \$380.3 million and \$340.8 million, respectively. Our net sales to Lowe's Companies, Inc. in years prior to 2003 were less than 10% of our total consolidated net sales. No other customer 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 23% and 22% of our trade receivables as of December 31, 2003 and 2002, respectively. We continuously evaluate the creditworthiness of our customers and generally do not require collateral.

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 the straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally as follows: buildings, 20 to 40 years; machinery and equipment, 3 to 20 years.

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," 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 Selling, general and administrative expenses (SG&A).

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 2003, 2002 and 2001 due to the Chapter 11 Filing.

Goodwill and Other Intangibles. Effective January 1, 2002, we adopted SFAS 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.

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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 the average exchange rates effective during the year. Foreign currency translation gains or losses are included as a component of accumulated other comprehensive income (loss) within shareholder's 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 19 for further discussion.

Stock-based Employee Compensation. At December 31, 2003, we had three stock-based employee compensation plans, which are described more fully in Note 25. 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," to stock-based employee compensation.

	2003	2002	2001
Net income (loss), as reported	\$(39.3)	\$(2,142.8)	\$92.8
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	0.1	0.6	1.8
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)	(4.0)
Pro forma net income (loss)	\$(39.4)	\$(2,143.3)	\$90.6

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 and December 29, 2001. 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 Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This standard amends the disclosure requirements of SFAS 132 to require additional disclosures about assets, obligations, cash flow and net periodic benefit cost. The revised standard is effective in 2003, except for foreign plans, and the related disclosures have been included in Note 18.

Effective January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," which provides guidance on the accounting and disclosure for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Our current results of operations and financial position have not been affected.

Effective January 1, 2003, we adopted SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities," which addresses accounting for restructuring and similar costs. This standard affects the timing of expenses associated with restructurings, but is not expected to change the long-term results of operations and financial position.

Effective July 1, 2003, we adopted SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which addresses accounting for certain financial

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instruments with characteristics of both liabilities and equity. Our current results of operations and financial position have not been affected.

Effective with revenue arrangements entered into after June 30, 2003, we adopted Emerging Issues Task Force (“EITF”) Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables,” which provides the criteria for identifying and allocating separate units of accounting related to revenue arrangements with multiple deliverables. Our current results of operations and financial position have not been affected.

Effective January 1, 2003, we adopted Emerging Issues Task Force (“EITF”) Issue No. 02-16, “Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor,” which provides guidance on the accounting for consideration received from a vendor. Our current results of operations and financial position have not been affected.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” The disclosure requirements were adopted December 31, 2002. The recognition and initial measurement provisions were adopted January 1, 2003. Our current results of operations and financial position have not been affected.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities.” The requirements for variable interest entities created after January 31, 2003 were adopted on February 1, 2003. Our current results of operations and financial position have not been affected. In December 2003, a modification to FIN 46 was issued (FIN 46R) which delayed the effective date until no later than fiscal periods ending after March 15, 2004 and provided additional technical clarifications to implementation issues. We currently do not have any variable interest entities as defined in FIN 46R. We do not expect that the adoption of this statement will have a material impact on our consolidated financial statements.

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NOTE 3. NATURE OF OPERATIONS

Reportable Segments

<u>For the year ended 2003</u>	<u>Resilient Flooring</u>	<u>Wood Flooring</u>	<u>Textiles & Sports Flooring</u>	<u>Building Products</u>	<u>Cabinets</u>	<u>All Other</u>	<u>Unallocated Corporate</u>	<u>Total</u>
(amounts in millions)								
Net sales to external customers	\$1,181.5	\$ 738.6	\$ 271.9	\$ 862.2	\$ 204.8	—	—	\$ 3,259.0
Equity loss (earnings) from affiliates	0.4	—	—	(20.8)	—	\$(0.3)	—	(20.7)
Segment operating income (loss)	55.9	(4.0)	(9.8)	95.2	(11.1)	0.3	(136.9)	(10.4)
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	18.8	2,276.2	4,647.8
Depreciation and amortization	61.7	42.8	5.2	34.0	3.2	—	26.7	173.6
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

<u>For the year ended 2002</u>	<u>Resilient Flooring</u>	<u>Wood Flooring</u>	<u>Textiles & Sports Flooring</u>	<u>Building Products</u>	<u>Cabinets</u>	<u>All Other</u>	<u>Unallocated Corporate</u>	<u>Total</u>
(amounts in millions)								
Net sales to external customers	\$1,152.3	\$ 719.3	\$ 247.2	\$ 826.6	\$ 226.9	—	—	\$ 3,172.3
Equity loss (earnings) from affiliates	0.1	—	—	(19.7)	—	\$(2.1)	—	(21.7)
Segment operating income (loss)	64.5	53.0	(4.7)	96.5	(3.9)	2.1	\$(2,544.8)	(2,337.3)
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	18.4	2,111.4	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

<u>For the year ended 2001</u>	<u>Resilient Flooring</u>	<u>Wood Flooring</u>	<u>Textiles & Sports Flooring</u>	<u>Building Products</u>	<u>Cabinets</u>	<u>All Other</u>	<u>Unallocated Corporate</u>	<u>Total</u>
(amounts in millions)								
Net sales to external customers	\$1,164.2	\$ 655.3	\$ 262.9	\$ 831.0	\$ 225.3	—	—	\$ 3,138.7
Equity (earnings) from affiliates	(0.1)	—	—	(16.1)	—	\$(0.3)	—	(16.5)
Segment operating income (loss)	70.8	0.9	(0.7)	92.4	15.2	0.3	\$(38.8)	140.1
Restructuring and reorganization charges, net of reversals	0.2	4.1	1.2	1.1	1.1	—	1.3	9.0
Segment assets	855.3	1,260.6	177.7	527.0	108.0	16.3	1,093.2	4,038.1
Depreciation and amortization	57.3	36.0	4.7	33.0	2.3	—	23.5	156.8
Investment in affiliates	0.9	—	—	22.4	—	16.3	—	39.6
Capital additions	43.9	22.7	8.6	32.2	2.1	—	18.3	127.8

Accounting policies of the segments are the same as those described in the summary of significant accounting policies. Performance of the segments is evaluated on operating income before income taxes, unusual gains and losses, and interest expense.

The 2002 decrease in the assets of the Wood Flooring segment is primarily due to the \$596.0 million (\$593.8 million, net of tax) goodwill and intangible asset impairment write down recorded as a cumulative effect of a change in accounting principle as of January 1, 2002. See Note 12 for further details.

The 2002 increase in the assets of the Unallocated Corporate segment is primarily due to the \$869.7 million increase in the deferred tax asset primarily created by the fourth quarter 2002 asbestos charge described in Notes 1 and 32.

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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 products, adhesives, installation and maintenance materials and accessories, and has recently introduced ceramic tile products. Resilient Flooring products are offered in a wide variety of types, designs, and colors, and provide ease of installation and reduced maintenance (no-wax). We sell these products to wholesalers, large home centers, retailers, contractors, and to the manufactured homes industry.

Wood Flooring — produces 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) and engineered wood floors in various wood species (with oak being the primary species of choice). Virtually all of our Wood Flooring's sales are in the U.S. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce[®], Hartco[®] and Robbins[®].

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 fibers 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). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and the 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 IXL[®], Bruce[®] and Armstrong[™].

All Other — contributes operating income related to the equity investment in Interface Solutions, Inc.

Unallocated Corporate — includes expenses that have not been allocated to the business units. The most significant of these expenses relate to asbestos charges as discussed in Note 32.

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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 (amounts in millions)	2003	2002	2001
Americas:			
United States	\$2,247.3	\$2,229.1	\$2,188.1
Canada	125.8	120.5	114.4
Other Americas	24.8	26.4	23.5
Total Americas	\$2,397.9	\$2,376.0	\$2,326.0
Europe:			
Germany	\$ 178.2	\$ 172.6	\$ 182.2
England	125.5	129.8	135.6
France	80.3	69.3	67.8
Netherlands	76.1	69.8	73.8
Italy	37.0	33.2	31.1
Switzerland	35.4	36.8	34.1
Russia	33.2	27.2	25.9
Spain	33.2	26.2	12.5
Belgium	20.6	19.9	16.2
Sweden	19.5	15.8	15.9
Other Europe	104.0	89.7	118.0
Total Europe	\$ 743.0	\$ 690.3	\$ 713.1
Pacific area:			
Australia	\$ 35.3	\$ 27.2	\$ 25.3
China	26.1	22.9	24.1
Other Pacific area	56.7	55.9	50.2
Total Pacific area	\$ 118.1	\$ 106.0	\$ 99.6
Total net trade sales	\$3,259.0	\$3,172.3	\$3,138.7

Long-lived assets (property, plant and equipment), net at December 31 (amounts in millions)

	2003	2002
Americas:		
United States	\$ 848.5	\$ 930.9
Canada	15.0	14.1
Total Americas	\$ 863.5	\$ 945.0
Europe:		
Belgium	\$ 32.8	\$ 25.4
England	38.1	39.2
France	15.9	13.9
Germany	224.0	192.5
Netherlands	42.1	42.8
Sweden	10.8	10.0
Other Europe	11.1	5.8
Total Europe	\$ 374.8	\$ 329.6
Pacific area:		
China	\$ 22.0	\$ 23.2
Other Pacific area	7.0	5.9
Total Pacific area	\$ 29.0	\$ 29.1
Total long-lived assets, net	\$1,267.3	\$1,303.7



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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. During the fourth quarter of 2002, AWI recorded a non-cash charge of \$2.5 billion to increase its estimate of probable asbestos-related liability. 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, 2003 and December 31, 2002 are as follows:

(amounts in millions)	2003	2002
Debt (at face value)	\$1,388.6	\$1,400.7
Asbestos-related liability	3,190.6	3,190.6
Prepetition trade payables	58.9	51.7
Prepetition other payables and accrued interest	62.7	60.4
Amounts due to affiliates	4.7	4.7
ESOP loan guarantee	157.7	157.7
Total liabilities subject to compromise	\$4,863.2	\$4,865.8

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

During 2001, we spent \$5.6 million to purchase some of the remaining minority interest of already-consolidated entities within the Resilient Flooring segment. Approximately \$5.0 million of the purchase price was allocated to goodwill.

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, the former owners of Gema were advised that the contingent consideration was \$2.0 million. The former owners did not accept such calculation. Therefore, as permitted by the agreement, the contingent consideration calculation will be reviewed by a third party.

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 \$2.0 million was accounted for as additional purchase price in the third quarter of 2003, with a corresponding amount recorded in accounts payable.

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NOTE 6. DISCONTINUED OPERATIONS

In February 2001, we determined to permanently exit the Textiles and Sports Flooring segment and on February 20, 2001 entered into negotiations to sell substantially all of the businesses comprising this segment to a private equity investor based in Europe. Based on these events, the segment was classified as a discontinued operation starting with the fourth quarter of 2000. On June 12, 2001, negotiations with this investor were terminated. During the third quarter of 2001, we terminated our plans to permanently exit this segment. This decision was based on the difficulty encountered in selling the business and a new review of the business, industry and overall economy conducted by new senior management. Accordingly, this segment is no longer classified as a discontinued operation and amounts have been reclassified into operations as required by EITF Issue No. 90-16 – “Accounting for Discontinued Operations Subsequently Retained”.

Based on the expected net realizable value of the business determined during the negotiations to sell the business, we had recorded a pretax net loss of \$34.5 million in the fourth quarter of 2000, \$23.8 million net of tax benefit. We also had recorded an additional net loss of \$3.3 million in the first quarter of 2001, as a result of price adjustments resulting from the negotiations. Concurrent with the decision to no longer classify the business as a discontinued operation, the remaining accrued loss of \$37.8 million (\$27.1 million net of tax) was reversed in the third quarter of 2001 and recorded as part of earnings from discontinued operations. Additionally, the segment’s net income of \$3.1 million for the first and second quarter of 2001 was reclassified into earnings from continuing operations for those periods.

During the third quarter of 2001, we concluded there were indicators of impairment related to certain assets in this segment, and accordingly, an impairment evaluation was conducted. This evaluation led to an impairment charge of \$8.4 million, representing the excess of book value over estimated fair value which was determined using a net discounted cash flows approach. The charge was included in cost of sales. The impairment was related to property, plant and equipment that produce certain products for which we anticipate lower demand in the future. Additionally, an inventory write-down of \$2.1 million was recorded in the third quarter of 2001 within cost of sales related to certain products that will no longer be sold.

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. 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 will be treated as an allowed unsecured claim. This claim resulted in a fourth quarter 2002 charge of \$5.3 million, which was recorded in other non-operating expense.

NOTE 8. ACCOUNTS AND NOTES RECEIVABLE

(amounts in millions)	2003	2002
Customer receivables	\$358.4	\$370.0
Customer notes	6.2	6.9
Miscellaneous receivables	17.0	17.2
Less allowance for discounts and losses	(66.2)	(61.7)
Net accounts and notes receivable	\$315.4	\$332.4

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

Approximately 39% and 42% of our total inventory in 2003 and 2002 was valued on a LIFO (last-in, first-out) basis. The remaining approximately 60% of our total inventory was valued on a FIFO (first-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis, by \$62.0 million at the end of 2003 and \$52.6 million at year-end 2002.

(amounts in millions)	2003	2002
Finished goods	\$330.7	\$294.3
Goods in process	40.6	44.8
Raw materials and supplies	165.3	166.0
Less LIFO and other reserves	(82.2)	(69.6)
Total inventories, net	\$454.4	\$435.5

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

(amounts in millions)	2003	2002
Land	\$ 105.4	\$ 94.3
Buildings	659.7	624.9
Machinery and equipment	1,893.7	1,786.0
Construction in progress	43.3	62.3
Less accumulated depreciation and amortization	(1,434.8)	(1,263.8)
Net property, plant and equipment	\$ 1,267.3	\$ 1,303.7

NOTE 11. EQUITY INVESTMENTS

Investments in affiliates were \$48.9 million at December 31, 2003, an increase of \$5.0 million, reflecting the equity earnings of our 50% interest in our WAVE joint venture and our remaining 35% interest in Interface Solutions, Inc. ("ISI"). We continue to purchase certain raw materials from ISI under a long-term supply agreement. Equity earnings from affiliates for 2003, 2002 and 2001 consisted primarily of income from a 50% interest in the WAVE joint venture and the 35% interest in ISI.

We purchase some grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately \$51 million, \$44 million and \$40 million for the years ended December 31, 2003, 2002 and 2001, respectively. We also provide certain selling and administrative processing services to WAVE for which we receive reimbursement. Additionally, WAVE leases certain land and buildings from us.

Condensed financial data for significant investments in affiliates accounted for under the equity method of accounting are summarized below:

(amounts in millions)	2003	2002
Current assets	\$93.1	\$82.1
Non-current assets	32.3	31.6
Current liabilities	65.1	16.0
Long-term debt	—	50.0
Other non-current liabilities	3.0	3.0

(amounts in millions)	2003	2002	2001
Net sales	\$213.8	\$201.4	\$200.1
Gross profit	63.7	61.2	57.1
Net earnings	41.7	39.2	32.3

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NOTE 12. GOODWILL AND INTANGIBLE ASSETS

Effective January 1, 2002, we adopted SFAS 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 estimated residual values and reviewed for impairment.

As of January 1, 2002, we had unamortized goodwill of \$822.8 million, of which \$717.2 million was attributable to the Wood Flooring segment. In the second quarter of 2002, we completed the assessment of goodwill 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.

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 since December 31, 2001.

(amounts in millions) Goodwill by segment	January 1, 2002	Adjustments, net ⁽¹⁾	Impairments	December 31, 2002
Resilient Flooring	\$ 82.9	\$ 6.4		\$ 89.3
Wood Flooring	717.2	(13.4)	\$ (590.0)	113.8
Building Products	10.1	1.8	—	11.9
Cabinets	12.6	—	—	12.6
Total consolidated goodwill	\$ 822.8	\$ (5.2)	\$ (590.0)	\$ 227.6

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

The following table represents the changes in goodwill since December 31, 2002.

(amounts in millions) Goodwill by segment	January 1, 2003	Adjustments, net ⁽¹⁾	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
Total consolidated goodwill	\$ 227.6	\$ 16.5	\$ —	\$ 244.1

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

As of January 1, 2002, we had unamortized identifiable intangible assets of \$94.1 million. 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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The following table details amounts related to our intangible assets as of December 31, 2003.

(amounts in millions)	December 31, 2003		December 31, 2002	
	Gross Carrying	Accumulated	Gross Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
Amortized intangible assets				
Computer software	\$ 104.1	\$ 57.7	\$ 100.6	\$ 44.7
Land use rights and other	4.4	0.9	4.4	0.8
Total	\$ 108.5	\$ 58.6	\$ 105.0	\$ 45.5
Unamortized intangible assets				
Trademarks and brand names	29.1		29.1	
Total intangible assets	\$ 137.6		\$ 134.1	
Aggregate Amortization Expense				
For the year ended December 31	\$ 15.5		\$ 14.8	

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 2004 through 2008 is as follows:

2004	\$14.8
2005	13.2
2006	8.7
2007	3.7
2008	3.4

Comparison to prior year "As Adjusted"

The following table presents prior year reported amounts adjusted to eliminate the effect of goodwill and certain identifiable intangible asset amortization in accordance with FAS 142.

(amounts in millions)	December 31,		
	2003	2002	2001
Reported net income (loss)	\$(39.3)	\$(2,142.8)	\$ 92.8
Add back: Goodwill amortization	—	—	22.8
Add back: Trademark and brand names amortization	—	—	0.8
Adjusted net income (loss)	\$(39.3)	\$(2,142.8)	\$116.4

NOTE 13. OTHER NON-CURRENT ASSETS

(amounts in millions)	2003	2002
Cash surrender value of company owned life insurance policies	\$ 62.1	\$ 58.8
Long term notes receivable	27.9	22.4
Other	21.2	24.9
Total other non-current assets	\$111.2	\$106.1

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NOTE 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(amounts in millions)	2003	2002
Payables, trade and other	\$221.9	\$206.6
Employment costs	41.8	65.8
Reorganization and severance expenses	3.4	1.9
Other	87.1	77.3
Total accounts payable and accrued expenses	\$354.2	\$351.6

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

NOTE 15. RESTRUCTURING AND OTHER ACTIONS

Restructuring charges of \$1.7 million were recorded in the fourth quarter of 2003. \$1.2 million related to severance and retirement benefits for employees in Textiles and Sports Flooring (\$1.0 million) and Resilient Flooring (\$0.2 million) segments, as part of the restructuring plan to consolidate certain functions in the European flooring business. Of the \$1.2 million, \$0.3 million represented a non-cash charge for retirement benefits, which is accounted for as a reduction of the prepaid pension asset. \$0.3 million of the charge related to the closing of a Wood Flooring manufacturing location in Warren, Arkansas. Approximately 120 employees were impacted by this plant closure. The remaining \$0.2 million of the charge related to the closing of a Resilient Flooring plant in Baroda, India. Approximately 70 employees were impacted by this plant closure. In addition, \$0.4 of the remaining accruals from the 2003 charges in the Textiles and Sports Flooring (\$0.3 million) and Resilient Flooring (\$0.1 million) segments was reversed, comprising certain severance accruals that were no longer necessary.

