

ARMSTRONG WORLD INDUSTRIES INC

FORM 10-K (Annual Report)

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Address	2500 COLUMBIA AVE LANCASTER, PA 17603
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Sector	Capital Goods
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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(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, 1995

OR

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

For the transition period from _____ to _____

Commission file number _____ 1-2116 _____

Armstrong World Industries, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

23-0366390

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

P. O. Box 3001, Lancaster, Pennsylvania

17604

(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock (\$1 par value)	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	Pacific Stock Exchange, Inc. (a)
9-3/4% Debentures Due 2008	Philadelphia Stock Exchange, Inc. (a)
	(a) Common Stock and Preferred Stock Purchase Rights only

Securities registered pursuant to Section 12(g) of the Act:

None

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 X 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. [X]

The aggregate market value of the Common Stock of registrant held by non-affiliates of the registrant based on the closing price (\$60.25 per share) on the New York Stock Exchange on February 9, 1996, was approximately \$1.9 billion. For the purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Item 10 of this 10-K Report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by February 14, 1996, as having sole or shared voting power over 5% or more of the outstanding Common Stock of registrant as of December 31, 1995.

This amount does not include the 5,421,998 shares of Series A ESOP Convertible Preferred Stock as of December 31, 1995, which vote with the Common Stock as if converted and have an aggregate liquidation preference of \$258,900,404, held by Mellon Bank, N.A., as Trustee of the Company's Employee Stock Ownership Plan.

As of February 9, 1996, the number of shares outstanding of registrant's Common Stock was 37,108,552.

Documents Incorporated by Reference

Portions of the Proxy Statement dated March 18, 1996, relative to the April 29, 1996, annual meeting of the shareholders of registrant (the "Company's 1996 Proxy Statement") have been incorporated by reference into Part III of this Form 10-K Report.

PART I

Item 1. Business

Armstrong World Industries, Inc. is a Pennsylvania corporation incorporated in 1891. The Company is a manufacturer of interior furnishings, including floor coverings, and building products which are sold primarily for use in the furnishing, refurbishing, repair, modernization and construction of residential, commercial and institutional buildings. It also manufactures various industrial and other products. In late 1995, Armstrong sold its furniture business and combined its ceramic tile business with Dal-Tile International Inc. ("Dal-Tile"), retaining a minority equity interest in the combined company. Unless the context indicates otherwise, the term "Company" means Armstrong World Industries, Inc. and its consolidated subsidiaries.

Industry Segments

The company's businesses include four reportable segments: floor coverings, building products, industry products and ceramic tile.

at December 31 (millions)	1995	1994	1993

Net trade sales:			
Floor coverings	\$1,053.9	\$1,063.5	\$ 980.6
Building products	682.2	630.0	586.7
Industry products	348.8	312.2	297.7

Total net sales	\$2,084.9	\$2,005.7	\$1,865.0
=====			
Operating income (loss): (Note 1)			
Floor coverings	\$ 145.0	\$ 189.6	\$ 156.6
Building products	92.2	86.8	18.8
Industry products	9.3	41.2	27.2
Ceramic tile (Note 2)	(168.4)	0.8	(44.3)
Unallocated corporate expense	(34.0)	(23.8)	(59.8)

Total operating income	\$ 44.1	\$ 294.6	\$ 98.5
=====			
Depreciation and amortization:			
Floor coverings	\$ 47.9	\$ 49.2	\$ 48.2
Building products	36.8	34.5	34.1
Industry products	19.3	17.6	14.6
Corporate	5.6	5.6	5.2

Total depreciation and amortization	\$ 109.6	\$ 106.9	\$ 102.1
=====			
Capital additions: (Note 3)			
Floor coverings	\$ 77.3	\$ 56.7	\$ 39.7
Building products	49.2	31.5	24.2
Industry products	45.0	22.6	22.1
Corporate	6.3	3.0	1.8

Total capital additions	\$ 177.8	\$ 113.8	\$ 87.8
=====			
Identifiable assets:			
Floor coverings	\$ 583.2	\$ 575.7	\$ 541.2
Building products	513.5	478.1	483.0
Industry products	301.8	234.8	207.9
Ceramic tile	135.8	270.5	251.9
Discontinued business	--	182.1	175.4
Corporate	615.5	398.2	185.4

Total assets	\$2,149.8	\$2,139.4	\$1,844.8
=====			

Note 1:

Restructuring charges in operating income (millions)	1995	1994	1993

Floor coverings	\$ 25.0	--	\$ 8.4
Building products	6.3	--	13.7
Industry products	31.4	--	12.9
Ceramic tile	--	--	19.3

Unallocated corporate expense	9.1	--	35.0

Total restructuring charges in operating income	\$ 71.8	--	\$ 89.3
=====			

Note 2: 1995 operating income includes a \$177.2 million loss due to the ceramic tile business combination.

Note 3: 1995 capital additions for industry segments include property, plant and equipment from acquisitions of \$15.6 million.

DISCONTINUED OPERATIONS

On December 29, 1995, the company sold the stock of its furniture subsidiary, Thomasville Furniture Industries, Inc., to INTERCO Incorporated for \$331.2 million. INTERCO assumed \$8.0 million of Thomasville interest-bearing debt. The company recorded a gain of \$83.9 million after tax on the sale. Certain liabilities related to terminated benefit plans of approximately \$11.3 million were retained by the company. Thomasville and its subsidiaries recorded sales of approximately \$550.2 million in 1995, \$526.8 million in 1994 and \$449.7 million in 1993.

Operating statement categories, except where otherwise indicated, have been restated to exclude the effects of this discontinued business.

EQUITY EARNINGS FROM AFFILIATES

On December 29, 1995, the company entered into a business combination with Dal- Tile International Inc. The transaction was accounted for at fair value and involved the exchange of \$27.6 million and the stock of the ceramic tile operations, consisting primarily of American Olean Tile Company, a wholly-owned subsidiary, for ownership of 37% of the shares of Dal-Tile. The company's investment in Dal-Tile exceeds the underlying equity in net assets by \$123.9 million which will be amortized over a period of 30 years. The after-tax loss on the transaction was \$116.8 million.

Results from ceramic tile operations, which were previously reported on a consolidated basis, were restated and included in "Equity Earnings from Affiliates." Going forward, Armstrong's 37% ownership of the combined Dal-Tile will be accounted for under the equity method. The summarized financial information for ceramic tile operations is presented below.

(millions)	1995	1994	1993
Net sales	\$240.0	\$220.2	\$210.7
Operating income (loss)/1/	8.8	.8	(44.3)
Assets/2/	269.8	290.1	276.3
Liabilities/2/	17.3	19.6	24.4

Note 1: Excludes 1995 loss of \$177.2 million due to ceramic tile business combination.

Note 2: 1995 balances were as of December 29, 1995, immediately prior to the ceramic tile business combination.

Also included in equity earnings from affiliates are earnings from the 50% interest in the WAVE joint venture with Worthington Industries. Previously these earnings had been included in selling, general and administrative expenses.

Narrative Description of Business

The Company manufactures and sells interior furnishings, including floor coverings and building products, and makes and markets a variety of specialty products for the building, automotive, textile, and other industries. The Company's activities extend worldwide.

Floor Coverings

The Company is a prominent manufacturer of floor coverings for the interiors of homes and commercial and institutional buildings, with a broad range of resilient flooring together with adhesives, installation and maintenance materials and accessories. Resilient flooring, in both sheet and tile form, is made in a wide variety of types, designs, and colors. Included are types of flooring that offer such features as ease of installation, reduced maintenance (no-wax), and cushioning for greater underfoot comfort. Floor covering products are sold to the commercial and residential market segments through wholesalers, retailers, and contractors, and to the hotel/motel and manufactured homes industries.

Building Products

A major producer of ceiling materials in the United States and abroad, the Company markets both residential and architectural ceiling systems. Ceiling materials for the home are offered in a variety of types and designs; most provide noise reduction and incorporate Company-designed features intended to permit ease of installation. These residential ceiling products are sold through wholesalers and retailers. Architectural ceiling systems, designed for use in shopping centers, offices, schools, hospitals, and other commercial and institutional structures, are available in numerous colors, performance characteristics and designs and offer characteristics such as acoustical control, rated fire protection, and aesthetic appeal. Architectural ceiling materials and accessories, along with acoustical wall panels, are sold by the Company to ceiling systems contractors and to resale distributors. Grid products are manufactured and sold through a joint venture with Worthington Industries.

Industry Products

The Company, including a number of its subsidiaries, makes and sells a variety of specialty products for the building, automotive, textile and other industries. These products include flexible pipe insulation sold for use in construction and in original equipment manufacture; gasket materials for new equipment and replacement use in the automotive, farm equipment, appliance, and other industries; textile mill supplies including cots and aprons sold to equipment manufacturers and textile mills and adhesives. Industry products are sold, depending on type and ultimate use, to original equipment manufacturers, contractors, wholesalers, fabricators and end users. In 1995, the Company announced its intention to discuss with potential buyers the possible sale of its textile products operation.

Ceramic Tile

Ceramic tile for floors, walls and countertops, together with adhesives, installation and maintenance materials and accessories are sold through home centers and sales and service centers operated by Dal-Tile following a business combination of the Company's ceramic tile operations with Dal-Tile in late 1995.

The principal raw materials used in the manufacture of the Company's products are synthetic resins, plasticizers, latex, mineral fibers and fillers, clays, starches, perlite, and pigments and inks. In addition, the Company uses a wide variety of other raw materials. Most raw materials are purchased from sources outside of the Company. The Company also purchases significant amounts of packaging materials for the containment and shipment of its various products. During 1995, despite raw material cost increases, especially for plasticizers, resins, and paper, adequate supplies of raw materials were available to all of the Company's industry segments.

Customers' orders for the Company's products are mostly for immediate shipment. Thus, in each industry segment, the Company has implemented inventory systems, including its "just in time" inventory system, pursuant to which orders are promptly filled out of inventory on hand or the product is manufactured to meet the delivery date specified in the order. As a result, there historically has been no material backlog in any industry segment.

The competitive position of the Company has been enhanced by patents on products and processes developed or perfected within the Company or obtained through acquisition. Although the Company considers that, in the aggregate, its patents constitute a valuable asset, it does not regard any industry segment as being materially dependent upon any single patent or any group of related patents.

There is significant competition in all the industry segments in which the Company does business. Competition in each industry segment includes numerous active companies (domestic and foreign), with emphasis on price, product performance and service. In addition, with the exception of industrial and other products and services, product styling is a significant method of competition in the Company's industry segments. Increasing domestic competition from foreign producers is apparent in certain industry segments and actions continue to be taken to meet this competition.

The Company invested \$162.2 million in 1995, \$113.8 million in 1994, and \$87.8 million in 1993 for additions to its property, plant and equipment.

Research and development activities are important and necessary in assisting the Company to carry on and improve its business. Principal research and development functions include the development of new products and processes and the improvement of existing products and processes.

The Company spent \$56.2 million in 1995, \$51.4 million in 1994, and \$56.1 million in 1993 on research and development activities worldwide for the continuing businesses.

ENVIRONMENTAL MATTERS

In 1995, the company incurred capital expenditures of approximately \$1.9 million for environmental compliance and control facilities and anticipates comparable annual expenditures for those purposes for the years 1996 and 1997. The company does not anticipate that it will incur significant capital expenditures in order to meet the new requirements of the Clean Air Act of 1990 and the final implementing regulations promulgated by various state agencies.

As with many industrial companies, Armstrong is involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund"), and similar state laws at approximately 16 sites. In most cases, Armstrong is one of many potentially responsible parties ("PRPs") who have voluntarily agreed to jointly fund the required investigation and remediation of each site. With regard to some sites, however, Armstrong disputes the liability, the proposed remedy or the proposed cost allocation. Armstrong is alleged to have contributed a significant volume of waste material at a former municipal landfill site in Volney, New York. There, Armstrong, along with the county and other PRPs at the site, have voluntarily performed a supplemental study to evaluate the USEPA's proposed remedy at the site. Discussions with the USEPA are continuing regarding the appropriate remedy to be implemented. A former county landfill site in Buckingham County, Virginia, is also alleged to have received material from a former subsidiary, Thomasville Furniture Industries, Inc. ("Thomasville"). In September 1995, the USEPA ordered Thomasville to implement the remedy identified in the September 1994, Record of Decision ("ROD"), the cost of which has been estimated by Thomasville to be approximately \$2.2 million. Pursuant to the terms of the company's December 29, 1995, sale of Thomasville to INTERCO Incorporated, Armstrong has provided to the USEPA a guarantee of the performance by Thomasville of the required remedial work and has also entered into a cost-sharing agreement with INTERCO for future costs relating to the site. Armstrong may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies. The company is also remediating environmental contamination resulting from past industrial activity at certain of its current plant sites.

Estimates of future liability are based on an evaluation of currently available facts regarding each individual site and consider factors including existing technology, presently enacted laws and regulations and prior company experience in remediation of contaminated sites. Although current law imposes joint and several liability on all parties at any Superfund site, Armstrong's 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 costs. As a result, the company's estimated liability reflects only the company's expected share. In determining the probability of contribution, the company considers the solvency of the parties, whether responsibility is being disputed, the terms of any existing agreements and experience regarding similar matters. The estimated liabilities do not take into account any claims for recoveries from insurance or third parties.

Reserves at December 31, 1995, were for potential environmental liabilities that the company considers probable and for which a reasonable estimate of the potential liability could be made. Where existing data is sufficient to estimate the amount of 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 a result, the company has accrued, before agreed-to insurance coverage, \$8.0 million to reflect its estimated

undiscounted liability for environmental remediation. As assessments and remediation activities progress at each individual site, these liabilities are reviewed to reflect additional information as it becomes available.

Actual costs to be incurred at identified sites in the future may vary from the estimates, given the inherent uncertainties in evaluating environmental liabilities. Subject to the imprecision in estimating environmental remediation costs, the company believes that any sum it may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on its financial condition, liquidity or results of operations.

As of December 31, 1995, the Company had approximately 10,820 active employees, of whom approximately 3,615 are located outside the United States. Year-end employment in 1995 was below the level at the end of 1994 primarily as the result of the sale of the furniture business, the ceramic tile business combination and various restructuring activities. About 65% of the Company's approximately 4,380 hourly or salaried production and maintenance employees in the United States are represented by labor unions.

GEOGRAPHIC AREAS

Geographic areas at December 31 (millions)	1995	1994	1993

Net trade sales:			
United States	\$1,346.3	\$1,343.7	\$1,250.3
Europe	558.7	483.4	456.6
Other foreign	179.9	178.6	158.1

Interarea transfers:			
United States	101.1	94.7	75.8
Europe	13.8	8.7	6.0
Other foreign	32.1	26.1	21.9
Eliminations	(147.0)	(129.5)	(103.7)

Total net sales	\$2,084.9	\$2,005.7	\$1,865.0
=====			
Operating income:			
United States	\$ 7.7	\$ 235.5	\$ 116.6
(See Note 2 on page 3)			
Europe	62.6	75.3	31.7
Other foreign	7.8	7.6	10.0
Unallocated corporate expense	(34.0)	(23.8)	(59.8)

Total operating income	\$ 44.1	\$ 294.6	\$ 98.5
=====			
Identifiable assets:			
United States	\$1,044.5	\$1,110.5	\$1,074.1
Europe	406.7	376.5	347.0
Other foreign	83.4	72.6	63.2
Discontinued business	--	182.1	175.4
Corporate	615.5	398.2	185.4
Eliminations	(0.3)	(0.5)	(0.3)

Total assets	\$2,149.8	\$2,139.4	\$1,844.8
=====			

United States net trade sales include export sales to non-affiliated customers of \$30.8 million in 1995, \$24.9 million in 1994 and \$19.8 million in 1993.

"Europe" includes operations located primarily in England, France, Germany, Italy, the Netherlands, Poland, Spain and Switzerland. Operations in Australia, Canada, The People's Republic of China, Hong Kong, Indonesia, Japan, Korea, Singapore and Thailand are in "Other foreign."

Transfers between geographic areas and commissions paid to affiliates marketing exported products are accounted for by methods that approximate arm's-length transactions, after considering the costs incurred by the selling company and the return on assets employed of both the selling unit and the purchasing unit. Operating income of a geographic area includes income accruing from sales to affiliates.

The Company's foreign operations are subject to foreign government legislation involving restrictions on investments (including transfers thereof), tariff restrictions, personnel administration, and other actions by foreign governments. In addition, consolidated earnings are subject to both U.S. and foreign tax laws with respect to earnings of foreign subsidiaries, and to the effects of currency fluctuations.

Item 2. Properties

The Company produces and markets its products and services throughout the world, operating 48 manufacturing plants in 12 countries; 25 of these plants are located throughout the United States. Additionally, affiliates operate eight plants in three countries.

Floor covering products and adhesives are produced at 18 plants with principal manufacturing facilities located in Lancaster, Pennsylvania, and Stillwater, Oklahoma. Building products are produced at 14 plants with principal facilities in Macon, Georgia, the Florida-Alabama Gulf Coast area and Marietta, Pennsylvania. Insulating materials, textile mill supplies, fiber gasket materials and specialty papers and other products for industry are manufactured at 16 plants with principal manufacturing facilities at Munster, Germany, and Fulton, New York.

Numerous sales offices are leased worldwide, and leased facilities are utilized to supplement the Company's owned warehousing facilities.

Productive capacity and extent of utilization of the Company's facilities are difficult to quantify with certainty because in any one facility maximum capacity and utilization varies periodically depending upon the product that is being manufactured and individual facilities manufacture more than one type of product. In this context, the Company estimates that the production facilities in each of its industry segments were effectively utilized during 1995 at 80% to 90% of overall productive capacity in meeting market conditions. Remaining productive capacity is sufficient to meet expected customer demands.

The Company believes its various facilities are adequate and suitable. Additional incremental investments in plant facilities are being made as appropriate to balance capacity with anticipated demand, improve quality and service, and reduce costs.

Item 3. Legal Proceedings

OVERVIEW OF ASBESTOS-RELATED LEGAL PROCEEDINGS - The full report on the Asbestos-Related Litigation immediately follows this summary.

The Company is involved, as of December 31, 1995, in approximately 59,000 pending personal injury asbestos claims and lawsuits, and 32 pending claims and lawsuits involving asbestos-containing products in buildings. The Company's insurance carriers provide coverage for both types of claims. The personal injury claims (but not property damage claims) are handled by the Center for Claims Resolution (the "Center"). Personal injury claims in the federal courts have been transferred by the Judicial Panel for Multidistrict Litigation to the Eastern District of Pennsylvania for pretrial purposes. State court cases have not been directly affected by the transfer. A settlement class action that includes essentially all future personal injury claims against Center members was filed on January 15, 1993, in the Eastern District of Pennsylvania. The court has tentatively approved the settlement, although it will not become final until certain issues, including insurance coverage for class members' claims, are resolved, and appeals are exhausted, which could take several years.

An Agreement Concerning Asbestos-Related Claims (the "Wellington Agreement") provides for settlement of insurance coverage for personal injury claims with certain primary carriers and excess carriers. Settlement agreements that complement the Wellington Agreement have been signed with one primary carrier and certain excess carriers. Litigation that was undertaken by the Company in California for insurance coverage for asbestos-related personal injury and property damage lawsuits and claims is now on appeal from favorable final decisions of the trial court and the California Court of Appeal. The case has been returned to the Court of Appeal by the California Supreme Court for additional review in light of a recent favorable Supreme Court decision in another case. This litigation did not encompass coverage for non-products claims that is included in the Company's primary policies and certain excess policies. This additional coverage is substantial and negotiations are underway with several primary carriers. If non-products coverage issues are not resolved through negotiation, the Company can pursue alternative dispute resolution proceedings against the primary and certain excess carriers pursuant to the Wellington Agreement.

The Company believes that an estimated \$166 million in liability and defense costs recorded on its balance sheet will be incurred to resolve approximately 59,000 asbestos-related personal injury claims against the Company as of December 31, 1995. An insurance asset in the amount of \$166 million recorded on the balance sheet reflects the Company's belief in the availability of insurance in this amount to cover the liability for these pending claims. The Company also projects the maximum cost in the settlement class action as a reasonably possible additional liability of \$245 million for a ten-year period; a portion of such additional projected liability may not be covered by the Company's ultimately applicable insurance recovery. Although subject to uncertainties and limitations, the Company also believes it is probable that substantially all of the expenses and liability payments associated with the asbestos-related property damage claims will be covered by insurance.

Even though uncertainties still remain as to the potential number of unasserted claims, liability resulting therefrom, and the ultimate scope of its insurance coverage, after consideration of the factors involved, including the Wellington Agreement, the settlements with other insurance carriers, the results of the trial phase and the intermediate appellate stage of the California insurance coverage litigation, the remaining reserve, the establishment of the Center, the proposed settlement class action, and its experience, the Company believes the asbestos-related lawsuits and claims against the Company would not be material either to the financial condition of the Company or to its liquidity, although the net effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

The full report on the asbestos-related litigation is set forth below:

Asbestos-Related Litigation

The Company is one of many defendants in pending lawsuits and claims involving, as of December 31, 1995, approximately 59,000 individuals alleging personal injury from exposure to asbestos. Included in the above number are approximately 12,800 lawsuits and claims from the approximately 87,000 individuals who have opted out of the settlement class action referred to below. About 14,300 claims from purported settlement class members were received as of December 31, 1995. Of those claims, many do not qualify at this time for payment. (In late 1993, the Company revised its claims handling procedures to provide for individual claim information to be supplied by the Center for Claims Resolution (the "Center"), referred to below. It is expected that this process will provide more current tracking of outstanding claims. The reconciliation between the two systems continues. Claim numbers in this note have been received from the Center and its consultants.)

Nearly all the personal injury suits and claims, except those claims covered by the settlement class action, seek general and punitive damages arising from alleged exposures, during various times, from World War II onward, to asbestos-containing insulation products used, manufactured or sold by the companies involved in the asbestos-related litigation. These claims against the Company generally involve allegations of negligence, strict liability, breach of warranty and conspiracy. The Company discontinued the sale of all asbestos-containing insulation products in 1969. The claims generally allege that injury may be determined many years (up to 40 years) after alleged exposure to asbestos or asbestos-containing products. Nearly all suits name many defendants (including both members of the Center and other companies), and over 100 different companies are reportedly involved. The Company believes that many current plaintiffs are unimpaired. A few state and federal judges have consolidated numbers of asbestos-related personal injury cases for trial, which the Company has generally opposed as unfair. A large number of suits and claims have either been put on inactive lists, settled, dismissed or otherwise resolved, and the Company is generally involved in all stages of claims resolution and litigation, including trials, and appeals. While the number of pending cases reflects a decrease during the past year, neither the rate of future dispositions nor the number of future potential unasserted claims can be reasonably predicted at this time.

Attention has been given by various parties to securing a comprehensive resolution of pending as well as potential future asbestos-related personal injury claims. The Judicial Panel for Multidistrict Litigation ordered the transfer of all pending federal cases to a single court, the Eastern District of Pennsylvania in Philadelphia, for pretrial purposes. The Company has supported such action. Some of these cases are periodically released for trial, although the issue of punitive damages is retained by the Eastern District Court. State court cases have not been directly affected by the transfer. The Court in the Eastern District has been instrumental in having the parties resolve large numbers of cases in various jurisdictions and has been receptive to different approaches to the resolution of asbestos-related personal injury claims.

Settlement Class Action

A settlement class action that includes essentially all future asbestos-related personal injury claims against members of the Center was filed in the Eastern District of Pennsylvania, on January 15, 1993. The settlement class action is designed to establish a non-litigation system for the resolution of essentially all future asbestos-related personal injury claims against the Center members including the Company. Other companies that are not Center members may be able to join the class action later. The class action proposes a voluntary settlement that offers a method for prompt compensation to claimants who were occupationally exposed to asbestos if they meet certain exposure and medical criteria. Compensation amounts are derived from historical settlement data. Under limited circumstances and in limited numbers, qualifying claimants may choose to arbitrate or litigate certain claims after their claims are processed within the system. No punitive damages will be paid under the proposed settlement. The settlement is designed to minimize transactional costs, including attorneys fees, and to relieve the courts of the burden of handling future claims. Each member of the Center has an obligation for its own fixed share in this proposed settlement. The District Court has ruled that claimants who neither filed a lawsuit against the members of the Center nor filed an exclusion request form are subject to the class action. The class action does not include claims deemed otherwise not covered by the class action settlement, or claims for property damage. Annual case flow caps and compensation ranges for each compensable medical category, including amounts paid even more promptly under the simplified payment procedures, have been established for an initial period of ten years. Case flow caps may be increased if they were substantially

exceeded during the previous five-year period. The case flow figures and annual compensation levels are subject to renegotiation after the initial ten-year period. On August 16, 1994, the Court tentatively approved the settlement, and notification has been provided to class members. Approximately 87,000 individuals have opted out. The opt outs are not claims as such but rather are reservations of rights to possibly bring claims in the future. The settlement will become final only after certain issues, including issues related to insurance coverage, are resolved and appeals are exhausted. This process could take several years. The Center members have stated their intention to resolve over a five-year period the personal injury claims that were pending when the settlement class action was filed. A significant number of claims have been finally or tentatively settled or are currently the subject of negotiations.

The Company is seeking agreement from its insurance carriers or a binding judgment against them that the class action will not jeopardize existing insurance coverage; the class action is contingent upon such an agreement or judgment. With respect to carriers that do not agree, this matter will be resolved either by alternative dispute resolution, in the case of carriers that subscribed to the Wellington Agreement, or else by litigation.

The Company believes that the future claimants settlement class action will receive final approval. However, the potential exists that an appellate court will reject or modify the settlement class action or that the above-referenced companion insurance action will not be successful.

Insurance Carriers/Wellington Agreement

The Company's insurance carriers provide defense and indemnity coverage for asbestos-related personal injury claims. All of the Company's primary insurers are paying for the defense of property damage claims. Three of the four carriers are paying for the defense under an Interim Agreement pending the final resolution of the coverage issues for property damage claims in the California insurance litigation. The remaining carrier entered into a separate agreement with the Company resolving coverage issues for both personal injury and property damage claims.

Various insurance carriers provide products and nonproducts coverage for the Company's asbestos-related personal injury claims and product coverage for property damage claims. Certain policies providing products coverage for personal injury claims have been exhausted. A list of the insurance carriers that currently provide coverage or whose policies have made available or provide personal injury, nonproducts or property damage coverages is as follows:

Reliance Insurance Company; Aetna Casualty and Surety Company; Liberty Mutual Insurance Companies; Travelers Insurance Company; Fireman's Fund Insurance Company; Insurance Company of North America; Lloyds of London; various London market companies; Fidelity and Casualty Insurance Company; First State Insurance Company; U.S. Fire Insurance Company; Home Insurance Company; Great American Insurance Company; American Home Assurance Company and National Union Fire Insurance Company (known as the AIG Companies); Central National Insurance Company; Interstate Insurance Company; Puritan Insurance Company; and Commercial Union Insurance Company. Midland Insurance Company, an excess carrier, that insured the Company for \$25 million of bodily injury products coverage, is insolvent; the Company is pursuing claims with the state guaranty associations. The gap in coverage created by the Midland Insurance Company insolvency will be covered by other insurance. Certain companies in the London block of coverage and certain carriers providing coverage at the excess level for property damage claims only have also become insolvent. In addition, certain insurance carriers that were not in the Company's California insurance litigation also provide insurance for asbestos-related property damage claims.

The Company along with 52 other companies (defendants in the asbestos-related litigation and certain of their insurers) signed the 1985 Agreement Concerning Asbestos-Related Claims (the "Wellington Agreement"). This Agreement provided for a final settlement of nearly all disputes concerning insurance for asbestos-related personal injury claims between the Company and three of its primary insurers and seven of its excess insurers which subscribed to the Wellington Agreement. The one primary insurer that did not sign the Wellington Agreement had earlier entered into the Interim Agreement with the Company and had paid into the Wellington Asbestos Claims Facility (the "Facility"). The Wellington Agreement provides for those insurers to indemnify the Company up to the policy limits for claims that trigger policies in the insurance coverage period, and nearly all claims against the Company fall within the coverage period; both defense and indemnity are paid under the policies and there are no deductibles under the applicable Company policies. The Wellington Agreement addresses both products and non-products insurance coverage. One of the Company's larger excess insurance carriers entered into a settlement agreement in 1986 with the Company under which payments also were made through the Facility and are now being paid through the Center. Coverage for asbestos-related property damage claims was not included in the settlement, and the agreement provides that either party may reinstitute a lawsuit in the event the coverage issues for property damage claims are not amicably resolved.

The Wellington Agreement also provided for the establishment of the Facility to evaluate, settle, pay and defend all personal injury claims against member companies. The insurance coverage designated by the Company for coverage in the Facility consisted of all relevant insurance policies issued to the Company from 1942 through 1976. Liability payments and allocated expenses were allocated by formula to each member, including the Company. The Facility, now dissolved, was negatively impacted by concerns of certain members about their share of liability payments and allocated expenses and by certain insurer concerns about defense costs and Facility operating expenses.

Center for Claims Resolution

A new asbestos-related personal injury claims handling organization known as the Center for Claims Resolution was created in October 1988 by Armstrong and 20 other companies, all of which were former members of the Facility. Insurance carriers did not become members of the Center, although a number of carriers signed an agreement to provide approximately 70% of the financial support for the Center's operational costs during its first year of operation; they also are represented ex officio on the Center's governing board. The Center adopted many of the conceptual features of the Facility, and the members' insurers generally provide coverage under the Wellington Agreement terms. The Center has operated under a revised formula for shares of liability payments and defense costs and has defended the members' interests and addressed the claims in a manner consistent with the prompt, fair resolution of meritorious claims. In late 1991, the Center sharing formula was revised to provide that members will pay only on claims in which the member is a named defendant. This change caused a slight increase in the Company's share and subsequent share adjustments also resulted in an increased liability share for the Company in certain areas. In the settlement class action, each member will pay its own fixed share of every claim.

A large share member earlier withdrew from the Center, and the allocated shares of liability payments and defense costs of the Center were recalculated, resulting in the remaining members' shares being increased. Under the class action settlement resolution, if a member withdraws, the shares of remaining members will not be increased. The Center members have reached an agreement annually with the insurers relating to the continuing operation of the Center and expect that the insurers will provide funding for the Center's operating expenses for its eighth year of operation. The Center

will continue to process pending claims as well as future claims in the settlement class action.

An increase in the utilization of the Company's insurance also has occurred as a result of the class action settlement and the commitment at the time to attempt to resolve pending claims within five years. Aside from the class action settlement, no forecast can be made for future years regarding either the rate of claims, the rate of pending and future claims resolution by the Center, or the rate of utilization of Company insurance. If the settlement class action is finalized and all appeals are exhausted, projections of the rate of disposition of future cases may be made.

Property Damage Litigation

The Company is also one of many defendants in a total of 32 pending lawsuits and claims, including one class action, as of December 31, 1995, brought by public and private building owners. These lawsuits and claims include allegations of damage to buildings caused by asbestos-containing products and generally claim compensatory and punitive damages and equitable relief, including reimbursement of expenditures, for removal and replacement of such products. They appear to be aimed at friable (easily crumbled) asbestos-containing products, although allegations in some suits encompass all asbestos-containing products, including allegations with respect to previously installed asbestos-containing resilient flooring. Among the lawsuits that have been resolved are four class actions that had been certified, each involving a distinct class of building owner:

public and private schools; Michigan state public and private schools; colleges and universities, and private property owners who leased facilities to the federal government. In three of these class actions, the courts have given final approval and dismissed the actions with prejudice. In the college and universities class action, a settlement has been reached with the class representative and is subject to a fairness hearing. The Company vigorously denies the validity of the allegations against it contained in these suits and claims. Increasing defense costs, paid by the Company's insurance carriers either under reservation or settlement arrangement, will be incurred. As a consequence of the California insurance litigation discussed elsewhere in this note, the Company believes that it is probable that costs of the property damage litigation that are being paid by the Company's insurance carriers under reservation of rights will not be subject to recoupment. These suits and claims were not handled by the former Facility nor are they being handled by the Center.

Certain co-defendant companies in the asbestos-related litigation have filed for reorganization under Chapter 11 of the Federal Bankruptcy Code. As a consequence, litigation against them (with several exceptions) has been stayed or restricted. Due to the uncertainties involved, the long-term effect of these proceedings on the litigation cannot be predicted.

California Insurance Coverage Lawsuit

The California trial court issued final decisions in various phases in the insurance lawsuit including a decision that the trigger of coverage for personal injury claims was continuous from exposure through death or filing of a claim. The court also found that a triggered insurance policy should respond with full indemnification up to exhaustion of the policy limits. The court concluded that any defense obligation ceases upon exhaustion of policy limits. Although not as comprehensive, another important decision in the trial established a favorable defense and indemnity coverage result for asbestos-related property damage claims; the final decision holds that, in the event the Company is held liable for an underlying property damage claim, the Company would have coverage under policies in effect during the period of installation and during any subsequent period in which a release of fibers

occurred. The California Court of Appeal has substantially upheld the trial court. The insurance carriers petitioned the California Supreme Court to hear the various asbestos-related personal injury and property damage coverage issues. The California Supreme Court accepted review pending its review of related issues in another case. It ruled in favor of the insured company in that case, and then referred the Company's case back to the Court of Appeal for further review in light of that decision. Based upon the trial court's favorable final decisions, the favorable decision by the California Court of Appeal, and a review of the coverage issues by its trial counsel, the Company believes that it has a substantial legal basis for sustaining its right to defense and indemnification. After concluding the last phase of the trial against one of its primary carriers, which is also an excess carrier, the Company and the carrier reached a settlement agreement on March 31, 1989. Under the terms of the settlement agreement, coverage is provided for asbestos-related bodily injury and property damage claims generally consistent with the interim rulings of the California trial court and complementary to the Wellington Agreement. The parties also agreed that a certain minimum and maximum percentage of indemnity and allocated expenses incurred with respect to asbestos-related personal injury claims would be deemed allocable to non-products claims coverage and that the percentage amount would be negotiated between the Company and the insurance carrier. These negotiations continue.

The Company also settled both asbestos-related personal injury and property damage coverage issues with a small excess carrier and in 1991 settled those same issues with a larger excess carrier. In these settlements, the Company and the insurers agreed to abide by the final judgment of the trial court in the California insurance litigation with respect to coverage for asbestos-related claims. In 1994, the Company also settled coverage issues for asbestos-related claims with a significant excess carrier.

Non-Products Insurance Coverage

Non-products insurance coverage is included in the Company's primary insurance policies and certain excess policies for non-products claims. The settlement agreement referenced above with one primary carrier included an amount for non-products claims. Non-products claims include claims that may have arisen out of exposure during installation of asbestos materials or before control of such materials has been relinquished. Negotiations have been undertaken with the Company's primary insurance carriers and are currently underway with several of them to categorize the percentage of previously resolved and yet to be resolved asbestos-related personal injury claims as non-products claims and to establish the entitlement to such coverage. The additional coverage potentially available to pay claims categorized as non-products is substantial, and at the primary level, includes defense costs in addition to limits. No agreement has been reached with the primary carriers on the amount of non-products coverage attributable to claims that have been disposed of or the type of claims that should be covered by non-products insurance. One primary carrier alleges that it is no longer bound by the Wellington Agreement, and one primary carrier seemingly takes the view that the Company verbally waived certain rights regarding non-products coverage against that carrier at the time the Wellington Agreement was signed. All the carriers presumably raise various reasons why they should not pay their coverage obligations. The Company is entitled to pursue alternative dispute resolution proceedings against the primary and certain excess carriers to resolve the non-products coverage issues.

ACandS, Inc., a former subsidiary of the Company, has coverage rights under some of the Company's insurance policies for certain insurance periods, and has accessed such coverage on the same basis as the Company. It was a subscriber to the Wellington Agreement, but is not a member of the Center. The Company and ACandS, Inc., have negotiated a settlement agreement which

reserves for ACandS, Inc. a certain amount of insurance from the joint policies solely for its own use for asbestos-related claims.

Conclusions

Based upon the Company's experience with this litigation and the disputes with its insurance carriers, a reserve was recorded in June 1983 to cover estimated potential liability and settlement costs and legal and administrative costs not covered under the Interim Agreement, cost of litigation against the Company's insurance carriers, and other factors involved in the litigation that are referred to herein about which uncertainties exist. As a result of the Wellington Agreement, the reserve was earlier reduced for that portion associated with pending personal injury suits and claims. As a result of the March 31, 1989, settlement referenced above, the Company received \$11.0 million, of which approximately \$4.4 million was credited to income with nearly all of the balance being recorded as an increase to its reserve for potential liabilities and other costs and uncertainties associated with the asbestos-related litigation. Future costs of litigation against the Company's insurance carriers and other legal costs indirectly related to the litigation will be expensed outside the reserve.