In July 2003, we announced our plans to close the Wood Flooring manufacturing location in Port Gibson, Mississippi, effective September 2003, due to excess production capacity. The production has been transferred to another Wood Flooring location, resulting in a net reduction of approximately 145 positions. A \$0.5 million restructuring charge was recorded for severance benefits. In addition, a charge of \$15.1 million, related to accelerated depreciation, was recorded in the third quarter of 2003 as a component of cost of goods sold. Further analysis of the remaining fair value of certain fixed assets in the fourth quarter of 2003 lead to an additional charge to cost of goods sold of \$0.8 million.

A \$3.7 million restructuring charge was recorded in the third quarter of 2003. The charge related primarily to severance benefits for approximately 72 employees in a Textiles and Sports Flooring plant in The Netherlands, as part of the continuing 2002 restructuring plan to consolidate certain functions in the European flooring business. Separately, \$0.8 million of the remaining reserve related to a noncancelable operating lease in the U.K. was reversed in the Unallocated Corporate segment as a result of reaching agreement with outside parties on future rent increases and disputed rent payments by a sublessee. \$0.2 million of the remaining accruals from the second quarter 2003 and second quarter 2002 charges in the Resilient Flooring segment was also reversed, comprising certain severance accruals that were no longer necessary.

A \$1.3 million restructuring charge was recorded in the second quarter of 2003. The charge related primarily to severance benefits for approximately 11 employees in the Textiles and Sports Flooring (\$0.7 million) and Resilient Flooring (\$0.6 million) segments, as part of the continuing restructuring plan to consolidate certain functions in the European flooring business. In addition, \$0.4 million of the remaining accrual from the second quarter 2002 charge in the Resilient Flooring segment was reversed, comprising certain severance accruals that were no longer necessary.

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A \$3.2 million restructuring charge was recorded in the first quarter of 2003. The charge related to severance benefits for approximately 52 employees in the Textiles and Sports Flooring (\$2.3 million) and Resilient Flooring (\$0.9 million) segments, as part of the restructuring plan to consolidate certain functions in the European flooring business.

In the fourth quarter of 2002 and in the third quarter of 2002, \$0.2 million and \$0.6 million, respectively, of the remaining accrual related to the first quarter 2002 and fourth quarter 2001 charges in the Textiles and Sports Flooring segment was reversed, comprising certain severance accruals that were no longer necessary.

A \$2.2 million restructuring charge was recorded in the second quarter of 2002. The charge primarily related to severance benefits for approximately 120 employees in the European Resilient Flooring business due to a slow European economy and a consolidation of worldwide research and development activities. Of the \$2.2 million, \$0.4 million represented a non-cash charge for enhanced retirement benefits, which is accounted for as an increase to pension benefit liabilities.

A \$0.5 million restructuring charge was recorded in the first quarter of 2002. The charge related to severance benefits for 11 employees in the Textiles and Sports Flooring segment to reflect staffing needs for current business conditions and continued efforts initiated in the fourth quarter of 2001.

The following table summarizes activity in the reorganization and restructuring accruals for the first nine months of 2003 and 2002. 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.

<u>(amounts in millions)</u>	<u>Beginning Balance</u>	<u>Cash Payments</u>	<u>Charges</u>	<u>Reversals</u>	<u>Other</u>	<u>Ending Balance</u>
2003	\$ 9.1	\$ (8.7)	\$ 10.1	\$ (1.8)	\$ 1.3	\$ 10.0
2002	8.9	(2.1)	2.3	(0.8)	0.8	9.1

The amount in "other" for 2003 and 2002 is primarily related to foreign currency translation.

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2003 relates to a noncancelable-operating lease, which extends through 2017, and severance for terminated employees with extended payouts, the majority of which will be paid by the second quarter of 2004.

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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 foreign tax credit, state and foreign net operating loss carryforwards and other basis adjustments for which we have provided a valuation allowance of \$222.4 million. The \$2.3 million of U.S. foreign tax credits will expire in 2005. We have \$1,351.6 million of state net operating loss carryforwards with expirations between 2004 and 2023, and \$268.1 million of foreign net operating loss carryforwards, which will be carried forward indefinitely. The valuation allowance decreased by \$6.4 million in 2003 primarily due to the expiration of the state net operating loss carryforwards offset by additional foreign net operating losses.

Deferred income tax assets (liabilities) (amounts in millions)	2003	2002
Postretirement and postemployment benefits	\$ 91.0	\$ 88.4
Chapter 11 reorganization costs and restructuring costs	16.4	17.9
Asbestos-related liabilities	1,153.9	1,153.5
Foreign tax credit carryforward	2.3	4.9
Net operating losses	211.2	205.5
Other	135.3	96.4
Total deferred tax assets	1,610.1	1,566.6
Valuation allowance	(222.4)	(228.8)
Net deferred tax assets	1,387.7	1,337.8
Accumulated depreciation	(200.6)	(175.4)
Pension credit	(144.1)	(138.5)
Insurance for asbestos-related liabilities	(33.2)	(66.5)
Tax on unremitted earnings	(27.0)	(27.0)
Other	(73.7)	(66.8)
Total deferred income tax liabilities	(478.6)	(474.2)
Net deferred income tax assets	\$ 909.1	\$ 863.6
Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset – current	\$ 19.2	\$ 14.7
Deferred income tax asset – non-current	988.3	869.7
Deferred income tax liability – current	(3.3)	—
Deferred income tax liability – non-current	(95.1)	(20.8)
Net deferred income tax assets (liabilities)	\$ 909.1	\$ 863.6

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Details of taxes (amounts in millions)	2003	2002	2001
Earnings (loss) from continuing operations before income taxes:			
Domestic	\$(53.9)	\$(2,398.0)	\$117.1
Foreign	17.6	21.2	14.1
Eliminations	(4.7)	—	(15.5)
Total	\$(41.0)	\$(2,376.8)	\$115.7
Income tax provision (benefit):			
Current:			
Federal	\$ 25.1	\$ 35.2	\$ 5.0
Foreign	20.8	10.6	13.2
State	3.9	1.4	(0.6)
Total current	49.8	47.2	17.6
Deferred:			
Federal	(41.5)	(874.1)	33.3
Foreign	(9.3)	(1.6)	(8.4)
State	(0.7)	0.7	—
Total deferred	(51.5)	(875.0)	24.9
Total income taxes (benefit)	\$ (1.7)	\$ (827.8)	\$ 42.5

At December 31, 2003, unremitted earnings of subsidiaries outside the U.S. were \$294.9 million (at December 31, 2003 balance sheet foreign exchange rates). We expect to repatriate \$77.0 million of earnings for which \$27.0 million of U.S. taxes were provided in 2000. No U.S. taxes have been provided on the remaining unremitted earnings as we intend to invest these earnings permanently. If such earnings were to be remitted without offsetting tax credits in the U.S., withholding taxes would be \$7.5 million. The 2003, 2002 and 2001 tax provisions reflect the reversal of certain state and foreign tax and other accruals no longer required due to the completion of tax audits and/or expiration of statutes of limitation partially offset by certain nondeductible expenses.

Reconciliation to U.S. statutory tax rate (amounts in millions)	2003	2002	2001
Continuing operations tax (benefit) at statutory rate	\$(14.4)	\$(831.9)	\$40.5
State income taxes, net of federal benefit	0.4	1.7	(1.9)
Foreign losses	7.8	7.2	1.1
Tax on foreign and foreign-source income	(4.9)	(15.9)	(8.4)
Goodwill amortization	—	—	6.7
Permanent book/tax differences	9.3	10.8	5.9
Other items, net	0.1	0.3	(1.4)
Tax expense (benefit) at effective rate	\$ (1.7)	\$(827.8)	\$42.5
Other taxes (amounts in millions)	2003	2002	2001
Payroll taxes	\$ 79.1	\$ 77.3	\$74.2
Property, franchise and capital stock taxes	15.8	12.6	16.3

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NOTE 17. DEBT

(See Note 4 regarding treatment of prepetition debt.)

(amounts in millions)	2003	Average year-end interest rate	2002	Average year-end interest rate
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	3.9	3.62%	12.3	4.58%
Bank loans due 2004-2015	34.1	5.65%	30.6	5.95%
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	3.85%	21.0	4.00%
Capital lease obligations	3.3	7.63%	5.6	7.63%
Other	15.3	8.56%	27.6	10.65%
Subtotal	1,440.1	7.20%	1,459.6	7.26%
Less debt subject to compromise	1,388.6	7.29%	1,400.7	7.35%
Less current portion and short-term debt	12.1	5.13%	19.0	5.14%
Total long-term debt, less current portion	\$ 39.4	4.72%	\$ 39.9	5.10%

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. Approximately \$35.2 million of the \$58.9 million of total debt not subject to compromise outstanding as of December 31, 2002 was secured with buildings and other assets.

Scheduled payments of long-term debt, excluding debt subject to compromise (amounts in millions):

2004	\$8.2
2005	8.6
2006	6.7
2007	\$2.5
2008	2.1

Debt from the table above included in liabilities subject to compromise consisted of the following at December 31, 2003 and 2002.

(amounts in millions)	2003	2002
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	27.2
Total debt subject to compromise	\$1,388.6	\$1,400.7

On November 1, 2002, the Bankruptcy Court announced it had approved AWI's motion to reduce the amount of its DIP Facility from \$200 million to \$75 million, eliminate the revolving credit borrowing feature, retain the letter of credit issuance facility and extend the maturity date to December 8, 2003. On September 29, 2003, the Bankruptcy Court announced it had approved AWI's motion to extend the maturity date from December 8, 2003, to December 8, 2004, on its \$75 million DIP Credit Facility that is limited to issuances of letters of credit. Obligations under the DIP Facility to reimburse drawings under

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the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. As of December 31, 2003 and 2002, AWI had approximately \$22.8 million and \$28.7 million, respectively, in letters of credit that were issued under the DIP Facility.

Other debt includes a \$6.5 million zero-coupon note due in 2013 that was fully accreted to its face value of \$18.6 million during 2000 due to the Chapter 11 Filing. This zero-coupon note was subsequently reduced by \$12.1 million in December 2003 due to an agreement reached between AWI and the holder of the note as to the claim amount.

In addition, certain foreign subsidiaries have approximately \$36.3 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 as and when required. 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.

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 expands Medicare, primarily by adding a prescription drug benefit for Medicare-eligible participants starting in 2006. 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 from the FASB, we have chosen to defer recognition of the potential effects of the Act in these 2003 disclosures. Therefore, the retiree health obligations and costs reported in the financial statements do not yet reflect any potential impact of the Act. FASB guidance, when issued, is likely to require the company to change previously reported information.

We will review our retiree health care strategy in light of the Act. In 2003, we paid approximately \$8 million for prescription drug coverage for our Medicare-eligible retirees. We anticipate that our retiree health costs could be reduced in the future.

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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 (amounts in millions)	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2003	2002	2003	2002
Change in benefit obligation:				
Benefit obligation as of January 1	\$1,423.4	\$1,324.4	\$ 458.2	\$ 386.6
Service cost	21.8	17.2	3.4	5.6
Interest cost	91.8	89.1	26.2	28.1
Plan participants' contributions	—	—	4.6	4.0
Plan amendments	20.2	0.7	(60.0)	(0.5)
Actuarial loss	111.2	83.5	38.0	64.5
Benefits paid	(97.6)	(91.5)	(33.8)	(30.1)
Benefit obligation as of December 31	\$1,570.8	\$1,423.4	\$ 436.6	\$ 458.2
Change in plan assets:				
Fair value of plan assets as of January 1	\$1,603.6	\$1,735.9		
Actual return on plan assets – gain/(loss)	373.7	(43.8)		
Employer contribution	3.2	3.0	\$ 29.2	\$ 26.1
Plan participants' contributions	—	—	4.6	4.0
Benefits paid	(97.6)	(91.5)	(33.8)	(30.1)
Fair value of plan assets as of December 31	\$1,882.9	\$1,603.6	\$ 0.0	\$ 0.0
Funded status of the plans	\$ 312.1	\$ 180.2	\$(436.6)	\$(458.2)
Unrecognized net actuarial loss (gain)	(18.5)	100.9	240.3	215.0
Unrecognized prior service cost	134.2	131.9	(45.9)	9.1
Net asset/(liability) recognized	\$ 427.8	\$ 413.0	\$(242.2)	\$(234.1)
U.S. defined-benefit plans	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2003	2002	2003	2002
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	6.00%	6.50%	6.00%	6.50%
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	6.50%	7.00%	6.50%	7.00%
Expected return on plan assets	8.00%	8.75%	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

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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, 2003 and 2002 position for each asset class:

Asset Class	Target Weight at December 31, 2003	Position at December 31,	
		2003	2002
Domestic equity	41%	43%	40%
International equity	22%	25%	21%
High yield bonds	5%	6%	6%
Long duration bonds	25%	22%	27%
Real estate	7%	1%	1%
Other fixed income	0%	3%	5%

Domestic equity includes AHI common stock in the amounts of \$1.6 million (0.08% of total RIP assets) and \$0.5 million (0.03% of total RIP assets) at December 31, 2003 and 2002, respectively.

Basis of Rate-of-Return Assumption

Long-term asset class return forecasts were obtained from several investment firms. 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:

(amounts in millions)	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2003	2002	2003	2002
Prepaid benefit costs	\$445.8	\$428.9		
Accrued benefit liability	(38.3)	(33.3)	\$ (242.2)	\$ (234.1)
Intangible asset	0.8	1.0	—	—
Other comprehensive income	19.5	16.4	—	—
Net asset/(liability) recognized	\$427.8	\$413.0	\$ (242.2)	\$ (234.1)

The accumulated benefit obligation for the U.S. defined benefit pension plans was \$1,464.1 million and \$1,364.9 million at December 31, 2003 and 2002, respectively.

U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits	
	2003	2002
Projected benefit obligation, December 31	\$43.4	\$35.5
Accrued benefit obligation, December 31	38.3	33.3
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.

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The components of pension credit are as follows:

U.S. defined-benefit plans (amounts in millions)	Pension Benefits		
	2003	2002	2001
Service cost of benefits earned during the year	\$ 21.8	\$ 17.2	\$ 14.9
Interest cost on projected benefit obligation	91.8	89.1	93.0
Expected return on plan assets	(144.5)	(154.4)	(164.4)
Amortization of transition asset	—	(2.1)	(6.2)
Amortization of prior service cost	17.9	17.6	17.5
Amortization of net actuarial loss/(gain)	1.4	(6.6)	(11.6)
Net periodic pension credit	\$ (11.6)	\$ (39.2)	\$ (56.8)

The components of postretirement benefits cost are as follows:

U.S. defined-benefit plans (amounts in millions)	Retiree Health and Life Insurance Benefits		
	2003	2002	2001
Service cost of benefits earned during the year	\$ 3.4	\$ 5.6	\$ 3.6
Interest cost on accumulated postretirement benefit obligation	26.2	28.1	20.2
Amortization of prior service cost (benefit)	(5.1)	0.2	0.3
Amortization of net actuarial loss	12.3	11.2	2.1
Net periodic postretirement benefit cost	\$36.8	\$45.1	\$26.2

For measurement purposes, an average rate of 10% annual increase in the per capita cost of covered health care benefits was assumed for 2004, 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.S. retiree health and life insurance benefit plans (amounts in millions)	One percentage point	
	Increase	Decrease
Effect on total of service and interest cost components	\$ 1.9	\$ (1.7)
Effect on postretirement benefit obligation	25.4	(22.2)

We expect to contribute \$3.5 million to our U.S. defined benefit pension plans and \$29.4 million to our U.S. other postretirement benefit plans in 2004.

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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.

Non-U.S. defined-benefit plans (amounts in millions)	Pension Benefits	
	2003	2002
Change in benefit obligation:		
Benefit obligation as of January 1	\$ 340.1	\$ 283.6
Service cost	8.2	8.1
Interest cost	19.4	15.9
Plan participants' contributions	2.8	2.3
Plan amendments	(5.7)	0.1
Effect of settlements and curtailments	(0.9)	0.1
Foreign currency translation adjustment	57.1	44.3
Actuarial loss (gain)	2.4	4.0
Benefits paid	(19.6)	(18.3)
Benefit obligation as of December 31	\$ 403.8	\$ 340.1
Change in plan assets:		
Fair value of plan assets as of January 1	\$ 153.7	\$ 156.8
Actual return on plan assets gain/(loss)	19.4	(20.9)
Employer contributions	19.4	15.1
Plan participants' contributions	2.8	2.3
Foreign currency translation adjustment	24.7	18.7
Benefits paid	(19.6)	(18.3)
Fair value of plan assets as of December 31	\$ 200.4	\$ 153.7
Funded status of the plans	\$(203.4)	\$(186.4)
Unrecognized net actuarial loss	53.0	53.4
Unrecognized transition obligation	(0.1)	0.2
Unrecognized prior service (benefit) cost	(0.5)	5.9
Net liability recognized	\$(151.0)	\$(126.9)

Amounts recognized in the consolidated balance sheets consist of:

(amounts in millions)	Pension Benefits	
	2003	2002
Prepaid benefit cost	\$ 9.3	\$ 6.3
Accrued benefit liability	(178.1)	(152.6)
Intangible asset	3.5	3.9
Other comprehensive income	14.3	15.5
Net liability recognized	\$(151.0)	\$(126.9)

Non-U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits	
	2003	2002
Projected benefit obligation, December 31	\$ 335.0	\$ 340.1
Accrued benefit obligation, December 31	300.6	300.2
Fair value of plan assets, December 31	131.2	153.7

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The components of pension cost are as follows:

Non-U.S. defined-benefit plans (amounts in millions)	2003	2002	2001
Service cost of benefits earned during the year	\$ 8.2	\$ 8.1	\$ 7.9
Interest cost on projected benefit obligation	19.4	15.9	15.4
Expected return on plan assets	(12.8)	(11.2)	(11.0)
Amortization of transition obligation	0.3	0.1	0.4
Amortization of prior service cost	0.6	0.6	0.2
Amortization of net actuarial loss	0.5	0.2	—
Net periodic pension cost	\$ 16.2	\$ 13.7	\$ 12.9

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

Non-U.S. defined-benefit plans	Pension Benefits	
	2003	2002
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	5.40%	5.50%
Rate of compensation increase	3.40%	3.40%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	5.50%	5.50%
Expected return on plan assets	6.40%	6.40%
Rate of compensation increase	3.40%	3.70%

Costs for other defined contribution benefit plans and multiemployer pension plans were \$11.3 million in 2003, \$9.9 million in 2002, and \$11.9 million in 2001.

NOTE 19. FINANCIAL INSTRUMENTS

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments are as follows:

(millions at December 31)	2003		2002	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets/(Liabilities):				
Debt subject to compromise	\$(1,388.6)	\$ (752.2)	\$(1,400.7)	\$ (600.2)
Long-term debt, including current portion	(47.6)	(47.6)	(46.6)	(46.6)
Foreign currency contract obligations	(1.0)	(1.0)	(4.6)	(4.6)
Natural gas contracts	3.5	3.5	3.9	3.9

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 value estimates of natural gas contracts are estimated by obtaining quotes from major financial institutions and energy companies.

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, 2003, our foreign subsidiaries had available

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lines of credit totaling \$45.9 million, of which \$9.6 million was used, leaving \$36.3 million of unused lines of credit for borrowing on December 31, 2003.

On December 31, 2003, we had outstanding letters of credit totaling \$62.6 million, of which \$22.8 million was issued under the DIP Facility. The DIP Facility had \$52.2 million that remained available for issuance of letters of credit as of December 31, 2003. 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. 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 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 potential 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, 2003 and 2002.

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, 2003, 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, 2003 was an asset of \$1.6 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, cost of goods sold or other expense to match the underlying transaction being hedged. The earnings impact of these hedges was a \$1.2 million gain during 2003.

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, 2003 was a \$2.6 million liability, all of which is expected to be taken to earnings in the next twelve months. During 2003, the net earnings impact of these hedges was a loss of \$0.1 million, recorded in other income, which was comprised of a loss of approximately \$32.2 million from the foreign currency forward exchange contracts substantially offset by the 2003 translation adjustment of approximately \$32.1 million for the underlying inter-company loans.

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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, 2003 was a \$3.5 million asset, of which \$3.1 million is expected to be taken to earnings in the next twelve months. The earnings impact of hedges that matured during 2003, recorded in cost of goods sold, was \$7.8 million of income. The earnings impact of the ineffective portion of these hedges was not material during 2003.

NOTE 21. GUARANTEES

As of December 31, 2003, we maintained agreements with the lending institutions of two of our distributors. Under these agreements, if a 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. One agreement expired February 2004 and the remaining agreement will expire in September 2004. At December 31, 2003, the amount of inventory held at the remaining distributor was approximately \$3.8 million. No claim has been made under any of these agreements and we do not anticipate any such claims in the future. As such, no liability has been recorded for these agreements.

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 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 \$1.4 million has been recorded as of December 31, 2003. See Item 3 regarding Litigation 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, 2003, we maintained a \$1.4 million liability for this guarantee and the maximum payments could be approximately \$3.3 million, excluding any amounts paid for tax reimbursement.

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

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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 product warranties for 2003 and 2002:

(amounts in millions)	2003	2002
Balance at beginning of year	\$ 22.7	\$ 19.2
Reductions for payments	(38.9)	(38.5)
Current year warranty accruals	40.6	41.8
Preexisting warranty accrual changes	(0.3)	(1.2)
Effects of foreign exchange translation	1.8	1.4
Balance at end of year	\$ 25.9	\$ 22.7

NOTE 23. OTHER LONG-TERM LIABILITIES

(amounts in millions)	2003	2002
Long-term deferred compensation arrangements	\$41.1	\$41.5
Environmental liabilities not subject to compromise	8.4	9.8
Other	31.7	31.4
Total other long-term liabilities	\$81.2	\$82.7

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, 2003, the RSSOP allocated 2,374,000 shares to participants that remain outstanding, participants retired 2,049,000 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. As of December 31, 2003, there were approximately 1,912,000 shares in the RSSOP that had yet to be allocated to participants.

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.

We recorded costs for the RSSOP of \$5.6 million in 2003, \$4.5 million in 2002 and \$3.5 million in 2001, which related to company cash matching contributions.

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

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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 will be terminated upon the effective date of AWI's plan of reorganization.

Approximately 1,702,000 stock options were cancelled as a result of a restricted stock for stock option exchange program offered to employees in 2000. Employees other than the CEO holding stock options were given a one-time opportunity to exchange their stock options with exercise prices above \$50 per share for shares of AHI restricted stock based on specified conversion ratios. The shares issued under this exchange program were issued under the 2000 Plan and were fully vested by August 2002. Expenses related to this event were \$0.1 million in 2002 and \$0.7 million in 2001.

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Options are granted to purchase shares at prices not less than the closing market price of the shares on the dates the options are granted. The options generally become 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)	2003	2002	2001
Option shares at beginning of year	2,508.8	2,682.6	2,777.5
Options granted	—	—	100.0
Option shares exercised	—	—	—
Options cancelled	(131.9)	(173.8)	(194.9)
Option shares at end of year	2,376.9	2,508.8	2,682.6
Option shares exercisable at end of year	2,343.6	1,963.5	1,551.7
Shares available for grant	4,425.8	4,285.6	4,161.5
Weighted average price per share:			
Options outstanding	\$ 30.62	\$ 30.52	\$ 30.36
Options exercisable	\$ 31.01	34.50	39.51
Options granted	N/A	N/A	3.60
Option shares exercised	N/A	N/A	N/A

The table below summarizes information about stock options outstanding at December 31, 2003.
(thousands except for life and share price)

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at 12/31/03	Weighted- average remaining contractual life	Weighted- average exercise price	Number exercisable at 12/31/03	Weighted- average exercise price
\$1.19 - \$18.00	300.0	6.9	\$ 7.05	266.7	\$ 7.49
\$18.01 - \$19.50	1,256.2	6.2	19.44	1,256.2	19.44
\$19.51 - \$49.00	274.9	1.8	45.26	274.9	45.26
\$49.01 - \$69.00	366.6	2.3	56.49	366.6	56.49
\$69.01 - \$84.00	179.2	3.9	73.14	179.2	73.14
	<u>2,376.9</u>			<u>2,343.6</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 2003. At the end of 2003, there were 121,313 restricted shares of common stock outstanding with 1,026 accumulated dividend equivalent shares.

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SFAS No. 123, "Accounting for Stock-Based Compensation," 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 SFAS No. 123, our net earnings would have been reduced to the following pro forma amounts.

(amounts in millions)	2003	2002	2001
Net earnings (loss):			
As reported	\$(39.3)	\$(2,142.8)	\$92.8
Pro forma	\$(39.4)	(2,143.3)	90.6

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model with the weighted-average assumptions for 2001 presented in the table below. The weighted-average fair value of stock options granted in 2001 was \$1.21 per share. There were no stock options granted in 2003 and 2002.

	2001
Risk-free interest rate	4.57%
Dividend yield	0%
Expected life	5 years
Volatility	28%

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 (amounts in millions)	2003	2002	2001
Wages and salaries	\$711.4	\$707.9	\$685.3
Payroll taxes	79.1	77.3	74.2
Pension expense (credits), net	15.9	(15.6)	(32.0)
Insurance and other benefit costs	112.4	106.7	92.3
Stock-based compensation	0.2	0.9	2.7
Total	\$919.0	\$877.2	\$822.5

The increases in insurance and other benefit costs are primarily related to increased medical benefit costs.

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 \$19.9 million in 2003, \$20.5 million in 2002 and \$19.1 million in 2001. Future minimum payments at December 31, 2003, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments (amounts in millions)	Capital Leases	Operating Leases
2004	\$ 1.2	\$ 15.7
2005	1.6	12.0
2006	1.0	9.4
2007	0.7	5.8
2008	0.3	4.1
Thereafter	0.1	10.9
Total	\$ 4.9	\$ 57.9

We have capital leases that have lease payments that extend until 2018. Assets under capital leases are included in the consolidated balance sheets as follows:

(amounts in millions)	2003	2002
Land	\$ 3.8	\$ 3.8
Building	4.1	4.1
Machinery	25.8	25.2
Less accumulated amortization	(11.6)	(9.5)
Net assets	\$ 22.1	\$23.6

NOTE 28. SHAREHOLDER'S EQUITY

Treasury shares were unchanged at 11,393,170 for 2003, 2002 and 2001.

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 (loss) as of December 31, 2003 and 2002 is presented in the table below.

(amounts in millions)	2003	2002
Foreign currency translation adjustments	\$ 61.9	\$ 5.1
Derivative gain, net	3.3	3.6
Minimum pension liability adjustments	(21.9)	(20.9)
Accumulated other comprehensive income/(loss)	\$ 43.3	\$(12.2)

The related tax effects allocated to each component of other comprehensive income (loss) for 2003 are presented in the table below.

(amounts in millions)	Pre-tax Amount	Tax Expense (Benefit)	After tax Amount
Foreign currency translation adjustments	\$ 56.8	—	\$ 56.8
Derivative (loss), net	(0.4)	0.1	(0.3)
Minimum pension liability adjustments	(1.7)	0.7	(1.0)
Total other comprehensive income	\$ 54.7	\$ 0.8	\$ 55.5

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NOTE 29. SUPPLEMENTAL FINANCIAL INFORMATION

(amounts in millions)	2003	2002	2001
Selected operating expenses			
Maintenance and repair costs	\$107.8	\$110.7	\$112.2
Research and development costs	44.4	49.2	56.3
Advertising costs	32.7	41.2	49.8
Other non-operating expense			
Foreign currency translation loss, net of hedging activity	\$ 2.6	\$ 0.3	\$ 3.8
Impairment of note receivable from previous divestitures	9.6	0.2	2.0
Former employees claim settlement	1.0	—	—
Impairment loss on available for sale securities	—	—	3.2
Other	2.5	7.7	2.8
Total	\$ 15.7	\$ 8.2	\$ 11.8
Other non-operating income			
Interest income	\$ 3.5	\$ 4.8	\$ 4.8
Interest on asbestos receivable payment	1.1	—	—
Demutualization proceeds	—	0.2	3.5
Foreign currency translation gain, net of hedging activity	0.1	0.7	4.3
Other	0.1	0.3	0.4
Total	\$ 4.8	\$ 6.0	\$ 13.0

NOTE 30. SUPPLEMENTAL CASH FLOW INFORMATION

(amounts in millions)	2003	2002	2001
Interest paid	\$ 4.9	\$ 5.9	\$ 8.4
Income taxes paid, net of refunds	27.5	44.4	13.3
Acquisitions:			
Fair value of assets acquired	—	—	0.6
Cost in excess of net assets acquired	—	—	5.0
Acquisitions cash paid, net of cash acquired	—	—	\$ 5.6

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, 2003. 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. Armstrong and ISI are 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. 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 discussion of Ardex in Note 7.

See discussion of WAVE in Note 11.

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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 and November 10, 2003, and is referred to in this report as the “POR”. A principal feature of the POR is the creation of a trust (the “Asbestos P I 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. 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, 2003 and 2002, 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 P I Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos P I Trust that is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims. See Note 1 regarding the consideration to be distributed pursuant to the POR.

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Pursuant to the POR, 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 P I Trust. In accordance with the 524(g) injunction to be issued by the District Court in connection with the confirmation of the POR, various entities will be protected from such present and future asbestos-related personal injury claims. These entities include, among others, AWI as it will be reorganized, AHI, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI will not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor will it participate in their resolution.

However, although AWI's domestic and foreign subsidiaries and other affiliates will be protected parties, asbestos-related personal injury claims against them will be channeled to the Asbestos P I 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, two asbestos-related personal injury litigations allegedly arising out of such independent activities are pending, both against the same domestic subsidiary of AWI and in California state court; these actions have not been stayed as a result of the Filing. It is asserted that the plaintiffs were exposed to asbestos for many years in various occupations, including while aboard various ships in the 1940s and 1950s, and as a result contracted various asbestos-related diseases. It is alleged that the subsidiary is a "successor in interest" to a company that, at certain times before the company was owned by AWI, allegedly owned some of these vessels. These claims will not be channeled to the Asbestos P I Trust under the POR inasmuch as they do not involve activities of AWI. Both cases have multiple defendants. The subsidiary denies liability and is 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 will not be channeled to the Asbestos P I Trust and will 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 only three pending workers' compensation 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 P I Trust and that are of a magnitude that, individually or collectively, would be material to reorganized Armstrong.

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. See Note 1 for discussion of recent developments and the next steps in AWI's Chapter 11 process. AWI is unable to predict when and if the POR will be confirmed and 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 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.

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Collateral Requirements

Prior to the Filing in 2000, AWI had secured a bond for \$56.2 million to meet minimum collateral requirements established by the CCR with respect to asbestos-related personal injury claims asserted against AWI. On October 27, 2000, the insurance company that underwrote the surety bond informed AWI and the CCR of its intention not to renew the surety bond effective February 28, 2001. On February 6, 2001, the CCR advised the surety of the CCR's demand for payment of the face value of the bond. The surety filed a motion with the Bankruptcy Court seeking to restrain the CCR from drawing on the bond. The motion was not granted. On March 28, 2001, the surety filed an amended complaint in the Bankruptcy Court seeking similar relief. In addition, on April 27, 2001, AWI filed a complaint and a motion with the Bankruptcy Court seeking an order, among other things, enjoining the CCR from drawing on the bond or, in the event the CCR was permitted to draw on the bond, requiring that the proceeds of any such draw be deposited into a Court-approved account subject to further order of the Bankruptcy Court. Following further proceedings, during October 2003, AWI, the Asbestos Personal Injury Claimants' Committee and the Unsecured Creditors' Committee reached an agreement to settle all claims with the CCR and the surety bond insurance company. As a result, AWI recorded \$8.0 million in the third quarter of 2003 as a charge for asbestos liability, net.

Asbestos-Related Property Damage Litigation

Over the years, AWI was one of many defendants in asbestos-related property damage claims that were filed by public and private building owners. The claims that were resolved prior to the Filing resulted in aggregate indemnity obligations of less than \$10 million, which were entirely covered by insurance.

A separate creditors' committee representing the interests of asbestos-related property damage claimants was appointed in the Chapter 11 Case. Approximately 600 proofs of claim were filed with the Bankruptcy Court in response to the March 1, 2002 bar date for asbestos-related property damage claims (see Note 32 for further discussion.) On November 1, 2002, the Bankruptcy Court directed that all property damage claimants provide, in support of their claims, substantiation that Armstrong flooring products were used in the claimants' buildings. The Bankruptcy Court's deadline for submission of such product identification documentation was February 10, 2003. Claims that did not comply with the Bankruptcy Court's November 1, 2002 ruling were disallowed. During the first six months of 2003, AWI settled all of the approximately 460 remaining property damage claims for approximately \$9 million. Payments to claimants were made during the third quarter of 2003 and were funded by insurance. Based on the settlement of all remaining asbestos-related property damage claims, the Asbestos Property Damage Committee has been disbanded, and the actions that were pending against AWI as of the Filing, and all claims which were pursued in the Chapter 11 Case with respect to asbestos-related property damage have been dismissed.

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

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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 amount of these costs and fees is unknown and AWI is currently unable to estimate the amount. 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.

Another insurer, Century Indemnity Company, who previously settled its coverage issues with AWI, had made some of its required payments under the settlement to a trust of which AWI is a beneficiary. During January 2002, this insurer filed an adversary action in AWI's Chapter 11 Case disputing its payment obligations. On October 7, 2003, the Bankruptcy Court ruled that Century must pay the past due amounts plus interest. Century made the required payment in December 2003.

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 intends to file a proof of claim against Home by the June 2004 deadline. 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 \$103.1 million was recorded as of December 31, 2003 compared to \$198.1 million recorded at December 31, 2002. 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 assessment of probable insurance recoveries in light of the ADR appellate panel decision. The \$73 million was recorded as a charge for asbestos liability, net, in the accompanying consolidated statement of earnings. Additionally, the insurance asset was increased by \$9 million to reflect agreements reached during the first half of 2003 for asbestos property damage claims. During the second, third and fourth quarters of 2003, AWI received \$14.0, \$9.0 and \$8.0 million, respectively, of insurance proceeds related to the asbestos claims.

Approximately \$14.0 million of the total \$103.1 million recorded insurance asset at December 31, 2003 represents partial settlement for previous claims that will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.50%. 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 is either available through settlement or probable of recovery through negotiation or litigation in our opinion. 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 \$103.1 million asset is determined from agreed coverage in place. Of the \$103.1 million, \$8.0 million has been recorded as a current asset as of December 31, 2003 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 2002, when it revised its recorded asbestos liability for personal injury claims by \$2.5 billion, in 2002, nor was any change warranted in 2003.

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Cash Flow Impact

As a result of the Chapter 11 Filing, AWI did not make any payments for asbestos-related personal injury claims in 2003, 2002 or 2001. During 2003, 2002 and 2001, AWI received asbestos-related personal injury insurance recoveries of \$22.0 million, \$16.0 million and \$32.2 million, respectively. During 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

In July 2003, the United States Senate Judiciary Committee reached an agreement on a proposed bill for comprehensive legislation to resolve asbestos litigation issues through a national asbestos-claimants trust, funded by industry and its insurers (the FAIR Act). However, no legislation was passed during 2003. In late 2003, Senator Frist, the Senate Majority Leader, announced that consideration of the FAIR Act and a vote in the Senate would occur by the end of March 2004. There is uncertainty as to whether the current or any other proposal will become law, and what impact there might be on AWI's asbestos liability and/or AWI's Chapter 11 Case. Prior efforts to enact asbestos legislation have not been successful.

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.

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 \$3.7 million in 2003, \$4.5 million in 2002, and \$6.8 million in 2001 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.

Environmental Remediation

Summary

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and similar state "Superfund" laws at approximately 26 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.

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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. 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 and 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.

AWI's payments and remediation work on such sites for which AWI is the PRP is under review in light of the Chapter 11 Filing. The bar date for claims from the United States Environmental Protection Agency ("EPA") expired during the third quarter of 2003. AWI received an unliquidated proof of claim from the EPA.

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. Accordingly, claims brought by the federal or a 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 multiple party sites. 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. Bankruptcy law is unsettled as to whether these injunctive rights are dischargeable or not. 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 government agency's right to compel us to spend our money cleaning up the same site may not be, even though the financial impact to AWI would be the same in both instances.