The Company does not know how many claims will be filed against it in the future, nor the details thereof or of pending suits not fully reviewed, nor the expense and any liability that may ultimately result therefrom, nor does the Company know whether the settlement class action will ultimately succeed, the number of individuals who ultimately will be deemed to have opted out or who could file claims outside the settlement class action, nor the annual claims flow caps to be negotiated after the initial ten-year period for the settlement class action or the compensation levels to be negotiated for such claims or the scope of its non-products coverage ultimately deemed available or the ultimate conclusion of the California insurance coverage litigation.

Subject to the uncertainties and limitations referred to in this note and based upon its experience and other factors also referred to in this note, the Company believes that the estimated \$166 million in liability and defense costs recorded on the balance sheet will be incurred to resolve an estimated 59,000 asbestos-related personal injury claims pending against the Company as of December 31, 1995. These claims include those that were filed for the period from January 1, 1994, to January 24, 1994, and which were previously treated as potentially included within the settlement class action, and those claims filed by claimants who have been identified as having filed exclusion request forms to opt out of the settlement class action. A ruling from the Court established January 24, 1994, as the date after which asbestos-related personal injury claims are subject to the settlement class action. In addition to the currently estimated pending claims and claims filed by those who have opted out of the settlement class action, claims otherwise determined not to be subject to the settlement class action will be resolved outside the settlement class action. The Company does not know how many such claims ultimately may be filed by claimants who have opted out of the class action or by claimants determined not to be subject to the settlement class action.

An insurance asset in the amount of \$166 million recorded on the balance sheet reflects the Company's belief in the availability of insurance in this amount to cover the liability in like amount referred to above. Such insurance has either been agreed upon or is probable of recovery through negotiation, alternative dispute resolution or litigation. The Company also notes that, based on maximum mathematical projections covering a ten-year period from 1994 to 2004, its estimated cost in the settlement class action reflects a reasonably possible additional liability of \$245 million. A portion of such additional liability may not be covered by the Company's ultimately applicable insurance recovery. However, the Company believes that any after-tax impact on the difference between the aggregate of the estimated liability for pending

cases and the estimated cost for the ten-year maximum mathematical projection, and the probable insurance recovery, would not be material either to the financial condition of the Company or to its liquidity, although it could be material to earnings if it is determined in a future period to be appropriate to record a reserve for this difference. The period in which such a reserve may be recorded and the amount of any reserve that may be appropriate cannot be determined at this time. Subject to the uncertainties and limitations referred to elsewhere in this note and based upon its experience and other factors referred to above, the Company believes it is probable that substantially all of the expenses and any liability payments associated with the asbestos-related property damage claims will be paid under an existing interim agreement, by insurance coverage settlement agreements and through additional coverage reasonably anticipated from the outcome of the insurance litigation.

Even though uncertainties still remain as to the potential number of unasserted claims, liability resulting therefrom, and the ultimate scope of its insurance coverage, after consideration of the factors involved, including the Wellington Agreement, the referenced settlements with other insurance carriers, the results of the trial phase and the intermediate appellate stage of the California insurance coverage litigation, the remaining reserve, the establishment of the Center, the proposed settlement class action, and its experience, the Company believes the asbestos-related lawsuits and claims against the Company would not be material either to the financial condition of the Company or to its liquidity, although as stated above, the net effect of any future liabilities recorded in excess of insurance assets could be material to earnings in such future period.

TINS Litigation

In 1984, suit was filed against the Company in the U. S. District Court for the District of New Jersey (the "Court") by The Industry Network System, Inc. (TINS), a producer of video magazines in cassette form, and Elliot Fineman, a consultant (Fineman and The Industry Network System, Inc. v. Armstrong World Industries, Inc., C.A. No. 84-3837 JWB). At trial, TINS claimed, among other things, that the Company had improperly interfered with a tentative contract which TINS had with an independent distributor of the Company's flooring products and further claimed that the Company used its alleged monopoly power in resilient floor coverings to obtain a monopoly in the video magazine market for floor covering retailers in violation of federal antitrust laws. The Company denied all allegations. On April 19, 1991, the jury rendered a verdict in the case, which as entered by the court in its order of judgment, awarded the plaintiffs the alternative, after all post-trial motions and appeals were completed, of either their total tort claim damages (including punitive damages), certain pre-judgment interest, and post-judgment interest or their trebled antitrust claim damages, post-judgment interest and attorneys fees. The higher amount awarded to the plaintiffs as a result of these actions totaled \$224 million in tort claim damages and pre-judgment interest, including \$200 million in punitive damages.

On June 20, 1991, the Court granted judgment for the Company notwithstanding the jury's verdict, thereby overturning the jury's award of damages and dismissing the plaintiffs' claims with prejudice. Furthermore, on June 25, 1991, the Court ruled that, in the event of a successful appeal restoring the jury's verdict in the case, the Company would be entitled to a new trial on the matter.

On October 28, 1992, the United States Court of Appeals for the Third Circuit issued an opinion in Fineman v. Armstrong World Industries, Inc. (No. 91-

5613). The appeal was taken to the Court of Appeals from the two June 1991 orders of the United States District Court in the case. In its decision on the plaintiff's appeal of these rulings, the Court of Appeals sustained the U. S. District Court's decision granting the Company a new trial, but overturned in certain respects the District Court's grant of judgment for the Company notwithstanding the jury's verdict.

The Court of Appeals affirmed the trial judge's order granting Armstrong a new trial on all claims of plaintiffs remaining after the appeal; affirmed the trial judge's order granting judgment in favor of Armstrong on the alleged actual monopolization claim; affirmed the trial judge's order granting judgment in favor of Armstrong on the alleged attempt to monopolize claim; did not disturb the District Court's order dismissing the alleged conspiracy to monopolize claim; affirmed the trial judge's order dismissing all of Fineman's personal claims, both tort and antitrust; and affirmed the trial judge's ruling that plaintiffs could not recover the aggregate amount of all damages awarded by the jury and instead must elect damages awarded on one legal theory. However, the Third Circuit, contrary to Armstrong's arguments, reversed the trial judge's judgment for Armstrong on TINS' claim for an alleged violation of Section 1 of the Sherman Act; reversed the trial judge's judgment in favor of Armstrong on TINS' claim for tortious interference; reversed the trial judge's judgment in favor of Armstrong on TINS' claim for punitive damages; and reversed the trial judge's ruling that had dismissed TINS' alleged breach of contract claim.

The Court of Appeals, in affirming the trial court's new trial order, agreed that the trial court did not abuse its discretion in determining that the jury's verdict was "clearly against the weight of the evidence" and that a new trial was required due to the misconduct of plaintiffs' counsel.

The foregoing summary of the Third Circuit's opinion is qualified in its entirety by reference thereto.

The Court of Appeals granted the Company's motion to stay return of the case to the District Court pending the Company's Petition for Certiorari to the Supreme Court appealing certain antitrust rulings of the Court of Appeals. The Company was informed on February 22, 1993, that the Supreme Court denied its Petition. After the case was remanded by the Third Circuit Court of Appeals in Philadelphia to the U.S. District Court in Newark, New Jersey, a new trial commenced on April 26, 1994. TINS claimed damages in the form of lost profits ranging from approximately \$17 million to approximately \$56 million. Plaintiff also claimed punitive damages in conjunction with its request for tort damages. Other damages sought included reimbursement of attorneys' fees and interest, including prejudgment interest.

On August 19, 1994, the jury returned a verdict in favor of the Company finding that the Company had not caused damages to TINS. The court subsequently entered judgment in the Company's favor based upon the verdict. TINS' motion for a new trial based upon alleged inaccurate jury instructions and alleged improper evidentiary rulings during the trial was denied and TINS filed an appeal with the U.S. Court of Appeals for the Third Circuit. On October 11, 1995, the case was argued before a panel of the U.S. Court of Appeals for the Third Circuit, and on October 20, 1995, the court issued a Judgment Order affirming the 1994 District Court verdict in favor of the Company. On November 2, 1995, TINS filed a Petition for Rehearing by the same panel which was denied on December 5, 1995. On January 24, 1996, TINS filed a motion seeking further appellate review by the Circuit Court; that motion has been denied.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Executive Officers of the Registrant

The information appearing in Item 10 hereof under the caption "Executive Officers of the Registrant" is incorporated by reference herein.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder

Matters

The Company's Common Stock is traded on the New York Stock Exchange, Inc., the Philadelphia Stock Exchange, Inc., and the Pacific Stock Exchange, Inc. As of February 9, 1996, there were approximately 7,120 holders of record of the Company's Common Stock.

Quarterly financial information (millions except for per-share data)		First	Second	Third	Fourth	Total year
1995*	Net sales	\$502.2	\$536.0	\$549.0	\$497.7	\$2,084.9
	Gross profit	166.7	177.9	184.6	146.0	675.2
	Earnings (loss) from continuing businesses	26.5	47.4	14.4	(74.7)	13.6
	Net earnings	34.4	52.7	19.4	16.8	123.3
	Per share of common stock:**					
	Primary: Earnings (loss) from continuing businesses	0.61	1.17	0.29	(2.09)	(0.02)
	Net earnings	0.82	1.31	0.42	0.35	2.90
	Fully diluted: Earnings (loss) from continuing businesses	0.57	1.05	0.28	(2.09)	(0.02)
	Net earnings	0.75	1.18	0.40	0.34	2.67
	Dividends per share of common stock	0.32	0.36	0.36	0.36	1.40
	Price range of common stock -- low	38 3/8	43	50 1/4	52 7/8	38 3/8
	Price range of common stock -- high	48 1/2	52	60 1/2	64 1/8	64 1/8
1994*	Net sales	\$461.1	\$508.6	\$525.6	\$510.4	\$2,005.7
	Gross profit	153.9	180.6	190.9	154.8	680.2
	Earnings from continuing businesses	42.5	48.7	56.6	39.4	187.2
	Net earnings	48.0	53.3	61.6	47.5	210.4
	Per share of common stock:**					
	Primary: Earnings from continuing businesses	1.03	1.19	1.41	0.93	4.60
	Net earnings	1.17	1.31	1.54	1.17	5.22
	Fully diluted: Earnings from continuing businesses	0.93	1.07	1.25	0.85	4.10
	Net earnings	1.06	1.18	1.37	1.04	4.64
	Dividends per share of common stock	0.30	0.32	0.32	0.32	1.26
	Price range of common stock -- low	49 3/8	43 3/8	43	36	36
	Price range of common stock -- high	57 1/2	57 1/4	53 7/8	46 5/8	57 1/2

* 1994 and the first, second and third quarters of 1995 have been restated for the results of the discontinued business and formation of the ceramic tile business combination.

**The sum of the quarterly earnings per-share data does not always equal the total year amounts due to changes in the average shares outstanding and, for fully diluted data, the exclusion of the antidilutive effect in certain quarters.

Item 6. Selected Financial Data

(Dollars in millions except for per-share data)										
For year	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Net sales	2,084.9	2,005.7	1,865.0	1,912.0	1,828.7	1,865.3	1,832.7	1,790.7	1,608.7	1,295.0
Cost of goods sold	1,409.7	1,325.5	1,286.5	1,378.4	1,316.6	1,315.5	1,273.3	1,253.7	1,112.0	889.2
Total selling, general and administrative expenses	397.1	388.1	347.8	296.9	341.1	340.6	303.8	309.0	288.8	240.3
Equity (earnings) loss from affiliates	(15.0)	(2.5)	42.9	107.8	38.4	0.6	9.1	3.5	--	--
Restructuring charges	71.8	--	89.3	160.8	12.5	6.8	5.9	--	--	--
Loss from ceramic tile business formation/(gain) from sales of woodlands	177.2	--	--	--	--	(60.4)	(9.5)	(1.9)	--	--
Operating income (loss)	44.1	294.6	98.5	(31.9)	120.1	262.2	250.1	226.4	207.9	165.5
Interest expense	34.0	28.3	38.0	41.6	45.8	37.5	40.5	25.8	11.5	5.4
Other expense (income), net	1.9	0.5	(6.1)	(7.2)	(8.5)	19.7	(5.7)	(13.1)	(4.3)	(3.1)
Earnings (loss) from continuing businesses before income taxes	8.2	265.8	66.6	(66.3)	82.8	205.0	215.3	213.7	200.7	163.2
Income taxes	(5.4)	78.6	17.6	(2.9)	32.7	69.5	74.6	79.4	82.2	70.0
Earnings (loss) from continuing businesses	13.6	187.2	49.0	(63.4)	50.1	135.5	140.7	134.3	118.5	93.2
As a percentage of sales	0.7%	9.3%	2.6%	-3.3%	2.7%	7.3%	7.7%	7.5%	7.4%	7.2%
As a percentage of average monthly assets (a)	.9%	12.7%	3.4%	-4.1%	3.3%	9.4%	11.1%	11.2%	11.3%	10.8%
Earnings (loss) from continuing businesses applicable to common stock (b)	(0.7)	173.1	35.1	(77.2)	30.7	116.0	131.0	133.9	118.0	92.8
Per common share -- primary	(0.02)	4.60	0.93	(2.07)	0.83	2.98	2.88	2.90	2.50	1.93
Per common share -- fully diluted (c)	(0.02)	4.10	0.92	(2.07)	0.83	2.74	2.76	2.90	2.50	1.93
Net earnings (loss)	123.3	210.4	63.5	(227.7)	48.2	141.0	187.6	162.7	150.4	122.4
As a percentage of sales	5.9%	10.5%	3.4%	-11.9%	2.6%	7.6%	10.2%	9.1%	9.3%	9.4%
Net earnings (loss) applicable to common stock (b)	109.0	196.3	49.6	(241.5)	28.8	121.5	177.9	162.3	150.0	122.0
As a percentage of average shareholders' equity	15.0%	31.3%	9.0%	-33.9%	3.3%	13.0%	17.9%	17.0%	17.6%	16.0%
Per common share -- primary	2.90	5.22	1.32	(6.49)	0.77	3.12	3.92	3.51	3.18	2.54
Per common share -- fully diluted (c)	2.67	4.64	1.26	(6.49)	0.77	2.86	3.72	3.51	3.18	2.54
Dividends declared per share of common stock	1.40	1.26	1.20	1.20	1.19	1.135	1.045	0.975	0.885	0.7325
Purchases of property, plant and equipment	162.2	113.8	87.8	98.6	116.9	160.2	200.9	163.2	156.7	119.1
Aggregate cost of acquisitions	20.7	--	--	4.2	--	16.1	--	355.8	71.5	53.1
Total depreciation and amortization	109.6	106.9	102.1	106.4	103.9	100.3	102.0	94.8	83.6	67.6
Average number of employees -- continuing businesses	11,365	11,612	12,413	13,448	13,714	14,017	14,056	14,224	14,036	12,953
Average number of common shares outstanding	37.1	37.5	37.2	37.1	37.1	38.8	45.4	46.2	47.2	48.1
Year-end position										
Working capital-- continuing businesses	346.8	304.8	213.2	171.6	277.3	218.6	364.6	178.0	345.3	401.5
Net property, plant and equipment-- continuing businesses	878.2	807.9	786.0	810.0	855.2	837.2	760.3	743.3	674.1	534.7
Total assets	2,149.8	2,139.4	1,844.8	1,922.3	2,109.4	2,105.4	1,992.3	2,057.8	1,574.9	1,277.5
Long-term debt	188.3	237.2	256.8	266.6	301.4	233.2	181.3	185.9	67.7	58.8
Total debt as a percentage of total capital (d)	38.5%	41.4%	52.2%	57.2%	46.9%	45.7%	36.1%	35.9%	22.8%	16.9%
Shareholders' equity	775.0	735.1	569.5	569.2	885.5	899.2	976.5	1,021.8	913.8	813.0
Book value per share of common stock	19.83	18.97	14.71	14.87	23.55	24.07	23.04	21.86	19.53	16.85
Number of shareholders (e) (f)	7,084	7,473	7,963	8,611	8,896	9,110	9,322	10,355	9,418	9,621
Common shares outstanding	37.4	37.5	37.2	37.1	37.1	37.1	42.3	46.3	46.2	47.5
Market value per common share	62	38 1/2	53 1/4	31 7/8	29 1/4	25	37 1/4	35	32 1/4	29 7/8

Notes:

(a) Assets exclude insurance for asbestos-related liabilities.

(b) After deducting preferred dividend requirements and adding the tax benefits for unallocated shares.

(c) See italicized definition of fully diluted earnings per share on page 20.

(d) Total debt includes short-term debt, current installments of long-term debt, long-term debt and ESOP loan guarantee. Total capital includes total debt and total shareholders' equity.

(e) Includes one trustee who is the shareholder of record on behalf of approximately 4,200 to 4,700 employees for years 1988 through 1995.

(f) Includes, for 1987 and 1986, a trustee who was the shareholder of record on behalf of approximately 11,000 employees who obtained beneficial ownership through the Armstrong Stock Ownership Plan, which was terminated at the end of 1987.

Certain selected financial data above has been restated for the effects of the discontinued business and formation of the ceramic tile business combination.

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations

1995 COMPARED WITH 1994

FINANCIAL CONDITION

As shown on the Consolidated Statements of Cash Flows (see page 21), net cash provided by operating activities was sufficient to cover payment of dividends and the investment in plant, property and equipment. The remaining cash, combined with increases in short-term debt, cash proceeds from the exercised stock options and sale of assets, was used to cover the repurchase of shares of the company's common stock for the treasury, the increase in cash and cash equivalents, acquisitions, reduction of long-term debt and purchase of computer software. Acquisitions in 1995 included a gasket materials and specialty paper manufacturing facility in New York and a metal ceilings production plant in England.

In December, the company completed two major transactions. First, the company sold its interests in Thomasville Furniture Industries, Inc., a wholly-owned subsidiary, to INTERCO International Inc. The purchase price of \$331.2 million included INTERCO's assumption of approximately \$8 million of Thomasville debt. An after-tax gain of \$83.9 million, or \$1.96 per share on a fully diluted basis, was recorded on the sale.

Second, the company entered into a business combination with Dal-Tile International Inc. Armstrong exchanged \$27.6 million and the stock of its ceramic tile operations, consisting primarily of American Olean Tile Company, a wholly-owned subsidiary, for 37% ownership of the combined company. The after-tax loss on the transaction was \$116.8 million, or \$2.73 per share on a fully diluted basis.

During the third quarter, the company sold the champagne cork business in Spain and announced its intention to discuss with potential buyers the possible sale of the textile products operation. The divestiture of the champagne cork business does not have a significant impact on financial results.

These actions show the company's commitment to focus its efforts in its core businesses and to divest businesses that do not earn in excess of their cost of capital. The company will use the net proceeds from these transactions to expand its core businesses internally (with capital expenditures to strengthen the businesses) and externally (with acquisitions to expand their size and scope), and to continue with its program of repurchasing shares of common stock.

In November 1994, the Board of Directors authorized the company to repurchase up to 2.5 million shares of its common stock, either in the open market or in negotiated transactions. During 1995, the company repurchased 782,110 shares with a cash outlay of \$40.6 million. Since the inception of the program, the company has repurchased 1,052,110 shares with a total cash outlay of \$51.1 million as of December 31, 1995.

Working capital was \$346.8 million as of December 31, 1995, \$42.0 million higher than the \$304.8 million recorded at year-end 1994. The increase in working capital results primarily from the increase in cash resulting from the sale of Thomasville and the increase in inventory levels. Partially offsetting the working capital increase were higher levels of accrued expenses, primarily as a result of accruals for restructuring actions and higher current installments on long-term debt. The \$30.9 million increase in inventories was the result of the building of finished stock for anticipated service level requirements. Included in these increases were approximately \$8.0 million due to translation of foreign currency receivables and inventories to U.S. dollars at higher exchange rates.

The 1995 year-end ratio of current assets to current liabilities of 1.92 to 1 as of December 31, 1995, remained unchanged when compared with last year.

Long-term debt, excluding the company's guarantee of the ESOP loan, was reduced by \$48.9 million in 1995. At December 31, 1995, long-term debt of \$188.3 million represented 14.9% of total capital compared with 18.9% at the end of 1994. The 1995 and 1994 year-end ratio of total debt (including the company's guarantee of the ESOP loan) as a percent of total capital was 38.5% and 41.4%, respectively.

In February 1995, Armstrong arranged a \$200 million, five-year revolving line of credit with 10 banks. The line of credit is for general corporate purposes, including use as a backstop for commercial paper notes. This replaced \$245 million of short-term bilateral lines of credit with eight banks.

Should a need develop for additional financing, it is management's opinion that the company has sufficient financial strength to warrant the required support from lending institutions and capital markets.

The company is involved in significant asbestos-related litigation which is described more fully on pages 21 and which should be read in connection with this discussion and analysis. The company does not know how many claims will be filed against it in the future, nor the details thereof or of pending suits not fully reviewed, nor the expense and any liability that may ultimately result therefrom, nor does the company know whether the settlement class action will ultimately succeed, the number of individuals who will ultimately be deemed to have opted out

or who could file claims outside the settlement class action, nor the annual claims caps to be negotiated after the initial 10-year period for the settlement class action or the compensation levels to be negotiated for such claims, nor the scope of its nonproducts coverage ultimately deemed available or the ultimate conclusion of the California insurance coverage litigation. Subject to the foregoing and based upon its experience and other factors also referred to above, the company believes that the estimated \$166 million in liability and defense costs recorded on the 1995 balance sheet will be incurred to resolve an estimated 59,000 asbestos-related personal injury claims pending against the company as of December 31, 1995. These claims include those that were filed for the period from January 1, 1994, to January 24, 1994, and which were previously treated as potentially included within the settlement class action, and those claims filed by claimants who have been identified as having filed exclusion request forms to opt out of the settlement class action. A ruling from the Court established January 24, 1994, as the date after which any asbestos-related personal injury claims filed by non-opt-out claimants against the company or other members of the Center for Claims Resolution are subject to the settlement class action. In addition to the currently estimated pending claims and any claims filed by individuals deemed to have opted out of the settlement class action, any claims otherwise determined not to be subject to the settlement class action will be resolved outside the settlement class action. The company does not know how many such claims ultimately may be filed by claimants deemed to have opted out of the class action or by claimants otherwise determined not to be subject to the settlement class action.

An insurance asset in the amount of \$166 million recorded on the 1995 balance sheet reflects the company's belief in the availability of insurance in this amount to cover the liability in like amount referred to above. Such insurance has either been agreed upon or is probable of recovery through negotiation, alternative dispute resolution or litigation. The company also notes that, based on maximum mathematical projections covering a 10-year period from 1994 to 2004, its estimated cost in the settlement class action reflects a reasonably possible additional liability of \$245 million. A portion of such additional liability may not be covered by the company's ultimately applicable insurance recovery. However, the company believes that any after-tax impact on the difference between the aggregate of the estimated liability for pending cases and the estimated cost for the 10-year maximum mathematical projection, and the probable insurance recovery, would not be material either to the financial condition of the company or to its liquidity, although it could be material to earnings if it is determined in a future period to be appropriate to record a reserve for this difference. The period in which such a reserve may be recorded and the amount of any reserve that may be appropriate cannot be determined at this time. Subject to the uncertainties and limitations referred to above and based upon its experience and other factors, the company believes it is probable that substantially all of the expenses and any liability payments associated with the asbestos-related property damage claims will be paid under an existing interim agreement, by insurance coverage settlement agreements and through additional coverage reasonably anticipated from the outcome of the insurance litigation.

Even though uncertainties still remain as to the potential number of unasserted claims, liability resulting therefrom and the ultimate scope of its insurance coverage, after consideration of the factors involved, including the Wellington Agreement, the referenced settlements with other insurance carriers, the results of the trial phase and the intermediate appellate stage of the California insurance coverage litigation, the remaining reserve, the establishment of the Center, and the proposed settlement class action and its experience, the company believes the asbestos-related lawsuits and claims against the company would not be material either to the financial condition of the company or to its liquidity, although as stated above, the net effect of any future liabilities recorded in excess of insurance assets could be material to earnings in such future period.

Reference is made to the litigation involving The Industry Network System, Inc. (TINS), discussed on page 21. In 1994, the jury returned a verdict finding that the company had not caused damages to TINS, and the court subsequently entered judgment in the company's favor. TINS' motion for a new trial was denied. TINS filed an appeal with the U.S. Court of Appeals for the Third Circuit which issued a judgment in favor of the company. TINS' Petition for Rehearing by the same panel was denied in December 1995. On January 24, 1996, TINS filed a motion seeking further appellate review by the Circuit Court.

Reference is also made to environmental matters as discussed on page 21. The company believes any sum it may have to pay in connection with environmental matters in excess of amounts accrued would not have a material adverse affect on its financial condition, liquidity or results of operations.

CONSOLIDATED RESULTS

Net sales of \$2.08 billion on a continuing business basis were once again an all-time sales record for any year in the company's history. These results were 4% higher than the \$2.01 billion recorded in 1994. The growth was largely due to increased sales in both the global, particularly European, non-residential and U.S. home center market segments. In keeping with one of the company's four key strategies, 1995 saw the introduction of new products. The resilient flooring business announced new floor products, primarily for the residential segment, at its convention in December. Building Products Operations introduced a new high style, high performance ceiling line, called Ultima, targeted to the nonresidential segment. New glazed wall and floor tile products were introduced by the ceramic tile operations.

Earnings from continuing businesses before income taxes were \$8.2 million, a decrease from the \$265.8 million in 1994. The earnings decline was attributable to restructuring charges of \$71.8 million and the loss of \$177.2 million related to the business combination of Armstrong's ceramic tile operations with Dal-Tile International Inc.

Net earnings for the year were \$123.3 million, compared with \$210.4 million in 1994. Net earnings per share of common stock for 1995 were \$2.90 on a primary basis and \$2.67 on a fully diluted basis. In 1994, net earnings per share of common stock were \$5.22 on a primary basis and \$4.64 on a fully diluted basis. 1995's net earnings included \$25.8 million of after-tax earnings from the discontinued operations of Thomasville Furniture Industries, Inc., and \$83.9 million of the after-tax gain from its sale. 1994's net earnings included \$18.6 million in after-tax gains resulting from the resolution of tax audits, the sale of its majority interest in a subsidiary and the reduction of the company's estimated health care liability.

The company's level of performance in Economic Value Added (EVA) as measured by return on capital was 14% in 1995, exceeding the company's 12% cost of capital.

Cost of goods sold in 1995 was 67.6% of sales, slightly higher than the 66.1% recorded in 1994. This increase largely reflects start-up costs in the new insulation products facility in Mebane, North Carolina, and the impact of unfavorable sales mixes in residential flooring sales in North America. Included in the 1994 cost of goods sold was a one-time gain of \$12.2 million reflecting a reduction in the company's estimated health care liability for employees on long-term disability.

Selling, general and administrative (SG&A) costs in 1995 were 2.3% higher than 1994. The increased costs resulted from the translation of foreign currency expenses to U.S. dollars at higher exchange rates. Excluding these adjustments, expenses would have decreased by 1%.

Results for 1995 included restructuring charges of \$71.8 million before tax or \$46.4 million after tax, or \$1.09 per share on a fully diluted basis. In the first quarter of 1995, the company announced plans to close a plant in Braintree, Massachusetts. The before-tax restructuring charge of \$15.6 million includes costs accrued for the elimination of about 223 salaried and hourly employee positions, for the obsolescence of equipment and for other costs to be incurred after operations cease. Cash outlays will be about one-third of the total charges with the majority of the cash outlay occurring in early 1996. The plant ceased operations on February 1, 1996.

In the third quarter, the company recorded a restructuring charge of \$56.2 million before tax or \$36.5 million after tax related to the company's ongoing efforts to streamline the organization and enable the businesses to be the best-cost suppliers in their markets. The restructuring charges primarily relate to severance and early retirement incentives for approximately 670 employees, half of whom are hourly and the other half are salaried. Nearly 40% of the \$56.2 million charge was related to the North American resilient flooring business, while another 40% was related to the European Operations, primarily in its industry products and building products segments. The balance was related to corporate and other operating segments. The charges are estimated to be evenly split between cash payments throughout 1996 and noncash charges, primarily to cover retirement-related expenses. It is anticipated that ongoing cost reductions and productivity improvements should permit recovery of these charges in less than two years.

The company's interest expense increased due to higher debt levels during the year and charges related to deferred compensation plans.

Armstrong's effective tax rate for 1995, excluding the tax benefit on the loss related to the ceramic tile business combination, was 30.6% compared with a 29.6% rate in 1994.

GEOGRAPHIC AREA RESULTS

UNITED STATES

Sales increased slightly while operating income decreased when compared with 1994. Higher sales levels were generated through the national home center and mass merchandiser channels, but lower levels were returned by the professionally installed resilient flooring segment. Sales price increases occurred in most of the U.S. businesses; however, operating income was impacted by the loss on the ceramic tile business combination, restructuring charges, higher raw material prices and start-up costs of the North Carolina insulation products facility. 1994 operating income included a one-time gain through the reduction in the company's estimated health care liability for employees on long-term disability.

Export sales of Armstrong products to trade customers increased \$5.9 million, or 23.7%, compared with 1994.

An organizational effectiveness study to review the company's staff support activities will be completed in first-quarter 1996 and implemented by late 1996.

EUROPE

During 1995, economic conditions continued to improve and helped Armstrong's end-use markets. For the year, sales increased 15.6%. All the company's European businesses recorded year-to-year sales increases with the building products segment being the most significant. Operating income decreased by nearly 17%, impacted by restructuring charges. Partially offsetting these charges was improved productivity -- much of it related to restructuring actions taken in 1993. The results in the European insulation products business continued to be adversely affected by competitive pricing. An organizational effectiveness study was completed in 1995 to align the staff with the global business units.

OTHER FOREIGN

Sales in 1995 increased slightly when compared with 1994, assisted by an increase in building products sales in China. Operating income also increased slightly, but reflected continued competitive pricing and higher expenses needed to expand to China and other Far East markets. The company continues to extend its investments in the Pacific area with the start of construction of a building products manufacturing facility in Shanghai, China, to take advantage of this area's market opportunity.

INDUSTRY SEGMENT RESULTS

FLOOR COVERINGS

The floor coverings segment sales decreased less than 1% from 1994. Higher home center and nonresidential sales volume was offset by lower sales in U.S. professionally installed residential sheet flooring. Operating income decreased 23.5% compared with 1994. Operating income included a restructuring charge of \$25.0 million, 90% of which related to elimination of employee positions in North America. Operating income was favorably impacted by expense reductions and higher selling prices, introduced early in 1995, that partially offset higher, but downward trending, raw material prices. European sales growth and profitability remained strong in this segment, with both hitting record levels. Capital expenditures in this segment increased by \$20.6 million and were directed toward modernization of equipment, manufacturing capacity and operating efficiencies.

Outlook

The company expects sales throughout the home center channels to remain strong despite the current overall weakness in the retail market segments. In this channel, The Home Depot, Lowes and Menard Inc. are important customers of our resilient floor products. Lower or stabilized raw material prices and operating efficiencies gained through restructuring activities should be positive factors on operating income. Floor Products Operations has introduced a new brand strategy targeted at three distinct market opportunities. The Armstrong and Solarian brands will be used for sheet and tile floors at the "good" and "better" price points while the new VIOS brand is an innovative line of upscale sheet flooring products in the "best" category. Also recently introduced is the Quest Program, offering independent flooring specialty retailers incentives to strengthen their relationship with Armstrong. The second part of this program is a unique display and merchandising system designed especially for that market. Early results from these programs have shown order rates beyond initial high expectations. In late 1995, the company announced that it was entering a strategic alliance with the F. Egger Company of Austria to manufacture and market laminate flooring products. Laminate flooring is made of decorative melamine laminate compressed with a wood-based product and kraft paper for balance. The European area has an aggressive sales plan for Eastern Europe and Russia while Western and Central Europe will be target opportunities for growth in sales of commercial sheet flooring. The W.W. Henry Company, a wholly-owned subsidiary, has also focused its efforts on customer service through the updating of its installation and adhesives products and packaging.

BUILDING PRODUCTS

The announcement in October that Building Products Operations was the first building materials manufacturer and marketer to win a Malcolm Baldrige National Quality Award demonstrates Building Products commitment to business excellence. All geographic areas in the building products segment contributed to the 8% sales increase with about one-third of the increase due to the translation of foreign currencies to a weaker U.S. dollar. The European and Pacific areas continued to show the strongest growth. Sales were assisted by the worldwide introduction of Ultima, a high performance, high style ceiling.

Operating income of \$92.2 million included a restructuring charge of \$6.3 million mainly related to administrative functions in the European operations. Sales growth, primarily in the worldwide commercial markets, higher selling prices and continuing cost reduction efforts were positive factors on operating income. WAVE, the grid system joint venture with Worthington Industries, has been highly successful in both North America and Europe and is delivering an excellent rate of return. Capital expenditures in this segment, which increased by \$17.7 million, are directed at increasing capacity through productivity improvements.

Outlook

This segment continues to expect sales increases in the Pacific area and is investing in the area with the construction of a building products manufacturing facility in the People's Republic of China with plant completion scheduled in late 1996. The company expects that the introduction of additional RH90 ceiling products in early 1996 will continue to build the momentum in Europe and Asia. The company has entered the European metal ceilings business with the acquisition, in late 1995, of the metal ceiling production and marketing business from Cape PLC of England.

INDUSTRY PRODUCTS

The industry products segment's sales grew by almost 12%, but the weaker U.S. dollar accounted for two-thirds of the increase. Operating income, which decreased significantly, includes a \$31.4 million restructuring charge related to the closing of the Braintree, Massachusetts, plant and elimination of employee positions in Europe. Operating income for insulation products, the largest business in this segment, was essentially flat year-on-year with gains on translations of foreign currencies to U.S. dollars offset by the restructuring charges. Also adversely affecting operating income was the need to meet competitive European pricing and the start-up costs of \$6.1 million for the new Mebane, North Carolina, insulation products plant. In 1995, the Gasket and Specialty Paper Operations became the first U.S. producer of soft gasket material to obtain an ISO 9001 registration. Gasket and specialty paper products sales increased from 1994 because of the acquisition in March of a gasket and specialty paper manufacturing facility in Beaver Falls, New York. However, operating income was impacted by lower automotive and diesel market sales and higher raw material costs. Effective in 1996, this business will be a wholly-owned subsidiary company, Armstrong Industrial Specialties, Inc. In the third quarter, the company divested the champagne cork business in Spain. The textile products business is still generating a modest operating loss, but lower than the amount recorded in 1994.

Outlook

This business segment is using its technical advantage and attractive pricing to enhance its market position. In early 1996, the Mebane insulation products plant will begin operations. This plant provides a lower cost structure and logistical advancements over the Braintree facility. These improvements, along with the introduction of new products, are part of management's strategy for the expansion of this business's global markets. Sales in Europe, the largest geographic area in terms of sales, have been increasing during 1995 and the trend is expected to continue. Early in 1996, Armstrong Industrial Specialties, Inc., will distribute gasket materials through a new tiered system to service customers of all sizes. In the third quarter of 1995, the company announced its decision to discuss with potential buyers the possible sale of the textile products operation.

CERAMIC TILE

In December 1995, the company entered into a business combination with Dal-Tile International Inc. to strengthen its position in the worldwide market. The before-tax loss from this business combination was \$177.2 million.

Excluding this loss, the ceramic tile segment's operating income improved significantly over 1994 aided by new product offerings including glazed floor and wall tile products targeted at opening price points.

Outlook

Armstrong retains a 37% interest in the new Dal-Tile International Inc. entity. The company expects this business combination to result in improved levels of customer service through the more efficient use of the manufacturing and distribution resources of both companies. The synergies of the combination should improve profitability in this segment. However, the amount and timing of these synergies are dependent on the integration of the two businesses.

1994 COMPARED WITH 1993

Results for 1994 and 1993 have been restated to reflect changes due to the discontinued business and ceramic tile business combination.

FINANCIAL CONDITION

As shown on the Consolidated Statement of Cash Flows (see page 21), net cash provided by operating activities in 1994 was \$305.2 million, which was more than sufficient to cover working capital requirements; payment of dividends; the payment for restructuring activities and the investment in property, plant and equipment. The remaining cash, including proceeds from stock options exercised and the cash proceeds from the sale of assets and the company's majority investment in BEGA/US, Inc., was used to reduce debt by \$95.3 million and to repurchase shares of the company's common stock for the treasury.