AWI's strategy has been to try to resolve as many of its environmental liabilities through its Chapter 11 Case as possible. AWI has been negotiating with the Department of Justice and the EPA to reach a global environmental settlement on approximately 30 sites. AWI has asked the federal government to agree, as it did in other settlements with debtors in their bankruptcies, to covenant not to sue us for either monetary or injunctive relief, 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 proposed settlement, AWI would have contribution protection under CERCLA with respect to private party claims. In addition, AWI would have the benefit of the discharge as to monetary claims. At this point, the parties are still in the process of negotiating the settlement.

If no global settlement is reached, AWI anticipates that it will ask the Bankruptcy Court to determine the amount of the EPA proof of claim and grant a discharge. At that time, the government may seek to have the amount of its claim determined as the total cost of cleanup under a theory of joint and several liability, not just AWI's share. As discussed above, although the government's right to monetary relief is subject to discharge, there is uncertainty in the law as to whether the government's right to injunctive relief would also be subject to discharge.

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Specific Events

In the fourth quarter of 2003, we reduced the environmental liability by \$3.0 million, recording this as a reduction of SG&A expense in our Resilient Flooring segment. This reduction was the result of a change in our estimate of probable liability at four plants in Europe.

In the third quarter of 2003, we recorded a charge of \$2.4 million within SG&A expense based on an analysis of the sites being discussed in the EPA global settlement. Management estimated that AWI's probable share of the sites' future cleanup costs is \$3.1 million and we increased our liability to this new estimate.

In 2001, the EPA notified AWI that we may be a PRP at the Peterson Puritan site. However, AWI did not learn that the EPA may consider it a substantial contributor of waste to the site until July 2003. At which time, the EPA notified AWI of the EPA's estimate of the site's future cleanup costs, with its assessment of AWI's share of the costs being a range of \$17.8 million to \$26.2 million. Subsequently, AWI presented information to the EPA indicating that AWI's share should be much lower. Presently, the parties are continuing to negotiate. The EPA has not initiated any formal proceedings against AWI with respect to this site, other than sending information requests to AWI and filing a proof of claim in AWI's Chapter 11 Case. AWI continues to review this matter but disputes the assessment. As discussed above (Effects of Chapter 11), management is currently in discussions with the Department of Justice and the EPA to reach a global environmental settlement, which would resolve the proof of claim against AWI, including this site.

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 the 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 negotiated 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 \$21.2 million at December 31, 2003 and 2002 were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liability 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, \$12.8 million of the December 31, 2003 and \$11.4 million of the December 31, 2002 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 \$2.5 million and \$3.3 million at December 31, 2003 and December 31, 2002, 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

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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 year ended December 31, 2003, our net expense was less than \$0.1 million. For the years ended December 31, 2002 and 2001, our net expense was \$4.5 million and \$2.1 million, respectively.

PATENT INFRINGEMENT CLAIMS

We are a defendant in two related lawsuits claiming patent infringement related to some of our laminate 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.

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 as an other non-operating 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 was recorded in the third quarter of 2003 as a SG&A expense.

OTHER CLAIMS

Additionally, we are involved in various other claims and legal actions involving product liability, patent infringement, 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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NOTE 33. SUBSEQUENT EVENTS

In January 2004, we announced our plans to cease production at the Building Products manufacturing location in Hoogezand, The Netherlands by the end of December 2004, subject to positive advice from the local works council, due to excess production capacity in the European mineral and soft fiber ceiling industry. It is planned that the production will be transferred to another Building Products location in Münster, Germany and will result in a net reduction of approximately 72 positions. It is expected that charges of approximately \$18 million will be recorded during 2004, primarily to cover equipment write-downs, plant closure activities, transition costs for shifting production capabilities to another European facility and severances.

NOTE 34. DIFFERENCES BETWEEN ARMSTRONG HOLDINGS INC. AND ARMSTRONG WORLD INDUSTRIES, INC.

The difference between the financial statements of AHI and Armstrong is primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and employee compensation-related stock activity.

Independent Auditors' Report

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 46. 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 46. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. 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.

As discussed in Note 12 of the consolidated financial statements, the Company changed its method of accounting for goodwill and intangible assets in 2002.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 25, 2004

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A: CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure 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 of 1934 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 the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms.

(b) Changes in Internal Control Over Financial Reporting. No change in the Company’s 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, 2003 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Codes 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 all employees, including the Chief Executive Officer, the Chief Financial Officer and the Controller, are required to observe. 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 the Chief Financial Officer, the Controller, and the financial management of each of its business units.

These two Codes and the Armstrong policies that they incorporate contain written standards to deter wrongdoing and to promote:

1. honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. full, fair, accurate, timely, and understandable disclosure in reports and documents filed with the SEC and in other public communications;
3. compliance with applicable governmental laws, rules and regulations;
4. the prompt internal reporting of Code violations to an appropriate person; and
5. accountability for adherence to the Codes.

These Codes (and any amendments or waivers that may be allowed) are available to the public through Armstrong’s internet web site at www.armstrong.com.

Armstrong Holdings Inc. Board of Directors

With the exception of the Chairman, the members of the Board of AHI are independent within the meaning of Rule 10A-3 under the Securities Exchange Act of 1934. All members of the Audit, Compensation and Nominating and Governance Committees are independent.

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Audit Committee Financial Expert

The Board of Directors of Armstrong Holdings, Inc. has determined that the company has at least two Audit Committee Financial Experts serving on its Audit Committee, namely Van C. Campbell and John J. Roberts. Messrs. Campbell and Roberts are also independent, as that term is used in Item 7(d)(3)(iv)(B) of Schedule 14A under the 1934 Securities Exchange Act (“SEC”). Additionally, all of the members of the Audit Committee are independent within the meaning of Rule 10A-3 under the Securities Exchange Act of 1934.

Under the applicable SEC standard, an audit committee financial expert means a person who has the following attributes:

- (i) An understanding of generally accepted accounting principles and financial statements;
- (ii) The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- (iii) Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- (iv) An understanding of internal controls and procedures for financial reporting; and
- (v) An understanding of audit committee functions.

Director Information

The following information is current as of January 31, 2004.

Directors of Armstrong Holdings, Inc.

H. Jesse Arnelle – Age 70; 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 2002 and 2003. 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.

Van C. Campbell – Age 65; Director since March 1991; Member—Audit Committee (Audit Committee Financial Expert). Mr. Campbell graduated from Cornell University and holds an MBA degree from Harvard University. He retired in 1999 as Vice Chairman of Corning Incorporated (glass and ceramic products) and a member of its Board of Directors. Mr. Campbell is a Trustee Emeritus of the Corning Museum of Glass and a Director of the Charleston Symphony and Gibbes Museum.

Judith R. Haberkorn – Age 57; Director since July 1998; 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 Enesco Corporation and MCI (as of February 2004) and serves on the advisory board of Norfolk Southern. She is chair 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.

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John A. Krol – Age 67; Director since February 1998; Member—Nominating and Governance Committee and Management Development and Compensation Committee. Mr. Krol is a graduate of Tufts University where he also received a master’s degree in chemistry. From 1997 until his retirement in 1998, he was Chairman of the Board of DuPont (chemicals, fibers, petroleum, life sciences and diversified businesses), which he joined in 1963 and where he also served as Chief Executive Officer (1995-1998), Vice Chairman (1992-1995) and Senior Vice President of DuPont Fibers (1990-1992). He is a director of Mead Westvaco Corporation, Milliken & Company, Tyco International Ltd. and ACE Limited Insurance Co. Mr. Krol also serves on the Boards of Trustees of the University of Delaware, and is Trustee Emeritus of Tufts University. He is on the advisory Boards of Teijin Limited and Bechtel Corporation. He is also the former president of GEM: The National Consortium for Graduate Degrees for Minorities in Engineering and Sciences, Inc.

Michael D. Lockhart – Age 54; 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 the GE Credit Corporation (now GE Capital), 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 68; Director since November 1988; Member—Audit Committee (Chairman), 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 55; 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 Boards of Versura Inc. and Insolvia, LLC.

John J. Roberts – Age 58; Director since April 2003; Member – Audit Committee. Mr. Roberts served as Global Managing Partner for Pricewaterhouse Coopers LLP from 1998 until his retirement in June 2002. Mr. Roberts held numerous positions at Coopers & Lybrand LLP from 1967 until its merger with Pricewaterhouse 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 is also a Trustee of Drexel University.

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M. Edward Sellers – Age 59; 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. He currently serves as Chairman of the Palmetto Business Forum, ETU Endowment and the S.C. Council on Competitiveness. He is past Chairman of the Board of the South Carolina State Chamber of Commerce and Chairman of the Board of Columbia College. He also serves on the following Boards: Open Networks Technologies, Inc.; Palmetto Conservation Foundation; National Bank of South Carolina; American Red Cross; ETV (Educational Television) Endowment of South Carolina and Central Carolina Economic Development Alliance.

Jerre L. Stead – Age 61; 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. 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 Thomas & Betts, 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.)

Executive Officer Information

The following information is current as of January 31, 2004. 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.

Michael D. Lockhart - (See description, above.)

Matthew J. Angello – Age 44; Senior Vice President, Corporate Human Resources since October 2000. 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.

Leonard A. Campanaro – Age 55; Senior Vice President and Chief Financial Officer since April 2001. Previously President, Chief Operating Officer and board member of Harsco Corporation (provider of industrial services and products) January 1998 – July 2000. Served Harsco for over 20 years in a variety of financial and operations positions before assuming the role of President of Harsco, served as Senior Vice President and Chief Financial Officer from 1992-1997.

John N. Rigas – Age 54; Senior Vice President, Secretary and General Counsel since November 2000. Senior Vice President, Secretary and General Counsel of Armstrong World Industries, Inc. since May 2001. Previously Deputy General Counsel-Litigation, Armstrong World Industries, Inc. March 1999 –

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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 49; Vice President and Controller since July 1999. 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.

Barry M. Sullivan – Age 58; Vice President and Treasurer since May 2001. Previously Vice President and Treasurer for RailWorks Corporation (engineering and construction firm focused on rail) January 2000 – May 2001; Vice President and Treasurer for Harsco Corporation (provider of industrial services and products) October 1993 – September 1999.

Executive Officers of Armstrong World Industries, Inc.

Michael D. Lockhart – (See description, above.)

Matthew J. Angello – (See description, above.)

Leonard A. Campanaro – (See description, above.)

David E. Gordon – Age 37; President and Chief Executive Officer, Armstrong Cabinet Products, Armstrong World Industries, Inc. since October 2002. Previously, Vice President of Marketing, Cabinet Products, Armstrong Wood Products, Inc, Armstrong World Industries, Inc. February 2001 – September 2002; Director, Business Development, Armstrong World Industries, Inc. May 2000 – January 2001; Project Manager, e-Business Team, Armstrong World Industries, Inc. October 2000 – December 2000.

John N. Rigas – (See description, above.)

William C. Rodruan – (See description, above.)

Stephen J. Senkowski – Age 52; President and Chief Executive Officer, Armstrong Building Products, Armstrong World Industries, Inc. since October 2000. Previously, 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.

Barry M. Sullivan – (See description, above.)

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 Mr. Sellers, Ms. Owades and Mr. Roberts, all present directors of AWI were or are directors of AWI.

Section 16(a) Beneficial Ownership Reporting Compliance

Securities and Exchange Commission (“SEC”) regulations require company 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. The proxy rules require the company to report any failure to timely file those reports in the previous fiscal year.

Based solely upon review of copies of reports furnished to us and written representations from its directors and executive officers that no other reports were required, we believe that all of these filing requirements were satisfied by Armstrong's directors and executive officers during 2003.

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ITEM 11. EXECUTIVE COMPENSATION

Executive Officer's 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 2003. The data reflects compensation for services rendered to AHI and AWI and its subsidiaries in each of the last three fiscal years.

TABLE 1: SUMMARY COMPENSATION TABLE

Name and Current Principal Position	Year	ANNUAL COMPENSATION			LONG-TERM COMPENSATION			All Other Compensation (\$) ⁵
		Salary (\$)	Bonus (\$) ¹	Other Annual Compensation (\$) ²	Awards		Payout	
					AHI Restricted Stock Awards (\$) ³	AHI Securities Underlying Options/SARs(#)	LTIP Payouts (\$)	
M. D. Lockhart Chairman of the Board and Chief Executive Officer of AHI; Director Chairman of the Board and President of AWI	2003	905,000	—	127,779	—	—	1,359,200 ⁴	6,276
	2002	860,000	1,055,000	79,978	—	100,000	2,241,000	25,776
	2001	845,000	941,188	178,341	—	—	—	20,276
S. J. Senkowski President and Chief Executive Officer, Armstrong Building Products, AHI & AWI	2003	426,250	535,798	—	—	—	—	25,143
	2002	385,000	634,500	—	—	—	721,000	27,588
	2001	376,250	387,523	—	—	—	—	26,626
M. J. Angello Senior Vice President, Corporate Human Resources, AHI & AWI	2003	350,500	347,225	—	—	—	—	13,225
	2002	340,000	474,700	—	—	—	310,254	27,778
	2001	336,250	296,162	—	—	—	—	26,724
J. N. Rigas, Senior Vice President, Secretary and General Counsel, AHI & AWI	2003	345,000	330,000	—	—	—	—	6,276
	2002	330,000	640,875	—	—	—	355,350	25,776
	2001	322,500	292,325	—	—	—	—	24,451
W. C. Rodruan Vice President and Controller, AHI & AWI	2003	260,625	267,474	—	—	—	—	16,246
	2002	256,800	353,100	—	—	—	159,360	25,740
	2001	252,600	214,000	—	—	—	—	24,930

- 1) The amounts disclosed for 2003 include payments under the Management Achievement Plan and, where applicable, cash retention payments.
- 2) Except for the income related to Mr. Lockhart during 2003, the aggregate value does not exceed the lesser of \$50,000 or 10% of shown salary and bonus. Mr. Lockhart had income of \$80,513 related to the personal use of the company aircraft and related tax assistance of \$40,101.
- 3) The number and value of restricted stock held by each executive as of January 31, 2004 follows: M. D. Lockhart – 100,000 (\$114,000); S.J. Senkowski – 668 (\$762); M. J. Angello – 2,160 (\$2,463); W. C. Rodruan – 1,447 (\$1,649).
- 4) The amount disclosed is the payout for the 2002 Long-Term Cash Incentive Award.
- 5) The amounts disclosed for 2003 include:
 - a) Non-elective contribution by Armstrong to each individual's Bonus Replacement Retirement Plan account: S. J. Senkowski - \$20,000, M. J. Angello - \$7,225 and W. C. Rodruan - \$10,674.
 - b) Match Account contributions under the Retirement Savings and Stock Ownership Plan; M.D. Lockhart - \$6,000; S.J. Senkowski -

\$5,143; M. J. Angello - \$6,000; J. N. Rigas - \$6,000; W. C. Rodruan - \$5,572.

- ⦿ Taxable income related to company-paid life insurance benefits: M. D. Lockhart - \$276; J. N. Rigas - \$276.

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Change in Control Agreements

Armstrong and AHI have entered into change in control (“CIC”) agreements with a group of senior executives, including M. D. Lockhart, S. J. Senkowski, J. N. Rigas, M. J. Angello and W. C. Rodruan. These agreements provide severance benefits in the event of a change in control of AHI or its major subsidiary, Armstrong World Industries, Inc. The purpose of the agreements is to foster stability in AHI’s 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 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 agreement has an automatic 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 66-2/3% 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 either (a) the officer’s highest annual bonus earned in the three years prior to termination or prior to the change in control, or (b) the annual target bonus for the year in which the change in control occurs; (2) a lump-sum payment of the portion of the target incentive award calculated by multiplying the target award by the fractional number of months completed in the performance award period; (3) payment of remaining premium payments for split-dollar life insurance policies; (4) enhanced retirement benefits payable as a lump sum; (5) continuation of life, disability, accident and health insurance benefits for three years following termination; (6) full reimbursement for the payment of excise taxes; and (7) payment of legal fees in connection with a good faith dispute involving the agreement.

The Bankruptcy Court in Armstrong World Industries’ Chapter 11 Case authorized Armstrong World Industries to assume the CIC agreements subject 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 a qualifying change of control that would enable the executive to terminate employment. If the POR discussed in Item 1 of this 10-K report is approved and becomes effective, the issuance of the stock of AWI according to the provisions of the POR will constitute a change in control under the CIC agreements.

Employment Agreements

AHI and Armstrong World Industries entered into a three-year 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 will renew 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 AHI terminates the employment agreement with Mr. Lockhart without “cause” or if Mr. Lockhart terminates his employment for “good reason”, Mr. Lockhart is entitled to

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receive (1) a lump-sum cash payment equal to his base salary, plus the higher of (i) his bonus 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 for the year.

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 Armstrong World Industries, including the officers named in the Summary Compensation Table, 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 Armstrong World Industries, 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. Subject to certain limitations, benefits may be paid by salary continuation or lump sum payments. A participant may also choose a combination of periodic and lump-sum payments. 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.

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TABLE 2: OPTION/SAR GRANTS IN LAST FISCAL YEAR

There was no grant of stock options or any other equity-based awards during 2003 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.

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 2003 and the unexercised options held as of the end of 2003 by each of the named executives:

Name	AHI Shares Acquired	Value Realized (market price)	Securities Underlying Unexercised Options/SARs At Fiscal Year-End (#)		Value of Unexercised In- The-Money Options/SARs At Fiscal Year-End (\$)	
	On Exercise	at exercise less exercise price	Exercisable	Unexercisable	Exercisable	Unexercisable
	(#)	(\$)				
M. D. Lockhart	0	0	266,666	33,334	0	0
S. J. Senkowski	0	0	14,655	0	0	0
M. J. Angello	0	0	17,000	0	0	0
J. N. Rigas	0	0	10,570	0	0	0
W. C. Rodruan	0	0	14,600	0	0	0

TABLE 4: LONG TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR

There were no long-term incentive awards granted during 2003.

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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. 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.