Working capital was \$304.8 million as of December 31, 1994, \$91.6 million higher than the \$213.2 million at year-end 1993. The primary reasons for the increase in working capital were the \$73.8 million repayment of short-term debt and the \$24.3 million increase in accounts receivable resulting from higher sales levels. Modest increases in other assets including inventories and lower levels of income taxes payable also increased working capital by \$21.2 million. Partially offsetting the increase were higher levels of accounts payable and accrued expenses totaling \$27.7 million.

The company's 1994 year-end ratio of current assets to current liabilities was 1.92 to 1 compared with a ratio of 1.55 to 1 reported in 1993. The major reason for the ratio increase was the \$73.8 million reduction of short-term debt.

Long-term debt, excluding the company's guarantee of the ESOP loan, was reduced by \$19.6 million in 1994. At year-end 1994, long-term debt of \$237.2 million represented 18.9% of total capital compared with 21.6% at the end of 1993. The 1994 and 1993 year-end ratio of total debt as a percent of total capital was 41.4% and 52.2%, respectively.

During the first quarter of 1994, the company terminated, prior to maturity, a notional amount \$25 million interest rate swap and, in the second quarter of 1994, a notional amount \$15 million interest rate swap matured. During the fourth quarter of 1993, the company terminated, prior to maturity, two notional amount \$50 million interest rate swaps and foreign currency swaps of French francs 182.4 million and Belgian francs 270 million. The company's management of foreign currency and interest rate exposures resulted in a loss of \$1.7 million in 1994 compared with a gain in 1993 of \$1.9 million. As of December 31, 1994, the company had no outstanding interest rate or currency swaps.

CONSOLIDATED RESULTS

Record net sales in 1994 of \$2.01 billion were 8% higher than the 1993 sales of \$1.87 billion. Armstrong's U.S. residential markets reflected continued strength in 1994, while European area economic conditions improved in 1994 causing a rebound in sales opportunity. On a worldwide basis, the commercial and institutional end-use market segments also improved, favorably affecting sales opportunity. Armstrong took advantage of this opportunity and increased sales in nearly every one of its businesses. The introduction of new products, primarily for the residential market segments, also helped to increase sales in 1994.

Record net earnings were \$210.4 million compared with net earnings of \$63.5 million in 1993. The 1993 earnings included restructuring charges of \$53.6 million after tax. Net earnings per common share were \$5.22 on a primary basis and \$4.64 on a fully diluted basis compared with \$1.32 and \$1.26, respectively, for 1993.

Armstrong's measure of return on average monthly assets was 12.7% for 1994 compared with 3.4% for 1993. Average monthly assets exclude the insurance for asbestos-related liabilities. The return on common shareholders' equity in 1994 was 31.3% compared with 9.0% in 1993.

Cost of goods sold as a percent of sales was 66.1% for the year, the lowest level for more than a quarter of a century, which compares favorably to 1993's cost of goods sold of 69.0%. The continuing reduction in cost of goods sold reflects the positive influence of the prior two years' restructuring programs, productivity improvement in all our businesses, sales price increases in a number of our businesses, some product mix improvement and the introduction of new products, primarily in our residential businesses. During 1994, \$12.2 million of the \$14.6 million before-tax gain from a reduction in Armstrong's health care liability for employees on long-term disability also lowered the cost of goods sold. The reduction resulted from actions taken by the company to qualify these employees for primary coverage under Medicare.

Selling, general and administrative expenses represent 19.3% of sales, up from the 18.6% reported for 1993 with overall expenses increasing 4.8% when comparing 1994 with those of 1993. Higher costs for the use of consultants in improving the company's global competitiveness and for special incentive awards to motivate superior performance were partially offset by the previously mentioned gain from the reduction in the health care liability and a gain from the sale of Armstrong's majority interest in BEGA/US, Inc.

No restructuring charges were recorded in 1994. However, 1993 results included \$89.3 million before tax of restructuring charges associated with Armstrong initiatives to enhance its global competitiveness. These costs were primarily associated with eliminating approximately 950 employee positions in the U.S. and Europe. More than half of the amounts accrued at the end of 1993 were used with much of the remaining accrual to be utilized in 1995.

Interest expense was significantly reduced in 1994 compared with 1993 and was the result of lower debt levels.

The effective tax rate for 1994 was 30.9% compared with 30.0% in 1993. The current year tax rate was helped by a gain from the reversal of previously accrued tax expense following resolution of the company's 1988, 1989 and 1990 tax audits, the positive effect of tax benefits related to taxes on foreign income and state income taxes through the realization of previously unrecognized deferred tax assets and lower withholding taxes on foreign dividends. In addition, the company utilized excess foreign tax credits during 1994. The 1993 tax rate reflected the company's higher use of foreign tax credits, reductions of deferred taxes resulting from some countries lowering their statutory tax rates and lower foreign tax rates, which more than offset the 1% increase in the U.S. statutory tax rate.

GEOGRAPHIC AREA RESULTS

UNITED STATES

Sales increased by more than 7% while operating income was more than doubled when compared with 1993. The primary end-use market segments -- residential, which reflected continued strength from the prior year, and commercial/ institutional which became stronger during 1994 -- had a positive effect on this area. Even though interest rates were raised six times during 1994, they had very little effect on 1994's results. During 1994, both single family housing starts and sales of existing single family homes rose close to 5%. Nonresidential new construction grew at a rate of over 8% in 1994. The long-term effect of higher interest rates may slow future sales growth in these market segments.

Higher sales occurred primarily in the floor coverings segment. As in past years, higher sales levels continued through the national home centers and mass merchandisers channel. New product introductions for the residential end-use markets also provided additional sales.

While the higher sales levels were a key factor, the significant restructuring actions of the past two years also played a major part in increasing operating income mainly in the building products segment and the ceramic tile segment. Sales price increases occurred in most of the U.S. businesses and had a positive effect on operating income.

Export sales of Armstrong products to trade customers increased \$5.1 million, or over 25%, compared with 1993.

EUROPE

During mid-1994, economic conditions began to improve and helped Armstrong's end-use markets. For the year, sales increased nearly 6% and operating income improved by 138%. All the company's European businesses recorded year-to-year sales increases. Operating income was helped significantly by improved productivity -- much of it related to restructuring actions taken in 1992 and 1993. The results in the European insulation products business were adversely affected by increased competitive pricing and higher than usual obsolescence of equipment.

OTHER FOREIGN

Sales in 1994 reversed a four-year declining trend and increased by 13% compared with 1993. Operating income declined by \$2.4 million, or

24%, reflecting the competitive pricing and higher expenses needed to penetrate the Chinese and other Far East markets and a shift in product mix towards lower margin commodity products.

INDUSTRY SEGMENT RESULTS

FLOOR COVERINGS

Worldwide sales were 8% higher in 1994, with operating income increasing by 21% from 1993 levels. The 1993 operating income included \$8.4 million of restructuring charges.

The resilient flooring portion of the segment recorded strong sales growth in both North America and Europe. The U.S. resilient flooring business continued to benefit in 1994 from higher sales of existing homes, new residential construction and continued strength in the commercial construction and remodeling market segments. This was accomplished even in light of the numerous interest rate increases throughout 1994. Successful new product introductions in the second half of 1994 helped to improve sales.

The major restructuring actions of the past two years, primarily in manufacturing, some sales price increases, some unit volume increases and the continued development of the residential business were key factors for this turnaround. In the resilient flooring portion of the segment, operating income improvement was the result of higher sales volume, some sales price increases and manufacturing productivity improvements. Offsetting some of the effects of these positive items were higher raw material costs that became more notable in the second half of the year. Sales prices were increased as of January 1995 to offset the rise in raw material prices.

Capital expenditures increased 43% over those of 1993. The expenditures continue to be concentrated on improving manufacturing productivity, increasing capacity and developing business systems.

BUILDING PRODUCTS

During 1994, commercial and institutional end-use market segments continued to provide more opportunity. Sales grew more than 7% with North American sales growing faster than those of the European area. The Pacific area recorded the highest percentage growth with new business in China being a factor.

Operating income, excluding the effects of restructuring charges in 1993, recorded the fastest growth of any segment -- up 167% over 1993. While higher sales levels and sales price increases had a positive impact on operating income, the prior two years' restructuring actions dramatically reduced manufacturing costs and had the most significant impact on results.

Capital expenditures were increased about one-third over those of the past two years and were directed at higher productivity levels and improving capacity. 1994 expenditures were about the same as depreciation levels.

INDUSTRY PRODUCTS

Sales increased by 5% while operating income improved only 3% when the 1993 restructuring charges of nearly \$13 million are excluded. This segment is highly influenced by its European orientation and the rebound in that area's economies that started in the second half of 1994.

The insulation business, the largest portion of this segment, recorded sales growth of about 5% while operating income was slightly higher than 1993. During 1994, this business lowered sales prices to meet intense European competition, recorded higher than usual obsolescence of equipment and incurred some start-up costs for its new manufacturing facility in Panyu, China.

The gasket materials business grew sales by 18% and pushed operating income 32% higher. This business was favorably affected by the strong automotive markets in 1994.

The textile mill supply business saw its 1994 sales decline by 4% due to soft end-use markets worldwide and strong competitive pressures. A small operating loss was recorded for 1994 as this business continues to reengineer its operations.

Capital expenditures were slightly higher in 1994 than 1993, but continue to exceed depreciation. A significant portion of the expenditures were in the insulation products business.

CERAMIC TILE

The ceramic tile segment recorded sales increases in both the commercial and residential parts of the business with the residential part reflecting the highest growth.

Ceramic tile recorded a significant operating loss in 1993 that was reversed in 1994 with a small operating income primarily generated through reduction of production costs.

Item 8. Financial Statements and Supplementary Data

CONSOLIDATED STATEMENTS OF EARNINGS

Millions except for per-share data	Years ended December 31	1995	1994*	1993*
Net sales		\$2,084.9	\$2,005.7	\$1,865.0
Cost of goods sold		1,409.7	1,325.5	1,286.5
Gross profit		675.2	680.2	578.5
Selling, general and administrative expenses		397.1	388.1	347.8
Equity (earnings) loss from affiliates		(15.0)	(2.5)	42.9
Restructuring charges		71.8	--	89.3
Loss from ceramic tile business combination		177.2	--	--
Operating income		44.1	294.6	98.5
Interest expense		34.0	28.3	38.0
Other expense (income), net		1.9	0.5	(6.1)
Earnings from continuing businesses before income taxes		8.2	265.8	66.6
Income taxes		(5.4)	78.6	17.6
Earnings from continuing businesses		13.6	187.2	49.0
Discontinued business:				
Earnings from operations of Thomasville Furniture Industries, Inc. (less income taxes of \$13.9 in 1995, \$15.5 in 1994, \$9.6 in 1993)		25.8	23.2	14.5
Gain on disposal of discontinued business (less income taxes of \$53.4)		83.9	--	--
Net earnings		\$ 123.3	\$ 210.4	\$ 63.5
Dividends paid on Series A convertible preferred stock		18.8	19.0	19.2
Tax benefit on dividends paid on unallocated preferred shares		4.5	4.9	5.3
Net earnings applicable to common stock		\$ 109.0	\$ 196.3	\$ 49.6
Per share of common stock:				
Primary:				
Earnings (loss) from continuing businesses (See note on page 21.)		\$ (0.02)	\$ 4.60	\$ 0.93
Earnings from discontinued business		0.68	0.62	0.39
Gain on sale of discontinued business		2.24	--	--
Net earnings		\$ 2.90	\$ 5.22	\$ 1.32
Fully diluted:				
Earnings (loss) from continuing businesses (See note on page 21.)		\$ (0.02)	\$ 4.10	\$ 0.92
Earnings from discontinued business		0.60	0.54	0.34
Gain on sale of discontinued business		1.96	--	--
Net earnings		\$ 2.67	\$ 4.64	\$ 1.26

*Restated for the effects of the discontinued business and formation of the ceramic tile business combination.

The Notes to Consolidated Financial Statements, page 21 is an integral part of these statements.

CONSOLIDATED BALANCE SHEET

Millions except for numbers of shares and per-share data	As of December 31	1995	1994*
Assets			
Current assets:			
Cash and cash equivalents		\$ 256.9	\$ 12.0
Accounts and notes receivable (less allowance for discounts and losses: 1995--\$29.0; 1994--\$27.0)		217.9	218.9
Inventories		195.5	164.6
Income tax benefits		26.9	35.9
Net assets of discontinued business		--	182.1
Other current assets		25.5	21.6
Total current assets		722.7	635.1
Property, plant and equipment (less accumulated depreciation and amortization: 1995--\$975.9; 1994--\$902.4)		878.2	807.9
Insurance for asbestos-related liabilities		166.0	198.0
Investment in affiliates		162.1	293.9

Other noncurrent assets	220.8	204.5
Total assets	\$2,149.8	\$2,139.4
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	22.0	17.9
Current installments of long-term debt	40.1	19.5
Accounts payable and accrued expenses	297.4	270.4
Income taxes	16.4	22.5
Total current liabilities	375.9	330.3
Long-term debt		
Employee Stock Ownership Plan (ESOP) loan guarantee	234.7	245.5
Deferred income taxes	16.5	32.1
Postretirement and postemployment benefit liabilities	242.8	242.5
Asbestos-related liabilities	166.0	198.0
Other long-term liabilities	140.6	110.1
Minority interest in subsidiaries	10.0	8.6
Total noncurrent liabilities	998.9	1,074.0
Shareholders' equity:		
Class A preferred stock. Authorized 20 million shares; issued 5,654,450 shares of Series A convertible preferred stock; outstanding: 1995--5,421,998 shares; 1994--5,478,416 shares; retired: 1995--232,452 shares; 1994--176,034 shares	258.9	261.6
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	49.3	39.3
Reduction for ESOP loan guarantee	(225.1)	(233.9)
Retained earnings	1,133.8	1,076.8
Foreign currency translation	18.0	8.3
	1,286.8	1,204.0
Less common stock in treasury, at cost: 1995--15,014,098 shares; 1994--14,602,132 shares	511.8	468.9
Total shareholders' equity	775.0	735.1
Total liabilities and shareholders' equity	\$2,149.8	\$2,139.4

*Restated for the effects of the discontinued business and formation of the ceramic tile business combination.

The Notes to Consolidated Financial Statements, page 21 is an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Years ended December 31	1995	1994*	1993*
Cash flows from operating activities:				
Net earnings		\$ 123.3	\$ 210.4	\$ 63.5
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization excluding furniture and ceramic tile		109.6	106.9	102.1
Depreciation and amortization for furniture and ceramic tile		26.5	26.5	27.9
Deferred income taxes		(8.7)	14.6	(1.3)
Gain on sale of discontinued businesses		(83.9)	--	--
Loss on ceramic tile business combination net of taxes		116.8	--	--
Loss from restructuring activities		71.8	--	89.3
Restructuring payments		(18.3)	(20.2)	(38.7)
(Increase) decrease in net assets of discontinued business		2.3	(4.4)	(4.4)
Changes in operating assets and liabilities net of effect of discontinued business, restructuring and dispositions:				
(Increase) decrease in receivables		4.9	(20.3)	18.1
(Increase) decrease in inventories		(26.3)	1.8	23.4
(Increase) decrease in other current assets		9.1	(2.2)	13.1
(Increase) in investment in affiliates		(5.1)	(11.9)	(2.0)
(Increase) in other noncurrent assets		(31.9)	(21.2)	(36.1)
Increase (decrease) in accounts payable and accrued expenses		(35.9)	37.1	16.3
Increase (decrease) in income taxes payable		(8.2)	(10.1)	11.3
Increase (decrease) in other long-term liabilities		21.1	(5.5)	20.2
Other, net		2.9	3.7	(8.6)
Net cash provided by operating activities		270.0	305.2	294.1
Cash flows from investing activities:				

Purchases of property, plant and equipment excluding furniture and ceramic tile	(162.2)	(113.8)	(87.8)
Purchases of property, plant and equipment for furniture and ceramic tile	(23.9)	(34.5)	(29.8)
Investment in computer software	(10.9)	(4.3)	(2.9)
Proceeds from sale of land, facilities and discontinued businesses	342.6	12.8	10.3
Acquisitions	(20.7)	--	--
Investment in ceramic tile business combination	(27.6)	--	--
Net cash provided by (used for) investing activities	97.3	(139.8)	(110.2)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	3.2	(89.6)	(114.9)
Reduction of long-term debt	(20.1)	(5.7)	(9.2)
Cash dividends paid	(70.8)	(66.2)	(63.8)
Purchase of common stock for the treasury	(41.3)	(10.6)	(0.1)
Proceeds from exercised stock options	7.0	8.4	4.9
Other, net	(0.6)	(0.8)	(7.6)
Net cash used for financing activities	(122.6)	(164.5)	(190.7)
Effect of exchange rate changes on cash and cash equivalents	0.2	2.0	0.7
Net increase (decrease) in cash and cash equivalents	\$ 244.9	\$ 2.9	\$ (6.1)
Cash and cash equivalents at beginning of year	\$ 12.0	\$ 9.1	\$ 15.2
Cash and cash equivalents at end of year	\$ 256.9	\$ 12.0	\$ 9.1
Supplemental cash flow information			
Interest paid	\$ 29.6	\$ 31.9	\$ 33.8
Income taxes paid	\$ 76.9	\$ 62.0	\$ 15.8

*Restated for the effects of the discontinued business and formation of the ceramic tile business combination.

The Notes to Consolidated Financial Statements, page 21 is an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

Millions except for per-share data	Years ended December 31	1995	1994*	1993*
Series A convertible preferred stock:				
Balance at beginning of year		\$ 261.6	\$ 263.9	\$ 266.4
Shares retired		2.7	2.3	2.5
Balance at end of year		\$ 258.9	\$ 261.6	\$ 263.9
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		\$ 39.3	\$ 29.7	\$ 26.1
Stock issuances		10.0	9.6	3.6
Balance at end of year		\$ 49.3	\$ 39.3	\$ 29.7
Reduction for ESOP loan guarantee:				
Balance at beginning of year		\$ (233.9)	\$ (241.8)	\$ (249.2)
Principal paid		10.7	8.4	6.3
Accrued compensation		(1.9)	(.5)	1.1
Balance at end of year		\$ (225.1)	\$ (233.9)	\$ (241.8)
Retained earnings:				
Balance at beginning of year		\$1,076.8	\$ 927.7	\$ 922.7
Net earnings for year		123.3	210.4	63.5
Tax benefit on dividends paid on unallocated preferred shares		4.5	4.9	5.3
Total		\$1,204.6	\$1,143.0	\$ 991.5
Less dividends:				
Preferred stock				
\$3.462 per share		\$ 18.8	\$ 19.0	\$ 19.2
Common stock				
\$1.40 per share in 1995;		52.0		
\$1.26 per share in 1994;			47.2	
\$1.20 per share in 1993;				44.6
Total dividends		\$ 70.8	\$ 66.2	\$ 63.8

Balance at end of year	\$1,133.8	\$1,076.8	\$ 927.7

Foreign currency translation:			
Balance at beginning of year	\$ 8.3	\$ (3.4)	\$ 8.6
Translation adjustments and hedging activities	10.9	11.7	(12.5)
Allocated income taxes	(1.2)	--	.5

Balance at end of year	\$ 18.0	\$ 8.3	\$ (3.4)

Less treasury stock at cost:			
Balance at beginning of year	\$ 468.9	\$ 458.5	\$ 457.3
Stock purchases	41.3	10.6	.1
Stock issuance activity, net	1.6	(.2)	1.1

Balance at end of year	\$ 511.8	\$ 468.9	\$ 458.5

Total shareholders' equity	\$ 775.0	\$ 735.1	\$ 569.5

The Notes to Consolidated Financial Statements, page 21 is an integral part of these statements.

Notes To Consolidated Financial Statements

The consolidated financial statements and accompanying data in this report include the accounts of the parent Armstrong World Industries, Inc., and its domestic and foreign subsidiaries. These financial statements are prepared in accordance with generally accepted accounting principles and include management estimates and judgments, where appropriate. Actual results may differ from these estimates. All significant intercompany transactions have been eliminated from the consolidated statements. Prior years have been restated to reflect changes due to the discontinued business and ceramic tile business combination as described on page 21.

To assist in understanding this financial review, the accounting policies and principles used are printed in italics.

Nature of Operations

The floor coverings segment includes resilient flooring, adhesives, installation and maintenance materials and accessories sold to U.S. commercial and residential segments through wholesalers, retailers and contractors. The Corporate Retail Accounts division provides marketing services to home centers which have become an important part of the company's business. To improve logistical cost-effectiveness, 15 independent regional distribution centers are being established to service these customers. To reduce interchannel conflict, segmented resilient flooring products have been introduced to allow exclusive sales in these different markets. Raw materials, especially plasticizers and resins, are a significant cost of resilient flooring products. The company has no influence on and is subject to cost changes in the worldwide market of these materials.

The building products segment manufactures both residential and architectural ceiling systems. Grid products, manufactured and sold through the joint venture with Worthington Industries (WAVE), have become a more important part of this business worldwide. Earnings from this joint venture are included in this segment's operating income. The major sales activity in this segment is in architectural ceiling systems for commercial and institutional structures which are sold to contractors and resale distributors worldwide, with European sales having a significant impact. Ceiling systems for the residential home segment are sold through wholesalers and retailers, mainly in the United States. During 1995, the business experienced raw material price increases which recently have shown signs of softening.

The industry products segment makes a variety of specialty products for the building, automotive, textile and other industries worldwide. The majority of sales in this segment are flexible pipe insulation used in construction and in original equipment manufacturers. These sales are primarily in Europe, with Germany having the largest concentration due to its regulatory requirements. The major product costs for insulation are raw materials and labor. Strong competition exists in insulation since there are minimal barriers to entry into this market. Gasket materials are sold for new and replacement use in the automotive, construction and farm equipment, appliance, small engine and compressor industries. The automotive and diesel build rates are the most sensitive market drivers for these products. This business also supplies backing for Armstrong's resilient flooring products. Other products in the industry products segment are textile mill supplies, including cots and aprons sold to equipment manufacturers and textile mills, and adhesives. In 1995, the company announced its intentions to discuss with potential buyers the possible sale of the textile products operation.

The ceramic tile products segment, reported in previous years with the floor coverings segment, includes ceramic tile sold through home centers and sales service centers. Ceramic tile products face significant competition from foreign suppliers. This segment's results are reported as "Equity Earnings from Affiliates" (see page 21) and are included in operating income.

INDUSTRY SEGMENTS

Industry segments at December 31 (millions)	1995	1994	1993
Net trade sales:			
Floor coverings	\$1,053.9	\$1,063.5	\$ 980.6
Building products	682.2	630.0	586.7
Industry products	348.8	312.2	297.7
Total net sales	\$2,084.9	\$2,005.7	\$1,865.0
Operating income (loss): (Note 1)			
Floor coverings	\$ 145.0	\$ 189.6	\$ 156.6
Building products	92.2	86.8	18.8
Industry products	9.3	41.2	27.2
Ceramic tile (Note 2)	(168.4)	0.8	(44.3)
Unallocated corporate expense	(34.0)	(23.8)	(59.8)
Total operating income	\$ 44.1	\$ 294.6	\$ 98.5
Depreciation and amortization:			
Floor coverings	\$ 47.9	\$ 49.2	\$ 48.2
Building products	36.8	34.5	34.1
Industry products	19.3	17.6	14.6
Corporate	5.6	5.6	5.2
Total depreciation and amortization	\$ 109.6	\$ 106.9	\$ 102.1
Capital additions: (Note 3)			
Floor coverings	\$ 77.3	\$ 56.7	\$ 39.7
Building products	49.2	31.5	24.2
Industry products	45.0	22.6	22.1
Corporate	6.3	3.0	1.8
Total capital additions	\$ 177.8	\$ 113.8	\$ 87.8
Identifiable assets:			
Floor coverings	\$ 583.2	\$ 575.7	\$ 541.2
Building products	513.5	478.1	483.0
Industry products	301.8	234.8	207.9
Ceramic tile	135.8	270.5	251.9
Discontinued business	--	182.1	175.4
Corporate	615.5	398.2	185.4
Total assets	\$2,149.8	\$2,139.4	\$1,844.8

Note 1:

Restructuring charges in operating income (millions)	1995	1994	1993
Floor coverings	\$ 25.0	--	\$ 8.4
Building products	6.3	--	13.7
Industry products	31.4	--	12.9
Ceramic tile	--	--	19.3
Unallocated corporate expense	9.1	--	35.0
Total restructuring charges in operating income	\$ 71.8	--	\$ 89.3

Note 2: 1995 operating income includes a \$177.2 million loss due to the ceramic tile business combination.

Note 3: 1995 capital additions for industry segments include property, plant and equipment from acquisitions of \$15.6 million.

GEOGRAPHIC AREAS

Geographic areas at December 31 (millions)	1995	1994	1993
Net trade sales:			
United States	\$1,346.3	\$1,343.7	\$1,250.3
Europe	558.7	483.4	456.6

Other foreign	179.9	178.6	158.1

Interarea transfers:			
United States	101.1	94.7	75.8
Europe	13.8	8.7	6.0
Other foreign	32.1	26.1	21.9
Eliminations	(147.0)	(129.5)	(103.7)

Total net sales	\$2,084.9	\$2,005.7	\$1,865.0
=====			
Operating income:			
United States	\$ 7.7	\$ 235.5	\$ 116.6
(See Note 2 on page 21)			
Europe	62.6	75.3	31.7
Other foreign	7.8	7.6	10.0
Unallocated corporate expense	(34.0)	(23.8)	(59.8)

Total operating income	\$ 44.1	\$ 294.6	\$ 98.5
=====			
Identifiable assets:			
United States	\$1,044.5	\$1,110.5	\$1,074.1
Europe	406.7	376.5	347.0
Other foreign	83.4	72.6	63.2
Discontinued business	--	182.1	175.4
Corporate	615.5	398.2	185.4
Eliminations	(0.3)	(0.5)	(0.3)

Total assets	\$2,149.8	\$2,139.4	\$1,844.8
=====			

United States net trade sales include export sales to non-affiliated customers of \$30.8 million in 1995, \$24.9 million in 1994 and \$19.8 million in 1993.

"Europe" includes operations located primarily in England, France, Germany, Italy, the Netherlands, Poland, Spain and Switzerland. Operations in Australia, Canada, The People's Republic of China, Hong Kong, Indonesia, Japan, Korea, Singapore and Thailand are in "Other foreign."

Transfers between geographic areas and commissions paid to affiliates marketing exported products are accounted for by methods that approximate arm's-length transactions, after considering the costs incurred by the selling company and the return on assets employed of both the selling unit and the purchasing unit. Operating income of a geographic area includes income accruing from sales to affiliates.

OPERATING STATEMENT ITEMS

DISCONTINUED OPERATIONS

On December 29, 1995, the company sold the stock of its furniture subsidiary, Thomasville Furniture Industries, Inc., to INTERCO Incorporated for \$331.2 million. INTERCO assumed \$8.0 million of Thomasville interest-bearing debt. The company recorded a gain of \$83.9 million after tax on the sale. Certain liabilities related to terminated benefit plans of approximately \$11.3 million were retained by the company. Thomasville and its subsidiaries recorded sales of approximately \$550.2 million in 1995, \$526.8 million in 1994 and \$449.7 million in 1993.

Operating statement categories, except where otherwise indicated, have been restated to exclude the effects of this discontinued business.

EQUITY EARNINGS FROM AFFILIATES

On December, 29, 1995, the company entered into a business combination with Dal- Tile International Inc. The transaction was accounted for at fair value and involved the exchange of \$27.6 million and the stock of the ceramic tile operations, consisting primarily of American Olean Tile Company, a wholly-owned subsidiary, for ownership of 37% of the shares of Dal-Tile. The company's investment in Dal-Tile exceeds the underlying equity in net assets by \$123.9 million which will be amortized over a period of 30 years. The after-tax loss on the transaction was \$116.8 million.

Results from ceramic tile operations, which were previously reported on a consolidated basis, were restated and included in "Equity Earnings from Affiliates." Going forward, Armstrong's 37% ownership of the combined Dal-Tile will be accounted for under the equity method. The summarized financial information for ceramic tile operations is presented below.

(millions)	1995	1994	1993
Net sales	\$240.0	\$220.2	\$210.7
Operating income (loss)/1/	8.8	.8	(44.3)
Assets/2/	269.8	290.1	276.3
Liabilities/2/	17.3	19.6	24.4

Note 1: Excludes 1995 loss of \$177.2 million due to ceramic tile business combination.

Note 2: 1995 balances were as of December 29, 1995, immediately prior to the ceramic tile business combination.

Also included in equity earnings from affiliates are earnings from the 50% interest in the WAVE joint venture with Worthington Industries. Previously these earnings had been included in selling, general and administrative expenses.

NET SALES

Net sales in 1995 totaled \$2,084.9 million, 3.9% above the 1994 total of \$2,005.7 million. 1994 sales were 7.5% above the 1993 total of \$1,865.0 million.

The amounts reported as net sales are the total sales billed during the year less the sales value of goods returned, trade discounts and customers' allowances and freight costs incurred in delivering products to customers.

EARNINGS FROM CONTINUED BUSINESSES

Earnings from continuing businesses were \$13.6 million in 1995 compared with \$187.2 million in 1994 and \$49.0 million in 1993. 1995 earnings included the \$116.8 million after-tax loss for the ceramic tile business combination mentioned above. Included in the earnings for 1995 and 1993 were after-tax restructuring charges of \$46.4 million and \$59.6 million, respectively.

NET EARNINGS

Net earnings were \$123.3 million for 1995 compared with earnings of \$210.4 million and \$63.5 million for years 1994 and 1993 respectively.

EARNINGS PER COMMON SHARE

Earnings per common share are presented on the Consolidated Statements of Earnings on page 20.

Primary earnings (loss) per share for "Earnings (loss) from continuing businesses" and for "Net earnings" are determined by dividing the earnings (loss), after deducting preferred dividends (net of tax benefits on unallocated shares), by the average number of common shares outstanding and shares issuable under stock options, if dilutive.

Fully diluted earnings (loss) per share include the shares of common stock outstanding and the adjustments to common shares and earnings (loss) required to portray the convertible preferred shares on an "if converted" basis unless the effect is antidilutive.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs were \$56.2 million in 1995, \$51.4 million in 1994 and \$56.1 million in 1993.

ADVERTISING COSTS

Advertising costs were \$20.2 million in 1995, \$23.5 million in 1994 and \$25.1 million in 1993.

The company's practice is to expense the costs of advertising as they are incurred.

MAINTENANCE AND REPAIR COSTS

Maintenance and repair costs were \$106.5 million in 1995, \$104.3 million in 1994 and \$102.9 million in 1993.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization amounted to \$109.6 million in 1995, \$106.9 million in 1994 and \$102.1 million in 1993.

These amounts include amortization of intangible assets of \$6.4 million in 1995, \$5.8 million in 1994 and \$5.8 million in 1993.

Depreciation charges for financial reporting purposes are determined generally on the straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives. Accelerated depreciation is generally used for tax purposes. When assets are disposed of or retired, their costs and related depreciation are removed from the books, and any resulting gains or losses are reflected in "Selling, general and administrative expenses." Intangibles are amortized over periods ranging from 2 to 40 years.

RESTRUCTURING CHARGES

Restructuring charges amounted to \$71.8 million in 1995 and \$89.3 million in 1993.

In the first quarter of 1995, the company announced a planned closing of an Industry Products manufacturing plant located in Braintree, Massachusetts. This plant phased out operations in early 1996. Accordingly, there was a nonrecurring charge to the first-quarter 1995 financial results of \$15.6 million before tax. The charge was primarily related to severance pay and pension costs accrued for the elimination of about 223 salaried and hourly employee positions. Cash outlays will be about one third of the total charges with the majority of the cash outlay occurring in early 1996.

In the third quarter of 1995, the company recorded a \$56.2 million charge before tax for restructuring resulting from the company's ongoing efforts to streamline the organization and enhance operating efficiencies. The restructuring charges primarily relate to severance and early retirement incentives for approximately 670 employees, half of whom are hourly and half are salaried. Nearly 40% of the charge was related to the North American resilient flooring business, while another 40% was related to European Operations. The balance was related to corporate and other operating segments. The charges are estimated to be evenly split between cash payments throughout 1996 and noncash charges, primarily to cover retirement-related expenses. It is anticipated that ongoing cost reductions and productivity improvements should permit recovery of these charges in less than two years.

Actual severance payments charged against the restructuring reserves for 1995 totaled \$15.5 million. These charges relate to the elimination of approximately 300 positions during 1995. Also, an additional 300 positions were eliminated during 1995 through special retirement incentives.

The 1993 charges were primarily the result of severance payments and special retirement incentives associated with the elimination of employee positions. At the end of 1995, \$15.6 million related to this liability remained in the reserve.

OTHER EXPENSE (INCOME), NET			
(millions)	1995	1994	1993
Interest and dividend income	\$(3.3)	\$(3.7)	\$(7.5)
Foreign exchange, net loss	2.6	2.6	.5
Postretirement liability transition obligation	1.6	--	--
Minority interest	0.6	1.8	2.1
Other	0.4	(0.2)	(1.2)
Total	\$ 1.9	\$ 0.5	\$(6.1)

EMPLOYEE COMPENSATION

Employee compensation and average number of employees are presented in the table below. Restructuring charges for severance costs and early retirement incentives and all data related to furniture and ceramic tile segments have been excluded.

Employee compensation cost summary (millions)			
	1995	1994	1993
Wages and salaries	\$519.4	\$516.5	\$488.6
Payroll taxes	55.5	48.5	49.5
Pension credits	(11.3)	(13.2)	(6.9)
Insurance and other benefit costs	51.0	37.4	54.2
Total	\$614.6	\$589.2	\$585.4
Average number of employees	11,365	11,612	12,413

PENSION COSTS

The company and a number of its subsidiaries have pension plans covering substantially all employees. Benefits from the principal plan are based on the employee's compensation and years of service.

Generally, the company's 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 full funding limitation.

Funding requirements, in accordance with provisions of the Internal Revenue Code, are determined independently of expense using an expected long-term rate of return on assets of 8.67%. The company's principal plan was subject to the full funding limitation in 1995, 1994 and 1993, and the company made no contribution to that plan in any of these years. Contributions of \$0.8 million in 1993 were made to defined-benefit plans of company subsidiaries. No contributions were made in 1995 and 1994.

The total pension cost or credit from all plans is presented in the table below.

Total pension (credit) cost (millions)	1995	1994	1993
U.S. defined-benefit plans:			
Net pension credit	\$ (26.5)	\$ (29.1)	\$ (19.2)
Early retirement incentives	28.7	--	38.0
Net curtailment gain	(1.2)	--	--
Defined contribution plans	4.2	4.3	4.4
Net pension cost of non-U.S. defined-benefit plans	8.1	8.6	6.1
Other funded and unfunded pension costs	4.1	3.0	1.8
Total pension (credit) cost	\$ 17.4	\$ (13.2)	\$ 31.1

In 1995, the company recognized a \$1.6 million curtailment gain from the sale of its furniture subsidiary and a \$0.4 million curtailment loss from the ceramic tile business combination.

The net credit for U.S. defined-benefit pension plans is presented in the table below.

Net credit for U.S. defined-benefit pension plans (millions)	1995	1994	1993
Assumptions:			
Discount rate	8.00%	7.00%	7.25%
Rate of increase in future compensation levels	5.25%	4.75%	4.75%
Expected long-term rate of return on assets	8.75%	8.25%	8.25%
Actual (return) loss on assets	\$(406.7)	\$ 93.6	\$(230.1)
Less amount deferred	313.0	(182.5)	152.3
Expected return on assets	\$ (93.7)	\$ (88.9)	\$ (77.8)
Net amortization and other	(9.3)	(9.5)	(7.0)
Service cost -- benefits earned during the year	16.7	17.9	17.3
Interest on the projected benefit obligation	59.8	51.4	48.3
Net pension credit	\$ (26.5)	\$ (29.1)	\$ (19.2)

The company has defined-contribution pension plans for eligible employees at certain of its U.S. subsidiaries, such as the Employee Stock Ownership Plan (ESOP) described on page 21. The costs of all such plans totaled \$4.2 million in 1995, \$4.3 million in 1994 and \$4.4 million in 1993.

The funded status of the company's U.S. defined-benefit pension plans is presented in the following table.