TABLE 5: PENSION PLAN TABLE
ANNUAL RETIREMENT BENEFIT BASED ON SERVICE ¹

Remuneration ²	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years
\$ 200,000	\$ 44,000	\$ 58,000	\$ 72,000	\$ 87,000	\$ 101,000	\$ 113,000
\$ 400,000	\$ 90,000	\$120,000	\$150,000	\$ 180,000	\$ 209,000	\$ 233,000
\$ 600,000	\$137,000	\$182,000	\$227,000	\$ 273,000	\$ 318,000	\$ 354,000
\$ 800,000	\$183,000	\$244,000	\$305,000	\$ 366,000	\$ 426,000	\$ 474,000
\$ 1,000,000	\$230,000	\$306,000	\$382,000	\$ 459,000	\$ 535,000	\$ 595,000
\$ 1,200,000	\$276,000	\$368,000	\$460,000	\$ 552,000	\$ 643,000	\$ 715,000
\$ 1,400,000	\$323,000	\$430,000	\$537,000	\$ 645,000	\$ 752,000	\$ 836,000
\$ 1,600,000	\$369,000	\$492,000	\$615,000	\$ 738,000	\$ 860,000	\$ 956,000
\$ 1,800,000	\$416,000	\$554,000	\$692,000	\$ 831,000	\$ 969,000	\$1,077,000
\$ 2,000,000	\$462,000	\$616,000	\$770,000	\$ 924,000	\$1,077,000	\$1,197,000
\$ 2,200,000	\$509,000	\$678,000	\$847,000	\$1,017,000	\$1,186,000	\$1,318,000

1. Benefits shown assume retirement in 2003. 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 payments) as well as Armstrong contributions under the Bonus Replacement Retirement Plan.

The 2003 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 - \$1,980,000 (6.8 years); S. J. Senkowski - \$657,250 (30.6 years); M.J. Angello - \$505,200 (20.9 years); J. N. Rigas - \$580,875 (21.8 years) and W. C. Rodruan - \$376,925 (27.6 years). 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. 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 will be reduced by the value of any defined benefit pension payable by previous employers for the respective period of the prior service credit.

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. The named executives in the Summary Compensation Table 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 AHL. 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 will cease to accrue additional pension benefits under these pension enhancement provisions and no such benefits will be paid from the Retirement Benefit Equity Plan.

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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 \$50,000 per year. Shared directors receive only a single retainer. AHI directors receive \$1,200 for each Board and \$1,000 for each Committee meeting attended. Shared directors receive \$1,200 for each Armstrong Board meeting attended and \$1,000 for each Committee meeting attended only when there is no AHI Board or Committee meeting held on the same day. 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. Other committee members receive the following annual fees: Audit-\$10,000; Management Development and Compensation Committee-\$5,000; and Nominating and Governance Committee-\$5,000. AHI and Armstrong directors who are not employees are paid \$2,500 per day plus reasonable expenses for special assignments in connection with Board activity.

Management Development and Compensation Committee

The Management Development and Compensation Committee members are Jerre L. Stead (Chairman); Judith R. Haberkorn; John A. Krol; and Ruth M. Owades. 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.

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ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Stock Ownership of Certain Beneficial Owners

AHI indirectly owns all of the capital stock of AWI. The following table ¹ sets forth, as of December 31, 2003, 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</u> ²
JP Morgan Chase ³ 270 Park Ave. New York, NY 10017	5,712,422	14.05%
Royce & Associates, LLC 1414 Avenue of the Americas New York, NY 10019	2,419,500	5.95%
Leon G. Cooperman ⁴ 88 Pine Street Wall Street Plaza New York, NY 10005	2,136,400	5.3%

1. In accordance with applicable rules of the Securities and Exchange Commission, this information is based on Schedule 13(g) information filed in February 2004.
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, 2003.
3. JP Morgan Chase serves as the trustee of the Armstrong World Industries, Inc. Master Retirement Plan and 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 5,712,422 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 Master Retirement Plan.
4. Leon G. Cooperman, individually, as managing member of Omega Associates, LLC and as President of Omega Advisors, Inc. In accordance with applicable rules of the Securities and Exchange Commission, this information is based on Schedule 13(g) information as of December 31, 2003 filed by Mr. Cooperman.

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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 1.16% of the outstanding common shares. This information is as of January 31, 2004.

Name	Stock ¹	Stock Options	Total Beneficial Ownership	Deferred Stock Units ²
		Exercisable w/in 60 days		
H. Jesse Arnelle	2,044	—	2,044	1,689
Van C. Campbell	2,200	5,330	7,530	9,915
Judith R. Haberkorn	1,084	4,970	6,054	1,910
John A. Krol	121	2,990	3,111	644
Michael D. Lockhart	100,124	266,666	366,790	—
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
Stephen J. Senkowski	3,235	14,655	17,890	1,327
Matthew J. Angello	2,262	10,570	12,832	596
John N. Rigas	979	17,000	17,979	—
William C. Rodruan	4,356	14,600	18,956	283
Director and officers as a group (17 persons)	134,579	342,751	477,330	26,544

- 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; J. N. Rigas – 979; W. C. Rodruan – 2,135 and executive officers as a group – 11,398.

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; W. C. Rodruan – 782 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 – 301.

- 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

The following table provides information as of December 31, 2003 on 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</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> ⁽¹⁾ (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders	2,357,687	\$ 30.81	4,425,784
Equity compensation plans not approved by security holders ⁽²⁾	108,260	—	504,443
Total	2,465,947	\$ 29.46	4,930,227

(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 original purpose of the plan was to promote the long-term success of AHI by 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.

No equity-based compensation has been granted since AWI filed for relief under Chapter 11.

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 2002 and 2003.

During 2003, Stratford Management Company, Inc. purchased products from our Cabinets segment in the amount of \$136,713. The President of Stratford Management Co. is the brother of David E. Gordon, President of our Cabinets segment. The transactions were all in the ordinary course of business.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of AHI's annual financial statements for 2003 and 2002, 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, 2003, for which a portion of the billings occurred or will occur in 2004. In 2003, all but \$13,000 of the fees were pre-approved by the Audit Committee.

(amounts in 000's)	2003	2002
Audit Fees	\$3,500	\$3,660
Audit Related Fees ⁽¹⁾	760	770
Audit and Audit Related Fees	4,260	4,430
Tax Fees ⁽²⁾	1,480	2,220
All Other Fees ⁽³⁾	890	2,240
Total Fees	\$6,630	\$8,890

- 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), and 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 Chapter 11 corporate recovery assistance services.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The financial statements filed as a part of this Annual Report on Form 10-K are listed in the “Index to Financial Statements and Schedules” on page 46.

a. The following exhibits are filed as a part of this Annual Report on Form 10-K:

Exhibits

- No. 2(a) Armstrong World Industries, Inc.’s Fourth Amended Plan of Reorganization submitted to the Bankruptcy Court for the District of Delaware is incorporated by reference from the Current Report filed on Form 8-K on May 23, 2003, and as modified by modifications filed with the Bankruptcy Court on October 17, 2003 and November 10, 2003.
- No. 2(b) 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(c) 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(d) 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(e) 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. 3(a) Armstrong Holdings, Inc.’s Amended and Restated Articles of Incorporation are incorporated herein by reference from Exhibit 3.1(i) to Armstrong Holdings, Inc.’s Report on Form 8-K dated May 9, 2000.
- No. 3(b) Armstrong Holdings, Inc.’s Bylaws, effective May 1, 2000 are incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 3(b).
- No. 3(c) Armstrong World Industries, Inc.’s restated Articles of Incorporation, as amended, are incorporated by reference herein from Armstrong World Industries, Inc.’s 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b).
- No. 3(d) Armstrong World Industries, Inc.’s Bylaws as amended November 9, 2000 are incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 3(d).
- No. 4(a) Armstrong Holdings, Inc.’s Shareholder Summary of Rights to Purchase Preferred Stock dated as of March, 14, 2000 is incorporated by reference herein from Armstrong Holdings, Inc.’s registration statement on Form 8-K dated May 9, 2000, wherein it appeared as Exhibit 99.2.
- No. 4(b) 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

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herein 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.*

- No. 4(c) 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 herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(f).
- No. 4(d) 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 herein 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.
- No. 4(e) 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 herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(e).
- No. 4(f) 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 herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(h).
- No. 4(g) 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 herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(i).
- No. 4(h) 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 herein 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).
- No. 4(i) 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, is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(i).

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.

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- No. 4(j) Amendment to Armstrong World Industries, Inc.'s Debtor in Possession Credit Facility dated October 31, 2003.
- No. 4(k) 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 9-3/4% Debentures due 2008 and Series A Medium Term Notes) is incorporated herein by reference from Armstrong World Industries, Inc.'s 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 4(c). (SEC File No. 1-2116)
- No. 4(l) Senior Indenture dated as of December 23, 1998 between Armstrong World Industries, Inc. and First National Bank of Chicago, as Trustee, is incorporated herein 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.
- No. 4(m) Global Note representing \$200 million of 7.45% Senior Notes due 2029 is incorporated by reference herein from Armstrong World Industries, Inc.'s Report on Form 8-K which was filed with the Commission on May 29, 1999, wherein it appeared as Exhibit 4.2.
- No. 4(n) 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 herein from Armstrong World Industries, Inc.'s Report on Form 8- K filed on July 14, 1999, wherein it appeared as Exhibit 1.
- No. 10(i)(a) 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 herein from Armstrong World Industries, Inc.'s 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i) (a). (SEC File No. 1-2116)
- No. 10(i)(b) Producer Agreement concerning Center for Claims Resolution, as amended, among Armstrong World Industries, Inc. and other companies is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b).
- No. 10(iii)(a) Armstrong World Industries, Inc.'s Long Term Stock Incentive Plan is incorporated by reference herein from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(j). *
- No. 10(iii)(b) Armstrong World Industries, Inc.'s Directors' Retirement Income Plan, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c).* (SEC File No. 1-2116)
- No. 10(iii)(c) Armstrong World Industries, Inc. and Armstrong Holdings, Inc.'s Management Achievement Plan for Key Executives, as amended February 26, 2001, is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(d). *
- No. 10(iii)(d) 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 herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(e).*

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- No. 10(iii)(e) Armstrong Holdings, Inc.'s Deferred Compensation Plan, as amended May 1, 2000, is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(f).*
- No. 10(iii)(f) Armstrong World Industries, Inc.'s Employment Protection Plan for Salaried Employees of Armstrong World Industries, Inc., as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1994 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(g). * (SEC File No. 1-2116)
- No. 10(iii)(g) Armstrong World Industries, Inc.'s Restricted Stock Plan For Non-employee Directors, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(h). * (SEC File No. 1-2116)
- No. 10(iii)(h) Armstrong World Industries, Inc.'s Severance Pay Plan for Salaried Employees, as amended January 1, 2003. *
- No. 10(iii)(i) Armstrong World Industries, Inc.'s 1999 Long Term Stock Incentive Plan is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(j).*
- No. 10(iii)(j) Form of Change in Control Agreement between Armstrong World Industries, Inc. and certain of its officers is incorporated herein by reference from 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. *
- No. 10(iii)(k) Change in Control Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart, dated August 7, 2000 is incorporated by reference herein 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). *
- No. 10(iii)(l) Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and Messrs. Arnelle, Campbell, Krol, Marley, Stead and Ms. Owades, is incorporated by reference herein 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). *
- No. 10(iii)(m) Form of Indemnification Agreement between Armstrong Holdings, Inc. and certain of its Directors and Officers dated October 20, 2000 is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 10(iii)(o), together with a schedule identifying those Directors and Officers and the material differences among the agreements to which each executive is a party. *
- No. 10(iii)(n) Form of Indemnification Agreement between Armstrong World Industries, Inc. and certain of its Directors and Officers is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 10(iii)(p), together with a schedule identifying those Directors and Officers dated October 20, 2000 and the material differences among the agreements to which each executive is a party. *
- No. 10(iii)(o) Form of Indemnification Agreement between Armstrong Holdings, Inc. and M. Edward Sellers, dated May 1, 2001 is incorporated herein by reference from 2001 Annual Report of Form 10-K wherein it appeared as Exhibit 10(iii)(s).*
- No. 10(iii)(p) Form of Indemnification Agreement between Armstrong World Industries, Inc. and Leonard A. Campanaro, David E. Gordon and Barry M. Sullivan, is incorporated herein

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	by reference from Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, wherein it appeared as Exhibit 10.*
No. 10(iii)(q)	Form of Indemnification Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc. and Ms. Ruth M. Owades and Mr. John J. Roberts.*
No. 10(iii)(r)	Armstrong World Industries, Inc.'s Bonus Replacement Retirement Plan, dated as of January 1, 1998, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(m). *
No. 10(iii)(s)	Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart dated August 7, 2000 is incorporated herein 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). *
No. 10(iii)(t)	Amendment to August 7, 2000 employment agreement between Armstrong Holdings, Inc. and Michael D. Lockhart is incorporated by reference herein 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. *
No. 10(iii)(u)	Order Authorizing and Approving Retention Program for Key Employees and Approving Assumption of Executory Contracts dated April 18, 2001 is incorporated herein by reference from 2001 Annual Report of Form 10-K wherein it appeared as Exhibit 10(iii)(u).
No. 10(iii)(v)	Armstrong Holdings, Inc.'s Stock Award Plan is incorporated by reference herein from Armstrong Holdings, Inc.'s registration statement on Form S-8 filed August 16, 2000, wherein it appeared as Exhibit 4.1. *
No. 10(iii)(w)	Terms of Restricted Stock for Stock Option Exchange Program Offered to Employees and Schedule of Participating Officers is incorporated by reference herein 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(i). *
No. 10(iii)(x)	Management Services Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc., dated August 7, 2000 is incorporated by reference herein 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). *
No. 10(iii)(y)	Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc. and Triangle Pacific Corp. dated November 14, 2000 is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 10(iii)(bb). *
No. 10(iii)(z)	Form of Amendment of Restricted Stock Award Agreements between AHI and the following executive officers: M.D. Lockhart, M.J. Angello, S.J. Senkowski and W.C. Rodruan dated July 22, 2002 is incorporated herein by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 wherein it appeared as Exhibit 10.
No. 10(iii)(aa)	Settlement and Release Agreement between Armstrong Holdings, Inc., Armstrong Worldwide, Inc. and Armstrong World Industries, Inc. dated May 9, 2003.
No. 11(a)	Computation for basic earnings per share.

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- No. 11(b) Computation for diluted earnings per share.
- No. 14 The Code of Business Conduct and the Code of Ethics for Financial Professionals, as mentioned in Item 10 of this Report are available through Armstrong's internet web site at www.armstrong.com
- No. 21 List of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
- No. 23 Consent of Independent Auditors.
- No. 24 Power of Attorney and authorizing resolution.
- No. 31.1 Certification of Principal Executive Officer of Armstrong Holdings, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- No. 31.2 Certification of Principal Financial Officer of Armstrong Holdings, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- No. 31.3 Certification of Principal Executive Officer of Armstrong World Industries, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- No. 31.4 Certification of Principal Financial Officer of Armstrong World Industries, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- No. 32.1 Certification of Chief Executive Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- No. 32.2 Certification of Chief Financial Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management Contract or Compensatory Plan

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- b. The following Current Reports were filed on Form 8-K since the third quarter of 2003.
- 1) On October 15, 2003, a Current Report was filed under Item 5 of Form 8-K and Regulation FD related to the Bankruptcy Court's approval of extending the deadline for creditors and claimants to vote on the Plan of Reorganization. The voting deadline was extended from October 17, 2003 to October 31, 2003.
 - 2) On October 31 2003, a Current Report was filed under Item 12 of Form 8-K related to a press release of the same date regarding financial results for the fiscal quarter ended September 30, 2003.
 - 3) On November 20, 2003, a Current Report was filed under Items 5 and 7 of Form 8-K and Regulation FD related to a press release concerning a hearing in its Chapter 11 Case, wherein the court proposed findings of fact and conclusions of law that would dismiss all remaining objections and approve the Plan of Reorganization. In connection with the hearing, AWI filed revised projected financial information. The revised information updated the projected financial information AWI previously filed with the Bankruptcy Court attached as Exhibit C to the Disclosure Statement of May 23, 2003.
 - 4) On December 1, 2003, a Current Report was filed under Items 5 and 7 of Form 8-K and Regulation FD related to a press release of the same date regarding the postponement of its special meeting of shareholders to January 7, 2004.

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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 and Chief Executive Officer

Date: February 23, 2004

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael D. Lockhart</u> Michael D. Lockhart	Chairman and Chief Executive Officer (Principal Executive Officer)	February 23, 2004
<u>/s/ Leonard A. Campanaro</u> Leonard A. Campanaro	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2004
<u>/s/ William C. Rodruan</u> William C. Rodruan	Vice President and Controller (Chief Accounting Officer)	February 23, 2004
<u>/s/ H. Jesse Arnelle</u> H. Jesse Arnelle	Director	February 23, 2004
<u>/s/ Van C. Campbell</u> Van C. Campbell	Director	February 23, 2004
<u>/s/ Judith R. Haberkorn</u> Judith R. Haberkorn	Director	February 23, 2004
<u>/s/ John A. Krol</u> John A. Krol	Director	February 23, 2004
<u>/s/ James E. Marley</u> James E. Marley	Director	February 23, 2004
<u>/s/ Ruth M. Owades</u> Ruth M. Owades	Director	February 23, 2004
<u>/s/ John J. Roberts</u> John J. Roberts	Director	February 23, 2004
<u>/s/ Michael D. Lockhart on behalf of M. Edward Sellers</u> M. Edward Sellers	Director	February 23, 2004

Jerre L. Stead

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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 WORLD INDUSTRIES, INC.
(Registrant)

By: /s/ Michael D. Lockhart

Chairman, Chief Executive Officer and President

Date: February 23, 2004

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael D. Lockhart</u> Michael D. Lockhart	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 23, 2004
<u>/s/ Leonard A. Campanaro</u> Leonard A. Campanaro	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2004
<u>/s/ William C. Rodruan</u> William C. Rodruan	Vice President and Controller (Chief Accounting Officer)	February 23, 2004
<u>/s/ James E. Marley</u> James E. Marley	Director	February 23, 2004
<u>/s/ John N. Rigas</u> John N. Rigas	Director	February 23, 2004

SCHEDULE II

Armstrong Holdings, Inc. and Armstrong World Industries, Inc.
Valuation and Qualifying Reserves of Accounts Receivable

For Years Ended December 31
(amounts in millions)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Provision for Losses			
Balance at beginning of year	\$ 20.3	\$ 22.0	\$ 24.6
Additions charged to earnings	6.4	7.8	8.4
Deductions	(7.8)	(9.5)	(11.0)
Balance at end of year	\$ 18.9	\$ 20.3	\$ 22.0
Provision for Discounts			
Balance at beginning of year	\$ 41.4	\$ 36.6	\$ 33.9
Additions charged to earnings	242.7	247.4	258.4
Deductions	(236.8)	(242.6)	(255.7)
Balance at end of year	\$ 47.3	\$ 41.4	\$ 36.6
Total Provision for Discounts and Losses			
Balance at beginning of year	\$ 61.7	\$ 58.6	\$ 58.5
Additions charged to earnings	249.1	255.2	266.8
Deductions	(244.6)	(252.1)	(266.7)
Balance at end of year	\$ 66.2	\$ 61.7	\$ 58.6

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Exhibit Index

<u>Exhibit No.</u>	
No. 2(a)	Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization submitted to the Bankruptcy Court for the District of Delaware is incorporated by reference from the Current Report filed on Form 8-K on May 23, 2003, and as modified by modifications filed with the Bankruptcy Court on October 17, 2003 and November 10, 2003.
No. 4(j)	Amendment to Armstrong World Industries, Inc.'s Debtor in Possession Credit Facility dated October 31, 2003.
No. 10(iii)(h)	Armstrong World Industries, Inc.'s Severance Pay Plan for Salaried Employees, as amended January 1, 2003.
No. 10(iii)(j)	Form of Change in Control Agreement between Armstrong World Industries, Inc. and certain of its officers is incorporated herein by reference from 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.
No. 10(iii)(m)	Form of Indemnification Agreement between Armstrong Holdings, Inc. and certain of its Directors and Officers dated October 20, 2000 is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 10(iii)(o), together with a schedule identifying those Directors and Officers and the material differences among the agreements to which each executive is a party.
No. 10(iii)(n)	Form of Indemnification Agreement between Armstrong World Industries, Inc. and certain of its Directors and Officers is incorporated herein by reference from 2000 Annual Report on Form 10-K wherein they appear as Exhibit 10(iii)(p), together with a schedule identifying those Directors and Officers dated October 20, 2000 and the material differences among the agreements to which each executive is a party.
No. 10(iii)(q)	Form of Indemnification Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc. and Ms. Ruth M. Owades and Mr. John J. Roberts.
No. 10(iii)(aa)	Settlement and Release Agreement between Armstrong Holdings, Inc., Armstrong Worldwide, Inc. and Armstrong World Industries, Inc. dated May 9, 2003.
No. 11(a)	Computation for basic earnings per share.
No. 11(b)	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	Consent of Independent Auditors.
No. 24	Power of Attorney and authorizing resolution.

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Exhibit Index

<u>Exhibit No.</u>	
No. 31.1	Certification of Principal Executive Officer of Armstrong Holdings, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
No. 31.2	Certification of Principal Financial Officer of Armstrong Holdings, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
No. 31.3	Certification of Principal Executive Officer of Armstrong World Industries, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
No. 31.4	Certification of Principal Financial Officer of Armstrong World Industries, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
No. 32.1	Certification of Chief Executive Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
No. 32.2	Certification of Chief Financial Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT NO. 2(a)

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

	x	
In re	:	Chapter 11 Case No.
	:	
ARMSTRONG WORLD INDUSTRIES, INC., <i>et al.</i> ,	:	00-4471 (RJN)
	:	
Debtors.	:	(Jointly Administered)
	x	

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.

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, 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* : The first Business Day of the month immediately following 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 on such date, the first Business Day of the month immediately following the date of the expiration, dissolution, or lifting of such stay; *provided, however*, if all such conditions precedent

have been satisfied or waived on or before December 30, 2003, and no stay of the Confirmation Order is in effect at such time, the Effective Date will be December 30, 2003.

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.

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 9¾% Debentures due 2008 and for the holders of the 8¾%-9% Medium Term Notes, Wells Fargo Minnesota, N.A., as indenture trustee for the holders of AWI's 6.35% Senior Notes due 2003, 6½% 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, AWW, 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.

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 feminine, and the neuter. The words “herein,” “hereof,” “hereto,” “hereunder,” and others of similar import refer to the Plan as a 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. 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>
Class 1: 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
Class 2: Secured Claims	Reinstated – Any defaults related to Secured Claims will be cured.	Unimpaired	No
Class 3: 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
Class 4: 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
Class 5: 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>
Class 6: 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
Class 7: 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
Class 8: 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
Class 9: Affiliate Claims	Reinstated	Unimpaired	No
Class 10: Subsidiary Debt Guarantee Claims	Reinstated	Unimpaired	No
Class 11: Employee Benefit Claims	Reinstated	Unimpaired	No
Class 12: 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 .*

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.

(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 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 14th 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 15th 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 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.

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.

(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;

(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.

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 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. 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, AWWD, 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 Bankruptcy Code, any such holder of such a Claim that fails to surrender or cause to be surrendered such promissory note or instrument or to execute and deliver an affidavit of loss and indemnity reasonably satisfactory to Reorganized AWI and, in the event that Reorganized AWI requests, furnish a bond in form and substance (including, without limitation, amount) reasonably satisfactory to

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 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.

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

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UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

<i>In re</i>	x	
	:	Chapter 11 Case No.
	:	
ARMSTRONG WORLD INDUSTRIES, INC., et al.,	:	00-4471 (RJN)
	:	
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

<i>In re</i>	:	x	Chapter 11 Case No.
	:		
ARMSTRONG WORLD INDUSTRIES, INC., et al.,	:		00-4471 (RJN)
	:		
	:		
Debtors.	:		(Jointly Administered)

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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EXHIBIT NO. 4(j)

**FIFTH AMENDMENT
TO REVOLVING CREDIT AND
GRARANTY AGREEMENT**

FIFTH AMENDMENT, dated as of October 31, 2003 (the “Amendment”), to the **REVOLVING CREDIT AND GUARANTY AGREEMENT**, dated as of December 6, 2000, among **ARMSTRONG WORLD INDUSTRIES, INC.**, a Pennsylvania corporation (the “Borrower”), a debtor and debtor-in-possession under Chapter 11 of the Bankruptcy Code, the Guarantors named therein (the “Guarantors”), **JPMORGAN CHASE BANK**, a New York banking corporation JPMorgan Chase”) successor to The Chase Manhattan Bank, each of the other financial institutions party thereto (together with JPMorgan Chase, the “Banks”) and **JPMORGAN CHASE BANK**, as Agent for the Banks (in such capacity, the “Agent”) successor to The Chase Manhattan Bank:

WITNESSETH:

WHEREAS, the Borrower, the Guarantors, the Banks and the Agent are parties to that certain Revolving Credit and Guaranty Agreement, dated as of December 6, 2000, as amended by that certain First Amendment to Revolving Credit and Guaranty Agreement dated as of February 2, 2001, that certain Amendment Letter dated as of February 28, 2001, that certain Second Amendment to Revolving Credit and Guaranty Agreement dated as of May 29, 2001, that certain Third Amendment to Revolving Credit and Guaranty Agreement dated as of June 4, 2001 and that certain Fourth Amendment to Revolving Credit and Guaranty Agreement dated September 30, 2002 (as the same may be further amended, modified or supplemented from time to time, the “Credit Agreement”); and

WHEREAS, the Borrowers and the Guarantors have requested that from and after the Effective Date (as hereinafter defined) of this Amendment, the Credit Agreement be amended subject to and upon the terms and conditions set forth herein;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. As used herein, all terms that are defined in the Credit Agreement shall have the same meanings herein.

2. Section 1.01 of the Credit Agreement is hereby amended by amending the definition of “Maturity Date” in its entirety to read as follows:

“Maturity Date” shall mean December 8, 2004.

3. This Amendment shall not become effective (the "Effective Date") until (i) the date on which this Amendment shall have been executed by the Borrower, the Guarantors, the Banks and the Agent, and the Agent shall have received evidence satisfactory to it of such execution, and (ii) the Bankruptcy Court shall have entered an order in form and substance satisfactory to the Agent authorizing the terms of this Amendment and the conditional payment by the Borrower to the Agent, for its own account of an arrangement fee in the amount and upon the conditions heretofore agreed upon by the Borrower and the Agent, and for the respective account of each Bank, a conditional amendment fee in the amount and upon the conditions heretofore agreed upon by the Borrower and the Banks.

4. Except to the extent hereby amended, the Credit Agreement and each of the Loan Documents remain in full force and effect and are hereby ratified and affirmed.

5. The Borrower agrees that its obligations set forth in Section 10.05 of the Credit Agreement shall extend to the preparation, execution and delivery of this Amendment, including the reasonable fees and disbursements of special counsel to the Agent.

6. This Amendment shall be limited precisely as written and shall not be deemed (a) to be a consent granted pursuant to, or a waiver or modification of, any other term or condition of the Credit Agreement or any of the instruments or agreements referred to therein or (b) to prejudice any right or rights which the Agent or the Banks may now have or have in the future under or in connection with the Credit Agreement or any of the instruments, agreements or other documents or papers executed or delivered in connection therewith, such reference shall be deemed to mean the Credit Agreement as modified by this Amendment.

7. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

8. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS **WHEREOF**, the parties hereto have caused this Agreement to be duly executed as of the day and the year first written.

BORROWER:

ARMSTRONG WORLD INDUSTRIES, INC.

By: /S/ Leonard A. Campanaro

Name: Leonard A. Campanaro
Title: Senior Vice President & Chief
Financial Officer

By: /S/ Barry M. Sullivan

Name: Barry M. Sullivan
Title: Vice President & Treasurer

GUARANTORS:

NITRAM LIQUIDATORS, INC.

By: /S/ Walter T. Gangl

Name: Walter T. Gangl
Title: Assistant Secretary

**DESSEAUX CORPORATION OF NORTH
AMERICA**

By: /S/ Walter T. Gangl

Name: Walter T. Gangl
Title: President & Assistant Secretary

JPMORGAN CHASE BANK
Individually and as Agent

By: /S/ Stephanie Parker

Name: Stephanie Parker
Title: Vice President

BANK OF AMERICA, N.A.

By: /S/ R. Barkowicz

Name: R. Barkowicz
Title: Vice President

BARCLAYS BANK PLC

By: /S/ Nicholas Bell

Name: Nicholas Bell
Title: Director

EXHIBIT NO. 10(iii)(h)

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;

-
- (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.
- (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. 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.

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.

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 January 1, 2003

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

EXHIBIT NO. 10(iii)(j)

SCHEDULE OF PARTICIPATING OFFICERS

Armstrong World Industries, Inc. has entered into substantially similar agreements with certain of its officers, including Stephen J. Senkowski, Matthew J. Angello, John N. Rigas and William C. Rodruan. Mr. Rigas does not participate in the "split dollar" insurance arrangements referenced in Section 6.1(C); Mr. Rodruan's agreement has been modified in that Section 6.1(A) has been modified to provide a 2X multiplier, and Section 16(P) has been modified to remove the "modified single trigger" provision.

EXHIBIT NO. 10(iii)(m)

SCHEDULE OF PARTICIPATING OFFICERS AND DIRECTORS

Armstrong Holdings, Inc. has entered into substantially similar agreements with certain of its directors and officers, including Michael D. Lockhart, Matthew J. Angello, John N. Rigas and William C. Rodruan. Mr. Lockhart's agreement is modified in that the D & O Insurance Policies referenced have total aggregate limits of \$150 million.

EXHIBIT NO. 10(iii)(n)

SCHEDULE OF PARTICIPATING OFFICERS AND DIRECTORS

Armstrong World Industries, Inc. has entered into substantially similar agreements with certain of its directors and officers, including Michael D. Lockhart, John N. Rigas, Stephen J. Senkowski and William C. Rodruan. Mr. Lockhart's agreement is modified in that the D & O Insurance Policies referenced have total aggregate limits of \$150 million.

EXHIBIT 10(iii)(q)

INDEMNIFICATION AGREEMENT
FOR
DIRECTORS AND OFFICERS OF **ARMSTRONG HOLDINGS, INC.**

This Agreement is made effective as of the ____ day of [month/year], by and among Armstrong Holdings, Inc., a Pennsylvania corporation (the "Corporation"), Armstrong World Industries, Inc., also a Pennsylvania corporation (the "Subsidiary," and together with the Corporation referred to as the "Indemnitors") and [NAME] (the "Indemnitee").

WHEREAS, it is essential to the Corporation and the Subsidiary that the Corporation retain and attract as directors and officers the most

capable persons available; and

WHEREAS, Indemnitee is an officer and/or a member of the Board of Directors of the Corporation and in that capacity is performing a valuable service for the Corporation, which inures to the benefit of the Subsidiary; and

WHEREAS, the Indemnitors have purchased and maintain policies of Directors and Officers Liability Insurance (“D & O Insurance”) covering certain liabilities which may be incurred by directors and officers in their performance of services for the Corporation; and

WHEREAS, there is concern over the continued adequacy and reliability of D & O Insurance protection available to corporate directors and officers; and

WHEREAS, the Corporation has a bylaw (the “Bylaw”) which provides for indemnification of and advancement of expenses to the officers and directors of the Corporation unless the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness, and the Bylaw and the applicable indemnification statutes of the Commonwealth of Pennsylvania provide that they are not exclusive; and

WHEREAS, in recognition of Indemnitee’s need for substantial protection against personal liability in order to induce and retain Indemnitee’s service to the Corporation, the increasing difficulty in obtaining satisfactory D & O Insurance coverage, and Indemnitee’s reliance on the Bylaw, and in part to provide Indemnitee with specific contractual assurance that the protection promised by the Bylaw will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Bylaws or any change in the composition of the Corporation’s Board of Directors or acquisition transaction relating to the

Corporation), the Indemnitors wish to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Indemnitors' D & O Insurance policies.

NOW, THEREFORE, in consideration of the premises and of Indemnitee agreeing to serve or continuing to serve the Corporation directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Indemnity of Indemnitee.**

(a) The Indemnitors shall hold harmless and indemnify the Indemnitee against any and all reasonable expenses, including attorneys' fees, and any and all liability and loss, including judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement, incurred or paid by Indemnitee in connection with any threatened, pending or contemplated action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter "a proceeding") and whether or not by or in the right of the Corporation or otherwise, to which the Indemnitee is, was or at any time becomes a party, or is threatened to be made a party or is involved (as a witness or otherwise) by reason of the fact that Indemnitee is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as director, officer, trustee or representative of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity, or in any other capacity while serving, as a director, officer, trustee or representative, unless the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness; provided, however, that the Indemnitors shall indemnify the Indemnitee in connection with a proceeding (or part thereof) initiated by the Indemnitee (other than a proceeding to enforce the Indemnitee's rights to indemnification under this Agreement or otherwise) prior to a Change of Control, as defined in Section 2(e), only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(b) Subject to the foregoing limitation concerning certain proceedings initiated by the Indemnitee prior to a Change of Control, the Indemnitors shall pay the expenses (including attorneys' fees) incurred by

Indemnitee in connection with any proceeding in advance of the final disposition thereof promptly after receipt by the Indemnitors of a request therefor stating in reasonable detail the expenses incurred or to be incurred.

(c) If a claim under paragraph (a) or (b) of this section is not paid in full by the Indemnitors within forty-five (45) days after a written claim has been received by the Corporation, the Indemnitee may, at any time thereafter, bring suit against the Indemnitors to recover the unpaid amount of the claim. The burden of proving that indemnification or advances are not appropriate shall be on the Indemnitors. The Indemnitee shall also be entitled to be paid the expenses of prosecuting such claim to the extent he or she is successful in whole or in part on the merits or otherwise in establishing his or her right to indemnification or to the advancement of expenses. The Indemnitors shall pay such fees and expenses in advance of the final disposition of such action on the terms and conditions set forth in Section 1(b).

2. **Maintenance of Insurance and Funding .**

(a) The Indemnitors represent that as of the present date, they have in force and effect various policies of D & O Insurance (the "Insurance Policies"), with total aggregate limits of \$150 million. Subject only to the provisions of Section 2(b) hereof, the Indemnitors agree that, so long as Indemnitee shall continue to serve as an officer or director of the Corporation (or shall continue at the request of the Corporation to serve as a director, officer, trustee or representative of another Armstrong corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan) and, subject to the provisions of Armstrong World Industries, Inc.'s plan of reorganization in its Chapter 11 case concerning its payment of D & O insurance premiums for persons who served as directors of the Corporation during that case, thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or contemplated action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnitee was a director or officer of the Corporation (or served in any of said other capacities), except as indicated in (b) below, the Indemnitors shall purchase and maintain in effect for the benefit of Indemnitee a binding and enforceable policy or policies of D & O Insurance providing coverage at least comparable to that provided pursuant to the Insurance Policies.

(b) The Corporation shall not be required to maintain said policy or policies of D & O Insurance in effect if, in the reasonable business judgment of the then directors of the Corporation (i) the premium cost for such insurance is substantially disproportionate to the amount of coverage, (ii) the coverage provided by such insurance is so limited by exclusions that there is insufficient benefit from such insurance or (iii) said insurance is not otherwise reasonably available; provided however, that in the event those directors make such a judgment, the Indemnitors shall purchase and maintain in force a policy or policies of D & O Insurance in the amount and with such coverage as such directors determine to be reasonably available. Notwithstanding the general provisions of this Section 2(b), following a Change of Control, any decision not to maintain any policy or policies of D & O Insurance or to reduce the amount or coverage under any such policy or policies shall be effective only if there are "disinterested directors" (as defined in Section 2(e) hereof) and shall require the concurrence of a majority of such "disinterested directors."

(c) If and to the extent the Indemnitors, acting under Section 2(b), do not purchase and maintain in effect the policy or policies of D & O Insurance described in Section 2(a), the Indemnitors shall indemnify and hold harmless the Indemnitee to the full extent of the coverage which would otherwise have been provided by such policies. The rights of the Indemnitee hereunder shall be in addition to all other rights of Indemnitee under the remaining provisions of this Agreement.

(d) In the event of a Potential Change of Control or if and to the extent the Indemnitors are not required to maintain in effect the policy or policies of D & O Insurance described in Section 2(a) pursuant to the provisions of Section 2(b), the Indemnitors shall, upon written request by Indemnitee, create a "Trust" for the benefit of Indemnitee and from time to time, upon written request by Indemnitee, shall fund such Trust in an amount sufficient to pay any and all expenses, including attorneys' fees, and any and all liability and loss, including judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf for which the Indemnitee is entitled to indemnification or with respect to which indemnification is claimed, reasonably anticipated or proposed to be paid in accordance with the terms of this Agreement or otherwise; provided that in no event shall more than \$100,000 be required to be deposited in any Trust created hereunder in excess of the amounts deposited in respect of reasonably anticipated expenses, including attorneys' fees. The amounts

to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Person whose determination shall be final and conclusive. The Reviewing Person shall have no liability to the Indemnitee for his or her decisions hereunder. The terms of the Trust shall provide that upon a Change of Control (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the Trust shall advance, within two business days of a request by the Indemnitee, any and all expenses, including attorneys' fees, to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Trustee under Section 5 of this Agreement), (iii) the Trust shall continue to be funded by the Indemnitors in accordance with the funding obligation set forth above, (iv) the Trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (v) all unexpended funds in such Trust shall revert to the Indemnitors upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be a bank or trust company or other individual or entity chosen by the Indemnitee and acceptable to and approved of by the Indemnitors.