Funded status of U.S. defined-benefit pension plans (millions)	1995	1994
Assumptions:		
Discount rate	7.00%	8.00%
Compensation rate	4.25%	5.25%
Actuarial present value of benefit obligations:		

Vested benefit obligation	\$ (726.7)	\$ (657.7)
Accumulated benefit obligation	\$ (802.4)	\$ (700.6)
Projected benefit obligation for services rendered to date	\$ (901.2)	\$ (774.8)
Plan assets at fair value	\$1,446.6	\$1,099.1
Plan assets in excess of projected benefit obligation	\$ 545.4	\$ 324.3
Unrecognized transition asset	(40.3)	(46.6)
Unrecognized prior service cost	81.8	102.8
Unrecognized net gain -- experience different from assumptions	(491.8)	(285.4)
Provision for restructuring charges	(9.9)	(8.9)
Prepaid pension cost	\$ 85.2	\$ 86.2

The plan assets, stated at estimated fair value as of December 31, are primarily listed stocks, bonds and investments with a major insurance company.

The company has pension plans covering employees in a number of foreign countries that utilize assumptions that are consistent with, but not identical to, those of the U.S. plans.

Net cost for non-U.S. defined-benefit pension plans (millions)	1995	1994	1993
Actual (return) loss on assets	\$ (11.2)	\$ 1.8	\$ (14.3)
Less amount deferred	5.9	(6.1)	8.0
Expected return on assets	\$ (5.3)	\$ (4.3)	\$ (6.3)
Net amortization and other	.4	.6	.5
Service cost -- benefits earned during the year	4.9	5.2	5.2
Interest on the projected benefit obligation	8.1	7.1	6.7
Net pension cost	\$ 8.1	\$ 8.6	\$ 6.1

The following table presents the funded status of the non-U.S. defined-benefit pension plans at December 31.

Funded status of non-U.S. defined-benefit pension plans (millions)	1995	1994
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ (103.0)	\$ (87.1)
Accumulated benefit obligation	\$ (107.6)	\$ (91.5)
Projected benefit obligation for services rendered to date	\$ (115.8)	\$ (99.5)
Plan assets at fair value	71.4	58.0
Projected benefit obligation greater than plan assets	\$ (44.4)	\$ (41.5)
Unrecognized transition obligation	3.3	3.2
Unrecognized prior service cost	3.4	3.5
Unrecognized net gain -- experience different from assumptions	(13.4)	(9.5)
Adjustment required to recognize minimum liability	(.4)	(.4)
Accrued pension cost	\$ (51.5)	\$ (44.7)

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

The company has plans that provide for medical and life insurance benefits to certain eligible employees, worldwide, when they retire from active service. The company funds these benefit costs primarily on a pay-as-you-go basis, with the retiree paying a portion of the cost for health

care benefits through deductibles and contributions.

The company announced in 1989 - 90 a 15-year phaseout of its cost of health care benefits for certain future retirees. These future retirees include parent company nonunion employees and some union employees. Shares of ESOP convertible preferred stock are scheduled to be allocated to these employees, based on employee age and years to expected retirement. In addition, they may enroll in a voluntary portion of the ESOP to purchase additional shares.

Total retiree health care and life insurance expense was \$19.1 million in 1995, \$18.7 million in 1994 and \$18.5 million in 1993.

Periodic postretirement benefit costs (millions)	1995	1994	1993
Assumptions:			
Discount rate	8.25%	7.75%	8.25%
Rate of increase in future compensation levels	5.25%	4.75%	4.75%
Service cost of benefits earned during the year	\$ 2.8	\$ 3.0	\$ 3.0
Interest cost on accumulated postretirement benefit obligation	17.1	16.5	16.3
Amortization of prior service credit	(.8)	(.8)	(.8)
Periodic postretirement benefit cost	\$ 19.1	\$ 18.7	\$ 18.5

The following table sets forth the status of the company's postretirement benefit plans at December 31.

Status of postretirement benefit plans (millions)	1995	1994
Assumptions:		
Discount rate	7.00%	8.25%
Compensation rate	4.25%	5.25%
Retirees	\$161.5	\$141.2
Fully eligible active plan participants	17.2	27.8
Other active plan participants	67.9	39.5
Total accumulated postretirement benefit obligation (APBO)	\$246.6	\$208.5
Unrecognized prior service credit	7.3	8.1
Unrecognized net loss	(40.7)	(6.9)
Accrued postretirement benefit cost	\$213.2	\$209.7

The assumed health care cost trend rate used to measure the APBO was 12% in 1994, decreasing 1% per year to an ultimate rate of 6% by the year 2000. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, if the health care cost trend rate assumptions were increased by 1%, the APBO as of December 31, 1995, would be increased by \$22.9 million. The effect of this change on the total of service and interest costs for 1995 would be an increase of \$2.3 million.

The company provides certain postemployment benefits to former or inactive employees and their dependents during the period following employment but before retirement.

In 1995, the company recorded a postemployment benefit expense of \$3.2 million, which included a \$4.1 million credit from the transfer of the payment responsibility for certain disability benefits to the company's defined-benefit pension plan. In 1994, the company recorded a postemployment benefit credit of \$12.2 million, which included a \$14.6 million gain related to the qualification in 1994 of long-term disabled employees for primary medical coverage under Medicare. The company recorded \$4.0 million of postemployment benefit expense in 1993.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In 1989, Armstrong established an ESOP that borrowed \$270 million from banks and insurance companies, repayable over 15 years and guaranteed by the company. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of convertible preferred stock issued by the company. The number of preferred shares released for allocation to participant accounts is 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, 1995, the ESOP allocated

to participants 1,940,004 shares and retired 232,452 shares. The preferred stock has a minimum conversion value of \$47.75 per share with an annual dividend of \$3.462.

The ESOP currently covers parent company nonunion employees, some union employees and those employees of major domestic subsidiaries.

The company's guarantee of the ESOP loan has been recorded as a long-term obligation and as a reduction of shareholders' equity on its consolidated balance sheet.

Details of ESOP debt service payments (millions)	1995	1994	1993
Preferred dividends paid	\$18.8	\$19.0	\$19.2
Employee contributions	6.7	6.2	5.9
Company contributions	6.2	4.9	3.5
Debt service payments made by ESOP trustee	\$31.7	\$30.1	\$28.6

The company recorded costs for the ESOP, utilizing the 80% of the shares allocated method, of \$3.5 million in 1995, \$3.6 million in 1994 and \$3.7 million in 1993. Costs for all years continue to be offset by savings from changes to company-sponsored health care benefits and elimination of a contribution- matching feature in the company-sponsored voluntary retirement savings plan.

TAXES

Taxes totaled \$71.7 million in 1995, \$150.4 million in 1994 and \$89.6 million in 1993.

Deferred tax assets and liabilities are recognized using enacted tax rates for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. The tax benefit for dividends paid on unallocated shares of stock held by the ESOP is recognized in shareholders' equity (see page 21).

Details of taxes (millions)	1995	1994	1993
Earnings (loss) from continuing businesses before income taxes:			
Domestic	\$(28.7)	\$262.7	\$ 61.6
Foreign	68.0	52.1	29.3
Eliminations	(31.1)	(49.0)	(24.3)
Total	\$ 8.2	\$265.8	\$ 66.6
Income tax provision (benefit):			
Current:			
Federal	\$(19.7)	\$ 12.8	\$ 15.5
Foreign	23.4	25.9	10.6
State	(0.2)	5.0	3.7
Total current	3.5	43.7	29.8
Deferred:			
Federal	(6.2)	41.4	(11.0)
Foreign	(2.7)	(2.2)	(1.2)
State	--	(4.3)	--
Total deferred	(8.9)	34.9	(12.2)
Total income taxes	(5.4)	78.6	17.6
Payroll taxes	61.5	54.8	55.8
Property, franchise and capital stock taxes	15.6	17.0	16.2
Total taxes	\$ 71.7	\$150.4	\$ 89.6

At December 31, 1995, unremitted earnings of subsidiaries outside the United States were \$135.6 million (at current balance sheet exchange rates) on which no U.S. taxes have been provided. If such earnings were to be remitted without offsetting tax credits in the United States, withholding taxes would be \$12.5 million. The company's intention, however, is to permanently reinvest those earnings or to repatriate them only when it is tax effective to do so.

Reconciliation to

U.S. statutory tax rate (millions)	1995	1994	1993
Tax expense at statutory rate	\$ 2.9	\$93.0	\$23.3
State income taxes	--	(1.5)	1.2
(Benefit) on ESOP dividend	(2.1)	(1.7)	(1.4)
(Benefit) on foreign and foreign-source income	(7.7)	(1.4)	(8.0)
Utilization of excess foreign tax credit	--	(5.4)	--
Reversal of prior year provisions	--	(6.5)	--
Other items	0.1	2.1	0.9
Restructuring charges	(0.2)	--	1.6
Loss from ceramic tile business combination	1.6	--	--
Tax (benefit) expense at effective rate	\$(5.4)	\$78.6	\$17.6

BALANCE SHEET ITEMS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased to \$256.9 million at the end of 1995 from \$12.0 million at the end of 1994. Operating and other factors associated with the increase in cash and cash equivalents are detailed in the Consolidated Statements of Cash Flows on page 21.

Short-term investments, substantially all of which have maturities of three months or less when purchased, are considered to be cash equivalents and are carried at cost or less, generally approximating market value.

RECEIVABLES

Receivables decreased \$1.0 million in 1995. Lower sales in the last quarter of 1995, when compared with 1994, more than offset the \$4.9 million effect of translating foreign currency receivables to U.S. dollars at higher exchange rates.

Accounts and notes receivable (millions)	1995	1994
Customers' receivables	\$213.4	\$216.3
Customers' notes	21.3	19.3
Miscellaneous receivables	12.2	10.3
	246.9	245.9
Less allowance for discounts and losses	29.0	27.0
Net	\$217.9	\$218.9

Generally, the company sells its products to select, preapproved groups of customers which include flooring and building material distributors, ceiling systems contractors, regional and national mass merchandisers, home centers and original equipment manufacturers. The businesses of these customers are directly affected by changes in economic and market conditions. The company considers these factors and the financial condition of each customer when establishing its allowance for losses from doubtful accounts.

The carrying amount of the receivables approximates fair value because of the short maturity of these items.

Trade receivables are recorded in gross billed amounts as of date of shipment. Provision is made for estimated applicable discounts and losses.

INVENTORIES

Inventories were \$30.9 million higher at the end of 1995. The higher inventory levels were primarily due to increasing inventory levels for insulation products in order to ensure customer service while starting up new production facilities at Mebane, North Carolina, and the softening of sales in the floor industry segment. The translation of foreign currency inventories to U.S. dollars at higher exchange rates increased inventories by \$3.1 million.

Approximately 51% in 1995 and 49% in 1994 of the company's total inventory was valued on a LIFO (last-in, first-out) basis. Such inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis, by \$62.4 million at the end of 1995 and \$55.5 million at year-end 1994.

Inventories (millions)	1995	1994

Finished goods	\$119.9	\$103.1
Goods in process	24.0	22.9
Raw materials and supplies	51.6	38.6

Total	\$195.5	\$164.6

Inventories are valued at the lower of cost or market. Approximately 90 percent of 1995's domestic inventories are valued using the LIFO method. Other inventories are generally determined on a FIFO method.

INCOME TAX BENEFITS

Income tax benefits were \$26.9 million in 1995 and \$35.9 million in 1994. Of these amounts, deferred tax benefits were \$26.4 million in 1995 and \$31.7 million in 1994.

OTHER CURRENT ASSETS

Other current assets were \$25.5 million in 1995, an increase of \$3.9 million from the \$21.6 million in 1994.

Property, plant and equipment (millions)	1995	1994

Land	\$ 25.6	\$ 20.5
Buildings	390.6	375.5
Machinery and equipment	1,313.7	1,238.1
Construction in progress	124.2	76.2

	1,854.1	1,710.3

Less accumulated depreciation and amortization	975.9	902.4

Net	\$ 878.2	\$ 807.9

The \$143.8 million increase in gross book value to \$1,854.1 million at the end of 1995 included \$177.8 million for capital additions and acquisitions and a \$61.2 million reduction from sales, retirements, dispositions and other changes. Also, because of translating foreign currency property, plant and equipment into U.S. dollars at higher exchange rates, 1995 gross book value was higher by \$27.2 million and net book value increased by \$12.9 million.

The unexpended cost of approved capital appropriations amounted to \$169.5 million at year-end 1995, substantially all of which is scheduled to be expended during 1996.

Property, plant and equipment values are stated at acquisition cost, with accumulated depreciation and amortization deducted to arrive at net book value.

The Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," is effective for fiscal years beginning after December 15, 1995. The adoption of this standard will not have a material impact on the company.

INSURANCE FOR ASBESTOS-RELATED LIABILITIES

Insurance for asbestos-related liabilities was \$166.0 million reflecting the company's belief in the ultimate availability of insurance in an amount to cover the estimated potential liability of a like amount (see page 21). Such insurance has either been agreed upon or is probable of recovery through negotiation, alternative dispute resolution or litigation. See discussion on page 21.

Other noncurrent assets (millions)	1995	1994

Goodwill and other intangibles	\$ 50.2	\$ 43.4
Pension-related assets	108.4	106.7
Other	62.2	54.4

Total	\$220.8	\$204.5

Other noncurrent assets increased \$16.3 million in 1995. Goodwill and other intangibles increased \$6.8 million reflecting higher spending levels in computer software systems and acquired intangibles from acquisitions. The \$7.8 million increase in the "Other" category was primarily attributed to higher paid-up insurance policy asset values.

Noncurrent assets are carried at cost or less or under the equity method of accounting.

INVESTMENTS IN AFFILIATES

Investments in affiliates were \$162.1 million in 1995, a decrease of \$131.8 million, reflecting the ceramic tile business combination with Dal-Tile International Inc. whereby the company acquired a 37% interest in Dal-Tile in exchange for the stock of the company's ceramic tile operations and \$27.6 million in cash. Also included in investments in affiliates is the 50% interest in the WAVE joint venture.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES		
(millions)	1995	1994
Payables, trade and other	\$168.3	\$147.0
Employment costs	51.2	68.7
Restructuring costs	40.1	18.7
Other	37.8	36.0
Total	\$297.4	\$270.4

The carrying amount of accounts payable and accrued expenses approximates fair value because of the short maturity of these items.

INCOME TAXES		
(millions)	1995	1994
Payable--current	\$15.0	\$21.4
Deferred--current	1.4	1.1
Total	\$16.4	\$22.5

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the following table.

Deferred income taxes (millions)	1995	1994
Postretirement and postemployment benefits	\$ (82.6)	\$ (95.0)
Restructuring benefits	(13.4)	(14.7)
Asbestos-related liabilities	(58.1)	(69.3)
Alternative minimum tax credit	--	(5.3)
Other	(64.6)	(77.8)
Net deferred assets	\$ (218.7)	\$ (262.1)
Accumulated depreciation	\$ 90.7	\$ 106.5
Pension costs	35.8	33.1
Insurance for asbestos-related liabilities	58.1	69.3
Other	25.6	54.7
Total deferred income tax liabilities	\$ 210.2	\$263.6
Net deferred income tax liabilities (assets)	\$ (8.5)	\$ 1.5
Less net income tax (benefits)--current	(25.0)	(30.6)
Less net income tax (benefits)--noncurrent	--	--
Deferred income taxes -- long term	\$ 16.5	\$ 32.1

DEBT

(millions)	1995	Average year-end interest rate	1994	Average year-end interest rate

Short-term debt:				
Commercial paper	\$ --	--	\$ 3.2	6.00%
Foreign banks	22.0	7.27%	14.7	7.20%

Total short-term debt	\$ 22.0	7.27%	\$ 17.9	6.99%

Long-term debt:				
93/4% debentures due 2008	\$125.0	9.75%	\$125.0	9.75%
Medium-term notes 8.5 - 9% due 1996 - 2001	92.8	8.74%	111.8	8.75%
Industrial development bond	8.5	5.35%	17.7	5.66%
Other	2.1	12.29%	2.2	12.25%

Total long-term debt	\$228.4	9.20%	\$256.7	9.05%

Less current installments	40.1	8.50%	19.5	8.80%

Net long-term debt	\$188.3	9.35%	\$237.2	9.07%
=====				

Scheduled amortization of long-term debt (millions)				

1997	\$13.7		2000	\$18.1
1998	13.5		2001	7.5
1999	--			

The December 31, 1995, carrying amounts of short-term debt and current installments of long-term debt approximate fair value because of the short maturity of these items.

The estimated fair value of net long-term debt was \$234.9 million and \$247.2 million at December 31, 1995 and 1994, respectively. The fair value estimates of long-term debt were based upon quotes from major financial institutions, taking into consideration current rates offered to the company for debt of the same remaining maturities.

The 93/4% debentures and the medium-term notes are not redeemable until maturity and have no sinking-fund requirements.

The industrial development bond matures in 2004 with a variable interest rate that is reset weekly.

Other debt includes an \$18.6 million zero-coupon note due in 2013 that had a carrying value of \$1.9 million at December 31, 1995.

In February 1995, Armstrong arranged a \$200 million five-year revolving line of credit with 10 banks for general corporate purposes. In addition, the company's foreign subsidiaries have approximately \$154.0 million of unused short-term lines of credit available from banks. The domestic credit lines are subject to an annual commitment fee.

The company can borrow from its banks generally at rates approximating the lowest available to commercial borrowers and can issue short-term commercial paper notes supported by the lines of credit.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The company selectively uses foreign currency forward and option contracts to offset the effects of exchange rate changes on cash flow exposures denominated in foreign currencies. These exposures include firm or anticipated intercompany trade accounts, royalties, service fees, dividends, intercompany loans and third party sales or payments. The primary exposures are denominated in European currencies and the Canadian dollar. The company normally hedges cash flow exposures up to one year. The company's foreign currency cash flow exposures, net hedge and unhedged exposures at December 31, 1995, were as follows:

Foreign currency exposure (millions)/1/	Gross	Net hedge	Unhedged
Canadian dollar	\$ 30.0	\$15.3	\$14.7
Italian lira to French franc	23.0	10.2	12.8
French franc	22.4	22.4	--
German mark	15.0	7.9	7.1
Irish pound to British pound	8.9	--	8.9
Spanish peseta to French franc	8.0	4.0	4.0
Other	24.0	2.5	21.5

Total	\$131.3	\$62.3	\$69.0
=====			

Note 1: The currencies shown are in relation to the U.S. dollar, except as indicated.

Realized and unrealized gains and losses on contracts that are used to offset the effects of exchange rate changes on foreign currency cash flows are normally marked to market and recognized in statements of operations. The foreign currency options consist primarily of purchased options that are designated as effective hedges and are deferred and included in income as part of the underlying transactions.

Realized and unrealized gains and losses on foreign currency contracts used to hedge intercompany transactions of a long-term investment nature are included in the foreign currency translation component of shareholders' equity.

The company's foreign currency forward and option contracts by currency at December 31, 1995, were as follows. All of the contracts mature within 11 months.

Foreign currency contracts (millions)/1/	Forward contracts		Option contracts	
	Sold	Bought	Sold	Bought
Canadian dollar	\$ 8.2	\$ --	--	\$ 7.1
Italian lira to French franc	10.2	--	--	--
French franc	10.4	--	--	12.0
German mark	29.1	21.2	--	--
Spanish peseta to French franc	--	--	--	4.0
Other	9.3	6.8	--	--
Total	\$67.2	\$28.0	--	\$23.1

Note 1: The currencies shown are in relation to the U.S. dollar, except as indicated, and are converted at year-end market exchange rates.

The company selectively enters into interest rate swap agreements to reduce the impact of interest rate changes on its debt. The interest rate swap agreements involve exchanges of fixed or floating rate interest payments without the exchange of the underlying notional amounts. The notional amounts of such agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to loss.

In 1987, the company entered into a seven-year notional \$15 million interest rate swap whereby the company paid interest at the 30-day U.S. commercial paper rate and received interest at a fixed rate of 10.22%. The swap matured in 1994.

In 1987, the company entered into one 5-year and two 7-year currency interest rate swaps whereby the company exchanged a total of U.S. \$86.3 million for German marks 90 million, French francs 182.4 million and Belgian francs 270 million to hedge net investment in foreign subsidiaries. The agreements provided for the company to make fixed interest rate payments of 5.37% for the German mark swap, 8.88% for the French franc swap and 7.8% for the Belgian franc swap while receiving interest at the 30-day U.S. commercial paper rate. The swaps hedged net investment in foreign subsidiaries until 1992, at which time they were redesignated to hedge foreign currency cash flow exposures. Upon redesignation, the swaps were marked to market through income. The German mark swap matured in 1992. The two remaining swaps were terminated prior to maturity in 1993 due to the appreciation of the foreign currencies and a pretax loss of \$0.7 million was recognized in other income and expense.

In 1992, the company entered into two 3-year notional amount \$50 million interest rate swaps, whereby the company paid interest at the six-month London Interbank Offered Rate (LIBOR) in arrears and received interest at an average fixed rate of 6.6%. The swaps were terminated prior to maturity in 1993 due to rising interest rates and a pretax gain of \$2.5 million was recognized in income.

In 1993, the company entered into a five-year notional amount \$25 million interest rate swap, whereby the company paid interest at the six-month LIBOR and received interest at a fixed rate of 5.575%. The swap was terminated in 1994 due to rising interest rates and a pretax loss of \$0.1 million was recognized in income.

The company had no interest rate hedging agreements on December 31, 1995.

The foreign currency hedges and the swap agreements are straightforward "plain vanilla" contracts that have no imbedded options or other terms that involve a higher level of complexity or risk. The company does not hold or issue financial instruments for trading purposes.

The realized and unrealized gains and losses relating to the company's management of foreign currency and interest rate exposures are shown below on a disaggregated basis for the years ended December 31, 1995, 1994 and 1993.

Gain (loss) (millions)	Foreign currency		Net effect/2/	Interest rate swaps
	Exposure effect	Contracts/1/		
Year 1995				
Income statement:				
Realized	\$(1.1)	\$(2.4)	\$(3.5)	\$ --
Unrealized	0.2	0.3	0.5	--
On balance sheet:				
Realized	4.4	(4.2)	0.2	--
Unrealized	(0.1)	0.2	0.1	--
Off balance sheet	--	--	--	--
Total	\$ 3.4	\$(6.1)	\$(2.7)	\$ --
Year 1994				
Income statement:				
Realized	\$ (.7)	\$(2.5)	\$(3.2)	\$.2
Unrealized	--	.4	.4	--
On balance sheet:				
Realized	2.1	(5.8)	(3.7)	--
Unrealized	4.8	(.2)	4.6	--
Off balance sheet	--	--	--	--
Total	\$ 6.2	\$(8.1)	\$(1.9)	\$.2
Year 1993				
Income statement:				
Realized	\$ (.8)	\$(2.8)	\$(3.6)	\$7.0
Unrealized	--	(.9)	(.9)	--
On balance sheet:				
Realized	--	--	--	--
Unrealized	(1.2)	.2	(1.0)	--
Off balance sheet	--	--	--	.4
Total	\$(2.0)	\$(3.5)	\$(5.5)	\$7.4

Note 1: The company borrows centrally and enters into foreign currency

intercompany transactions of a long-term investment nature with foreign subsidiaries. These are fully hedged. Accordingly, gains and losses on these transactions are fully offset by losses and gains from the related foreign exchange contracts.

Note 2: Excludes the offsetting effect of interest rate differentials on

underlying intercompany transactions being hedged of \$0.1 million in 1995, \$0.6 million in 1994 and \$0.5 million in 1993.

The company continually monitors the market risk of its foreign currency and interest rate contracts by marking the positions to market. The counterparties to these instruments are major international financial institutions and exposure to any one counterparty is limited. The company uses commercial rating agencies to evaluate the credit quality of the counterparties, and the company does not anticipate a loss resulting from any credit risk of these institutions.

As of December 31, 1995, the company had provided \$150.8 million in standby letters of credit and financial guarantees. The company does not normally provide collateral or other security to support these instruments.

OTHER LONG-TERM LIABILITIES

Other long-term liabilities were \$140.6 million in 1995, an increase of \$30.5 million from \$110.1 million in 1994. Increases of \$10.0 million for pension-related liabilities, \$9.4 million for deferred compensation and \$7.8 million for idle leases (resulting from 1995 restructuring actions) were the primary causes for the increase. Also included in other long-term liabilities were amounts for workers' compensation, vacation accrual, a reserve for estimated environmental-remediation liabilities (see "Environmental Matters" on this page) and a reserve for the estimated potential liability primarily associated with claims pending in the company's asbestos-related litigation.

Based upon the company's experience with the asbestos-related litigation--as well as the Wellington Agreement, other settlement agreements with certain of the company's insurance carriers and an earlier interim agreement with several primary carriers--a residual reserve amount of \$4.7 million is intended to cover potential liability and settlement costs that are not covered by insurance, legal and administrative costs not covered under the agreements and certain other factors that have been involved in the litigation about which uncertainties exist. Future costs of litigation against the company's insurance carriers and other legal costs indirectly related to the litigation, expected to be modest, will be expensed outside the reserve. Amounts, primarily insurance litigation costs, estimated to be payable within one year are included under current liabilities.

This reserve does not address any unanticipated reduction in expected insurance coverage that might result in the future related to pending

lawsuits and claims nor any potential shortfall in such coverage for claims that are subject to the settlement class action referred to on pages 21.

The fair value of other long-term liabilities was estimated to be \$128.9 million at December 31, 1995, and \$104.4 million at December 31, 1994, using a discounted cash flow approach at discount rates of 5.8% in 1995 and 7.9% in 1994.

ASBESTOS-RELATED LIABILITIES

Asbestos-related liabilities of \$166.0 million represent the estimated potential liability and defense cost to resolve approximately 59,000 personal injury claims pending against the company as of December 31, 1995. The company has recorded an insurance asset (see page 21) in the amount of \$166.0 million for coverage of these claims. See discussion on page 21.

ENVIRONMENTAL MATTERS

In 1995, the company incurred capital expenditures of approximately \$1.9 million for environmental compliance and control facilities and anticipates comparable annual expenditures for those purposes for the years 1996 and 1997. The company does not anticipate that it will incur significant capital expenditures in order to meet the new requirements of the Clean Air Act of 1990 and the final implementing regulations promulgated by various state agencies.

As with many industrial companies, Armstrong is involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund"), and similar state laws at approximately 16 sites. In most cases, Armstrong is one of many potentially responsible parties ("PRPs") who have voluntarily agreed to jointly fund the required investigation and remediation of each site. With regard to some sites, however, Armstrong disputes the liability, the proposed remedy or the proposed cost allocation. Armstrong is alleged to have contributed a significant volume of waste material at a former municipal landfill site in Volney, New York. There, Armstrong, along with the county and other PRPs at the site, have voluntarily performed a supplemental study to evaluate the USEPA's proposed remedy at the site. Discussions with the USEPA are continuing regarding the appropriate remedy to be implemented. A former county landfill site in Buckingham County, Virginia, is also alleged to have received material from a former subsidiary, Thomasville Furniture Industries, Inc. ("Thomasville"). In September 1995, the USEPA ordered Thomasville to implement the remedy identified in the September 1994, Record of Decision ("ROD"), the cost of which has been estimated by Thomasville to be approximately \$2.2 million. Pursuant to the terms of the company's December 29, 1995, sale of Thomasville to INTERCO Incorporated, Armstrong has provided to the USEPA a guarantee of the performance by Thomasville of the required remedial work and has also entered into a cost-sharing agreement with INTERCO for future costs relating to the site. Armstrong may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies. The company is also remediating environmental contamination resulting from past industrial activity at certain of its current plant sites.

Estimates of future liability are based on an evaluation of currently available facts regarding each individual site and consider factors including existing technology, presently enacted laws and regulations and prior company experience in remediation of contaminated sites. Although current law imposes joint and several liability on all parties at any Superfund site, Armstrong's 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 costs. As a result, the company's estimated liability reflects only the company's expected share. In determining the probability of contribution, the company considers the solvency of the parties, whether responsibility is being disputed, the terms of any existing agreements and experience regarding similar matters. The estimated liabilities do not take into account any claims for recoveries from insurance or third parties.

Reserves at December 31, 1995, were for potential environmental liabilities that the company considers probable and for which a reasonable estimate of the potential liability could be made. Where existing data is sufficient to estimate the amount of 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 a result, the company has accrued, before agreed-to insurance coverage, \$8.0 million to reflect its estimated undiscounted liability for environmental remediation. As assessments and remediation activities progress at each individual site, these liabilities are reviewed to reflect additional information as it becomes available.

Actual costs to be incurred at identified sites in the future may vary from the estimates, given the inherent uncertainties in evaluating environmental liabilities. Subject to the imprecision in estimating environmental remediation costs, the company believes that any sum it may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on its financial condition, liquidity or results of operations.

STOCK OPTIONS

The 1993 Long-Term Stock Incentive Plan, approved by the shareholders in April 1993, replaces the 1984 Long-Term Stock Option Plan for Key Employees. No further options will be issued under the 1984 Plan.

Awards under the 1993 Long-Term Stock Incentive Plan may be in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. No more than 4,300,000 shares of common stock may be issued under the Plan, and no more than 430,000 shares of common stock may be awarded in the form of restricted stock awards. The Plan extends to April 25, 2003. Pre-1993 grants made under predecessor plans will be governed under the provisions of those plans. At December 31, 1995, there were 2,838,862 shares available for grant under the 1993 Plan.

Options are granted to purchase shares at prices not less than the closing market price of the shares on the dates the options were granted and expire 10 years from the date of grant. The average share price of all options exercised was \$33.48 in 1995, \$31.20 in 1994 and \$27.41 in 1993.

Changes in option shares outstanding (thousands except for share price)	1995	1994	1993
Option shares at beginning of year	1,612.1	1,708.4	1,730.7
Options granted	642.8	247.1	245.1
	2,254.9	1,955.5	1,975.8
Less: Option shares exercised	390.9	323.1	182.2
Stock appreciation rights exercised	11.5	8.5	14.0
Options canceled	10.9	11.8	71.2
	413.3	343.4	267.4
Option shares at end of year	1,841.6	1,612.1	1,708.4
Average share price of options	\$ 43.00	\$ 36.82	\$ 33.20
Option shares exercisable at end of year	1,196.7	1,367.1	1,464.2

The Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," is effective beginning in 1996. Under SFAS No. 123, employers are encouraged to recognize compensation expense based on the estimated fair value of employee stock options and other equity instruments at the date the instruments are granted. However, the statement allows companies to continue to use the intrinsic value based method under APB Opinion 25, which in most cases, does not result in a charge to earnings. For 1995, the fair value based method would have resulted in a charge to earnings of approximately \$2 million. The company plans to adopt the additional detailed disclosure requirements of SFAS No. 123 in 1996.

PERFORMANCE RESTRICTED SHARES

Performance restricted shares issuable under the 1993 Long-Term Stock Incentive Plan entitle certain key executive employees to earn shares of Armstrong's common stock, only if the total return of Armstrong stock meets certain predetermined performance measures during a three-year performance period. At the end of the performance period, common stock awarded will generally carry an additional four-year restriction period whereby the shares will be held in custody by the company until the expiration or termination of the restriction. Compensation expense will be charged to earnings over the period in which the restrictions lapse. At the end of 1995, there were 156,510 performance restricted shares outstanding, with 9,111 accumulated dividend equivalent shares outstanding. Potential future common stock awards will fall in the range of 210,835 to 491,863 shares of Armstrong common stock. Common stock awards issued in February 1996, based on the performance period ended December 1995, were 210,835 shares.

RESTRICTED STOCK AWARDS

Restricted stock awards can be used for the purposes of recruitment, special recognition and retention of key employees. Awards for 76,400 shares of restricted stock were granted during 1995. At the end of 1995, there were 168,351 restricted shares of common stock outstanding with 2,646 accumulated dividend equivalent shares.

TREASURY SHARES

Treasury shares changes for 1995, 1994 and 1993 are as follows:

Years ended December 31 (thousands)	1995	1994	1993
Common shares			
Balance at beginning of year	14,602.1	14,656.5	14,750.6
Stock purchases/(1)/	795.7	272.4	2.4
Stock issuance activity, net	(383.7)	(326.8)	(96.5)
Balance at end of year	15,014.1	14,602.1	14,656.5

/(1)/Includes small unsolicited buybacks of shares, shares received under share tax withholding transactions and open market block purchases of stock through brokers.

In November 1994, the Board of Directors authorized the company to repurchase up to 2.5 million shares of its common stock, either in the

open market or in negotiated transactions. During 1995, the company repurchased 782,110 shares under this program with a cash outlay of \$40.6 million. Since the inception of the program, the company has repurchased 1,052,110 shares with a total cash outlay of \$51.1 million as of December 31, 1995.

PREFERRED STOCK PURCHASE RIGHTS PLAN

In 1986, the Board of Directors declared a distribution of one right for each share of the company's common stock outstanding on and after March 21, 1986. Following the two-for-one stock split later in 1986, one-half of one right attaches to each share of common stock outstanding. In general, the rights become exercisable at \$175 per right for a fractional share of a new series of Class A preferred stock (which will differ from the Series A Convertible Preferred Stock issued to the Employee Stock Ownership Plan described on page 21) 10 days after a person or group either acquires beneficial ownership of shares representing 20% or more of the voting power of the company 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 the company. If thereafter any person or group becomes the beneficial owner of 28% or more of the voting power of the company or if the company is the surviving company in a merger with a person or group that owns 20% or more of the voting power of the company, then each owner of a right (other than such 20% stockholder) would be entitled to purchase shares of common stock having a value equal to twice the exercise price of the right. Should the company 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 the company's common stock. The rights have no voting power nor do they entitle a holder to receive dividends. At the company's option, the rights are redeemable prior to becoming exercisable at five cents per right. The rights expire on March 21, 1996. The Preferred Stock Purchase Rights Plan has been renewed for a further 10-year period with essentially the same terms and at an exercise price of \$300 per right.

LITIGATION AND RELATED MATTERS

ASBESTOS-RELATED LITIGATION

The company is one of many defendants in pending lawsuits and claims involving, as of December 31, 1995, approximately 59,000 individuals alleging personal injury from exposure to asbestos-containing products. Included in the above number are approximately 12,800 lawsuits and claims from the approximately 87,000 individuals who have opted out of the settlement class action referred to below. About 14,300 claims from purported class members have been received as of December 31, 1995. Nearly all the pending personal injury suits and claims seek compensatory damages and except for those claims covered by the settlement class action, seek punitive damages arising from alleged exposures to asbestos-containing insulation products used, manufactured or sold by the company. The company discontinued the sale of all asbestos-containing insulation products in 1969. Although a large number of suits and claims pending in prior years have been resolved, neither the rate of future dispositions nor the number of future potential unasserted claims can be reasonably predicted.

The Judicial Panel for Multidistrict Litigation ordered the transfer of all pending federal cases to the Eastern District Court in Philadelphia for pretrial purposes. Periodically some of those cases are released for trial. Pending state court cases have not been directly affected by the transfer. A few state judges have consolidated numbers of asbestos-related personal injury cases for trial, a process the company generally opposes as being unfair.

SETTLEMENT CLASS ACTION

A settlement class action which includes essentially all future asbestos-related personal injury claims against members of the Center for Claims Resolution ("Center") referred to below was filed in Philadelphia on January 15, 1993, in the Eastern District of Pennsylvania. The settlement class action is designed to establish a nonlitigation system for the resolution of essentially all future asbestos-related personal injury claims against the Center members including this company. Other companies that are not Center members may be able to join the class action later. The class action proposes a voluntary settlement that offers a method for prompt compensation to claimants who were occupationally exposed to asbestos if they meet certain exposure and medical criteria. Compensation amounts are derived from historical settlement data. Under limited circumstances and in limited numbers, qualifying claimants may choose to arbitrate or litigate certain claims after their claims are processed within the system. No punitive damages will be paid under the proposed settlement. The settlement is designed to minimize transactional costs, including attorneys' fees, and to relieve the courts of the burden of handling future asbestos-related personal injury claims. Each member of the Center has an obligation for its own fixed share in this proposed settlement. The Court has ruled that claimants who neither filed a lawsuit against Center members nor filed an exclusion request form are subject to the class action. The class action does not include claims deemed otherwise not covered by the class action settlement or claims for property damage. Annual case flow caps and compensation ranges for each compensable medical category including amounts paid even more promptly under the simplified payment procedures have been established for an initial period of 10 years. Case flow caps may be increased if they were substantially exceeded during the previous five-year period. The case flow figures and annual compensation levels are subject to renegotiation after the initial 10-year period. On August 16, 1994, the Court tentatively approved the settlement. The opt outs from the settlement class action are not claims as such but rather are reservation of rights to possibly bring claims in the future. The settlement will become final only after certain issues, including issues related to insurance coverage, are resolved and appeals are exhausted. This process could take up to several years. The Center members have stated their intention to resolve over a five-year period the personal injury claims that were pending when the settlement class action was filed. A significant number of these pending claims have been finally or tentatively settled with a number of the plaintiffs' counsel.

The company is seeking agreement from its insurance carriers or a binding judgment against them that the class action will not jeopardize existing insurance coverage; and the class action is contingent upon such an agreement or judgment. With respect to carriers that do not agree,

this matter will be resolved either by alternative dispute resolution, in the case of the insurance carriers that subscribed to the Wellington Agreement referred to below, or else by litigation.

INSURANCE SETTLEMENTS

The pending personal injury lawsuits and claims against the company are being paid by insurance proceeds under the 1985 Agreement Concerning Asbestos-Related Claims (the "Wellington Agreement") and by insurance proceeds from other insurance settlements noted below. A new claims handling organization, known as the Center for Claims Resolution, was created in October 1988 by Armstrong and 20 other companies to replace the Wellington Asbestos Claims Facility (the "Facility"), which has since been dissolved. Generally, the dissolution of the Facility does not essentially affect the company's overall Wellington Agreement insurance settlement. That settlement provided for a final resolution of nearly all disputes concerning insurance for asbestos-related personal injury claims as between the company and three of its primary insurers and eight of its excess insurers. The one primary carrier that did not sign the Wellington Agreement paid into the Wellington Facility and settled with the company in March 1989 nearly all outstanding issues relating to insurance coverage for asbestos-related personal injury and property damage claims. In addition, one of the company's large excess-insurance carriers entered into a settlement agreement in 1986 with the company under which payments for personal injury claims were made through the Wellington Facility, and this carrier continues to make payments for such claims through the Center for Claims Resolution. Other excess-insurance carriers also have entered into settlement agreements with the company which complement Wellington including a settlement in 1994 that was entered into with a significant excess carrier. ACandS, Inc., a former subsidiary of the company, which for certain insurance periods has coverage rights under some company insurance policies, subscribed to the Wellington Agreement but did not become a member of the Center for Claims Resolution.

One excess carrier (providing \$25 million of insurance coverage) and certain companies in an excess carrier's block of coverage (involving several million dollars of coverage) have become insolvent. Certain carriers providing excess level coverage solely for property damage claims also have become insolvent. The several million dollars of coverage referred to has been paid by company reserves. The \$25 million insolvency gap is being covered by other available insurance coverage. The company and ACandS, Inc., have negotiated a settlement agreement which reserves for ACandS, Inc., a certain amount of insurance from joint policies solely for its use in the payment of costs associated with the asbestos-related personal injury and property damage claims.

CENTER FOR CLAIMS RESOLUTION

The Center operates under a concept of allocated shares of liability payments and defense costs for its members based primarily on historical experience, and it defends the members' interests and addresses pending and future claims in a manner consistent with the prompt, fair resolution of meritorious claims. In late 1991, the Center sharing formula was revised to provide that members will pay only on claims in which the member is a named defendant. At that time, this change caused a slight increase in the company's share. Subsequent share adjustments by the Center have resulted in an increased liability share for the company in certain areas. As to future claims resolved under the settlement class action, the company has agreed to a percentage of each resolution payment. Although the Center members and their participating insurers were not obligated beyond one year, the insurance companies are expected to commit to the continuous operation of the Center for an eighth year and to the funding of the Center's operating expenses. With the filing of the settlement class action, the Center will continue to process pending claims and will handle the program for processing future asbestos-related personal injury claims if the class action settlement is finally approved by the courts. No forecast can be made for future years regarding either the rate of pending and future claims resolution by the Center or the rate of utilization of company insurance.

PROPERTY DAMAGE LITIGATION

The company is also one of many defendants in a total of 32 pending lawsuits and claims, including class actions, as of December 31, 1995, brought by public and private building owners. These lawsuits and claims include allegations of damage to buildings caused by asbestos-containing products and generally claim compensatory and punitive damages and equitable relief, including reimbursement of expenditures, for removal and replacement of such products. These suits and claims appear to be aimed at friable (easily crumbled) asbestos-containing products although allegations in some suits encompass other asbestos-containing products, including allegations with respect to previously installed asbestos-containing resilient flooring. The company vigorously denies the validity of the allegations against it contained in these suits and claims. Increasing defense costs, paid by the company's insurance carriers either under reservation or settlement arrangement, will be incurred. These suits and claims are not encompassed within the Wellington Agreement nor are they being handled by the Center for Claims Resolution.

INSURANCE COVERAGE SUIT

In 1989, Armstrong concluded the trial phase of a lawsuit in California state court to resolve disputes concerning certain of its insurance carriers' obligations with respect to personal injury and property damage liability coverage, including defense costs, for alleged personal injury and property damage asbestos-related lawsuits and claims. The Court issued final decisions generally in the company's favor, and the carriers appealed. The California Court of Appeal substantially upheld the trial court's final decisions, and the insurance carriers petitioned the California Supreme Court to hear the asbestos-related personal injury and property damage coverage issues. The California Supreme Court accepted review pending its review of related issues in another California case. The California Supreme Court ruled favorably to the insured company on the issues in that other case and recently referred the company's case to the Court of Appeal for further review. Since the company's 1994 settlement with a significant excess carrier, only one excess carrier providing products coverage for personal injury claims remains in the personal injury coverage litigation. Based upon the trial court's favorable final decisions in important phases of the trial relating to coverage for asbestos-related personal injury and property damage lawsuits and claims, including the favorable decision by the California Court of Appeal, and a review of the coverage issues by its counsel, the company believes it has a substantial legal basis for sustaining its right

to defense and indemnification. For the same reasons, the company also believes that it is probable that claims by the several primary carriers for recoupment of defense expenses in the property damage litigation, which the carriers also appealed, will ultimately not be successful.

NONPRODUCTS INSURANCE COVERAGE

Nonproducts insurance coverage is included in the company's primary insurance policies and certain excess policies for nonproducts claims. Nonproducts claims include claims that may have arisen out of exposure during installation of asbestos materials or before control of such materials has been relinquished. Negotiations are currently underway with several of the company's primary carriers to resolve the nonproducts coverage issues and to establish entitlement to and the amount of such coverage. The additional coverage potentially available to pay claims categorized as nonproducts is substantial and, at the primary level, includes defense costs in addition to indemnity limits. The company is entitled to pursue alternative dispute resolution proceedings against the primary and certain excess carriers to resolve the nonproducts coverage issues.

CONCLUSIONS

The company does not know how many claims will be filed against it in the future, nor the details thereof or of pending suits not fully reviewed, nor the expense and any liability that may ultimately result therefrom, nor does the company know whether the settlement class action will ultimately succeed, the number of individuals who ultimately will be deemed to have opted out or who could file claims outside the settlement class action, nor the annual claims caps to be negotiated after the initial 10-year period for the settlement class action or the compensation levels to be negotiated for such claims, nor the scope of its nonproducts coverage ultimately deemed available or the ultimate conclusion of the California insurance coverage litigation. Subject to the foregoing and based upon its experience and other factors also referred to above, the company believes that the estimated \$166 million in liability and defense costs recorded on the 1995 balance sheet will be incurred to resolve an estimated 59,000 asbestos-related personal injury claims pending against the company as of December 31, 1995. These claims include claims that were filed for the period from January 1, 1994, to January 24, 1994, and which were previously treated as potentially included within the settlement class action, and those claims filed by claimants who have been identified as having filed exclusion request forms to opt out of the settlement class action. A ruling from the Court established January 24, 1994, as the date after which any asbestos-related personal injury claims filed by non-opt-out claimants against the company or other members of the Center are subject to the settlement class action. In addition to the currently estimated pending claims and any claims filed by individuals deemed to have opted out of the settlement class action, any claims otherwise determined not to be subject to the settlement class action will be resolved outside the settlement class action. The company does not know how many such claims ultimately may be filed by claimants deemed to have opted out of the class action or by claimants otherwise determined not to be subject to the settlement class action.

An insurance asset in the amount of \$166 million recorded on the 1995 balance sheet reflects the company's belief in the availability of insurance in this amount to cover the liability in like amount referred to above. Such insurance has either been agreed upon or is probable of recovery through negotiation, alternative dispute resolution or litigation. The company also notes that, based on maximum mathematical projections covering a 10-year period from 1994 to 2004, its estimated cost in the settlement class action reflects a reasonably possible additional liability of \$245 million. A portion of such additional liability may not be covered by the company's ultimately applicable insurance recovery. However, the company believes that any after-tax impact on the difference between the aggregate of the estimated liability for pending cases and the estimated cost for the 10-year maximum mathematical projection, and the probable insurance recovery, would not be material either to the financial condition of the company or to its liquidity, although it could be material to earnings if it is determined in a future period to be appropriate to record a reserve for this difference. The period in which such a reserve may be recorded and the amount of any reserve that may be appropriate cannot be determined at this time. Subject to the uncertainties and limitations referred to above and based upon its experience and other factors, the company believes it is probable that substantially all of the expenses and any liability payments associated with the asbestos-related property damage claims will be paid under an existing interim agreement, by insurance coverage settlement agreements and through additional coverage reasonably anticipated from the outcome of the insurance litigation. Even though uncertainties still remain as to the potential number of unasserted claims, liability resulting therefrom and the ultimate scope of its insurance coverage, after consideration of the factors involved, including the Wellington Agreement, the referenced settlements with other insurance carriers, the results of the trial phase and the intermediate appellate stage of the California insurance coverage litigation, the remaining reserve, the establishment of the Center, the settlement class action, and its experience, the company believes the asbestos-related lawsuits and claims against the company would not be material either to the financial condition of the company or to its liquidity, although as stated above, the net effect of any future liabilities recorded in excess of insurance assets could be material to earnings in such future period.

Additional details concerning this litigation are set forth in the company's Form 10K available to any shareholder upon request.

TINS LITIGATION

In October 1992, the U.S. Court of Appeals for the Third Circuit issued its decision in a lawsuit brought by The Industry Network System, Inc. (TINS), and its founder, Elliot Fineman. The plaintiffs alleged that in 1984 Armstrong had engaged in antitrust and tort law violations and breach of contract which damaged TINS' ability to do business. The Court of Appeals sustained the U.S. District Court's decision that the April 1991 jury verdict against Armstrong in the amount of \$224 million including \$200 million in punitive damages should be vacated, and that there should be a new trial on all claims remaining after the appeal. The Court of Appeals sustained the District Court ruling that the jury's verdict had reflected prejudice and passion due to the improper conduct of plaintiffs' counsel and was clearly contrary to the weight of the evidence. The Court of Appeals affirmed or did not disturb the trial court's order dismissing all of TINS' claims under Section 2 of the Sherman Act for alleged conspiracy, monopolization and attempt to monopolize and dismissing all of Mr. Fineman's personal claims. These claims were not the subject of a new trial. However, the Court of Appeals reversed the trial court's directed verdict for Armstrong on TINS' claim under

Section 1 of the Sherman Act, reversed the summary judgment in Armstrong's favor on TINS' claim for breach of contract based on a 1984 settlement agreement, and reversed the judgment n.o.v. for Armstrong on TINS' tortious interference and related punitive damage claims. These claims were the subject of a new trial.

A second trial of the TINS' litigation began on April 26, 1994, in the Newark, New Jersey, District Court. TINS asked for damages in a range of \$17 to \$56 million. A jury found that Armstrong had breached its contract with TINS and had interfered with TINS' contractual business relationship with an Armstrong wholesaler but that Armstrong's conduct did not damage TINS and awarded no compensatory or nominal money damages. Following oral argument on November 14, 1994, TINS' motion for a partial or complete new trial was denied by the District Court and TINS filed an appeal with the U.S. Court of Appeals for the Third Circuit. On October 11, 1995, the case was argued before a panel of the U.S. Court of Appeals for the Third Circuit, and on October 20, 1995, the Court issued a Judgment Order affirming the 1994 District Court verdict in favor of the company. On November 2, 1995, TINS filed a Petition for Rehearing by the same panel which was denied on December 5, 1995. On January 24, 1996, TINS filed a motion seeking further appellate review by the Circuit Court.

Quarterly financial information (millions except for per-share data)		First	Second	Third	Fourth	Total year
1995*	Net sales	\$502.2	\$536.0	\$549.0	\$497.7	\$2,084.9
	Gross profit	166.7	177.9	184.6	146.0	675.2
	Earnings (loss) from continuing businesses	26.5	47.4	14.4	(74.7)	13.6
	Net earnings	34.4	52.7	19.4	16.8	123.3
	Per share of common stock:**					
	Primary: Earnings (loss) from continuing businesses	0.61	1.17	0.29	(2.09)	(0.02)
	Net earnings	0.82	1.31	0.42	0.35	2.90
	Fully diluted: Earnings (loss) from continuing businesses	0.57	1.05	0.28	(2.09)	(0.02)
	Net earnings	0.75	1.18	0.40	0.34	2.67
	Dividends per share of common stock	0.32	0.36	0.36	0.36	1.40
	Price range of common stock--low	38 3/8	43	50 1/4	52 7/8	38 3/8
	Price range of common stock--high	48 1/2	52	60 1/2	64 1/8	64 1/8
1994*	Net sales	\$461.1	\$508.6	\$525.6	\$510.4	\$2,005.7
	Gross profit	153.9	180.6	190.9	154.8	680.2
	Earnings from continuing businesses	42.5	48.7	56.6	39.4	187.2
	Net earnings	48.0	53.3	61.6	47.5	210.4
	Per share of common stock:**					
	Primary: Earnings from continuing businesses	1.03	1.19	1.41	0.93	4.60
	Net earnings	1.17	1.31	1.54	1.17	5.22
	Fully diluted: Earnings from continuing businesses	0.93	1.07	1.25	0.85	4.10
	Net earnings	1.06	1.18	1.37	1.04	4.64
	Dividends per share of common stock	0.30	0.32	0.32	0.32	1.26
	Price range of common stock--low	49 3/8	43 3/8	43	36	36
	Price range of common stock--high	57 1/2	57 1/4	53 7/8	46 5/8	57 1/2

* 1994 and the first, second and third quarters of 1995 have been restated for the results of the discontinued business and formation of the ceramic tile business combination.

**The sum of the quarterly earnings per-share data does not always equal the total year amounts due to changes in the average shares outstanding and, for fully diluted data, the exclusion of the antidilutive effect in certain quarters.

FOURTH QUARTER 1995 COMPARED WITH FOURTH QUARTER 1994

Sales from continuing businesses of \$497.7 million decreased 2.5% from the \$510.4 million recorded in 1994 primarily due to the continued weakness in U.S. residential end-use markets. Sales within North America decreased by 2.6%. The European area continued its growth with a sales increase of 3.3%, about three fifths of which was due to the translation of foreign currencies to weaker U.S. dollar.

The loss from continuing businesses was \$74.7 million, or \$2.09 per share on both a primary and fully diluted basis, compared with net earnings of \$39.4 million in fourth quarter 1994. Fourth-quarter 1994 earnings per share from continuing businesses were \$0.93 on a primary basis and \$0.85 on a fully diluted basis.

Included in the 1995 loss from continuing businesses is an after-tax loss of \$116.8 million (\$2.73 per share on a fully diluted basis) related to the combination of Armstrong's ceramic tile business with Dal-Tile International Inc. Armstrong received 37% of the combined Dal-Tile stock in exchange for its ceramic tile operations and \$27.6 million in cash.

The loss from continuing businesses resulted from the loss on the business combination, decreased sales volume and higher cost of goods sold. Cost of goods sold, when expressed as a percent of sales, increased to 70.6% from the 69.7% of 1994's fourth quarter. This increase reflects the start-up costs for the new insulation products plant in Mebane, North Carolina, and unfavorable mixes in U.S. residential flooring sales. Also impacting operating income was lower unallocated corporate expense due to decreased incentive pay and consulting expenses.

Operating income decreased in all segments except building products. Operating income in the floor coverings segment was \$35.1 million compared with \$41.1 million in 1994. In the resilient flooring part of this segment, operating income was lower mainly due to decreased sales levels in higher margin, professionally installed residential sheet products. Worldwide building products fourth-quarter operating income was \$19.8 million compared with 1994 fourth-quarter income of \$16.9 million. This increase was aided by higher sales in Europe which more than offset the North American activity which flattened with general economic weakness. Industry products operating income of \$5.7 million

declined when compared with the \$8.3 million for the similar period in 1994. The 1995 fourth-quarter results were impacted by plant start-up costs and the need to meet competitive selling prices.

The 1995 fourth-quarter effective tax rate on the loss was 40.1% compared with 23.1% on last year's fourth-quarter earnings. Excluding the tax benefit on the loss related to the ceramic tile business combination, the 1995 effective tax rate was 29.7%. Last year's low effective tax rate included tax benefits related to foreign and state income tax expense that were reduced as a result of realization of previously unrecognized deferred tax assets and lower withholding taxes on foreign dividends.

In December 1995, the company sold the stock of Thomasville Furniture Industries, Inc., to INTERCO Incorporated. As a result of the sale, an after-tax gain of \$83.9 million, or \$2.24 per share on primary basis and \$1.96 on a fully diluted basis, was recorded. The fourth-quarter earnings from this discontinued business were \$7.5 million in 1995, or \$0.20 per share on a primary basis and \$0.18 on a fully diluted basis. 1994 fourth-quarter Thomasville earnings were \$8.1 million, or \$0.22 per share on primary basis and \$0.19 on a fully diluted basis.

Net earnings were \$16.8 million in 1995 compared with \$47.5 million in 1994. Net earnings per common share were \$0.35 on a primary basis and \$0.34 on a fully diluted basis in the 1995 quarter, compared with 1994's \$1.17 on a primary basis and \$1.04 on a fully diluted basis.

Independent auditors' report

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

We have audited the consolidated financial statements of Armstrong World Industries, Inc. and its subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the related supplementary information on depreciation rates and schedule listed in the accompanying index. These consolidated financial statements and supplementary information and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and supplementary information and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion the related supplementary information and schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Philadelphia, PA
February 16, 1996

Item 9. Changes in and Disagreements with Accountants on Accounting and

Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The information appearing in the tabulation in the section captioned "Election of Directors" on pages 1-5 of the Company's 1996 Proxy Statement is incorporated by reference herein.

Executive Officers of the Registrant

George A. Lorch* -- Age 54; Chairman of the Board since April 25, 1994; and President (Chief Executive Officer) since September 7, 1993; Executive Vice President 1988-1993.

E. Allen Deaver* -- Age 60; Executive Vice President since March 1, 1988.

Henry A. Bradshaw -- Age 60; President, Worldwide Building Products Operations since November 22, 1994; Group Vice President, Worldwide Building Products Operations, 1993-1994; Group Vice President, Building Products Operations, 1990- 1993.

Stephen E. Stockwell -- Age 50; President, Corporate Retail Accounts Division since November 22, 1994; Vice President, Corporate Retail Accounts July 1, 1994, through November 22, 1994; General Manager, Residential Sales, Floor Division January 26, 1994 through July 1, 1994; Field Sales Manager, Floor Division, 1988-1994.

Ulrich J. Weimer -- Age 51; President, Armstrong Insulation Products since February 1, 1996; Geschäftsführer, Armstrong World Industries G.m.b.H. since December 11, 1995; General Manager, Worldwide Insulation Products Operations February 1, 1993 through June 1, 1995; General Manager, Worldwide Insulation, Armstrong Europe Services, August 1, 1991 through January 31, 1993; General Manager, Industry Products Operations, Armstrong Europe Services, January 1, 1991 through July 31, 1991.

Douglas L. Boles -- Age 38; Senior Vice President, Human Resources since March 1, 1996; and the following positions with PepsiCo (Consumer Products): Vice President of Human Resources, Pepsi Foods International Europe Group (U.K.) June 1995-February 1996; Vice President of Human Resources, Walkers Snack Foods (U.K.) March 1994-June 1995; Vice President of Human Resources, Snack Ventures Europe (Netherlands) September 1992-March 1994; Vice President of Human Resources, PepsiCola International, Latin America Division (Brazil) October 1989-September 1992.

Larry A. Pulkrabek -- Age 56; Senior Vice President, Secretary and General Counsel since February 1, 1990.

Frank A. Riddick, III -- Age 39; Senior Vice President, Finance and Chief Financial Officer since April 1995; and the following positions with FMC Corporation, Chicago, IL (chemicals, machinery): Controller May 1993-March 1995; Treasurer December 1990-May 1993.

David J. Feight -- Age 53; Vice President and Director of Business Development since May 1, 1994; Team Leader PATH process 1993-1994; General Manager Sales and Marketing, Building Products Operations 1988-1993.

Stephen C. Hendrix -- Age 55; Treasurer since January 25, 1993; and the following positions with SmithKline Beecham Corporation (Pharmaceuticals, Consumer Products): Vice President and Treasurer, 1989-1991.

Bruce A. Leech, Jr. -- Age 53; Controller since February 1, 1990.

All information presented above is current as of March 1, 1996. The term of office for each Executive Officer in his present capacity is one year, and each such Executive Officer will serve until reelected or until a successor is elected at the annual meeting of directors which follows the annual shareholders' meeting. Each Executive Officer has been employed by the Company in excess of five continuous years with the exception of Messrs. Boles, Hendrix and Riddick. Members of the Executive Committee of the Board of Directors as of March 1, 1996, are designated by an asterisk(*) following each of their names. The Executive Committee consists of those Executive Officers who serve as Directors.

Item 11. Executive Compensation

The information appearing in the sections captioned "Directors' Compensation" on pages 5-6 and "Compensation Committee Interlocks and Insider Participation," "Executive Officers' Compensation," (other than the information contained under the subcaption "Performance Graph") and "Retirement Income Plan Benefits," on pages 11-16 of the Company's 1996 Proxy Statement is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Stock Ownership of Certain Beneficial Owners" on page 17 and "Directors' and Executive Officers' Security Ownership" on page 7 of the Company's 1996 Proxy Statement is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

Not applicable.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

The financial statements and schedules filed as a part of this Annual Report on Form 10-K are listed in the "Index to Financial Statements and Schedules" on page 29.

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

Exhibits

- No. 3(a) Registrant's By-laws, as amended effective February 27, 1995, are incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(a).
- No. 3(b) Registrant's restated Articles of Incorporation, as amended, are incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b).
- No. 4(a) Registrant's Rights Agreement effective as of March 21, 1996, between the registrant and Chemical Mellon Shareholder Services, L.L.C., as Rights Agent, relating to the registrant's Preferred Stock Purchase Rights is incorporated by reference herein from registrant's registration statement on Form 8-A/A wherein it appeared as Exhibit 1.
- No. 4(b) Registrant's Employee Stock Ownership Plan ("Share In Success Plan") as amended, is incorporated by reference herein from the registrant's 1992 Annual Report on Form 10-K wherein it appears as Exhibit 4(b).
- No. 4(c) Copy of Indenture, dated as of March 15, 1988, between the registrant and Morgan Guaranty Trust Company of New York, as Trustee, as to which The First National Bank of Chicago is successor trustee.
- No. 4(d) Registrant's Supplemental Indenture dated as of October 19, 1990, between the registrant and The First National Bank of Chicago, as Trustee, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appears as Exhibit 4(d).
- No. 10(i)(a) Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the "Wellington Agreement") among the registrant and other companies is incorporated by reference herein from the registrant's 1993 Annual Report on Form 10-K wherein it appears as Exhibit 10(i)(a).
- No. 10(i)(b) Producer Agreement concerning Center for Claims Resolution dated September 23, 1988, among the registrant and other companies as amended, is incorporated herein by reference from the registrant's 1992 Annual Report on Form 10-K wherein it appears as Exhibit 10(i)(b).
- No. 10(i)(c) Credit Agreement between the registrant, certain banks listed therein, and Morgan Guaranty Trust Company of New York, as Agent, dated as of February 7, 1995, providing for a \$200,000,000 credit facility, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appears as Exhibit 10(i)(c).

- No. 10(iii)(a) Copy of registrant's Long-Term Stock Option Plan for Key Employees, as amended. *
- No. 10(iii)(b) Registrant's Deferred Compensation Plan for Nonemployee Directors, as amended, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(b). *
- No. 10(iii)(c) Registrant's Directors' Retirement Income Plan, as amended, is incorporated by reference herein from the registrant's 1992 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(d). *
- No. 10(iii)(d) Registrant's Management Achievement Plan for Key Executives, as amended, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(d). *
- No. 10(iii)(e) Registrant's Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended, is incorporated by reference herein from the registrant's 1992 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(f). *
- No. 10(iii)(f) Armstrong Deferred Compensation Plan, as amended, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(f). *
- No. 10(iii)(g) Registrant's Employment Protection Plan for Salaried Employees of Armstrong World Industries, Inc., as amended, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(g). *
- No. 10(iii)(h) Registrant's Restricted Stock Plan For Nonemployee Directors is incorporated by reference herein from the Company's 1995 Proxy Statement wherein it appears as Exhibit A. *
- No. 10(iii)(i) Registrant's Severance Pay Plan for Salaried Employees, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(i). *
- No. 10(iii)(j) Registrant's 1993 Long-Term Stock Incentive Plan is incorporated by reference herein from the registrant's 1993 Proxy Statement wherein it appears as Exhibit A.*
- No. 11 A statement regarding computation of per share earnings on both primary and fully diluted bases is set forth in the Financial Statement Schedules on pages 30 of this Annual Report on Form 10-K.
- No. 21 List of the registrant's domestic and foreign subsidiaries.
- No. 24 Consent of Independent Auditors.
- No. 25 Powers of Attorney and authorizing resolutions.

- No. 27 Financial Data Statement
- No. 28(ii)(a) Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1995, for the Retirement Savings Plan For Salaried Employees of Armstrong World Industries, Inc. is herewith filed with the Commission.
- No. 28(ii)(b) Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1995, for the Retirement Savings Plan For Hourly-Paid Employees of Armstrong World Industries, Inc. is herewith filed with the Commission.
- No. 28(ii)(c) Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1995, for the Retirement Savings Plan For Hourly-Paid Employees of Thomasville Furniture, Inc. is herewith filed with the Commission.
- No. 28(ii)(d) Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1995, for the Armstrong World Industries, Inc. Employee Stock Ownership Plan ("Share In Success Plan") is herewith filed with the Commission.
- No. 28(ii)(e) Copy of Annual Report on American Olean Tile Company, Inc. Savings Plan for Production & Maintenance Employees for the fiscal year ended September 30, 1995, is herewith filed with the Commission.
- No. 28(ii)(f) Copy of Annual Report on American Olean Tile Company, Inc. Savings Plan for Salaried Employees for the fiscal year ended September 30, 1995, is herewith filed with the Commission.

* Compensatory Plan

b. During the last quarter of 1995, no reports on Form 8-K were filed.

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/ George A. Lorch

Chairman

Date March 25, 1996

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 and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant:

George A. Lorch	Chairman and President (Principal Executive Officer)
Frank A. Riddick, III	Senior Vice President, Finance (Principal Financial Officer)
Bruce A. Leech, Jr.	Controller (Principal Accounting Officer)
H. Jesse Arnelle	Director
Van C. Campbell	Director
E. Allen Deaver	Director
Ursula F. Fairbairn	Director
Michael C. Jensen	Director
James E. Marley	Director
Robert F. Patton	Director
J. Phillip Samper	Director
Jerre L. Stead	Director

By /s/George A. Lorch

(George A. Lorch as
attorney-in-fact and
on his own behalf)

As of March 25, 1996

ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES

Index to Financial Statements and Schedules

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

Consolidated Balance Sheets as of December 31, 1995 and 1994

Consolidated Statements of Earnings for the Years Ended December 31, 1995, 1994, and 1993

Consolidated Statements of Cash Flows for the Years Ended December 31, 1995, 1994, and 1993

Consolidated Statements of Shareholders Equity for the Years Ended December 31, 1995, 1994, and 1993

The following additional financial data should be read in conjunction with the financial statements. Schedules not included with this additional data have been omitted because they are not applicable or the required information is presented in the financial statements or the financial review.

Additional Financial Data -----	Page No. -----
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Computation for Fully Diluted Earnings per Share	31
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Computation for Primary Earnings Per Share for Years ended December 31

(Amounts in millions except for per-share data)

	1995	1994	1993
	----	----	----
Common Stock and Common Stock Equivalents			

Average number of common shares outstanding including shares issuable under stock options	37.6	37.6	37.7
	====	====	====
Earnings Per Share from Continuing			

Businesses			

Earnings from continuing businesses	\$ 13.6	\$187.2	\$ 49.0
Less:			
Dividend requirement on Series A convertible preferred stock	18.8	19.0	19.2
Plus:			
Tax benefit on dividends paid on unallocated preferred shares	4.5	4.9	5.3
	-----	-----	-----
Earnings (loss) from continuing businesses	\$ (.7)	\$173.1	\$ 35.1
	=====	=====	=====
Earnings (loss) from continuing businesses per share of common stock	\$ (.02)	\$ 4.60	\$.93
	=====	=====	=====
Net Earnings Per Share			

Net earnings	\$123.3	\$210.4	\$ 63.5
Less:			
Dividend requirement on Series A convertible preferred stock	18.8	19.0	19.2
Plus:			
Tax benefit on dividends applicable to unallocated preferred shares	4.5	4.9	5.3
	-----	-----	-----
Net earnings application to common stock	\$109.0	\$196.3	\$ 49.6
	=====	=====	=====
Net earnings per share of common stock	\$ 2.90	\$ 5.22	\$ 1.32
	=====	=====	=====

Computation for Fully Diluted Earnings Per Share for Years ended December 31

(Amounts in millions except for per-share data)

	1995	1994	1993
	-----	-----	-----
Common Stock and Common Stock Equivalents			

Average number of common shares outstanding including shares issuable under stock options	37.6	37.6	37.7
Average number of common shares issuable under the Employee Stock Ownership Plan	5.4	5.8	5.6
	-----	-----	-----
Average number of common and common equivalent shares outstanding	43.0	43.4	43.3
	=====	=====	=====
Pro Forma Adjustment to Earnings from			

Continuing Businesses			

Earnings from continuing businesses before pro forma adjustments	\$ 13.6	\$187.2	\$49.0
Less:			
Increased contribution to the Employee Stock Ownership Plan assuming conversion of preferred shares to common	7.3	7.9	8.2
Net reduction in tax benefits assuming conversion of the Employee Stock Ownership Plan preferred shares to common	1.2	1.0	0.9
	-----	-----	-----
Pro forma earnings from continuing businesses	\$ 5.1	\$178.3	\$ 39.9
	=====	=====	=====
Fully diluted earnings (loss) per share from continuing businesses	(a)\$ (.02)	\$ 4.10	\$ 0.92
	=====	=====	=====
Pro Forma Adjustment to Net Earnings			

Net earnings as reported	\$123.3	\$210.4	\$ 63.5
Less:			
Increased contribution to the Employee Stock Ownership Plan assuming conversion of preferred shares to common	7.3	7.9	8.2
Net reduction in tax benefits assuming conversion of the Employee Stock Ownership Plan preferred shares to common	1.2	1.0	0.9
	-----	-----	-----
Pro forma net earnings	\$114.8	\$201.5	\$ 54.4
	=====	=====	=====
Fully diluted net earnings per share	\$ 2.67	\$ 4.64	\$ 1.26
	=====	=====	=====

(a) Fully diluted earnings (loss) per share from continuing businesses for 1995 was antidilutive.

DEPRECIATION RATES

For Years Ended December 31

The approximate average effective rates of depreciation are as follows:

	1995	1994	1993
	----	----	----
	%	%	%
Domestic companies:			
Buildings	3.3	3.3	3.3
Machinery and Equipment	6.2	6.3	6.6
Foreign companies:			
Buildings	3.8	3.3	3.2
Machinery and Equipment	8.5	9.5	8.0

SCHEDULE II

Valuation and Qualifying Reserves of Accounts Receivable

For Years Ended December 31

(amounts in millions)

Provision for Losses -----	1995 ----	1994 ----	1993 ----
Balance at Beginning of Year	\$ 9.7	\$11.1	\$ 8.6
Additions Charged to Earnings	\$ 2.9	\$ 4.0	\$ 8.4
Deductions	\$ 3.9	\$ 5.4	\$ 5.9
Balance at End of Year	\$ 8.7	\$ 9.7	\$11.1

Provision for Discounts -----			
Balance at Beginning of Year	\$17.3	\$14.0	\$13.9
Additions Charged to Earnings	\$82.2	\$77.7	\$69.6
Deductions	\$79.2	\$74.4	\$69.5
Balance at End of Year	\$20.3	\$17.3	\$14.0

Provision for Discounts and Losses -----			
Balance at Beginning of Year	\$27.0	\$25.1	\$22.5
Additions Charged to Earnings	\$85.1	\$81.7	\$78.0
Deductions	\$83.1	\$79.8	\$75.4
Balance at End of Year	\$29.0	\$27.0	\$25.1

EXHIBIT INDEX

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- No. 28(ii)(f) Copy of Annual Report on American Olean Tile Company, Inc. Savings Plan for Salaried Employees for the fiscal year ended September 30, 1995, is herewith filed with the Commission.

* Compensatory Plan

ARMSTRONG WORLD INDUSTRIES, INC.

and

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

as Trustee

INDENTURE

Dated as of March 15, 1988

Debt Securities

ARMSTRONG WORLD INDUSTRIES, INC.

Reconciliation and tie between Trust Indenture Act of 1939 and Indenture dated as of March 15, 1988/1/

Trust Indenture Act Section	Indenture Section
(S) 310(a)(1)	609
(a)(2)	609
(a)(3)	Not Applicable
(a)(4)	Not Applicable
(b)	608
	610
(S) 311(a)	613(a)
(b)	613(b)
(b)(2)	703(a)(2)
	703(b)
(S) 312(a)	701
	702(a)
(b)	702(b)
(c)	702(c)
(S) 313(a)	703(a)
(b)	703(b)
(c)	703(a)
	703(b)
(d)	703(c)
(S) 314(a)	704
(b)	Not Applicable
(c)(1)	102
(c)(2)	102
(c)(3)	Not Applicable
(d)	Not Applicable
(e)	102
(S) 315(a)	601(a)
(b)	602
	703(a)(6)
(c)	601(b)
(d)	601(c)
(d)(1)	601(a)(1)
(d)(2)	601(c)(2)
(d)(3)	601(c)(3)
(e)	514
(S) 316(a)	101
(a)(1)(A)	502
	512
(a)(1)(B)	513
(a)(2)	Not Applicable
(b)	508
(S) 317(a)(1)	503
(a)(2)	504
(b)	1003
(S) 318(a)	107

/1/ This reconciliation and tie shall note, for any purpose, be deemed to be a part of this Indenture.

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INDENTURE, dated as of March 15, 1988, between ARMSTRONG WORLD INDUSTRIES, INC., a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (herein called the "Company"), having its principal office at 55 West Liberty Street, Lancaster, Pennsylvania 17604, and Morgan Guaranty Trust Company of New York, a corporation duly organized and existing under the laws of the State of New York, as Trustee hereunder (herein called the "Trustee"), having its principal corporate trust office at 30 West Broadway, New York, New York 10015.

RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE ONE DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 101. Definitions. For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
- (3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of such computation; and

(4) the words, "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Article Four, Article Six and Article Thirteen, are defined in those Articles.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Attributable Debt" in respect of a Sale and Leaseback Transaction means, as of any particular time, the present value (discounted at the rate of interest implicit in the terms of the lease involved in such Sale and Leaseback Transaction, as determined in good faith by the Company), of the obligation of the lessee thereunder for net rental payments (excluding, however, any amounts required to be paid by such lessee, whether or not designated as rent or additional rent, on account of maintenance and repairs, services, insurance, taxes, assessments, water rates and similar charges or any amounts required to be paid by such lessee thereunder contingent upon monetary inflation or the amount of sales, maintenance and repairs, insurance, taxes, assessments, water rates or similar charges) during the remaining term of such lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended).

"Authenticating Agent" means any agent of the Trustee which at any time shall be appointed and acting pursuant to the provisions of Section 614.

"Authorized Newspaper" means a newspaper of general circulation in the City of New York, Borough of Manhattan, printed in the English language and customarily published on each business day, whether or not published on Saturdays, Sundays or holidays. Whenever successive weekly publications in an Authorized Newspaper are authorized hereunder, they may be made (unless otherwise expressly provided herein) on the same or different days of the week and in the same or in different Authorized Newspapers.