(e) For the purposes of this Agreement:

(i) a "Change of Control" shall occur if and when (A) any person acquires "beneficial ownership" of more than 28% of the then outstanding "voting stock" of the Corporation and within five years thereafter, "disinterested directors" no longer constitute at least a majority of its entire Board of Directors or (B) there shall occur a "business combination" with an "interested shareholder" not approved by a majority of the "disinterested directors".

(ii) a "Potential Change of Control" shall occur if (A) the Corporation enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in Control; (B) any person publicly announces a tender offer or comparable action which if consummated would constitute a Change of Control; (C) any person (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation acting in such capacity or a corporation owned, directly or indirectly, by the shareholders of the Corporation in substantially the same proportions as

their ownership of stock of the Corporation), who is or becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 10% or more of the combined voting stock increases his or her beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (D) the Board of the Corporation adopts a resolution to the effect that, for the purposes of this Agreement, a Potential Change of Control has occurred.

(iii) a "Reviewing Person" means any appropriate person or body consisting of a member or members of the Corporation's Board of Directors or any other person or body appointed by that Board which, following a Change of Control, shall require the concurrence of a majority of the "disinterested directors" or shall be independent legal counsel approved and accepted by the Indemnitee who is not a party to the particular claim for which Indemnitee is seeking indemnification.

For purposes of this subsection, the terms "person," "beneficial owner," "voting stock," "disinterested director," "business combination," and "interested shareholder" shall have the meaning given to them in Article 7 of the Corporation's Articles of Incorporation as in effect on May 1, 2000.

3. **Continuation of Indemnity .**

All agreements and obligations of the Indemnitors contained in this Agreement shall continue during the period the Indemnitee is a director or officer of the Corporation (or is or was serving at the request of the Corporation as a director, officer, trustee or representative of another Armstrong corporation, partnership, joint venture, trust or other enterprise, including any employee benefit plan) and shall continue thereafter so long as the Indemnitee shall be subject to any possible claim or threatened, pending or contemplated action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that the Indemnitee was a director or officer of the Corporation or serving in any other capacity referred to herein.

4. **Notification and Defense of Claim .**

As soon as practicable after receipt by the Indemnitee of actual knowledge of any action, suit or proceeding the Indemnitee will notify the Indemnitors thereof, if a claim in respect thereof may be or is being made by the Indemnitee against the Indemnitors under this Agreement. With respect to any action, suit or proceeding as to which the Indemnitee has so notified the Indemnitors:

(a) The Indemnitors will be entitled to participate therein at its own expense; and

(b) Except as otherwise provided below, the Indemnitors may assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee. After the Indemnitors notify the Indemnitee of their election to so assume the defense, the Indemnitors will not be liable to the Indemnitee under this Agreement for any legal or other expenses subsequently incurred by the Indemnitee in connection with the defense, other than reasonable costs of investigation, including an investigation in connection with determining whether there exists a conflict of interest of the type described in (ii) of this paragraph, or as otherwise provided in this paragraph. The Indemnitee shall have the right to employ his or her counsel in such action, suit or proceeding but the fees and expenses of such counsel incurred after the Indemnitors notify the Indemnitee of their assumption of the defense shall be at the expense of the Indemnitee unless (i) the Indemnitors authorize the Indemnitee's employment of counsel which, following a "Change of Control", shall be effective if authorized by a majority of the "disinterested directors" (which terms are defined in Section 2(e)), although less than a quorum or majority of a quorum of the directors then in office; (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Indemnitors and the Indemnitee in the conduct of the defense or (iii) the Indemnitors shall not have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Indemnitors. The Indemnitors shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Indemnitors or as to which the Indemnitee shall have made the conclusion described in (ii) of this paragraph.

(c) The Indemnitors shall not be obligated to indemnify the Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without their written consent. The Indemnitors shall not settle any action or claim in any manner which would impose any penalty limitation on the Indemnitee without the Indemnitee's written consent. Neither the Indemnitors nor the Indemnitee shall unreasonably withhold their consent to any proposed settlement.

5. **Undertaking to Repay Expenses.**

In the event it shall ultimately be determined that the Indemnitee is not entitled to be indemnified for the expenses paid by the Indemnitors pursuant to Section 1(b) hereof or otherwise or was not entitled to be

fully indemnified, the Indemnitee shall repay to the Indemnitors such amount of the expenses or the appropriate portion thereof, so paid or advanced.

6. **Notice**.

Any notice to the Corporation shall be directed to Armstrong Holdings, Inc., 2500 Columbia Avenue, Lancaster, Pennsylvania 17603, Attention: Secretary (or such other address as the Corporation shall designate in writing to the Indemnitee). Notice to the Subsidiary shall be directed to it at that same address.

7. **Enforcement**.

In the event the Indemnitee is required to bring any action to enforce rights or to collect monies due under this Agreement, the Indemnitors shall pay to the Indemnitee the fees and expenses incurred by the Indemnitee in bringing and pursuing such action to the extent the Indemnitee is successful, in whole or in part, on the merits or otherwise, in such action. The Indemnitors shall pay such fees and expenses in advance of the final disposition of such action on the terms and conditions set forth in Section 1(b).

8. **Severability**.

If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever:

(a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and

(b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

9. **Indemnification Under this Agreement Not Exclusive**.

The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under the Articles of Incorporation of the Corporation or its bylaws,

any other agreement, any vote of stockholders or directors, or otherwise, both as to action in the Indemnitee's official capacity and as to action in another capacity while holding such office.

10. **Miscellaneous.**

(a) This Agreement shall be interpreted and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

(b) This Agreement shall be binding upon the Indemnitee and jointly and severally upon the Corporation, the Subsidiary and their respective successors and assigns, and shall inure to the benefit of the Indemnitee, his or her heirs, executors, personal representatives and assigns and to the benefit of the Corporation, the Subsidiary and their respective successors and assigns. If the Corporation shall merge or consolidate with another corporation or shall sell, lease, transfer or otherwise dispose of all or substantially all of its assets to one or more persons or groups (in one transaction or series of transactions), (i) the Corporation shall cause the successor in the merger or consolidation or the transferee of the assets that is receiving the greatest portion of the assets or earning power transferred pursuant to the transfer of the assets, by agreement in form and substance satisfactory to the Indemnitee, to expressly assume all of the Indemnitors' obligations under and agree to perform this Agreement, and (ii) the term "Corporation" whenever used in this Agreement shall mean and include any such successor or transferee.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both of the parties hereto.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

ARMSTRONG HOLDINGS, INC.

ARMSTRONG WORLD INDUSTRIES, INC.

By _____
Title: Chairman and CEO

By _____
Title: Chairman

Indemnitee

- 9 -

EXHIBIT NO. 10(iii)(aa)

SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement (this "Agreement") is entered into as of this 9th day of May 2003 by and among Armstrong Holdings, Inc., a Pennsylvania corporation ("AHI"). Armstrong Worldwide, Inc., a Delaware corporation ("AWWD"). and Armstrong World Industries, Inc., a Pennsylvania corporation ("AWI"). The parties hereto may be collectively referred to herein as the "Parties" and each individually as a "Party".

RECITALS:

WHEREAS, on May 1, 2000 AHI commenced operation as a publicly owned holding company for AWI, owning all of the outstanding shares of AWI indirectly through its ownership of all the outstanding shares of AWWD; and

WHEREAS, on December 6, 2000 (the "Petition Pate"). AWI filed a voluntary petition for relief under chapter 11 of the U.S. Bankruptcy Code ("Chapter 11") in the United States Bankruptcy Court for the District of Delaware (the "Court"), which petition was granted by the Court, and AWI has continued since then to operate its business as a debtor-in-possession and has sought to reorganize its liabilities, business and affairs in accordance with Chapter 11 and, in that regard, on April 3, 2003, AWI filed its Second Amended Plan of Reorganization ("AWI's Reorganization Plan." as further defined below) with the Court; and

WHEREAS, subject to confirmation of AWI's Reorganization Plan and satisfaction of certain conditions as provided by the plan, AWI's business and affairs shall be reorganized on the "Effective Date" as defined in the plan, when the plan shall be substantially consummated; and

WHEREAS, AHI today owns 100% of the outstanding shares of AWI through its wholly owned subsidiary AWWD; and

WHEREAS, AWI has the contractual and other obligations to AHI and/or AWWD, determined as of December 31, 2002 in accordance with the books and records of AHI, AWWD and AWI, described on the schedule previously provided by AHI and AWWD to AWI (the "AHI Intercompany Account Claims"), some of which arose before the Petition Date and some of which arose after the Petition Date, and each of AHI and AWWD has the contractual or other obligations to AWI, determined as of December 31, 2002 in accordance with the books and records of AHI, AWWD and AWI, described on the schedule previously provided by AWI ;to AHI and AWWD (the "AWI Intercompany Account Claims"), some of which arose before the Petition Date and some of which arose after the Petition Date; and

WHEREAS, in accordance with the procedures and practices that AWI, AWWD and AHI have followed in the past, additional intercompany charges may accrue on the books and records of AWI, AWWD and AHI from and after December 31, 2002, increasing the amount of such intercompany accounts; and

WHEREAS, AWI has advised AHI that AWI has incurred certain costs, and expended certain expenses, in providing administrative services to AHI (including accounting, legal and other services) which AWI has not yet quantified but is entitled to seek reimbursement on

from AHI and has not yet sought reimbursement on but reserves the right to do so, which may, accordingly, produce additional intercompany accounts; and

WHEREAS, AWI's Plan of Reorganization is the product of extensive negotiations among the parties in interest in AWI's Chapter 11 proceeding, reflecting the compromise of various claims and arguments such parties have asserted or could assert in such proceeding; and

WHEREAS, AWI's Plan of Reorganization provides that the existing equity interest in AWI shall be cancelled in its entirety on the Effective Date but that the holder thereof shall receive, directly from AWI but in certain circumstances as provided by the plan on account of recoveries on the claims of certain claimants under the plan, certain warrants (the "Warrants") to purchase shares of common stock of AWI as it will be reorganized under the Plan of Reorganization ("Reorganized AWI"); and

WHEREAS, AHI intends to distribute all the Warrants to its shareholders in connection with its dissolution and in the course of its winding up; and

WHEREAS, the Plan of Reorganization provides that AWI shall pay AHI's operating costs while it seeks approval of its shareholders for its dissolution (including the cost of preparing and seeking shareholder approval of AHI's dissolution) and, if such approval is obtained, the costs of completing the winding up of AHI; and

WHEREAS, in connection with AWI's Reorganization Plan and AHI's dissolution and winding up, AHI plans to cause AWWD to be merged with and into AHI on or about the Effective Date, with the result that AWWD's separate corporate existence shall cease and AHI shall come to own all of the then assets of AWWD and shall come to be liable for all the then obligations of AWWD; and

WHEREAS, in order for AHI or AWWD to have any recovery on the AHI Intercompany Account Claims AHI and AWWD would be required to file the AHI Intercompany Account Claims with the Court and AWI and other parties in interest in AWI's Chapter 11 proceeding would have the opportunity to contest those claims and any recovery on such claims that might otherwise be accorded to AHI or AWWD, as the case may be, under AWI's Plan of Reorganization; and

WHEREAS, AWI has advised AWWD and AHI that it has been advised by representatives of certain of the parties in interest in AWI's Chapter 11 proceeding that they will object to AHI's Claims if they are presented to the Court and that other parties in interest may object as well; and

WHEREAS, if AWI were to pursue the AWI Intercompany Account Claims and AWWD and AHI were not able to offset against the AWI Intercompany Account Claims the AHI Intercompany Account Claims, AHI may not be able to distribute to its shareholders all the Warrants; and

WHEREAS, AHI, AWWD and AWI each deem it to be in their mutual interest and to their mutual advantage, in order to facilitate the consummation of AWI's Reorganization Plan and the winding up of AHI, to settle the AHI Intercompany Account Claims and the AWWD Claims, to release each from any liability arising out of their relationship, except as otherwise specifically provided herein, and to otherwise provide for the treatment of certain relationships existing between AWI, on the one hand, and current or former directors or officers of AWWD and AHI, on the other hand, and between AWWD or AHI, on the one hand, and current or former directors or officers AWI or its subsidiaries, on the other hand, all on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual promises and undertakings set forth herein, the Parties, intending to be legally bound, agree as follows:

1. Settlement of Intercompany Accounts.

- A. AHI Intercompany Account Claims. On the Effective Date, the AHI Intercompany Account Claims shall be deemed to be satisfied in full and any notes or agreements relating thereto shall be deemed of no further force or effect, and neither AHI nor AWWD, nor any successor or assign of either of them or person or entity claiming through any of them, shall have any right to seek further payment of any amounts relating thereto and AWI shall have no obligation to make any payments of any amounts relating thereto, but in consideration thereof AWI agrees to perform its obligations hereunder.
- B. AWI Intercompany Account Claims. On the Effective Date, the AWI Intercompany Account Claims shall be deemed to be satisfied in full and any notes or agreements relating thereto shall be deemed of no further force or effect, and AWI, nor any successor or assign of AWI or any person or entity claiming through any of them, shall have any right to seek further payment of any amounts relating thereto and neither AHI or AWWD shall have any obligation to make any payments of any amounts relating thereto.

C. No Admission of the Validity of, or Representation with Respect to, Claims. Neither AWI, on the one hand, nor AWWD or AHI, on the other hand, by entering into this Agreement acknowledge that the AHI Intercompany Account Claims, in the one case, or the AWI Intercompany Account Claims, in the other case[^] are valid in whole or in part. No Party has made to any other Party any representation regarding the origin, basis, validity or amount of any of the AHI Intercompany Account Claims or the AWI Intercompany Account Claims or relied upon any such representation, except as and to the extent provided by Section 7 hereof.

2. Mutual General Release of all Claims Known and Unknown.

- A. Release by AHI and AWWD. In consideration of the premises and the covenants herein, each of AHI and AWWD, individually and on behalf of (if any) its parents, affiliates (other than AWI), predecessors (other than AWI), successors and assigns, and the directors, officers, employees, agents, administrators, attorneys, and representatives of any kind thereof (each, an “AHI Releasor”) hereby, subject to the substantial consummation of AWI’s Reorganization Plan and upon the occurrence of, and as of, the Effective Date (but subject to Sections 4 and 10 hereof), covenants not to sue and fully, finally, and forever RELEASES, SURRENDERS, REMISES, ACQUITS, AND FOREVER DISCHARGES AWI (including as Reorganized AWI) and any of its successors, beneficiaries, administrators, assigns, and former and present directors, officers, employees, agents, attorneys and representatives of any kind (the “AWI Released Parties”) jointly and severally, of and from any and all claims, demands, actions, liabilities, obligations (contractual or otherwise, including any under the Services Agreement), damages, suits in equity, debts, accounts, suits in equity, debts, accounts, setoffs, contributions, indemnities, interest, dividends, promises, covenants, attorneys’ fees and other costs and expenses, and/or causes of action of whatever kind or character, whether past, present, future, known or unknown, matured or unmatured, liquidated or unliquidated, accrued or unaccrued (each, for purposes of this paragraph a “Claim” that any such AHI Releasor has, may have or might claim to have against any of the AWI Released Parties up to or as the Effective Date (including any accrued up to or as of the date hereof) and that, directly or indirectly, arise out of, concern, are connected with or in any way relate to any party’s investments in, employment by or provision of services to, or the formation, investment activities, or other operation of, any of AHI or AW WD or any AWI Released Party’s participation in any of the foregoing (but, with respect to any agent, attorney or representative of any kind of AWI (each, an only insofar as such Claim relates to, or arises from, such AWI Representative’s representation of or engagement by, AWI), including, but not limited to, any claims arising out of, relating to, of in connection with the AHI Intercompany Account Claims (together, “AHI Released, Claims”); provided that this release shall not be deemed to diminish or affect any right of AHI or AWWD to full performance of this Agreement or the any rights accorded to any of them under AWI’s Plan of Reorganization (other than any mat would arise in respect of the AHI . Intercompany Account Claims). The AHI Released Claims shall include any intercompany claims not reflected on the schedule of AHI Intercompany Account Claims exchanged by the Parties and accrued up to or as of the date hereof and any that may accrue after the date hereof .in accordance with the Parties past practices and any other Claims arising before the Effective Date in respect of services provided by AHI or AWWD to AWI, or other transactions between AWI or any of its subsidiaries and AHI or AWWD that arose or do arise, in the ordinary course of business of the Parties, except any which arise after the date hereof and which the Parties agree in writing shall not be subject to this agreement.
- B. Release by AWI. In consideration of the premises and the covenants herein, AWI, individually and on behalf of its subsidiaries, affiliates (other than AWWD and AHI), predecessors, successors (other than AWWD and AHI) and assigns, and the directors, officers, employees, agents, administrators, attorneys, and representatives of any kind thereof (each, an “AWI Releasor” hereby, subject to the substantial consummation of AWI’s Reorganization ‘ Plan and upon the occurrence of, and as of, the Effective Date (but subject to Sections 4 and 10 hereof), covenants not to sue and fully, finally, and forever RELEASES, SURRENDERS, REMISES, ACQUITS, AND FOREVER DISCHARGES each of AWWD and AHI and any of

its successors, beneficiaries, administrators, assigns, and former and present directors, officers, employees, agents, attorneys and representatives of any kind (the "AHI Released Parties"), jointly and severally, of and from any and all claims, demands, actions, liabilities, obligations (contractual or otherwise, including any under the Services Agreement), damages, suits in equity, debts, accounts, setoffs, contributions, indemnities, interest, dividends, promises, covenants, attorneys' fees and other costs and expenses, and/or causes of action of whatever kind or character, whether past, present, future, known or unknown, matured or unmatured liquidated or unliquidated, accrued or unaccrued (each, for purposes of this paragraph a "Claim"), that any such AWI Releaser has, 'may have or might claim to have against any of the AM Released Parties up to or as of the Effective Date (including any up to or as of the date hereof) and that, directly or indirectly, arise out of, concern, are connected with or in any way relate to any Piety's investments in, employment by or provision of services to, or the formation, investment activities, or other operation or business of, AWI or any of its subsidiaries or any AMI Released Parry's participation in any of the foregoing (but, with respect to any agent, attorney or representative of any kind of AWWD or AHI (each, an "AHI Representative"), only insofar as such Claim relates to or arises from, such AHI Representative's representation of, or engagement by, AWWD or AH), including, but not limited to, any claims arising out of, relating to, or in connection with the AWI Intercompany Account Claims (together, "AWI Released Claims"); provided that this release shall not be deemed to diminish or affect any right of AWI to the full performance of this Agreement or any rights accorded to AWI under AWI's Plan or Reorganization. The AWI Released Claims shall include any intercompany claims not reflected on the schedule of AWI Intercompany Account Claims exchanged by the Parties and accrued up to or as of the date hereof and any mat may accrue after the date hereof in accordance with the Parties' past practices and any other Claims accrued after December 31,2002 and to the Effective Date in respect of services provided by AWI to AHI or AWWD, or other transactions between AHI or AWWD and AWI or any of its subsidiaries, that arose or do arise in the ordinary course of business of the Parties, except any which arise after the date hereof and which that Parties agree in writing shall not be subject to this agreement.