"Board of Directors" means the board of directors of the Company or the executive committee or any other committee of that board duly authorized to act for that board hereunder.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by or pursuant to law, regulation or executive order to close.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor corporation shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor corporation.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its President, any Vice President or its Treasurer, and by any Assistant Treasurer, its Controller, any Assistant Controller, its Secretary or any Assistant Secretary, and delivered to the Trustee.

"Consolidated Net Tangible Assets" means the aggregate amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (a) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles and (b) all current liabilities; all as reflected in the Company's latest audited consolidated balance sheet contained in the Company's most recent annual report to its stockholders under Rule 14a-3 of the Securities Exchange Act of 1934, as amended, prior to the time as of which "Consolidated Net Tangible Assets" shall be determined.

"Corporate Trust Office" means the office of the Trustee in New York, New York, at which at any particular time its corporate trust business shall be principally administered, which office at the date hereof is that indicated in the introductory paragraph of this Indenture.

"Corporation" includes corporations, associations, companies and business trusts.

"Debt" means indebtedness for borrowed money.

"Defaulted Interest" has the meaning specified in Section 307.

"Event of Default" has the meaning specified in Section 501.

"Government Obligations" means securities that are (i) direct obligations of the United States of America or any foreign government of a sovereign state for the payment of which its full faith and credit is pledged or (ii) obligations of an entity controlled or supervised by and acting as an agency or instrumentality of the United States of America or such foreign government the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America or such foreign government, as the case may be, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such government obligation held by such custodian for the account of the holder of a depository receipt, provided that (except as required by law) such custodian is

not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the government obligation or the specific payment of interest on or principal of the government obligation evidenced by such depository receipt.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of particular series of Securities established as contemplated by Section 301.

"interest", when used with respect to an original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Lien" shall mean any mortgage, pledge, security interest, lien or other encumbrance.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the President, any Vice President, or the Treasurer, and by the Controller, the Secretary or any Assistant Treasurer, Assistant Controller or Assistant Secretary, of the Company, and delivered to the Trustee. Each such Officers' Certificate shall contain the statements provided in Section 102, if applicable.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for or an employee of the Company. Each Opinion of Counsel shall contain the statements provided in Section 102, if applicable.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and

(iii) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have been given any request, demand, authorization, direction, notice, consent or waiver hereunder, the principal amount of an Original Issue Discount Security that shall be deemed to be Outstanding for such purposes shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon a declaration of acceleration of the maturity thereof pursuant to Section 502, and Securities owned by the Company or any other obligor upon the Securities or any affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Responsible Officer of the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Company.

"Person" means, except as provided in Article Six and Article Thirteen, any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of (and premium, if any) and interest on the Securities of that series are payable as specified in accordance with Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security, and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Principal Property" means any single manufacturing plant, research laboratory or other similar facility located within the United States of America (other than its territories and possessions) and owned by, or leased to, the Company or any Restricted Subsidiary, the book value of the property, plant and equipment of which (as shown, net of depreciation, on the books of the owner or owners) is not less than 2% of Consolidated Net Tangible Assets at the end of the most recent fiscal year of the Company, reflected in the latest audited consolidated statement of financial position contained in the Company's most recent annual report to its stockholders under Rule 14a-3 of the Securities Exchange Act of 1934, as amended, except (a) any such plant or facility (i) owned or leased jointly or in common with one or more Persons other than the Company and its Subsidiaries, in which the interest of the Company and its Restricted Subsidiaries does not exceed 50%, or (ii) which the Board of Directors determines by Board Resolution in good faith is not of material importance to the total business conducted, or assets owned, by the Company and its Subsidiaries as an entirety, or (b) any portion of any such plant or facility which the Board of Directors determines by Board Resolution in good faith not to be of material importance to the use or operation thereof.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301, which date shall be the last day of the calendar month preceding such Interest Payment Date if such Interest Payment Date is the fifteenth day of the calendar month, and shall mean the fifteenth day of the calendar month preceding such Interest Payment Date if such Interest Payment Date is the first day of a calendar month, whether or not such day shall be a Business Day.

"Responsible Officer", when used with respect to the Trustee, means any officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"Restricted Subsidiary" means any Subsidiary substantially all the property of which is located, or substantially all of the business of which is carried on, within the United States of America (other than its territories and possessions) which shall at the time, directly or indirectly through one or more Subsidiaries or in combination with one or more other Subsidiaries, own or be a lessee of a Principal Property.

"Sale and Leaseback Transaction" has the meaning specified in Section 1006.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

"Subsidiary" means, except as provided in Article Thirteen, any corporation of which the Company directly or indirectly owns or controls stock which under ordinary circumstances (not dependent upon the happening of a contingency) has voting power to elect a majority of the board of directors of such corporation.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended and in force at the date as of which this instrument was executed, except as provided in Section 905.

"Vice President", when used with respect to the Company, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

SECTION 102. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents,

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representation with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representation with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 104. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of

execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Securities shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

SECTION 105. Notices, Etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office and unless otherwise herein expressly provided, any such document shall be deemed to be sufficiently made, given, furnished or filed upon its receipt by a Responsible Officer of the Trustee, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company, Attention: Secretary.

SECTION 106. Notice to Holders; Waiver. Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the

Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 107. Conflict With Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Indenture by any of the provisions of the Trust Indenture Act, such required provision shall control.

SECTION 108. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 110. Separability Clause.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 111. Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. Governing Law.

This Indenture and the Securities shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 113. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, provided that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

**ARTICLE TWO
SECURITY FORMS**

SECTION 201. Forms Generally.

The Securities of each series shall be in substantially the form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture pursuant to Section 311 or otherwise, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of any such action taken shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of the initial Securities of each series. Any such Board Resolution or record of such action shall have attached thereto a true and correct copy of the form of Security referred to therein approved by or pursuant to such Board Resolution.

The Trustee's certificates of authentication shall be in substantially the form set forth in this Article.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

SECTION 202. Form of Trustee's Certificate of Authentication.

This is one of the Securities of the series designated therein issued under the within-mentioned Indenture,

[full name of Trustee] as Trustee

By _____ Authorized Officer

**ARTICLE THREE
THE SECURITIES**

SECTION 301. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution or in one or more indentures supplemental hereto, and set forth in an Officers' Certificate to the extent not set forth in a Board Resolution or supplemental indenture prior to the initial issuance of Securities of any series,

- (1) the title of the Securities of the series (which shall distinguish the Securities of the series from all other Securities);
- (2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107);
- (3) the date or dates on which the principal (and premium, if any) of the Securities of the series is payable or the method of determination thereof;
- (4) the rate or rates, or the method of determination thereof, at which the Securities of the series shall bear interest, if any, the date or dates from which such interest shall accrue, the Interest Payment Dates on which such interest shall be payable and the Regular Record Date for the interest payable on any Interest Payment Date;
- (5) if other than such coin or currency of the United States of America as at the time of payment is legal tender for payment of public or private debts, the coin or currency or currency unit in which payment of the principal of, premium, if any, or interest on the Securities of the series shall be payable;
- (6) if the amount of payment of principal of, premium, if any, or interest on the Securities of the series may be determined with reference to an index, formula or other method based on a coin or currency or currency unit other than that in

which the Securities are stated to be payable, the manner in which such amounts shall be determined;

- (7) if the principal of, premium, if any, or interest on the Securities of the series are to be payable, at the election of the Company or a holder thereof, in a coin or currency or currency unit other than that in which the Securities are stated to be payable, the period or periods within which, and the terms and conditions upon which, such election may be made;
- (8) the place or places where the principal of (and premium, if any) and interest, if any, on the Securities of the series shall be payable and the office or agency for the Securities of the series maintained by the Company pursuant to Section 1002;
- (9) the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company;
- (10) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;
- (11) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which the Securities of the series shall be issuable;
- (12) if other than the principal amount thereof, the portion of the principal amount of Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;
- (13) the application, if any, of Section 403;
- (14) the application, if any, of Article 13;
- (15) any deletions or modifications of or additions to the Events of Default set forth in Section 501 or covenants of the Company set forth in Article Ten pertaining to the Securities of the series;
- (16) the form of the Securities of the series; and
- (17) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture).

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the

Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the initial issuance of Securities of such series.

Notwithstanding the foregoing, if the Board Resolution, action pursuant to Board Resolution or indenture supplemental hereto establishing the terms of the Securities of any series shall specify that the automated issuance system described in Section 311 (or any other system, method or procedures for the determination of terms of Securities of any series that are to be issued from time to time) shall be available for the Securities of such series, any terms of the Securities of such series shall be established in the manner provided for pursuant to such system, method or procedures.

SECTION 302. Denominations.

The Securities of each series shall be issuable in registered form without coupons in such denominations as shall be specified as contemplated by Section

301. In the absence of any such provisions with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of \$1,000 and any integral multiple thereof. Securities of each series shall be numbered, lettered or otherwise distinguished in such manner or in accordance with such plan as the officers of the Company executing the same may determine with the approval of the Trustee.

SECTION 303. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its President, one of its Vice Presidents or its Treasurer, and by its Secretary or one of its Assistant Secretaries or one of its Assistant Treasurers, under its corporate seal or a facsimile thereof reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of the Securities of such series, and the Trustee in accordance with the Company Order shall either at one time or from time to time pursuant to such instructions as may be described therein authenticate and deliver the Securities of such series. In authenticating the Securities of such series and accepting the additional responsibilities under this Indenture in relation to the Securities of such series, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon:

(1) an Officers' Certificate complying with Section 102 and stating to the best knowledge of the signers of such certificate that no Event of Default with respect to any series of Securities shall have occurred and be continuing; and

(2) an Opinion of Counsel complying with Section 102 and stating:

(a) the form of the Securities of such series have been established in conformity with the provisions of this Indenture;

(b) the terms of the Securities of such series have been established (or, when determined in the manner described in such opinion, will have been established) in conformity with the provisions of this Indenture; and

(c) that the Securities of such series, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general equity principles.

The Trustee shall have the right to decline to authenticate and deliver the Securities of such series if the Trustee, being advised by counsel, determines that such action may not lawfully be taken, would expose the Trustee to personal liability to existing Holders or would add to the obligations and duties of the Trustee hereunder in any material respect.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture.

SECTION 304. Temporary Securities.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon compliance with Section 303 the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of the same series of authorized denominations. Such exchange shall be made by the Company at its expense and without any charge therefor. Until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

SECTION 305. Registration; Registration of Transfer and Exchange.

The Company shall cause to be kept for each series of Securities at one of the offices or agencies maintained pursuant to Section 1002 a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of such Securities and of transfers of such Securities, Said office or agency is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of any series at the office or agency in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series and of like tenor, of any authorized denominations and of a like aggregate principal amount and Stated Maturity.

In no case shall there be more than one Security Register for a series of Securities.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series and of like tenor, of any authorized denominations and of a like aggregate principal amount and Stated Maturity, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange Securities of any series during a period beginning at the opening of business 15 days before the day of selection of Securities of such series to be redeemed and ending at the close of business on the day of the mailing of a notice of redemption of Securities of such series so selected for redemption, or
(ii) to register the transfer of or exchange any Security selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

SECTION 306. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 307. Payment of Interest; Interest Rights Preserved.

Interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest. At the option of the Company, interest on the Securities of any series that bears interest may be paid by mailing a check to the address of any Holder as such address shall appear in the Securities Register.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing as to the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities of such series at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 308. Persons Deemed Owners.

The Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of (and premium, if any) and (subject to Section 307) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 309. Cancellation.

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be destroyed by the Trustee and the Trustee shall deliver to the Company a certificate of destruction in respect thereof.

SECTION 310. Computation of Interest.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 311. Automated Issuance System.

If the Board Resolution, action pursuant to Board Resolution or supplemental indenture hereto establishing the terms of the Securities of any series shall specify that the automated issuance system described in Section 311 shall be available for the Securities of such series, all issuance instructions for the Securities of such series may be given by an authorized

representative of the Company named as such in an Officers' Certificate (an "Authorized Representative") by telephone through computer timesharing entered as prescribed in the user documentation provided by Morgan Guaranty Trust Company of New York as the Company's issuing agent (the "Agent"), such computer timesharing system being herein called the "MPI System" (or telephone or facsimile transmission or other writing, if the MPI System is inoperative). All instructions must be received by the Agent not later than 3:00 P.M. New York City time on the Business Day next preceding the delivery date of each Security and shall include with respect to each Security:

- (1) name of the Holder;
- (2) address of the Holder;
- (3) taxpayer identifying number of the Holder;
- (4) principal amount;
- (5) maturity date;
- (6) interest rate;
- (7) delivery date; and
- (8) amount to be received in payment.

Upon receipt of such instructions and following authentication of such Securities, the Agent shall deliver such Securities to any placement agent designated by the Company or its designated consignee, which delivery shall be against receipt for payment in immediately available funds, as herein provided, or as otherwise provided in such instructions. Although the Agent may be instructed to deliver Securities against payment in immediately available funds, delivery of the Securities, in accordance with the custom prevailing in the market, will be made before actual receipt of payment. Therefore, once the Agent has delivered Securities to any placement agent or its designated consignee, the Company shall bear the risk that such placement agent or such designated consignee fails to remit payment for the Securities or return same to the Agent. Each delivery of Securities hereunder shall be subject to the rules of the New York Clearing House in effect at the time of such delivery.

Telephone instructions given to the Agent will be electronically voice-recorded by the Agent and such recording is hereby consented to. Should any discrepancy develop with respect to such telephonic instructions, the instructions as recorded and understood by the Agent will be deemed the controlling and proper instructions, The Agent shall incur no liability to the Company in acting hereunder upon telephonic or other instructions contemplated hereby which the recipient thereof believed in good faith to have been given by an Authorized Representative.

The MPI System timesharing services which may be utilized by the Company and the Agent in the issuance of the Securities and maintenance of the Note Register are furnished to the Agent by

The Service Bureau Company, a division of Control Data Corporation ("SBC"). SBC has granted permission to the Agent to allow its clients to use such timesharing services, and in consideration for such permission, it is agreed that, if the Company shall have elected to use the MPI System, such services will be supplied to the Company "as is," without warranty by SBC or the Agent. The Company hereby waives any claims it may have against SBC or the Agent arising out of such timesharing services and agrees that the provisions of Sections 104, 603, 604 and 607 shall inure to the benefit of the Agent to the same extent that they inure to the benefit of the Trustee.

ARTICLE FOUR SATISFACTION AND DISCHARGE

SECTION 401. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

- (1) either
 - (A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or
 - (B) all such Securities not theretofore delivered to the Trustee for cancellation
 - (i) have become due and payable, or
 - (ii) will become due and payable at their Stated Maturity within one year, or
 - (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities not

theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

SECTION 402. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Sections 401 and 403 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee.

SECTION 403. Defeasance Upon Deposit of Moneys or Government Obligations.

To the extent made applicable to the Securities of any series by the terms thereof established as contemplated in Section 301, at the Company's option, either (a) the Company shall be deemed to have been Discharged (as defined below) from its obligations with respect to the Securities of such series on the 91st day after the applicable conditions set forth below have been satisfied or (b) the Company shall cease to be under any obligation to comply with any term, provision or condition set forth in Sections 801, 802, 1005, 1006 and 1007 and noncompliance with such Sections shall not give rise to any Event of Default under Section 501(4), with respect to the Securities of such series at any time after the applicable conditions set forth below have been satisfied:

(1) the Company shall have deposited or caused to be deposited irrevocably with the Trustee or its agent as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Securities of such series (i) money in an amount, or (ii) Government Obligations of the government in the currency of which the Securities of such series are denominated which through the payment of interest and principal in respect thereof in accordance with their terms will provide, not later than the due date of any payment, money in an amount, or (iii) a combination of (i) and (ii), sufficient, in the opinion (with respect to (ii) and (iii)) of a

nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge each installment of principal (including mandatory sinking fund payments) of, and interest on, the outstanding Securities of such series on the dates such installments of interest or principal are due or to and including the Redemption Date irrevocably designated by the Company pursuant to subparagraph (5) hereof;

(2) if the Securities of such series are then listed on the New York Stock Exchange, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the exercise of the option under this Section 403 would not cause such Securities to be delisted;

(3) no Event of Default or event which with notice or lapse of time would become an Event of Default under Section 501(1), (2), (3), (5) or (6) with respect to the Securities of such series shall have occurred and be continuing on the date of such deposit;

(4) the Company shall have delivered to the Trustee an opinion of counsel, which opinion and counsel are satisfactory to the Trustee and its counsel, to the effect that holders of the Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of the exercise of the option under this Section 403 and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised, and, in the case of Securities being Discharged, and if the Trustee so requests, a private letter ruling to that effect received from the United States Internal Revenue Service or a revenue ruling pertaining to a comparable form of transaction to that effect published by the United States Internal Revenue Service, and

(5) if the Company has deposited or caused to be deposited money or Government Obligations to pay or discharge the principal of (and premium, if any) and interest on the Outstanding Securities of a series to and including a Redemption Date pursuant to subparagraph (1) hereof, such Redemption Date shall be irrevocable designated by a Board Resolution delivered to the Trustee on or prior to the date of deposit of such money or Government Obligations, and such Board Resolution shall be accompanied by an irrevocable Company Request that the Trustee give notice of such redemption in the name and at the expense of the Company not less than 30 nor more than 60 days prior to such Redemption Date in accordance with Section 1104.

"Discharged" means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Securities of such series and to have satisfied all the obligations under this Indenture relating to the Securities of such series (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except (A) the rights of holders of Securities of such series to receive, from the trust fund described in clause (1) above, payment of the principal of and the interest on such Securities when such payments are due; (B) the Company's obligations, as the case may be,

with respect to such Securities under Sections 305, 306, 1002 and 1003; and (C) the rights, powers, trusts, duties and immunities of the Trustee hereunder.

ARTICLE FIVE REMEDIES

SECTION 501. Events of Default.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), except to the extent such Event of Default is modified or deleted in respect of the Securities of such series pursuant to Section 301(15):

- (1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or
- (2) default in the payment of the principal of (or premium, if any, on) any Security of that series at its Maturity; or
- (3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or
- (4) default in the performance, or breach, of any covenant of the Company in this Indenture (other than a covenant or a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or
- (5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(7) any default by the Company in any payment of principal of or interest on any obligation for money borrowed beyond any period of grace provided with respect thereto and the aggregate obligations thereunder shall be \$20,000,000 or more, or any default by the Company in the performance or observance of any other agreement, term or condition contained in any agreement under which such obligations aggregating \$20,000,000 or more is created (or if any other event of default thereunder or under any such agreement shall occur and be continuing) and the effect of such event of default is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due prior to any stated maturity; or

(8) any other Event of Default provided with respect to Securities of that series in the terms thereof established pursuant to Section 301(15).

SECTION 502. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default with respect to Securities of any series at the time outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount (or, if the Securities of that series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that series established pursuant to Section 301(12)) of all of the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities of that series,

(B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities of that series, other than the nonpayment of the principal of Securities of that series which has become due solely by such declaration of acceleration, have been cured or waived or provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

SECTION 503. Collection of Indebtedness and Suits for Enforcement by Trustee

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for the period of grace provided for with respect to such Security,

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof, and such default continues for any period of grace provided for with respect to such Security, or

(3) default is made in the deposit of any sinking fund payment, when and as due by the terms of a Security,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal (and premium, if any) and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal (and premium, if any) and on any overdue interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee and any predecessor Trustee, their agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and any predecessor Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee and any predecessor Trustee, their agents and counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee and any predecessor Trustee any amount due them for the reasonable compensation, expenses, disbursements and advances of the Trustee and any predecessor Trustee, their agents and counsel, and any other amounts due the Trustee and any predecessor Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 505. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee and any predecessor Trustee under Section 607;

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any) and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively; and

THIRD: The balance, if any, to the Person or Persons entitled thereto.

SECTION 507. Limitation on Suits.

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) an Event of Default with respect to Securities of such series shall have occurred and be continuing and such Holder has previously given written notice to the Trustee of such continuing Event of Default;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and.

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of this Indenture (including without limitation the provisions of Section 512) to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

SECTION 508. Unconditional Right of Holders to Receive Principal, Premium and

Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Section 307) interest on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted

by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or any acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. Control by Holders.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

- (1) such direction shall not be in conflict with any rule of law or with this Indenture,
- (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and
- (3) subject to the provisions of Section 601, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a Responsible Officer or Officers of the Trustee, determine that the action so directed would involve the Trustee in personal liability or would be unduly prejudicial to holders not joining in such direction.

SECTION 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

- (1) in the payment of the principal of (premium, if any) or interest on any Security of such series, or
- (2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected,

Upon any such waiver, such default shall cease to exist with respect to such series, and any Event of Default with respect to such series arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities of any series, or to any suit instituted by any Holder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security on or after the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date).

SECTION 515. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

**ARTICLE SIX
THE TRUSTEE**

SECTION 601. Certain Duties and Responsibilities.

(a) Except during the continuance of an Event of Default,

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default with respect to the Securities of any series has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture with respect to such series, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities of any series, given pursuant to Section 512, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities of such series.

(d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 602. Notice of Defaults.

Within 90 days after the occurrence of any default hereunder with respect to the Securities of any series, the Trustee shall transmit by mail to all Holders of Securities of such series, as their names and addresses appear in the Security Register, notice of such default hereunder known to the Trustee, unless such default shall have been cured or waived; provided, however, that, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Security of such series or in the payment of any sinking fund installment with respect to Securities of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Securities of such series; and provided, further, that in the case of any default of the character specified in section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence of an Event of Default. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

SECTION 603. Certain Rights of Trustee.

Subject to the provisions of Section 601:

- (a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;
- (b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;
- (c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;
- (d) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;
- (e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee

reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) the Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture,

SECTION 604. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 605. May Hold Securities.

The Trustee, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Paying Agent, Security Registrar or such other agent.

SECTION 606. Money Held in Trust.

Money held by the Trustee or any Paying Agent in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee or any Paying Agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

SECTION 607. Compensation and Reimbursement.

The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except to the extent any such expense, disbursement or advance is due to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense arising out of or in connection with the acceptance or administration of the trust or trusts hereunder and the performance of its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense is due to its negligence or bad faith.

The Company's obligations under this Section shall constitute additional indebtedness hereunder and shall survive satisfaction and discharge of this Indenture. As security for the performance of the obligations of the Company under this Section the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of, premium, if any, or interest, if any, on particular Securities. "Trustee" for purposes of this Section shall include any predecessor Trustee, but the negligence or bad faith of any Trustee shall not affect the Company's obligations to any other Trustee under this Section.

SECTION 608. Disqualification; Conflicting Interests.

(a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section, with respect to the Securities of any series, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign with respect to the Securities of that series in the manner and with the effect hereinafter specified in this Article.

(b) In the event that the Trustee shall fail to comply with the provisions of Subsection (a) of this Section with respect to the Securities of any series, the Trustee shall, within 10 days after the expiration of such 90-day period, transmit by mail to all Holders of Securities of that series, as their names and addresses appear in the Security Register, notice of such failure.

(c) For the purposes of this Section, the Trustee shall be deemed to have a conflicting interest with respect to the Securities of any series if

(1) the Trustee is trustee under this Indenture with respect to the Outstanding Securities of any series other than that series or is trustee under another indenture under which any other securities, or certificates of interest or

participation in any other securities, of the Company are outstanding, unless such other indenture is a collateral trust indenture under which the only collateral consists of Securities issued under this Indenture, provided, however, that there shall be excluded from the operation of this paragraph (i) the indenture dated as of May 15, 1971 under which the Company's 8% Sinking Fund Debentures due May 15, 1996 are outstanding and

(ii) this Indenture with respect to the Securities of any series other than that series or any indenture or indentures under which other securities, or certificates of interest or participation in other securities, of the Company are outstanding, if

(i) this Indenture (with respect to the Securities of that series and each other series for which the Trustee is trustee hereunder) and such other indenture or indentures are wholly unsecured and such other indenture or indentures are hereafter qualified under the Trust Indenture Act, unless the Commission shall have found and declared by order pursuant to Section 305(b) or Section 307(c) of the Trust Indenture Act that differences exist between the provisions of this Indenture with respect to Securities of that series and one or more other series or the provisions of such other indenture or indentures which are so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or under such other indenture or indentures, or

(ii) the Company shall have sustained the burden of proving, on application to the Commission and after opportunity for hearing thereon, that trusteeship under this Indenture with respect to the Securities of that series and such other series or such other indenture or indentures is not so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or under such other indenture or indentures;

(2) the Trustee or any of its directors or executive officers is an obligor upon the Securities or an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with the Company or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business of underwriting, except that (i) one individual may be a

director or an executive officer, or both, of the Trustee and a director or an executive officer, or both, of the Company but may not be at the same time an executive officer of both the Trustee and the Company; (ii) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director or an executive officer, or both, of the Trustee and a director of the Company; and (iii) the Trustee may be designated by the Company or by any underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent, escrow agent or depository, or in any other similar capacity, or, subject to the provisions of paragraph (1) of this Subsection, to act as trustee, whether under an indenture or otherwise;

(5) 10% or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner or executive officer thereof, or 20% or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or 10% or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner or executive officer thereof, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), (i) 5% or more of the voting securities, or 10% or more of any other class of security, of the Company not including the Securities issued under this Indenture and securities issued under any other indenture under which the Trustee is also trustee, or (ii) 10% or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), 5% or more of the voting securities of any person who, to the knowledge of the Trustee, owns 10% or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), 10% or more of any class of security of any person who, to the knowledge of the Trustee, owns 50% or more of the voting securities of the Company; or

(9) the Trustee owns, on May 15 in any calendar year, in the capacity of executor, administrator, testamentary or inter vivos trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of 25% or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflicting interest under paragraph (6), (7) or (8) of this Subsection. As to any

such securities of which the Trustee acquired ownership through becoming executor, administrator or testamentary trustee of an estate which included them, the provisions of the preceding sentence shall not apply, for a period of two years from the date of such acquisition, to the extent that such securities included in such estate do not exceed 25% of such voting securities or 25% of any such class of security. Promptly after May 15 in each calendar year, the Trustee shall make a check of its holdings of such securities in any of the above-mentioned capacities as of such May 15. If the Company fails to make payment in full of the principal of (or premium, if any) or interest on any of the Securities when and as the same becomes due and payable, and such failure continues for 30 days thereafter, the Trustee shall make a prompt check of its holdings of such securities in any of the above-mentioned capacities as of the date of the expiration of such 30-day period, and after such date, notwithstanding the foregoing provisions of this paragraph, all such securities so held by the Trustee, with sole or joint control over such securities vested in it, shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this Subsection.

The specification of percentages in paragraphs (5) to (9), inclusive, of this Subsection shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary or sufficient to constitute direct or indirect control for the purposes of paragraph (3) or (7) of this Subsection.

For the purposes of paragraphs (6), (7), (8) and (9) of this Subsection only, (i) the terms "security" and "securities" shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (ii) an obligation shall be deemed to be "in default" when a default in payment of principal shall have continued for 30 days or more and shall not have been cured; and (iii) the Trustee shall not be deemed to be the owner or holder of (A) any security which it holds as collateral security, as trustee or otherwise, for an obligation which is not in default as defined in clause (ii) above, or (B) any security which it holds as collateral security under this Indenture, irrespective of any default hereunder, or (C) any security which it holds as agent for collection, or as custodian, escrow agent or depository, or in any similar representative capacity.

(d) For the purposes of this Section:

(1) The term "underwriter", when used with reference to the Company, means every person who, within three years prior to the time as of which the determination is made, has purchased from the Company with a view to, or has offered or sold for the Company in connection with, the distribution of any security of the Company outstanding at such time, or has participated or has had a direct or indirect participation in any such undertaking, or has participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such term shall not include a person

whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission.

(2) The term "director" means any director of a corporation or any individual performing similar functions with respect to any organization, whether incorporated or unincorporated.

(3) The term "Person" means an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization or a government or political subdivision thereof. As used in this paragraph, the term "trust" shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

(4) The term "voting security" means any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a person, or any security issued under or pursuant to any trust, agreement or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are presently entitled to vote in the direction or management of the affairs of a person.

(5) The term "Company" means any obligor upon the Securities.

(6) The term "executive officer" means the president, every vice president, every trust officer, the cashier, the secretary and the treasurer of a corporation, and any individual customarily performing similar functions with respect to any organization whether incorporated or unincorporated, but shall not include the chairman of the board of directors.

(e) The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

(1) A specified percentage of the voting securities of the Trustee, the Company or any other person referred to in this Section (each of whom is referred to as a "person" in this paragraph) means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(2) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(3) The term "amount", when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares and the number of units if relating to any other kind of security.

(4) The term "outstanding" means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

- (i) securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;
- (ii) securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;
- (iii) securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise; and
- (iv) securities held in escrow if placed in escrow by the issuer thereof;

provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(5) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges; provided, however, that, in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes and provided, further, that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

SECTION 609. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$100,000,000 subject to supervision or examination by Federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 610. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the resigning Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 608(a) after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee for a series shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any Holder of Securities of such series, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conversation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (ii) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees,

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and such successor Trustee or Trustees shall comply with the applicable

requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series by mailing written notice of such event by first-class mail, postage prepaid, to all Holders of Securities of such series as their names and addresses appear in the Security Register, Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

SECTION 611. Acceptance of Appointment by Successor.

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder,

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the

retiring Trustee, and (3) shall add to or change any of the provisions of this indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 612. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 613. Preferential Collection of Claims Against Company.

(a) Subject to Subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within four months prior to a default, as defined in Subsection (c) of this Section, or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the Holders of the Securities and the holders of other indenture securities, as defined in Subsection (c) of this Section:

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such four months' period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this Subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received by the Trustee in respect of any claims as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such four months' period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right of the Trustee:

(A) to retain for its own account (i) payments made on account of any such claim by any Person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third Person, and (iii) distributions made in cash, securities or other property in respect of claims filed against the Company in Bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such four months' period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such four months' period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in Subsection (c) of this Section, would occur within four months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security for such claim as provided in paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such four months' period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned among the Trustee, the Holders and the holders of other indenture securities in such manner that the Trustee, the Holders and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee and the Holders and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account, As used in this paragraph, with respect to any claim, the term "dividends" shall include any distribution with respect to such claim, in bankruptcy or receivership or proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, whether such distribution is made in cash, securities or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or proceedings for reorganization is pending shall have jurisdiction (i) to apportion among the Trustee, the Holders and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee and the Holders and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee which has resigned or been removed after the beginning of such four months' period shall be subject to the provisions of this Subsection as though such resignation or removal had not occurred. If any Trustee has resigned or been removed prior to the beginning of such four months' period, it shall be subject to the provisions of this Subsection if and only if the following conditions exist:

- (i) the receipt of property or reduction of claim, which would have given rise to the obligation to account, if such Trustee had continued as Trustee, occurred after the beginning of such four months' period; and
 - (ii) such receipt of property or reduction of claim occurred within four months after such resignation or removal.
- (b) There shall be excluded from the operation of Subsection (a) of this Section a creditor relationship arising from:

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction or by this Indenture, for the purpose of preserving any property which shall at any time be subject to the lien of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advances and of the circumstances surrounding the making thereof is given to the Holders at the time and in the manner provided in this Indenture;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depositary, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction, as defined in Subsection (c) of this Section;

(5) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; and

(6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self-liquidating paper, as defined in Subsection (c) of this Section.

(c) For the purposes of this Section only:

(1) the term "default" means any failure to make payment in full of the principal of (or premium, if any) or interest on any of the Securities or upon the other indenture securities when and as such principal or interest becomes due and payable;

(2) the term "other indenture securities" means securities upon which the Company is an obligor outstanding under any other indenture (i) under which the Trustee is also trustee, (ii) which contains provisions substantially similar to the provisions of this Section, and (iii) under which a default exists at the time of the apportionment of the funds and property held in such special account;

(3) the term "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand;

(4) the term "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation;

(5) the term "Company" means any obligor upon the Securities; and

(6) the term "Federal Bankruptcy Act" means the Bankruptcy Act or Title 11 of the United States Code,

SECTION 614. Authenticating Agents.

There may be an Authenticating Agent or Authenticating Agents with respect to one or more series of Securities appointed by the Trustee from time to time with power to act on its behalf and subject to its direction in connection with the authentication and delivery of Securities of such series issued upon exchange, transfer or redemption thereof as fully to all intents and purposes as though such Authenticating Agent had been expressly authorized to authenticate and deliver Securities, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as though authenticated by the Trustee hereunder. For all purposes of this Indenture (except in the case of original issuance of the Securities and the issuance of Securities in replacement of lost, stolen, mutilated or destroyed Securities), the authentication and delivery of Securities by an Authenticating Agent appointed pursuant to the provisions of this Section shall be deemed to be the authentication and delivery of such Securities "by the Trustee," and whenever this Indenture provides (except in the case of original issuance of the Securities and the issuance of Securities in replacement of lost, stolen, mutilated or destroyed Securities) that "the Trustee shall authenticate and deliver" Securities, such authentication and delivery by any Authenticating Agent shall be deemed to be authentication and delivery by the Trustee. Any such Authenticating Agent shall at all times be a corporation organized and doing business under the laws of the United States of America or any State or the District of Columbia, with a combined capital and surplus of at least ten million dollars and authorized under such laws to act as an authenticating agent, duly registered to act as such, if and to the extent required by applicable law and subject to supervision or examination by Federal, State or District of Columbia authority. If such corporation publishes reports of its condition at least annually, pursuant to law or the requirements of such authority, then for the purposes of this Section the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible to act as such in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect herein specified in this Section.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency business of any Authenticating Agent, shall be the successor of the Authenticating Agent hereunder, if such successor corporation is otherwise eligible to act as such in accordance with the provisions of this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon receiving such a notice or resignation or upon a termination, or in case at any time any Authenticating Agent shall cease to be eligible to act as such in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent. Upon the appointment, at any time after the original issuance of any of the Securities, of any successor, additional or new Authenticating Agent, the Trustee shall give written notice of such appointment to the Company and shall at the expense of the Company mail notice of such appointment to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment pursuant to the provisions of this Section shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if initially named as an Authenticating Agent herein. No successor Authenticating Agent shall be appointed unless eligible to act as such in accordance with the provisions of this Section.

Any Authenticating Agent by the acceptance of its appointment shall be deemed to have represented to the Trustee that it is eligible for appointment as Authenticating Agent under this Section and to have agreed with the Trustee that: it will perform and carry out the duties of an Authenticating Agent as herein set forth, including among other things the duties to authenticate and deliver Securities when presented to it in connection with exchanges, registrations of transfer or redemptions thereof; it will keep and maintain, and furnish to the Trustee from time to time as requested by the Trustee, appropriate records of all transactions carried out by it as Authenticating Agent and will furnish the Trustee such other information and reports as the Trustee may reasonably require; and it will notify the Trustee promptly if it shall cease to be eligible to act as Authenticating Agent in accordance with the provisions of this Section. Any Authenticating Agent by the acceptance of its appointment shall be deemed to have agreed with the Trustee to indemnify the Trustee against any loss, liability or expense incurred by the Trustee and to defend any claim asserted against the Trustee by reason of any acts or failures to act of such Authenticating Agent, but such Authenticating Agent shall have no liability for any action taken by it in accordance with the specific written direction of the Trustee.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation and expenses for its services (to the extent such compensation is not

paid by the Company), and the Trustee shall be entitled to be reimbursed for such payments subject to the provisions of Section 607.

The provisions of Sections 104, 603, 604 and 607 shall inure to the benefit of each Authenticating Agent to the same extent that they inure to the benefit of the Trustee.

ARTICLE SEVEN
HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 701. Company to Furnish Trustee Names and Addresses of Holders. The Company will furnish or cause to be furnished to the Trustee:

(a) semi-annually, not later than January 15 and July 15 in each year, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of each series as of the preceding January 1 or July 1, as the case may be, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content, such list to be dated as of a date not more than 15 days prior to the time such list is furnished;

notwithstanding the foregoing, so long as the Trustee is the Security Registrar with respect to a particular series of Securities, no such list shall be required to be furnished in respect of such series.

SECTION 702. Preservation of Information; Communications to Holders.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders of each series contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders of each series received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

(b) If three or more Holders of any series (herein referred to as "applicants") apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned a Security of such series for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other Holders of such series with respect to their rights under this Indenture or under such Securities and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either

(i) afford such applicants access to the information preserved at the time by the Trustee in accordance with Section 702(a), or

(ii) inform such applicants as to the approximate number of Holders of Securities of such series whose names and addresses appear in the information preserved at the time by the Trustee in accordance with Section 702(a), and as to the approximate cost of mailing to such Holders the form of proxy or other communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Holder of Securities of such series whose name and address appear in the information preserved at the time by the Trustee in accordance with

Section 702(a) a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender the Trustee shall mail to such applicants and file with the Commission, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interest of the Holders of such series or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If the Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, the Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Holders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with Section 702(b), regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 702(b).

SECTION 703. Reports by Trustee.

(a) on or before January 15 of each year commencing with the year 1989, the Trustee shall transmit by mail to all Holders, as their names and addresses appear in the Security Register, a brief report dated as of the preceding November 15 with respect to:

(1) its eligibility under Section 609 and its qualifications under Section 608, or in lieu thereof, if to the best of its knowledge it has continued to be eligible and qualified under said Sections, a written statement to such effect;

(2) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on any

property or funds held or collected by it as Trustee, except that the Trustee shall not be required (but may elect) to report such advances if such advances so remaining unpaid aggregate not more than 1/2 of 1% of the principal amount of the Securities Outstanding on the date of such report;

(3) the amount, interest rate and maturity date of all other indebtedness owing by the Company (or by any other obligor on the Securities) to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in any manner described in Section 613(b)(2), (3), (4) or (6);

(4) the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;

(5) any additional issue of Securities which the Trustee has not previously reported; and

(6) any action taken by the Trustee in the performance of its duties hereunder which it has not previously reported and which in its opinion materially affects the Securities, except action in respect of a default, notice of which has been or is to be withheld by the Trustee in accordance with Section 602.

(b) The Trustee shall transmit by mail to all Holders, as their names and addresses appear in the Security Register, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) since the date of the last report transmitted pursuant to Subsection (a) of this

Section (or if no such report has yet been so transmitted, since the date of execution of this instrument) for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on property or funds held or collected by it as Trustee and which it has not previously reported pursuant to this Subsection, except that the Trustee shall not be required (but may elect) to report such advances if such advances remaining unpaid at any time aggregate 10% or less of the principal amount of the Securities Outstanding at such time, such report to be transmitted within 90 days after such time.

(c) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange.

SECTION 704. Reports by Company.

The Company shall:

(1) file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the

Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended; or, if the Company is not required to file information, documents or reports pursuant to either of said Sections, then it shall file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(2) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(3) transmit by mail to all Holders, as their names and addresses appear in the Security Register, within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraphs (1) and (2) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

ARTICLE EIGHT CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 801. Company May Consolidate, Etc., Only on Certain Terms.

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless:

(1) in case the Company shall consolidate with or merge into another corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company or a Subsidiary as a result of such transaction as having been incurred by the Company or such Subsidiary at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(3) if, as a result of any such consolidation or merger or such conveyance, transfer or lease, properties or assets of the Company would become subject to a mortgage, pledge, lien, security interest or other encumbrance which would not be permitted by this Indenture, the Company or such successor corporation or Person, as the case may be, shall take such steps as shall be necessary effectively to secure the Securities equally and ratably with (or prior to) all indebtedness secured thereby; and

(4) if a supplemental indenture is required in connection with such transaction, the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. Successor Corporation Substituted.

Upon any consolidation by the Company with or merger by the Company into any other corporation or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor corporation formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor corporation had been named as the Company herein, and thereafter, except in the case of such lease, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities and may be liquidated and dissolved.

ARTICLE NINE SUPPLEMENTAL INDENTURES

SECTION 901. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default with respect to all or any series of the Securities (and, if such Event of Default is applicable to less than all series of Securities specifying the series to which such Event of Default is applicable); or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons; or

(5) to change or eliminate any of the provisions of this Indenture, provided that any such change or elimination shall become effective only when there is no Security Outstanding of any series created prior to the execution of such supplemental indenture which is adversely affected by such change in or elimination of such provision; or

(6) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(7) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611(b); or

(8) to amend any provision included herein in compliance with the Trust Indenture Act so as to provide as required or permitted by any change in the Trust Indenture Act; or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, provided such other provisions as may be made shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

SECTION 902. Supplemental Indentures With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities

of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section or Section 513, except to increase any such percentage or to provide with respect to any particular series the right to condition the effectiveness of any supplemental indenture as to that series on the consent of the Holders of a specified percentage of the aggregate principal amount of Outstanding Securities of such series (which provision may be made pursuant to Section 301 without the consent of any Holder) or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby, provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section, or the deletion of this proviso, in accordance with the requirements of Sections 611(b) and 901(7).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive (in addition to the opinion which the Trustee is

entitled to receive pursuant to Section 303), and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties, immunities or liabilities under this Indenture or otherwise.

SECTION 904. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. Conformity With Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 906. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

**ARTICLE TEN
COVENANTS**

SECTION 1001. Payment of Principal, Premium and Interest.

The Company will duly and punctually pay the principal of (and premium, if any) and interest on the Securities in accordance with the terms of the Securities and this Indenture.

SECTION 1002. Maintenance of Office or Agency.

The Company will maintain an Office or agency in each Place of Payment for each series of Securities where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this indenture may be served. The Company will give prompt written notice to the Trustee of the location, and of any change in the location, of such office or agency. The Corporate Trust Office of Morgan Guaranty Trust Company of New York shall be such agency in the City of New York, New York, and the principal corporate trust office of each Paying Agent, if any, with respect to a

series of securities shall be such agency in the city where such office is located unless in any case the Company shall maintain some other office or agency for such purpose and give the Trustee written notice of the location thereof. If at any time the Company shall fail to maintain such office or agency in each Place of Payment or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee in the Borough of Manhattan, City and State of New York, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

SECTION 1003. Money for Payment of Securities to be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of (and premium, if any) or interest on any of the Securities of such series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal, premium, if any, or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided, and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, prior to each due date of the principal of (and premium, if any) or interest on any Securities, deposit with a Paying Agent a sum sufficient to pay the principal, premium, if any, or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium, if any, or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities, other than the Trustee, to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

- (1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Securities of that series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities of such series) in the making of any such payment of principal, premium, if any, or interest; and
- (3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent,

such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any) or interest on any Security of any series and remaining unclaimed for three years after such principal, premium, if any, or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper in each Place of Payment, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 1004. Statement as to Compliance.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company, a written statement signed by the Chairman of the Board, the President, a Vice President or the Treasurer of the Company stating that:

- (1) a review of the activities of the Company during such year and of performance under this Indenture has been made under his supervision; and
- (2) to the best of his knowledge, based on such review, the Company has fulfilled all its obligations under this Indenture throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to him and the nature and status thereof.

SECTION 1005. Limitation on Liens.

(a) Except as otherwise provided in Subsection (b) of this Section, the Company shall not, and shall not permit any Restricted Subsidiary to, issue, assume or guarantee any Debt secured by a Lien upon any Principal Property of the Company or of any Restricted Subsidiary or upon any shares of stock or Debt of any Restricted Subsidiary (whether such Principal Property, shares of stock or Debt are now owned or hereafter acquired) without in any such case effectively providing concurrently with the issuance, assumption or guaranty of any such Debt that the Securities (together with, if the Company shall so determine, any other indebtedness of or guaranty by the Company or such Restricted Subsidiary then existing or thereafter created which is not subordinate to the Securities) shall be secured equally and ratably with (or, at the option of the Company, prior to) such Debt, so long as such Debt shall be so secured; provided, however, that nothing in this Section 1005 shall prevent, restrict or apply to

(and there shall be excluded from secured Debt in any computation under this Section 1005) Debt secured by:

- (1) Liens on property, shares of stock or indebtedness of any corporation existing at the time such corporation becomes a Restricted Subsidiary or arising thereafter (i) otherwise than in connection with the borrowing of money arranged thereafter and (ii) pursuant to contractual commitments entered into prior to and not in contemplation of such corporation's becoming a Restricted Subsidiary;
- (2) Liens on any property (including shares of stock or Debt) existing at the time of acquisition thereof (including acquisition through merger or consolidation) or securing the payment of all or any part of the purchase price or construction cost thereof or securing any Debt incurred prior to, at the time of or within 180 days after, the acquisition of such property, shares of stock or Debt or the completion of any such construction, whichever is later, for the purpose of financing all or any part of the purchase price or construction cost thereof (provided such Liens are limited to such property, improvements thereon and the land upon which such property and improvements are located and any other property not then constituting a Principal Property);
- (3) Liens on any property to secure all or any part of the cost of development, operation, construction, alteration, repair or improvement of all or any part of such property, or to secure Debt incurred prior to, at the time of or within 180 days after, the completion of such development, operation, construction, alteration, repair or improvement, whichever is later, for the purpose of financing all or any part of such cost (provided such Liens are limited to such property, improvements thereon and the land upon which such property and improvements are located and any other property not then constituting a Principal Property);
- (4) Liens which secure Debt owing by a Restricted Subsidiary to the Company or to another Restricted Subsidiary or by the Company to a Restricted Subsidiary;
- (5) Liens securing indebtedness of a corporation which becomes a successor of the Company in accordance with the provisions of Article Eight;
- (6) Liens on property of the Company or a Restricted Subsidiary in favor of the United States of America or any State thereof, or any department agency or instrumentality or political subdivision of the United States of America or any State thereof, or in favor of any other country or any political subdivision thereof, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of construction of the property subject to such Liens, or in favor of any trustee or mortgagee for the benefit of holders of indebtedness of any such entity incurred for any such purpose;

(7) Liens existing at March 15, 1988; and

(8) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (1) to (7), inclusive, or of any Debt secured thereby; provided that such extension, renewal or replacement Lien shall be limited to all or any part of the same property that secured the Lien extended, renewed or replaced (plus any improvements on such property) and shall secure no larger amount of Debt than that existing at the time of such extension, renewal or replacement.

(b) Notwithstanding the foregoing provisions of this Section 1005, the Company and any one or more Restricted Subsidiaries may issue, assume or guarantee Debt secured by a Lien which would otherwise be subject to the foregoing restrictions if at the time it does so (the "Incurrence Time") the aggregate amount of such Debt plus all other Debt of the Company and its Restricted Subsidiaries secured by a Lien which would otherwise be subject to the foregoing restrictions (not including Debt permitted to be secured under clauses (1) through (8) above), plus the aggregate Attributable Debt (determined as of the Incurrence Time) of Sale and Leaseback Transactions (other than Sale and Leaseback Transactions permitted by Subsection (a) of Section 1006) entered into after March 15, 1988 and in existence at the Incurrence Time (less the aggregate amount of proceeds of such Sale and Leaseback Transactions which shall have been applied in accordance with Subsection (c) of Section 1006), does not exceed 10% of Consolidated Net Tangible Assets).

SECTION 1006. Limitation on Sale and Leaseback Transactions.

The Company shall not itself, and shall not permit any Restricted Subsidiary to, enter into any arrangements after March 15, 1988 with any bank, insurance company or other lender or investor (other than the Company or another Restricted Subsidiary) providing for the leasing as lessee by the Company or by any such Restricted Subsidiary of any Principal Property (except a lease for a temporary period not to exceed three years by the end of which it is intended the use of such Principal Property by the lessee will be discontinued), which was or is owned by the Company or a Restricted Subsidiary and which has been or is to be sold or transferred by the Company or a Restricted Subsidiary, more than 180 days after the completion of construction and commencement of full operation thereof by the Company or such Restricted Subsidiary, to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such Principal Property (herein called a "Sale and Leaseback Transaction") unless:

(a) the Company or such Restricted Subsidiary would (at the time of entering into such arrangement) be entitled pursuant to clauses (1) through

(8) of Subsection (a) of Section 1005, without equally and ratably securing the Securities, to issue, assume or guarantee indebtedness secured by a Lien on such Principal Property; or

(b) the Attributable Debt of the Company and its Restricted Subsidiaries in respect of such Sale and Leaseback Transaction and all other Sale and Leaseback Transactions entered into after March 15, 1988 (other than such Sale and Leaseback

Transactions as are permitted by Subsections (a) or (c) of this Section 1006), plus the aggregate principal amount of Debt secured by Liens on Principal Properties then outstanding (excluding any such Debt secured by Liens covered in subdivisions (1) through (8) of Subsection (a) of Section 1005) which do not equally and ratably secure the Securities, would not exceed 10% of Consolidated Net Tangible Assets; or

(c) the Company, within 180 days after the sale or transfer, applies or causes a Restricted Subsidiary to apply an amount equal to the greater of the net proceeds of such sale or transfer or fair market value of the Principal Property so sold and leased back at the time of entering into such Sale and Leaseback Transaction (in either case as determined by the Board of Directors) to the retirement of Securities or other indebtedness of the Company (other than indebtedness subordinated to the Securities) or indebtedness of a Restricted Subsidiary, for money borrowed, having a stated maturity more than 12 months from the date of such application or which is extendible at the option of the obligor thereon to a date more than 12 months from the date of such application, provided that the amount to be so applied shall be reduced by (i) the principal amount of Securities delivered within 180 days after such sale or transfer to the Trustee for retirement and cancellation, and (ii) the principal amount of any such indebtedness of the Company or a Restricted Subsidiary other than Securities voluntarily retired by the Company or a Restricted Subsidiary within 180 days after such sale or transfer. Notwithstanding the foregoing, no retirement referred to in this subdivision (c) may be affected by payment at Maturity.

Notwithstanding the foregoing, where the Company or any Restricted Subsidiary is the lessee in any Sale and Leaseback Transaction, Attributable Debt shall not include any Debt resulting from the guarantee by the Company or any other Restricted Subsidiary of the lessee's obligation thereunder.

SECTION 1007. Corporate Existence.

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

ARTICLE ELEVEN REDEMPTION OF SECURITIES

SECTION 1101. Applicability of Article.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.

SECTION 1102. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of less than all the Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

SECTION 1103. Selection by Trustee of Securities to be Redeemed.

If less than all the Securities of any series are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of that series or any integral multiple thereof) of the principal amount of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of that series.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 1104. Notice of Redemption.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall state:

- (1) the Redemption Date;
- (2) the Redemption Price;

(3) if less than all the Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed;

(4) that on the Redemption Date the Redemption Price plus the amount of accrued interest, if any, will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date;

(5) the place or places where such Securities are to be surrendered for payment of the Redemption Price; and

(6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 1105. Deposit of Redemption Price.

At or prior to the opening of business on any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

SECTION 1106. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

SECTION 1107. Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and Stated Maturity of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

**ARTICLE TWELVE
SINKING FUNDS**

SECTION 1201. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 301 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

SECTION 1202. Satisfaction of Sinking Fund Payments with Securities.

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities as provided for by the terms of such series; provided that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 1203. Redemption of Securities for Sinking Fund.

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount

of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 1202 and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Section 1106 and 1107.

ARTICLE THIRTEEN
REPURCHASE OF SECURITIES BY COMPANY UPON TRIGGERING EVENT

SECTION 1301. Right to Require Repurchase.

If (a) this Article 13 is specified, as contemplated by Section 301, to be applicable to Securities of any series and (b) at any time thereafter, the Board of Directors or, in either of the circumstances described in clauses (i) and (ii) below, a majority of the Disinterested Directors then in office, has by resolution further determined in its sole and absolute discretion that this Article 13 is applicable to the Securities of any such series (the "Board's Further Determination") then upon the occurrence of a Triggering Event following the Board's Further Determination or, if the Board's Further Determination occurs after a Triggering Event, upon the Board's Further Determination, the Holder of Securities of any such series shall have the right, at the Holder's option, to require the Company to purchase, and upon the exercise of such right, the Company shall purchase, all or any part of such Holder's Securities on the date (the "Repurchase Date") that is 30 days after the date of the Triggering Event or, if later, the date of the Board's Further Determination, at the Redemption Price in effect on the Repurchase Date, plus accrued and unpaid interest to the Repurchase Date. The Board's Further Determination shall only require the concurrence of a majority of the Disinterested Directors then in office in the event that: (i) such determination occurs on or after the time a Person becomes an Acquiring Person, or (ii) such determination occurs on or after the date of a change (resulting from a proxy or consent solicitation) in a majority of the directors in office at the commencement of such solicitation if any Person who is a participant in such solicitation has stated (or, if upon the commencement of such solicitation, a majority of the Board of Directors of the Company has determined in good faith) that such Person (or any of its Affiliates or Associates) intends to take, or may consider taking, any action which would result in such Person becoming an Acquiring Person or which would cause the occurrence of a Triggering Event unless, concurrent with such solicitation, such Person (or one or more of its Affiliates or Associates) is making a cash tender offer pursuant to a Schedule 14D-1 (or any successor form) filed with the Commission for all outstanding shares of Common Stock not beneficially owned by such Person (or by its Affiliates or Associates).

SECTION 1302. Notice; Method of Exercising Repurchase Right.

On or before the seventh day after the occurrence of a Triggering Event or the Board's Further Determination, whichever is later, the Company, or at the request of the

Company, the Trustee (after receipt of an Officers' Certificate of the Company stating that a Triggering Event has occurred and that the Board's Further Determination has been made and evidenced by a Board Resolution) shall give notice of the Triggering Event and the Board's Further Determination, and of the repurchase right set forth herein arising as a result thereof, by first class mail, postage prepaid, to each Holder of Securities of any such series at such Holder's address appearing in the register of Securities. The Company shall also cause a copy of such notice of a repurchase right to be published once, on or before the fifteenth day after the occurrence of the Triggering Event or the Board's Further Determination, whichever is later, in a newspaper of general circulation in The City of New York.

Each notice of a repurchase right shall state:

- (1) the Repurchase Date;
- (2) the date by which the repurchase right must be exercised;
- (3) the price at which the repurchase is to be made, if the repurchase right is exercised; and
- (4) a description of the procedure which a Holder must follow to exercise a repurchase right.

No failure of the Company to give the foregoing notice shall limit any Holder's right to exercise a repurchase right.

To exercise a repurchase right, a Holder shall deliver to the Company (or an agent designated by the Company for such purpose in the notice referred to above) on or before the thirtieth day after the Triggering Event or the Board's Further Determination; whichever is later, (i) written notice of the Holder's exercise of such right, which notice shall set forth the name of the Holder, the principal amount of the Security or Securities (or portion of a Security) to be repurchased, and a statement that the option to exercise the repurchased right is being made thereby, and (ii) the Security with respect to which the repurchase right is being exercised, duly endorsed for transfer to the Company. Such written notice shall be irrevocable.

In the event that a repurchase right shall be exercised in accordance with the terms hereof, the Company shall pay or cause to be paid the price payable with respect to the Security or Securities as to which the repurchase right has been exercised in cash to the Holder of such Security or Securities on the Repurchase Date. In the event that a repurchase right is exercised with respect to less than the entire principal amount of a surrendered Security, the Company shall issue and the Trustee shall authenticate for the Holder a new Security equal in principal amount to the unreurchased portion of such surrendered Security.

SECTION 1303. Certain Definitions.

As used in this Article 13,

(a) the term "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of outstanding shares of Voting Stock representing 20% or more of the Voting Power, but shall not include the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan,

(b) the terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended and in effect on March 15, 1988 (the "Exchange Act").

(c) a Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:

(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," (A) securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange, or (B) securities issuable upon exercise of the Company's preferred stock purchase rights at any time prior to the occurrence of a Triggering Event;

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subparagraph (ii) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not also then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing), for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to

subparagraph (ii) of this paragraph (c)) or disposing of any voting securities of the Company.

(d) the term "Disinterested Director" shall mean (i) any member of the Board of Directors of the Company, while such person is a member of the Board, who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and was a member of the Board prior to the time that the Acquiring Person became an Acquiring Person, or (ii) any person who subsequently becomes a member of the Board to fill a vacancy created by an increase in the size of the Board, while such person is a member of the Board, who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, if such person's nomination for election by the shareholders or election to the Board is recommended or approved by a majority of the Disinterested Directors or (iii) any successor of a Disinterested Director who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person or of any such Affiliate or Associate, if such person's nomination for election by the shareholders or election to the Board is recommended or approved by a majority of the Disinterested Directors.

(e) the term "Person" shall mean any individual, firm, corporation, partnership or other entity.

(f) the term "Subsidiary" shall mean, with reference to any Person, any corporation of which an amount of voting securities sufficient to elect at least a majority of the directors of such corporation is beneficially owned, directly or indirectly, by such Person, or otherwise controlled by such Person.

(g) the term "Triggering Event" shall mean the date on which:

(i) any Acquiring Person or any Associate or Affiliate of any Acquiring Person, at any time after March 15, 1988, directly or indirectly, shall merge into the Company or otherwise combine with the Company and the Company shall be the continuing or surviving corporation of such merger or combination and the Common Stock of the Company shall remain outstanding and unchanged, or

(ii) any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan), alone or together with its Affiliates and Associates, shall, at any time after March 15, 1988, become the Beneficial Owner of shares of Voting Stock representing 28% or more of the Voting Power, or

(iii) following the first date of public announcement (which, for all purposes hereof, shall include, without limitation, a report filed pursuant to Section 13(d) under the Exchange Act) by the Company or an Acquiring Person

that an Acquiring Person has become such, directly or indirectly,

(x) the Company shall consolidate with, or merge with and into, any other Person (other than a Subsidiary of the Company in a transaction that will not diminish substantially or otherwise eliminate the benefits intended to be afforded by this Article 13), and the Company shall not be the continuing or surviving corporation of such consolidation or merger, (y) any Person (other than a Subsidiary of the Company in a transaction that will not diminish substantially or otherwise eliminate the benefits intended to be afforded by this Article 13) shall consolidate with, or merge with or into, the Company, and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (z) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one transaction or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons (other than the Company or any Subsidiary of the Company in one or more transactions each of which will not diminish substantially or otherwise eliminate the benefits intended to be afforded by this Article 13).

(h) the term "Voting Power" shall mean, at any particular point in time, the total number of votes that all holders of the then outstanding shares of capital stock of the Company would be entitled to cast in an annual election of the directors of the Company, voting together as a single class.

(i) the term "Voting Stock" shall mean the Common Stock, par value \$1.00 per share, of the Company and all other equity securities of the Company that would entitle the holders thereof to cast votes in an election of directors of the Company.

* * *

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

SIGNATURES AND SEALS

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written,

ATTEST:

ARMSTRONG WORLD INDUSTRIES, INC.

/s/ David D. Wilson

By /s/ Charles A. Walker, Jr.

(Corporate Seal)

ATTEST:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

/s/ April Schmauder

By /s/ John W. Cole

(Corporate Seal)

ACKNOWLEDGMENTS

THE STATE OF NEW YORK)
)
COUNTY OF NEW YORK)

BEFORE ME, the undersigned authority, on this day personally appeared, Charles A. Walker, Jr., the Vice President of Armstrong World Industries, Inc., known to me to be the person whose name is subscribed to the above and foregoing instrument of writing, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation; and, being by me duly sworn, did depose and say that he resides at 151 Wilson Drive Lancaster, PA 17603, that he is the Vice President of said corporation, that he knows the seal of said corporation, that the seal affixed to said instrument is such corporate seal, that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this 26 day of April, 1988.

Elizabeth R. Cava
Notary Public in and for New York, New York

My commission expires on: February 28, 1989

THE STATE OF NEW YORK)
)
COUNTY OF NEW YORK)

BEFORE ME, the undersigned authority, on this day personally appeared John W. Cole, a Vice President, known to me to be the person whose name is subscribed to the above and foregoing instrument of writing, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation; and, being by me duly sworn, did depose and say that he resides at Staten Island, NY, that he is a Vice President of said corporation, that he knows the seal of said corporation, that the seal affixed to said instrument is such corporate seal, that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this 26 day of April, 1988.

Beth Sweeney
Notary Public in and for New York, New York

My commission expires on: June 22, 1989

LONG-TERM STOCK OPTION PLAN FOR KEY EMPLOYEES

Section 1. Purpose

The purpose of the Plan is to promote the long-term success of the Company by providing a continuing long-term incentive for officers and key employees of the Company and its subsidiaries. The Plan is designed to encourage a stockholder view of the Company and to assist the building of a stock ownership interest by the key executives whose superior performance is vital to the long-term success of the Company.

Section 2. Administration

The Plan shall be administered by the Committee which shall consist of not less than three directors of the Company, none of whom is eligible to participate in the Plan, who shall be appointed and serve at the pleasure of the Board of Directors. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee, shall be deemed the acts of the Committee. Subject to the provisions of the Plan and to directions by the Board of Directors, the Committee is authorized to adopt such rules, regulations, and guidelines and to take such action in the administration of the Plan as it shall deem proper.

Section 3. Participants

Officers and key employees of the Company and its subsidiaries (to the extent permissible by law), including employee directors, shall be eligible to participate in the Plan. Directors who are not otherwise officers or employees of the Company or of a subsidiary shall not be eligible. The Committee shall in its sole discretion from time to time select eligible persons as participants and determine the extent and manner of their participation.

Section 4. Shares Subject to Plan

There is hereby reserved for the purposes of the Plan 1,000,000 shares of Common Stock, which may be either authorized and unissued shares or treasury shares. The number of shares reserved shall be subject to adjustment as provided in Section 7 of the Plan. In the event that any option expires, lapses, or otherwise terminates (except in the case of surrender of all or a portion of an option upon the exercise of a stock appreciation right) prior to being fully exercised, any unexercised shares covered by such option shall remain available for the purposes of the Plan.

Section 5. Stock Options

5.1 - Grant of Options

The Committee may from time to time, subject to the provisions of the Plan, grant options to officers and key employees to purchase shares of Common Stock. Each option shall be evidenced by a written stock option agreement between the Company and the participant to whom such option is granted, specifying the number of shares of Common Stock that may be acquired by its exercise and containing such terms and conditions consistent with the Plan as the Committee shall determine.

5.2 - Types of Options

Options granted pursuant to the Plan may be either Incentive Stock Options or Nonstatutory Stock Options. The Committee, in its discretion, shall determine whether and to what extent options granted under the Plan shall be designated as Incentive Stock Options, or as Nonstatutory Stock Options, and such options shall be granted separately hereunder. The Committee, in its discretion, also shall determine whether and to what extent options originally designated as Incentive Stock Options may remain Incentive Stock Options pursuant to paragraph (a) of Section 5.3 below, in the event of the acceleration of the exercisability of any such option. The Committee, in its discretion, may allow certain optionees holding unexercised Incentive Stock Options to convert such options to Nonstatutory Stock Options.

5.3 - Option Requirements

Each option granted under the Plan shall be subject to the provisions of the Plan, to any additional or more restrictive terms and conditions as may be specified by the Committee in its discretion, and to the following:

(a) The Committee may not grant Incentive Stock Options to any participant under schedules that would permit the initial exercise in any one calendar year of Incentive Stock Options to purchase more than \$100,000 of Common Stock of the Company valued at Fair Market Value at the time of the grant; provided, further, that in the event of any acceleration of the exercisability of any Incentive Stock Options previously granted to a participant, such accelerated options shall remain designated as Incentive Stock Options pursuant to Section 5.2 above, but only to the extent permitted by Section 422A(b)(7) of the Internal Revenue Code of 1986, as amended (hereinafter the "Code") and regulations thereunder.

(b) The price at which each share covered by the option may be acquired shall be determined by the Committee at the time the option is granted and shall not be less than the Fair Market Value of the stock on the date the option is granted.

(c) No option shall be exercisable until eighteen months from the date of grant of the option, except in the event of death or disability as set forth in paragraph (h) below and except in the event of any Change in Control as set forth in Section 7.3 below.

(d) No Incentive Stock Option granted prior to January 1, 1987, to a participant who has previously been granted an Incentive Stock Option under the Plan or under any other stock option plan of the Company or any parent or subsidiaries may be exercised until after such earlier Incentive Stock Option has been exercised in full or has expired by reason of lapse of time. The grant or exercise of any Nonstatutory Option, and the grant or exercise of any Incentive Stock Option granted after December 31, 1986, shall not affect the sequence in which Incentive Stock Options granted prior to 1987 may be exercised.

(e) No shares of stock may be acquired by exercise of an option after a maximum of ten years from the date the option was granted.

(f) The option shall be exercisable by the participant only while an employee of the Company or any of its subsidiaries, or within three months after the participant ceases to be employed by any of such corporations, for any reason other than retirement, Disability, or death.

(g) In the event of the retirement of the participant, commencing with the date of retirement, and prior to its expiration date, an option must be exercised during a period of three years (although an unexercised Incentive Stock Option will cease to be treated as such and will become a Nonstatutory Stock Option after three months). However, an Incentive Stock Option granted prior to February 26, 1990 must be exercised within three months commencing with the date of retirement.

(h) In the event of death of the participant, the option must be exercised prior to its expiration and within eighteen months from the date of death. In the event of the Disability of the participant, the option must be exercised prior to its expiration and within twelve months from the date of termination of employment due to such Disability. Each such option may be exercised as to all or any portion thereof without regard to the limitation contained in paragraph (c) of this Section.

(i) The option shall not be transferable by the participant otherwise than by will or by the laws of descent and distribution. The option may be exercised only during the participant's lifetime by the participant.

(j) The option may be exercised in whole or in part from time to time by written request received by the Treasurer of the Company. The option price of each share acquired pursuant to an option shall be paid in full at the time of each exercise of the option either in cash, or in the discretion of the Committee, by delivering to the Company shares of the Company's Common Stock or any combination of such shares and cash, having an aggregate Fair Market Value equal to the option price of the shares being acquired. However, shares of the Company's Common Stock previously acquired by the participant under the Plan or any other stock option plan of the Company shall not be utilized for purposes of payment upon the exercise of an option unless those shares have been owned by the participant for a twelve-month period or such longer period as the Committee may determine.

(k) Exercise of an option in any manner shall result in a decrease in the number of shares which thereafter may be available for the purposes of the Plan by the number of shares as to which the option is exercised.

Section 5.4. Share Tax Withholding

At the discretion of the Committee, share tax withholding may be granted to any participant with an outstanding Nonstatutory Stock Option granted prior to November 25, 1991 and may be included as a term of any grant of any stock option after that date. Share tax withholding shall entitle the participant to elect to satisfy, in whole or in part, any withholding obligations in connection with the exercise of a stock option by requesting that the Company either (i) withhold shares of Common Stock otherwise issuable to the participant upon such exercise or (ii) by accepting delivery of shares of Common Stock previously owned by participant. In either case, the Fair Market Value of such shares of Common Stock will generally be determined on the date of exercise. Shares of Common Stock previously acquired by the participant under the Plan or any other stock option plan of the Company shall not be utilized for satisfaction of any withholding obligation upon the exercise of an option unless those shares have been owned by the participant for a twelve-month period or such longer period as the Committee may determine. Notwithstanding any other provision hereof to the contrary, the Committee, in its sole discretion, may at any time suspend, terminate, or disallow any or all entitlements to share tax withholding previously granted or extended to any participant.

Section 6. Stock Appreciation Rights

(a) The Committee may, in its discretion, grant stock appreciation rights in connection with all or any part of an option granted under the Plan. Any stock appreciation rights granted in connection with an option shall be governed by the terms of the option agreement and the Plan. Stock appreciation rights shall not be transferable or assignable separately from the options to which they relate. Stock appreciation rights shall be exercisable only when the Fair Market Value of the shares subject thereto exceeds the option price of the related option and to the extent that the option to which they relate is exercisable.

(b) Stock appreciation rights shall permit the participant, upon exercise of such rights, to surrender the related option, or any portion thereof, and to receive, without payment to the Company (except for applicable withholding taxes), an amount equal to the excess of the Fair Market Value, on the date of such exercise, of the stock covered by such option or portion thereof over the option price of such stock as provided in such option. Such amount shall be paid in shares of Common Stock valued at Fair Market Value on the date of exercise. No fractional shares shall be issued as a result of exercising a stock appreciation right. In the Committee's sole discretion, share tax withholding, as described and limited by Section 5.4 hereof, may be awarded to or otherwise considered a term of any stock appreciation right whenever granted.

(c) Upon the exercise of a stock appreciation right and surrender of the related option, or portion thereof, such option, to the extent surrendered, shall be terminated, and the shares covered by the option so surrendered shall no longer be available for purposes of the Plan.

Section 7. General Provisions

7.1 - Definitions

The capitalized terms as used in the Plan shall have the meanings set forth in this Section 7.1.

(a) Committee - Committee appointed pursuant to Section 2 to administer the Plan.

(b) Common Stock - Common Stock of the Company of the par value of \$1.00 per share.

(c) Company - Armstrong World Industries, Inc.

(d) Disability - Total and permanent disability within the meaning of Section 22(e)(3) of the Code.

(e) Fair Market Value - The closing price of the Common Stock on the New York Stock Exchange (Composite Tape) on the applicable date or, if no sales were made on such date, on the next preceding date on which sales of the Common Stock were made.

- (f) Incentive Stock Options - Stock options meeting the qualifications for incentive stock options under Section 422A of the Code.
- (g) Nonstatutory Stock Options - Stock options which are not Incentive Stock Options.
- (h) Plan - The Long Term Stock Option Plan for Key Employees as set forth herein.

7.2 - Adjustment in Numbers of Shares and Option Prices

The number of shares specified in Section 4 to be reserved for the purposes of the Plan, the number of shares subject to any option granted under the Plan, the option price specified in any such option, and the class of shares to be sold under options shall be adjusted by the Board of Directors at such times and in such amounts as the Board, in its discretion, may determine to be appropriate to give effect to any subdivision or combination of the outstanding Common Stock into a greater or lesser number of shares, stock dividend, reclassification of shares, reorganization, merger, consolidation, exchange of shares, or other change in the capitalization or organization of the Company. If the Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, there shall be substituted for the shares covered by each outstanding option under the Plan, the number and kinds of shares of stock or other securities which would have been substituted therefor if such shares had been outstanding on the date fixed for determining the shareholders entitled to receive such changed or substituted stock or other securities.

7.3 - Option Exercise Acceleration

In the event of any Change in Control as such term is defined in Section 1.01 of the Employment Protection Plan for Salaried Employees as then in effect, the exercise period set forth in Section 5.3(c) shall be reduced to six months. Any prior option granted under this Plan shall have the benefit of this Section.

7.4 - No Right to Employment

Nothing contained in the Plan, nor in any option granted pursuant to the Plan, shall confer upon any participant any right with respect to continuance of employment by the Company or its subsidiaries, nor interfere in any way with the right of the Company or its subsidiaries to terminate the employment or change the compensation of any employee at any time.

7.5 - Compliance with Government Regulations

The Company shall not be required to issue or deliver shares or make payments upon any option or related stock appreciation right granted under the Plan prior to complying with the requirements of any governmental authority in connection with the authorization, issuance, or sale of such shares.

7.6 - Amendment and Discontinuance

The Board of Directors may alter, suspend, or discontinue the Plan, provided that no such action shall affect or impair rights already granted to a participant without that person's consent, and provided further, that except as provided in Section 7.2, no action of the Board of Directors may increase the number of shares subject to the Plan or reduce the option price below Fair Market Value on the date of grant, materially modify the requirements for participant eligibility, or increase the term of any option beyond the maximum

term permitted by the Plan. Except with respect to matters as to which amendments are prohibited by this Section, the Board of Directors is authorized and directed to make such amendments to the Plan or to the agreements entered into under the Plan as may be necessary to make Incentive Stock Options granted under the Plan qualify for most favorable Federal tax treatment accorded to stock options by the Code as the same may be amended from time to time.

7.7 - Effective Date and Duration of Plan

The Plan shall become effective immediately upon the approval and adoption thereof at the annual meeting of the stockholders on April 30, 1984. All options granted under the Plan must be granted within ten years from its adoption date by the stockholders of the Company. Any options outstanding ten years after the adoption of the Plan may be exercised within the periods prescribed under or pursuant to the Plan.