3. Certain Covenants.

- A. Payment by AWI of Administrative Expenses of AHI and AWWD. From the date hereof and until substantial consummation of AWI's Reorganization Plan; AWI shall either (as AWI shall determine) pay the reasonable expenses of, or provide to AHI free of charge and without claim for reimbursement the services necessary for, the administration of AHI's affairs (including AWWJD's affairs and preparing to seek shareholder approval of, and otherwise preparing for, the dissolution and winding up of AHI), all substantially in accordance with the practices which AWI has followed in such respect since the Petition Date. Upon substantial consummation of AWI's Reorganization Plan, AWI shall also either (as AWI shall determine) pay the reasonable expenses of, or provide to AHI free of charge the services necessary for, the ' administration of AHI's affairs for a period extending up to [the first anniversary of the Effective Date] (including the cost of preparing for, and seeking shareholder approval of, the dissolution and winding lap of AHI), and, if such approval is obtained by the end of such period, shall either (as AWI shall determine) pay the reasonable expenses of, or provide to AHI free of charge me services necessary for, administering the winding up of ASK. Without limiting the generality of the foregoing provisions of this paragraph, AWI shall pay (i) any expenses which AHI may incur as provided by law, AHI's by-laws or by a contract» effect on the Effective Date in providing indemnification to, or advancing costs of defense to, a person who serves, or has served, as a director or officer of AHI after the Petition Date and during the period in which AHI is obligated to pay for AHI's administrative expenses as provided herein, including any deposit or other security advanced in respect of the costs of defense or to satisfy any deductible or retention amounts specified in any directors and officers insurance policy, or (ii) any federal, state or local income taxes and any franchise taxes or similar charges for which AWWD or AHI may be or become liable in respect of any event occurring, or period ending, on or before the first anniversary of the Effective Date and, if AHI's shareholders approve the

dissolution and winding up of AHI by such date, in respect of the completion of the winding up of AHL The Parties acknowledge that it would be consistent with AHI's prior practices to provide to AMI services as contemplated by this paragraph on a basis consistent with the Affiliate Agreement, dated as of May 1,2000, between AWI and AHI, as amended by the Management Services Agreement dated as of August 7.2000 (the "Services Agreement"). which, however, shall, except in such respect, terminate as of the execution and delivery hereof.

- B. Assumption by Reorganized AWI of Director and Officer Indemnification Obligations of AHI and AWWD and Continuation of Related Insurance Coverage. Without limiting the generality of the provisions and effect of Section 3 A of this Agreement with respect to AWI's obligations in connection with the administration of the affairs of AHI to pay expenses of responding to or defending against any claims asserted against a current or former director or officer of AWWD or AHI, upon substantial consummation of AWI's Plan of Reorganization and upon the occurrence of, and as of, the Effective Date, Reorganized AWI shall assume; and hereby agrees to perform, all the obligations (which are identified on the schedule previously delivered by AHI to AWI) which either AWWD or AHI has to indemnify or advance expenses to individuals who served as officers or directors of AHI or AWWD at any time after the Petition Date and prior to the Effective Date (the "AHI Indemnification Agreements"). AWI shall also continue to provide, as its expense, for a period of at least four years after the Effective Date, directors and officers liability insurance coverage with respect to persons serving or who served as directors and officers of AHI substantially on the same basis on which such coverage has been afforded under the directors and officers liability insurance policies in effect on the date hereof. ,
- C. Protection of AWWD and AHI under AWI's Reorganization Plan. AWI shall include AWWD and AHI as a "PI Protected Party" under AWI's Reorganization Plan, thereby granting AHI as of the Effective Date the benefit of the "Asbestos PI Permanent Channeling injunction" thereunder, which permanently and forever enjoins any person or entity from taking actions against AWWD and AHI in respect of asbestos personal injury claims, all of which shall be channeled to a trust established for resolution of such claims pursuant to and in accordance with the terms of AWI's Reorganization Plan. AHI shall also be exculpated under AWI's Reorganization Plan from all claims of liability relating to AWI's Chapter 11 case.

4. Certain Contingencies.

- A. AWI's Reorganization Plan. In the event AWI's Second Amended Plan of Reorganization dated April 4, 2003 is amended or AWI proposes a different plan of reorganization, this Agreement shall remain unaffected and all the provisions hereof shall be given full force and effect, unless, upon confirmation by the AWI's plan of reorganization shall, in its effect upon AHI, be in comparison to AWI'S Second Amended Plan of Reorganization dated April 4, 2003 materially less. advantageous to AHI's interests, and, accordingly, all references herein to "AWI's Plan of Reorganization" shall for all purposes of this Agreement refer to such amended or different plan: provided, however, that in the event AWI's Reorganization Plan shall not be substantially consummated by December 31,2004, this Agreement shall automatically become null and void *ah iaitio* in all respects (and, accordingly, without limiting the generality of the foregoing, the AHI Intercompany Account Claims and the AWI Intercompany Account Claims shall not be considered satisfied as provided in Section 1 and shall be reinstated and the releases contained in Section 2 shall have no further force and effect).
- B. Non-Party Released Claims. Notwithstanding anything in this Agreement to the contrary, if any AWI Released Party that is not a Party to this Agreement commences any action (including an arbitration or similar non-judicial proceeding) against any AHI Releaser that is based on or includes any AHI Released Claim, then the release given by that AHI Releaser in paragraph 2(a) above will automatically become null and void solely as to that AWI Released Party. Similarly, if any AHI Released Party that is not a Party to this Agreement commences

any action (including an arbitration or similar non-judicial proceeding) against any AWI Releasor that is based on or includes any AWI Released Claim, then the release given by that AWI Releasor in paragraph 2(b) above will automatically become null and void solely as to that AHI Released Party.

- C. **Knowing Release.** The Parties have knowingly and voluntarily executed this Agreement after consultation with counsel regarding its binding and irrevocable effect. The Agreement is binding on and for the benefit of the AWI Released Parties and the AHI Released Parties, including their successors, assigns, and personal representatives. Neither party has relied on any oral or written representation of any other party in agreeing to the terms of this Agreement (other than those set forth expressly herein). All Parties also assume the risk of nondisclosure, waive any rights to receive full disclosure, and agree that this Agreement releases the AM Released Parties and the AWI Released Parties from any claim based in whole or in part on an actual or alleged obligation of disclosure. The Parties waive any right to challenge the validity of this Agreement based on actual or alleged nondisclosure of any fact or circumstance.
5. **No Admission of Wrongdoing.** Neither this Agreement nor any negotiations, discussions or proceedings leading thereto are, or shall be construed, described, or characterized by any Party hereto or any of its agents or representatives as, an admission or concession by any Party of any liability, wrongdoing or misconduct of any kind; and each of the Parties specifically denies that it engaged in any wrongdoing or misconduct or is liable to any other Party in any way.
 6. **Nonaassignment of Claims.** AWI represents that it has neither assigned, transferred, conveyed, or subrogated any AWI Released Claims that it may have against any of the AHI Released Parties, nor authorized any person or entity to assert any AWI Released Claims against the AHI Released Parties on AWI's behalf. AWI intends that all AWI Released Claims, asserted and unasserted, be released pursuant to this Agreement. Each of AHI and AWI represent that it has neither assigned, transferred, conveyed, or subrogated any AHI Released Claims that it may have against any of the AWI Released Parties, nor authorized any person or entity to assert any AHI Released Claims against any AWI Released Parties on its behalf. Each of AHI and AWI intends that all AHI Released Claims, asserted and unasserted, be released pursuant to this Agreement.
 7. **Authority to Settle and Release.** Each Party executing this Agreement represents that such Party has the power and authority to execute this Agreement and to grant releases in this Agreement.
 8. **Governing Law.** THE AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, WITHOUT GIVING EFFECT TO THE PROVISIONS, POLICIES OR PRINCIPLES THEREOF RELATING TO CHOICE OR CONFLICT OF LAWS.
 9. **Waiver of Jury Trial.** EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A JURY TRIAL WITH RESPECT TO ANY CAUSE OF ACTION RELATING TO THE AGREEMENT.
 10. **Certain Rules of Construction.** The Parties hereto hereby agree that the provisions of this Agreement have been negotiated by sophisticated parties. Each of the Parties acknowledges that such party has carefully reviewed and understands the provisions of this Agreement. No provision of this Agreement shall be interpreted in favor of, or against, any party hereto by reason of the extent to which such party or its counsel participated in the drafting thereof or by reason of the extent to which any such provision is inconsistent with any prior draft hereof or thereof or by reason of any fiduciary or other relationship between the Parties.

11. Entire Agreement This Agreement constitutes the entire agreement of the Parties with respect to the subject matters contained herein and supersedes all prior oral and written agreements relating to the subject matter of this Agreement
12. No Third-Party Beneficiaries. The Parties acknowledge that this Agreement is not intended to make any persons or entities third-party beneficiaries of this Agreement, except that all AWI Released Parties who are apt Parties and AHI Released Parties who are not Parties are intended third-party beneficiaries of this Agreement.
13. No Waiver for Failure to Act A failure or a delay by a Party to this Agreement in exercising any right under this Agreement will not constitute a waiver of the right In addition, a single or partial exercise of a right under this Agreement will not constitute a waiver of any other right relating to this Agreement
14. Modifications and Amendments. This Agreement may not be altered, modified, or amended, except by a written agreement signed by all the Parties including the Party sought to be charged with such alteration, modification, or amendment,
15. Additional Instruments and Acts. The Parties agree to execute any additional instruments and to perform any additional acts that may become necessary to effectuate the purposes of this Agreement.
16. Captions and Headings. Captions and headings in this Agreement are employed for convenience of reference and shall not affect the construction of any provision.
17. Counterparts. This Agreement may be signed in several counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto, being duly authorized, have duly executed this Agreement as a binding contract as of the day and year first above written.

ARMSTRONG HOLDINGS, INC.

By: /s/ Leonard A. Campanaro

Name: Leonard A. Campanaro
Title: Chief Financial Officer

ARMSTRONG WORLD INDUSTRIES, INC.

By: /s/ John N. Rigas

Name: John N. Rigas
Title: General Counsel

ARMSTRONG WORLDWIDE, INC.

By: /s/ Walter T. Gangl

Name: Walter T. Gangl
Title: Director and Assistant Secretary

EXHIBIT NO. 11(a)

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)

	2003	2002	2001
Basic earnings (loss) per share			
Net earnings (loss)	\$(39.3)	\$(2,142.8)	\$92.8
Average number of common shares outstanding	40.5	40.5	40.5
Basic earnings (loss) per share	\$(0.97)	\$ (52.91)	\$2.29

EXHIBIT NO. 11(b)

COMPUTATION FOR DILUTED EARNINGS (LOSS) PER SHARE
FOR THE YEARS ENDED DECEMBER 31
(AMOUNTS IN MILLIONS EXCEPT FOR PER-SHARE DATA)

	2003	2002	2001
Diluted earnings (loss) per share			
Net earnings (loss)	\$(39.3)	\$(2,142.8)	\$92.8
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	0.3

Average number of common and common stock equivalents outstanding	40.7	40.7	40.8
Diluted earnings (loss) per share	\$(0.97)	\$ (52.91)	\$2.27

Exhibit No. 21

**Subsidiaries of Armstrong Holdings, Inc.
as of December 31, 2003**

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).

**Subsidiaries of Armstrong World Industries, Inc.
As of December 31, 2003**

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.

Armstrong World Industries, Inc. is owned 100% by Armstrong Holdings, Inc., which also owns 100% of Armstrong Worldwide, Inc.

AWI Domestic Subsidiaries

<u>AWI Domestic Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>
Armstrong Cork Finance Corporation	Delaware
Armstrong Enterprises, Inc.	Vermont
Armstrong Realty Group, Inc.	Pennsylvania
Armstrong Ventures, Inc.	Delaware
Armstrong Wood Products, Inc.	Delaware
Armstrong World Industries (Delaware) Inc.	Delaware
Armstrong World Industries Latin America, Inc.	Nevada
Armstrong.com Holding Company	Delaware
AWI Licensing Company	Delaware
A W I (NEVADA), INC.	Nevada
Charleswater Products, Inc.	Delaware
Chemline Industries, Inc.	Delaware
Desseaux Corporation of North America	Delaware
Interface Solutions Holding, Inc. (35% owned; holds Armstrong's interest in Interface Solutions, Inc.)	Delaware
Nitram Liquidators, Inc.	Delaware
Worthington Armstrong Venture (50%-owned unincorporated affiliate)	Delaware

AWI Foreign Subsidiaries

<u>AWI Foreign Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>
AIPB SPRL	Belgium
Armstrong (Floor) Holdings Ltd.	United Kingdom
Armstrong (Singapore) Pte. Ltd.	Singapore
Armstrong (U.K.) Investments	United Kingdom
Armstrong Architectural Products S.L.	Spain
Armstrong Building Products	United Kingdom
Armstrong Building Products B.V.	Netherlands
Armstrong Building Products Company (Shanghai) Ltd.	PRC
Armstrong Building Products G.m.b.H.	Germany
Armstrong Building Products S.A.S.	France
Armstrong Building Products S.r.l.	Italy
Armstrong DLW AG	Germany
Armstrong Europa G.m.b.H.	Germany
Armstrong Europe Services	United Kingdom
Armstrong Floor Products Europe Ltd.	United Kingdom
Armstrong Floor Products Europe Ltd. (Rep Office)	Spain
Armstrong Floor Products Europe S.A.S.	France
Armstrong Metal Ceilings Limited	United Kingdom
Armstrong Metalldecken Holdings AG	Switzerland
Armstrong World do Brasil Ltda.	Brazil
Armstrong World Industries (Australia) Pty. Ltd.	Australia
Armstrong World Industries (China) Ltd.	PRC
Armstrong World Industries (H.K.) Limited	Hong Kong

AWI Foreign Subsidiaries

Armstrong World Industries (India) Pvt. Ltd.
Armstrong World Industries (Thailand) Ltd.
Armstrong World Industries AB
Armstrong World Industries Canada Ltd.
Armstrong World Industries Holding G.m.b.H.
Armstrong World Industries Ltd.
Armstrong World Industries Mauritius
Armstrong World Industries Pty. Ltd.
Armstrong World Industries de Mexico, S.A. de C.V.
Liberty Commercial Services Ltd.
Tapijtfabriek H. Deseaux N.V.

Jurisdiction of Incorporation

India
Thailand
Sweden
Canada
Germany
United Kingdom
Mauritius
Australia
Mexico
Bermuda
Netherlands

EXHIBIT NO. 23

Consent of Independent Auditors

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 February 25, 2004, with respect to the consolidated balance sheets of Armstrong Holdings, Inc., and subsidiaries as of December 31, 2003 and 2002 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, 2003, which report appears in the December 31, 2003 annual report on Form 10-K of Armstrong Holdings, Inc.

Our report dated February 25, 2004, 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.

Our report dated February 25, 2004 refers to a change in the method of accounting for goodwill and intangible assets.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 3, 2004

Consent of Independent Auditors

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 February 25, 2004, with respect to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 2003 and 2002 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, 2003, which report appears in the December 31, 2003 annual report on Form 10-K of Armstrong World Industries, Inc.

Our report dated February 25, 2004, 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.

Our report dated February 25, 2004 refers to a change in the method of accounting for goodwill and intangible assets.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 3, 2004

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 23rd day of February, 2004, 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 2003 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 23rd day of February, 2004.

/s/ John N. Rigas

John N. Rigas
Senior Vice President, Secretary and
General Counsel

ARMSTRONG HOLDINGS, INC.

POWER OF ATTORNEY

RE: 2003 ANNUAL REPORT ON FORM 10-K

I, M. Edward Sellers, 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, 2003, 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.

By: /s/ M. Edward Sellers

Dated: February 23, 2004

Exhibit 31.1

I, Michael D. Lockhart, certify that:

- 1) I have reviewed this annual report on Form 10-K of Armstrong Holdings, Inc.;
- 2) Based on my knowledge, this annual 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 annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 officers 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 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 data; 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 4, 2004

/s/ Michael D. LockhartMichael D. Lockhart
Chairman and Chief Executive Officer

Exhibit 31.2

I, Leonard A. Campanaro, certify that:

- 1) I have reviewed this annual report on Form 10-K of Armstrong Holdings, Inc.;
- 2) Based on my knowledge, this annual 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 annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 officers 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 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 data; 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 4, 2004

/s/ Leonard A. Campanaro

Leonard A. Campanaro
Sr. Vice President and Chief Financial Officer

Exhibit 31.3

I, Michael D. Lockhart, certify that:

- 1) I have reviewed this annual report on Form 10-K of Armstrong World Industries, Inc.;
- 2) Based on my knowledge, this annual 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 annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 officers 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 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 data; 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 4, 2004

/s/ Michael D. Lockhart

I, Leonard A. Campanaro, certify that:

- 1) I have reviewed this annual report on Form 10-K of Armstrong World Industries, Inc.;
- 2) Based on my knowledge, this annual 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 annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 officers 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 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 data; 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 4, 2004

/s/ Leonard A. Campanaro

Leonard A. Campanaro
Sr. 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, 2003 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

Michael D. Lockhart
Chief Executive Officer
Armstrong Holdings, Inc.

/s/ Michael D. Lockhart

Michael D. Lockhart
Chief Executive Officer and President
Armstrong World Industries, Inc.

Dated: March 4, 2004

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, 2003 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/ Leonard A. Campanaro

Leonard A. Campanaro
Chief Financial Officer
Armstrong Holdings, Inc. and
Armstrong World Industries, Inc.

Dated: March 4, 2004

End of Filing

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