Revised 5/8/92

EXHIBIT NO. 21
(as of January 1996)

Domestic Subsidiaries -----	Jurisdiction of Incorporation -----
ArmStar (50%-owned unincorporated affiliate)	
Armstrong Cork Finance Corporation	Delaware
Armstrong Enterprises, Inc.	Vermont
Armstrong Industrial Specialties, Inc.	Pennsylvania
Armstrong Industrial Specialties International, Inc.	Nevada
Armstrong Realty Group, Inc.	Pennsylvania
Armstrong Ventures, Inc.	Delaware
Armstrong World Industries Asia, Inc.	Nevada
Armstrong World Industries (Delaware) Inc.	Delaware
Armstrong World Industries Latin America, Inc.	Nevada
A W I (NEVADA), INC.	Nevada
Charleswater Products, Inc.	Delaware
Chemline Industries, Inc.	Delaware
IWF, Inc.	Nevada
I.W. Insurance Company	Vermont
The W. W. Henry Company	California
The Worthington Armstrong Venture (50%-owned unincorporated affiliate)	
Foreign Subsidiaries -----	
Alphacoustic (UK) Ltd.	England
Armstrong-ABC Co., Ltd.	Japan
Armstrong Architectural Products S.L.	Spain
Armstrong Building Products	England
Armstrong Building Products B.V.	Netherlands
Armstrong Building Products G.m.b.H.	Germany
Armstrong Cork (Ireland) Limited	Ireland
Armstrong Europa G.m.b.H.	Germany
Armstrong Europe Services	England
Armstrong Floor Products Europe G.m.b.H.	Germany
Armstrong Floor Products Europe Ltd.	England
Armstrong Floor Products Europe Sarl.	France
Armstrong FSC, Ltd.	Bermuda
Armstrong Insulation (Panyu) Co. Ltd.	People's Republic of China
Armstrong Insulation Products	England
Armstrong Insulation Products A.G.	Switzerland
Armstrong Insulation Products Benelux, S.A.	Belgium
Armstrong Insulation Products S.A.	Spain
Armstrong Insulation Products Sp. zo.o.	Poland
Armstrong Insulation Rus.	Russia
Armstrong (Japan) K.K.	Japan
Armstrong Metal Ceilings Ltd.	England
Armstrong-Nylex Pty. Ltd.	Australia
Armstrong (Singapore) Pte. Ltd.	Singapore
Armstrong World Industries - A.C.I. B.V.	Netherlands
Armstrong World Industries Canada Ltd.	Canada
Armstrong World Industries (China) Ltd.	People's Republic of China
Armstrong World Industries de Mexico, S.A. de C.V.	Mexico
Armstrong World Industries - France, S.A.	France
Armstrong World Industries, G.m.b.H.	Germany
Armstrong World Industries (H.K.) Limited	Hong Kong
Armstrong World Industries Italia S.r.l.	Italy
Armstrong World Industries Korea, Ltd.	Korea
Armstrong World Industries Ltd.	England

Armstrong World Industries - Pontarlier S.A.	France
Armstrong World Industries Pty. Ltd.	Australia
Armstrong World Industries (Thailand) Ltd.	Thailand
Inarco Limited (50%-owned affiliate)	India
ISA Co., Ltd. (25%-owned affiliate)	Japan
ISO Holding, A.G.	Switzerland
Liberty Commercial Services Ltd.	Bermuda
Recubrimientos Interceramic S.A. de C.V. (49%-owned affiliate)	Mexico
Worthington Armstrong Metal Products Co. (Shanghai) Ltd.	People's Republic of China
Worthington Armstrong Venture Europe S.A. (owned by WAVE)	France

Exhibit No. 24

Consent of Independent Auditors

The Board of Directors
Armstrong World Industries, Inc.:

We consent to incorporation by reference in Registration Statement No. 33-38837 on Form S-3 and the Registration Statement Nos. 2-50942, 2-77936, 2-91890, 33-18996, 33-60070, 33-18998, 33-29768 and 33-60070 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 16, 1996, relating to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of earnings, cash flows and shareholders' equity and related supplementary information on depreciation rates and schedule for each of the years in the three-year period ended December 31, 1995, which report is included herein.

KPMG Peat Marwick LLP

Philadelphia, Pennsylvania

March 21, 1996

Exhibit No. 25

POWER OF ATTORNEY

Re: 1995 Annual Report on Form 10-K -

I, James E. Marley, as a Director of Armstrong World Industries, Inc., do hereby constitute and appoint, GEORGE A. LORCH or, in the case of his absence or inability to act as such, E. ALLEN DEEVER, my agent, to sign in my name and in my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1995, and any amendments thereto, to be filed by the Company with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, with the same effect as if such signature were made by me personally.

/s/ James E. Marley

James E. Marley

Dated February 27, 1996

(Exhibit No. 25)

All powers of attorney required to be filed are substantially identical in all material respects. Therefore, in accordance with SEC Regulation 229.601(a) Instruction 2, only the foregoing copy is being included except, however, that the manually signed copy filed with the Securities and Exchange Commission includes a complete set of powers of attorney.

All powers of attorney differ only from the form of the foregoing in that they are executed by the following parties in the capacities indicated on or about February 26, 1996, and the power by E. Allen Deaver appoints George A. Lorch only as his agent:

Frank A. Riddick, III	Senior Vice-President, Finance, and Treasurer (Principal Financial Officer)
Bruce A. Leech, Jr.	Controller (Principal Accounting Officer)
H. Jesse Arnelle	Director
Van C. Campbell	Director
E. Allen Deaver	Director
Ursula F. Fairbairn	Director
Michael C. Jensen	Director
James E. Marley	Director
Robert F. Patton	Director
J. Phillip Samper	Director
Jerre L. Stead	Director

(Exhibit No. 25)

I, L. A. Pulkrabek, Senior Vice-President and Secretary of Armstrong World Industries, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, do hereby certify that, at a meeting of the Board of Directors of said corporation duly held on the 27th day of February, 1995, at which a quorum was present and acting throughout, the following resolutions were adopted and are now in full force and effect:

RESOLVED That the 1995 annual report on Form 10-K in the form presented to this meeting has been reviewed by the Board of Directors; and the execution thereof on behalf of the Company by George A. Lorch or E. Allen Deaver, with such changes therein and additions or deletions thereto as either of them and the legal counsel to the Company may approve, and the filing thereof with the Securities and Exchange Commission after being so executed by the requisite number of directors personally or by their respective attorneys-in-fact, are hereby authorized.

FURTHER RESOLVED That the execution of the 1995 annual report on Form 10-K by George A. Lorch, Bruce A. Leech, Jr. and Frank A. Riddick, III, personally or by their respective attorneys-in-fact, as principal executive officer, principal accounting officer, and principal financial officer, respectively, of the Company, is hereby authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 13th day of March, 1996.

/s/ L. A. Pulkrabek

Sr. Vice President & Secretary

ARTICLE 5

This schedule contains summary financial information extracted from the Registrant's Unaudited Consolidated Financial Statements as of and for December 31, 1995, and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD END	DEC 31 1995
CASH	12
SECURITIES	245
RECEIVABLES	247
ALLOWANCES	29
INVENTORY	196
CURRENT ASSETS	723
PP&E	1,854
DEPRECIATION	976
TOTAL ASSETS	2,150
CURRENT LIABILITIES	376
BONDS	0
COMMON	101
PREFERRED MANDATORY	0
PREFERRED	259
OTHER SE	415
TOTAL LIABILITY AND EQUITY	2,150
SALES	2,085
TOTAL REVENUES	2,085
CGS	1,410
TOTAL COSTS	2,041
OTHER EXPENSES	2
LOSS PROVISION	0
INTEREST EXPENSE	34
INCOME PRETAX	8
INCOME TAX	(5)
INCOME CONTINUING	14
DISCONTINUED	110
EXTRAORDINARY	0
CHANGES	0
NET INCOME	123
EPS PRIMARY	2.90
EPS DILUTED	2.67

FORM 11-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended September 30, 1995

OR

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

For the transition period from _____ to _____

Commission file number 1-2116

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

(Full title of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.

Liberty and Charlotte Streets
Lancaster, Pennsylvania 17604

(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Item 1. Statements of Net Assets 4

September 30, 1995 and 1994

Item 2. Statements of Changes in Plan Equity 5-7

- (a) Year ended September 30, 1995
- (b) Year ended September 30, 1994
- (c) Year ended September 30, 1993

Notes to Financial Statements 8-11

Item 3. Independent Auditors' Report 12

Exhibits

- 24. Consent of Independent Auditors

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the committee constituting the administrator which administers the plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

**RETIREMENT SAVINGS PLAN FOR SALARIED
EMPLOYEES OF ARMSTRONG WORLD INDUSTRIES, INC.**

March 25, 1996

By: /s/ E. Allen Deaver

*E. Allen Deaver
Chairman of the Retirement Committee*

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Statements of Net Assets
September 30, 1995 and 1994

1995

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager Fund	Asset Mgr. Income Fund
Assets:								
Investments in master trust at fair value (note 3)	\$26,008,895	\$53,822,126	\$2,863,787	\$119,173,404	\$9,957,012	\$3,998,454	\$4,171,934	\$1,465,384
Total assets	\$26,008,895	\$53,822,126	\$2,863,787	\$119,173,404	\$9,957,012	\$3,998,454	\$4,171,934	\$1,465,384
Plan equity	\$26,008,895	\$53,822,126	\$2,863,787	\$119,173,404	\$9,957,012	\$3,998,454	\$4,171,934	\$1,465,384
	=====	=====	=====	=====	=====	=====	=====	=====
	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total					
Assets:								
Investments in master trust at fair value (note 3)	\$5,380,158	\$3,408,962	\$230,250,116					
Total assets	\$5,380,158	\$3,408,962	\$230,250,116					
Plan equity	\$5,380,158	\$3,408,962	\$230,250,116					
	=====	=====	=====					

1994

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager Fund	Asset Mgr. Income Fund
Assets:								
Investments in master trust at fair value (note 3)	\$20,074,514	\$40,885,939	\$2,364,783	\$108,691,987	\$7,203,780	\$2,199,833	\$3,488,114	\$1,766,979
Total assets	\$20,074,514	\$40,885,939	\$2,364,783	\$108,691,987	\$7,203,780	\$2,199,833	\$3,488,114	\$1,766,979
Plan equity	\$20,074,514	\$40,885,939	\$2,364,783	\$108,691,987	\$7,203,780	\$2,199,833	\$3,488,114	\$1,766,979
	=====	=====	=====	=====	=====	=====	=====	=====
	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total					
Assets:								
Investments in master trust at fair value (note 3)	\$4,767,677	\$3,159,183	\$194,602,789					
Total assets	\$4,767,677	\$3,159,183	\$194,602,789					
Plan equity	\$4,767,677	\$3,159,183	\$194,602,789					
	=====	=====	=====					

See accompanying notes to financial statements.

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**
Statements of Changes in Plan Equity

Years Ended September 30, 1995, 1994, and 1993

1995

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager Fund
Plan equity at October 1, 1994	\$20,074,514	\$40,885,939	\$2,364,783	\$108,691,987	\$7,203,780	\$2,199,833	\$3,488,114
Increases in plan equity:							
Contributions	1,190,525	3,475,590	215,540	4,790,964	295,226	375,257	358,667
Dividends	587,101	199,906	138,766	--	245,705	96,677	135,937
Interest	33,291	67,892	8,112	7,591,186	12,946	6,544	6,061
Realized gain(loss) on investments (note 3)	662,728	1,499,516	--	--	217,271	98,150	(41,279)
Unrealized appreciation of investments	4,621,828	13,524,954	--	--	2,038,938	795,420	282,885
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(9,748)	158,001	6,943	58,530	25,829	41,124	(3,017)
Loan activity, net	(222,751)	(15,988)	(10,923)	40,829	31,056	36,106	(29,030)
	6,862,974	18,909,871	358,438	12,481,509	2,866,971	1,449,278	710,224
Decreases in plan equity:							
Benefits paid (note 4)	(1,149,156)	(1,965,434)	(121,127)	(5,546,200)	(207,166)	(323,260)	(100,933)
Interfund transfers, net	220,563	(4,008,250)	261,693	3,546,108	93,427	672,603	74,529
	(928,593)	(5,973,684)	140,566	(2,000,092)	(113,739)	349,343	(26,404)
Plan equity at September 30, 1995	\$26,008,895	\$53,822,126	\$2,863,787	\$119,173,404	\$9,957,012	\$3,998,454	\$4,171,934
	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total			
Plan equity at October 1, 1994	\$1,766,979	\$4,767,677	\$3,159,183	\$194,602,789			
Increases in plan equity:							
Contributions	101,319	722,517	--	11,525,605			
Dividends	66,120	131,133	--	1,601,345			
Interest	1,980	10,696	--	7,738,708			
Realized gain(loss) on investments (note 3)	(21,983)	(21,443)	--	2,392,960			
Unrealized appreciation of investments	120,617	400,690	--	21,785,332			
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	--	44,668	322,330			
Loan activity, net	(41,574)	7,164	205,111	--			
	226,479	1,250,757	249,779	45,366,280			
Decreases in plan equity:							
Benefits paid (note 4)	(140,007)	(165,670)	--	(9,718,953)			
Interfund transfers, net	(388,067)	(472,606)	--	--			
	(528,074)	(638,276)	--	(9,718,953)			
Plan equity at September 30, 1995	\$1,465,384	\$5,380,158	\$3,408,962	\$230,250,116			

See accompanying notes to financial statements.

(Continued)

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Statements of Changes in Plan Equity, Continued

1994

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager Fund
Plan equity at October 1, 1993	\$21,907,057	\$38,103,999	\$2,664,691	\$110,188,428	\$7,121,870	\$1,601,565	\$ 297,227
Increases in plan equity:							
Contributions	1,090,512	3,079,493	152,506	3,385,978	200,709	233,587	266,340
Dividends	765,667	3,849,084	81,375	--	201,625	101,625	153,211
Interest	41,595	76,371	12,314	7,807,669	5,530	6,767	6,495
Realized gain(loss) on investments (note 3)	874,833	464,049	--	--	247,166	(17,970)	(10,039)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	863	9,604	11,437	(19,965)	11,126	4,568	--
Loan activity, net	(21,731)	169,552	9,773	135,007	15,947	52,702	4,329
	2,751,739	7,648,153	267,405	11,308,689	682,103	381,279	420,336
Decreases in plan equity:							
Unrealized appreciation (depreciation) of investments	(931,592)	(4,829,281)	--	--	52,533	(86,928)	(162,610)
Benefits paid (note 4)	(644,466)	(1,497,530)	(108,573)	(5,927,743)	(189,656)	(60,685)	(189,598)
Interfund transfers, net	(3,008,224)	1,460,598	(458,740)	(6,877,387)	(463,070)	364,602	3,122,759
	(4,584,282)	(4,866,213)	(567,313)	(12,805,130)	(600,193)	216,989	2,770,551
Plan equity at September 30, 1994	\$20,074,514	\$40,885,939	\$2,364,783	\$108,691,987	\$7,203,780	\$2,199,833	\$3,488,114
	=====	=====	=====	=====	=====	=====	=====
	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total			
Plan equity at October 1, 1993	\$ 85,542	\$ 94,578	\$3,512,435	\$185,577,392			
Increases in plan equity:							
Contributions	90,079	536,559	--	9,035,763			
Dividends	89,541	111,463	--	5,353,591			
Interest	3,131	10,971	--	7,970,843			
Realized gain(loss) on investments (note 3)	(23,524)	(15,473)	--	1,519,042			
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	1,120	(8,145)	10,608			
Loan activity, net	(68,420)	47,948	(345,107)	--			
	90,807	692,588	(353,252)	23,889,847			
Decreases in plan equity:							
Unrealized appreciation (depreciation) of investments	(68,890)	(82,171)	--	(6,108,939)			
Benefits paid (note 4)	(61,703)	(75,557)	--	(8,755,511)			
Interfund transfers, net	1,721,223	4,138,239	--	--			
	1,590,630	3,980,511	--	(14,864,450)			
Plan equity at September 30, 1994	\$1,766,979	\$4,767,677	\$3,159,183	\$194,602,789			

=====

See accompanying notes to financial statements.

(Continued)

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Statements of Changes in Plan Equity, Continued

	1993						
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager Fund
Plan equity at October 1, 1992	\$19,886,879	\$27,493,135	\$2,800,063	\$103,489,554	\$4,960,888	\$ --	\$ --
Increases in plan equity:							
Contributions	1,384,117	2,551,576	171,760	4,044,086	164,903	230,659	1,055
Dividends	679,115	3,697,160	83,909	--	203,773	122,231	458
Interest	60,943	80,967	27,305	8,412,031	5,793	4,072	19
Realized gain(loss) on investments (note 3)	573,187	319,808	--	--	(23,113)	(363)	--
Unrealized appreciation (depreciation) of investments	1,269,718	4,787,209	--	--	2,081,543	(19,487)	205
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(9,500)	(96,958)	(7,156)	259,981	7,437	(11,638)	--
Loan activity, net	(183,935)	(57,356)	(6,215)	181,848	16,858	23,420	128
	3,773,645	11,282,406	269,603	12,897,946	2,457,194	348,894	1,865
Decreases in plan equity:							
Benefits paid (note 4)	(719,211)	(1,188,862)	(249,513)	(5,282,177)	(162,630)	--	--
Interfund transfers, net	(1,034,256)	517,320	(155,462)	(916,895)	(133,582)	1,252,671	295,362
	(1,753,467)	(671,542)	(404,975)	(6,199,072)	(296,212)	1,252,671	295,362
Plan equity at September 30, 1993	\$21,907,057	\$38,103,999	\$2,664,691	\$110,188,428	\$7,121,870	\$1,601,565	\$297,227
	=====	=====	=====	=====	=====	=====	=====
	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total			
Plan equity at October 1, 1992	\$ --	\$ --	\$3,547,189	\$162,177,708			
Increases in plan equity:							
Contributions	770	2,970	--	8,551,896			
Dividends	--	--	--	4,786,646			
Interest	20	22	--	8,591,172			
Realized gain(loss) on investments (note 3)	--	--	--	869,519			
Unrealized appreciation (depreciation) of investments	595	825	--	8,120,608			
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	--	(59,707)	82,459			
Loan activity, net	124	175	24,953	--			
	1,509	3,992	(34,754)	31,002,300			
Decreases in plan equity:							
Benefits paid (note 4)	--	(223)	--	(7,602,616)			
Interfund transfers, net	84,033	90,809	--	--			
	84,033	90,586	--	(7,602,616)			
Plan equity at September 30, 1993	\$85,542	\$94,578	\$3,512,435	\$185,577,392			
	=====	=====	=====	=====			

See accompanying notes to financial statements.

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis.

(b) Investments in Master Trust

The fair value of the commingled equity, specialized equity, over-the-counter portfolio, and Asset Manager funds is based on the underlying market value of the investments. The money market fund is stated at cost which approximates fair value. The fixed income fund is stated at the value of the underlying investment contracts which represents contributions plus interest at the contract rate, less benefits paid. The value of the Armstrong stock fund is based on quoted market price. The value of the loan portfolio fund represents the unpaid principal of employee loans.

Securities transactions are recognized on the settlement date (the date on which payment for a buy or sell order is made or received), since adjustment to a trade-date basis would not be material. Dividend income is recorded on the ex-dividend date.

Realized gains and losses on investments are determined by the average cost method.

(c) Expenses

All legal, accounting and administrative expenses associated with Plan operations are paid by the Company.

(2) Plan Description

The Plan was established on August 1, 1983, under the name the Savings Investment Plan for Salaried Employees of Armstrong World Industries, Inc. On November 30, 1987, the Board of Directors of Armstrong amended the Plan effective February 1, 1988, to permit investments by participants in an Armstrong Common Stock Fund and to change its name to the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc.

During the Plan year ended September 30, 1993, four investment options were added to the Plan. Effective January 1, 1993, an over-the-counter portfolio mutual fund was made available for participant investment and, effective September 1, 1993, three Asset Manager mutual funds became investment options.

The plan is a defined contribution plan established for the purpose of providing to eligible salaried employees of Armstrong World Industries, Inc. (the Company) a means for long-term savings intended for the accumulation of retirement income in addition to that provided under other retirement plans maintained for the benefit of employees.

Participants may elect to make contributions to the Plan in each of the following methods:

1. Up to 15% of their before-tax compensation, as deferred compensation as permitted under Section 401(k) of the Internal Revenue Code.
2. Up to 10% of their after-tax compensation.

Separate accounts are maintained for contributions made by or on behalf of a participant. The accounts in each fund reflect the participants' contributions together with dividends, interest, other income, and realized and unrealized gains and losses allocated thereon.

Participants have an immediate 100 percent vested interest with respect to their contributions and are fully vested with regard to any previously made matching company contributions.

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

(3) Investments in Master Trust

Assets are held in a Master Trust administered by Fidelity Management Trust Co., as Trustee, and are segregated into nine investment options: a commingled equity mutual fund (Fidelity U.S. Equity Index Portfolio), a specialized equity mutual fund (Fidelity Magellan), a money market mutual fund (Fidelity Return Money Market Portfolio), three Asset Manager mutual funds, an over-the-counter mutual fund (OTC Portfolio Fund), a fixed income fund, and an Armstrong stock fund. The Plan utilizes the Trustee and associated investment managers to direct investment activity. The Plan participates in all nine investment alternatives.

The following is a description of the investment funds to which Plan participants can elect to allocate their contributions.

1. Commingled Equity Fund - This fund is principally a portfolio of common stocks constructed and maintained with the objective of providing investment results which approximate the overall performance of the common stocks included in the Standard & Poor's Composite Index of 500 stocks. At September 30, 1995, there were 1,375 active participants in this investment fund.
2. Specialized Equity Fund - This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers. At September 30, 1995, there were 2,148 active participants in this investment fund.
3. Money Market Fund - This fund invests in short-term (less than one year maturity) fixed income instruments such as U.S. Treasury Bills, bank certificates of deposit, and high grade commercial paper. At September 30, 1995, there were 436 active participants in this investment fund.
4. Fixed Income Fund - Contributions to this fund are invested in the general accounts of insurance companies and are credited at contracted interest rates. At September 30, 1995, the interest rates ranged between 5.69% and 9.00%. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. At September 30, 1995, there were 3,247 active participants in this investment fund.
5. Armstrong Stock Fund - Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong common stock. At September 30, 1995, there were 2,075 active participants in this investment fund. Common stock shares held by the fund at September 30, 1995 and 1994 were 179,406 and 166,081, respectively.
6. OTC Portfolio Fund - This fund invests in securities traded in the over-the-counter securities market with the objective of maximizing capital appreciation. Over-the-counter securities include common and preferred stocks, securities convertible into common stock, warrants, and debt instruments. At September 30, 1995, there were 372 active participants in this investment fund.
7. Asset Manager Fund - An asset allocation fund which invests in a portfolio of stocks, bonds, and short-term instruments. The fund has a balanced investment strategy with a goal of high total return with reduced risk over the long term. At September 30, 1995, there were 331 active participants in this investment fund.
8. Asset Manager Income Fund - An asset allocation fund which invests in a diversified portfolio of stocks, bonds, and short-term instruments. The fund has a conservative investment strategy focusing on bonds and short-term instruments to achieve a high level of current income and capital preservation. At September 30, 1995, there were 105 active participants in this investment fund.
9. Asset Manager Growth Fund - An asset allocation fund invested in a diversified mix of stocks, bonds, and short-term instruments. The fund's investment strategy is an aggressive one emphasizing stocks with the goal of maximum total return over the long term. At September 30, 1995, there were 459 active participants in this investment fund.

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

10. Loan Portfolio Fund - The amount in this fund represents the unpaid principal balances of loans made by Plan participants in accordance with established loan provision guidelines. At September 30, 1995, there were 713 loans outstanding.

The following table presents the cost and fair values of the investments in securities of the Master Trust at September 30, 1995 and 1994:

Investment	September 30, 1995		September 30, 1994	
	Cost	Fair Value	Cost	Fair Value
Commingled equity	\$ 17,189,451	\$ 26,008,895	\$ 15,876,898	\$ 20,074,514
Specialized equity	36,976,683	53,822,126	37,565,450	40,885,939
Money market	2,863,787	2,863,787	2,364,783	2,364,783
Fixed income	119,173,404	119,173,404	108,691,987	108,691,987
Armstrong stock	6,686,934	9,957,012	5,972,640	7,203,780
OTC portfolio	3,309,449	3,998,454	2,306,248	2,199,833
Asset manager	4,051,454	4,171,934	3,650,519	3,488,114
Asset manager income	1,413,062	1,465,384	1,835,274	1,766,979
Asset manager growth	5,060,814	5,380,158	4,849,023	4,767,677
Loan portfolio	3,408,962	3,408,962	3,159,183	3,159,183
	<u>\$200,134,000</u>	<u>\$230,250,116</u>	<u>\$186,272,005</u>	<u>\$194,602,789</u>

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 1995, 1994, and 1993 are presented below:

1995	Aggregate	Aggregate	Realized
	Proceeds	Cost	Gain (Loss)
Commingled equity	\$ 2,529,266	\$ 1,866,538	\$ 662,728
Specialized equity	8,283,037	6,783,521	1,499,516
Armstrong stock	925,502	708,231	217,271
OTC portfolio	773,079	674,929	98,150
Asset manager	1,252,539	1,293,818	(41,279)
Asset manager income	982,479	1,004,462	(21,983)
Asset manager growth	1,575,135	1,596,578	(21,443)
	<u>\$16,321,037</u>	<u>\$13,928,077</u>	<u>\$2,392,960</u>
	=====	=====	=====
1994			
Commingled equity	\$ 4,197,432	\$ 3,322,599	\$ 874,833
Specialized equity	4,209,579	3,745,530	464,049
Armstrong stock	827,356	580,190	247,166
OTC portfolio	506,960	524,930	(17,970)
Asset manager	428,433	438,472	(10,039)
Asset manager income	987,917	1,011,441	(23,524)
Asset manager growth	473,242	488,715	(15,473)
	<u>\$11,630,919</u>	<u>\$10,111,877</u>	<u>\$1,519,042</u>

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

1993 -----	Aggregate ----- Proceeds -----	Aggregate ----- Cost -----	Realized ----- Gain (Loss) -----
Commingled equity	\$3,120,551	\$2,547,364	\$573,187
Specialized equity	3,914,772	3,594,964	319,808
Armstrong stock	432,085	455,198	(23,113)
OTC portfolio	604,721	605,084	(363)
	----- \$8,072,129 =====	----- \$7,202,610 =====	----- \$869,519 =====

(4) Benefits

Under terms of the Plan, a participant (or a beneficiary) is eligible for benefits upon retirement, termination of employment, or death before retirement. Disbursement of the total amount credited to a participant's account is payable (i) in a lump sum or (ii) in the case of retirement, in such other manner as requested by the participant and approved by the Plan Administrator. In addition, a participant may elect to withdraw all or any part of his account attributable to his contributions.

If the amount of a withdrawal exceeds the amount of contributions made by the participant and not previously withdrawn, the participant shall be ineligible to make contributions for a specified period, except that a participant may elect to withdraw all or any portion of his account attributable to tax deductible contributions.

Under the rules of the Plan, the participant may borrow up to 90 percent of his account, other than amounts attributable to tax deductible contributions or amounts invested in the Armstrong Stock Fund, with the approval of the Plan Administrator. The amount of the loan is transferred to a Loan Reserve pledged as security for the loan and is evidenced by a promissory note payable to the Plan. Interest rates are determined periodically by the Retirement Savings Plan Committee in accordance with prevailing interest rates. The loans are reflected in the Loan Portfolio investment fund. Loan repayments are made by payroll deductions or in a manner agreed to by the employee and the Plan Administrator.

(5) Obligation for Benefits

All the funds of the Plan are held by investing institutions appointed by the Company under a trust agreement or investment contract. Benefits under the Plan are payable only out of these funds. The Company has no legal obligation to make any direct payment of benefits accrued under the Plan.

Except as may be provided in an investment contract, neither the Company nor any investing institution guarantees the funds of the Plan against any loss or depreciation or guarantees the payment of any benefit hereunder. Although the Company has not expressed any intent to terminate the Plan, it may do so at any time. In case of termination or partial termination, the total amount in each employee's account will be distributed as the Plan Administrator directs.

(6) Federal Income Taxes

By a letter dated February 13, 1996, the Internal Revenue Service has determined and informed the Company that the Plan qualifies under the applicable provisions of the Internal Revenue Code and is therefore exempt from federal income taxes.

(7) Subsequent Event

Plan participants include salaried employees of Thomasville Furniture Industries, Inc. On December 29, 1995, Armstrong World Industries, Inc., sold Thomasville Furniture to INTERCO Incorporated. The agreement of sale requires INTERCO to establish a savings plan for Thomasville employees comparable to those it maintains for its other employees. The anticipated start-up date of the successor plan is April 1, 1996. The salaried Thomasville participants of the Plan have been allowed to make contributions to the Plan through March 31, 1996, at which time they will be given the option to transfer their account balances to the INTERCO plan.

Independent Auditors' Report

The Retirement Committee
Armstrong World Industries, Inc.:

We have audited the accompanying statements of net assets of the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc. as of September 30, 1995 and 1994 and the changes in its plan equity for each of the years in the three- year period ended September 30, 1995, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The fund information in the statements of net assets and the statements of changes in plan equity is presented for purposes of additional analysis rather than to present the net assets and changes in plan equity of each fund. The fund information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
February 26, 1996

EXHIBIT INDEX

24 Consent of Independent Auditors

Consent of Independent Auditors

The Retirement Committee
Armstrong World Industries, Inc.:

We consent to incorporation by reference in the Registration Statement No. 33- 18996 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 26, 1996, relating to the statements of net assets of the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995, which report is included herein.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania

March 21, 1996

FORM 11-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended September 30, 1995

OR

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

For the transition period from _____ to _____

Commission file number 1-2116

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

(Full title of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.

Liberty and Charlotte Streets
Lancaster, Pennsylvania 17604

(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Item 1. Statements of Net Assets 4

September 30, 1995 and 1994

Item 2. Statements of Changes in Plan Equity 5-7

- (a) Year ended September 30, 1995
- (b) Year ended September 30, 1994
- (c) Year ended September 30, 1993

Notes to Financial Statements 8-11

Item 3. Independent Auditors' Report 12

Exhibits

- 24. Consent of Independent Auditors

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the committee constituting the administrator which administers the plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID
EMPLOYEES OF ARMSTRONG WORLD INDUSTRIES, INC.**

March 25, 1996

By: /s/ E. Allen Deaver

*E. Allen Deaver
Chairman of the Retirement Committee*

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Statements of Net Assets
September 30, 1995 and 1994

1995

	Commingled Equity Fund -----	Specialized Equity Fund -----	Money Market Fund -----	Fixed Income Fund -----	Armstrong Stock Fund -----	
Assets:						
Investments in master trust at fair value (note 3)	\$5,767,464 -----	\$11,315,817 -----	\$540,741 -----	\$52,340,946 -----	\$10,507,047 -----	
Total assets	\$5,767,464 -----	\$11,315,817 -----	\$540,741 -----	\$52,340,946 -----	\$10,507,047 -----	
Plan equity	\$5,767,464 =====	\$11,315,817 =====	\$540,741 =====	\$52,340,946 =====	\$10,507,047 =====	
	"OTC" Portfolio Fd. -----	Asset Manager Fund -----	Asset Mgr. Income Fund -----	Asset Mgr. Growth Fund -----	Loan Portfolio Fund -----	Total -----
Assets:						
Investments in master trust at fair value (note 3)	\$657,654 -----	\$850,760 -----	\$103,847 -----	\$733,731 -----	\$2,381,480 -----	\$85,199,487 -----
Total assets	\$657,654 -----	\$850,760 -----	\$103,847 -----	\$733,731 -----	\$2,381,480 -----	\$85,199,487 -----
Plan equity	\$657,654 =====	\$850,760 =====	\$103,847 =====	\$733,731 =====	\$2,381,480 =====	\$85,199,487 =====

1994

	Commingled Equity Fund -----	Specialized Equity Fund -----	Money Market Fund -----	Fixed Income Fund -----	Armstrong Stock Fund -----	
Assets:						
Investments in master trust at fair value (note 3)	\$4,339,507 -----	\$8,048,324 -----	\$388,854 -----	\$46,899,355 -----	\$7,897,890 -----	
Total assets	\$4,339,507 -----	\$8,048,324 -----	\$388,854 -----	\$46,899,355 -----	\$7,897,890 -----	
Plan equity	\$4,339,507 =====	\$8,048,324 =====	\$388,854 =====	\$46,899,355 =====	\$7,897,890 =====	
	"OTC" Portfolio Fd. -----	Asset Manager Fund -----	Asset Mgr. Income Fund -----	Asset Mgr. Growth Fund -----	Loan Portfolio Fund -----	Total -----
Assets:						
Investments in master trust at fair value (note 3)	\$451,130 -----	\$665,191 -----	\$79,890 -----	\$813,150 -----	\$1,899,989 -----	\$71,483,280 -----
Total assets	\$451,130 -----	\$665,191 -----	\$79,890 -----	\$813,150 -----	\$1,899,989 -----	\$71,483,280 -----
Plan equity	\$451,130 =====	\$665,191 =====	\$79,890 =====	\$813,150 =====	\$1,899,989 =====	\$71,483,280 =====

See accompanying notes to financial statements.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**
Statements of Changes in Plan Equity

Years Ended September 30, 1995, 1994, and 1993

1995

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	
Plan equity at October 1, 1994	\$4,339,507	\$8,048,324	\$388,854	\$46,899,355	\$7,897,890	
Increases in plan equity:						
Contributions	397,587	1,247,900	127,916	4,594,075	672,227	
Dividends	129,522	40,507	31,863	--	253,220	
Interest	8,584	21,711	2,991	3,359,315	22,584	
Realized gain (loss) on investments (note 3)	106,949	301,571	--	--	215,259	
Unrealized appreciation of investments	1,056,790	2,752,180	--	--	2,087,260	
Loan activity, net	(70,980)	(114,131)	(16,042)	(296,146)	(1,984)	
	1,628,452	4,249,738	146,728	7,657,244	3,248,566	
Decreases in plan equity:						
Benefits paid (note 4)	(231,803)	(365,203)	(25,866)	(3,342,132)	(302,964)	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(9,970)	(34,962)	(1,150)	(43,507)	(6,126)	
Interfund transfers, net	41,278	(582,080)	32,175	1,169,986	(330,319)	
	(200,495)	(982,245)	5,159	(2,215,653)	(639,409)	
Plan equity at September 30, 1995	\$5,767,464	\$11,315,817	\$540,741	\$52,340,946	\$10,507,047	
	=====	=====	=====	=====	=====	
	"OTC" Portfolio Fd.	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
Plan equity at October 1, 1994	\$451,130	\$665,191	\$ 79,890	\$ 813,150	\$1,899,989	\$71,483,280
Increases in plan equity:						
Contributions	95,414	119,337	20,887	150,368	--	7,425,711
Dividends	16,793	25,002	3,593	22,899	--	523,399
Interest	2,443	3,230	701	2,771	--	3,424,330
Realized gain (loss) on investments (note 3)	31,229	(6,672)	(215)	(17,965)	--	630,156
Unrealized appreciation of investments	132,867	52,303	6,409	62,284	--	6,150,093
Loan activity, net	2,818	(7,583)	(5)	3,381	500,672	--
	281,564	185,617	31,370	223,738	500,672	18,153,689
Decreases in plan equity:						
Benefits paid (note 4)	(7,317)	(20,156)	--	(23,665)	--	(4,319,106)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(3,480)	--	--	--	(19,181)	(118,376)
Interfund transfers, net	(64,243)	20,108	(7,413)	(279,492)	--	--
	(75,040)	(48)	(7,413)	(303,157)	(19,181)	(4,437,482)
Plan equity at September 30, 1995	\$657,654	\$850,760	\$103,847	\$733,731	\$2,381,480	\$85,199,487
	=====	=====	=====	=====	=====	=====

See accompanying notes to financial statements.

(Continued)

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.
Statements of Changes in Plan Equity, Continued**

1994

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	
	-----	-----	-----	-----	-----	
Plan equity at October 1, 1993	\$4,608,160	\$6,627,445	\$346,871	\$43,948,437	\$ 7,788,330	
	-----	-----	-----	-----	-----	
Increases in plan equity:						
Contributions	383,985	1,144,906	99,580	4,053,152	675,730	
Dividends	165,531	706,720	16,055	--	222,608	
Interest	7,280	18,246	3,130	3,314,709	15,090	
Realized gain(loss) on investments (note 3)	179,572	41,311	--	--	438,241	
Loan activity, net	(60,846)	(77,982)	(11,591)	(124,939)	(62,210)	
	-----	-----	-----	-----	-----	
	675,522	1,833,201	107,174	7,242,922	1,289,459	
	-----	-----	-----	-----	-----	
Decreases in plan equity:						
Unrealized depreciation of investments	(194,915)	(851,126)	--	--	(90,070)	
Benefits paid (note 4)	(361,954)	(206,174)	(23,618)	(3,156,290)	(294,971)	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(7,221)	(6,518)	(21)	11,772	(25,274)	
Interfund transfers, net	(380,085)	651,496	(41,552)	(1,147,486)	(769,584)	
	-----	-----	-----	-----	-----	
	(944,175)	(412,322)	(65,191)	(4,292,004)	(1,179,899)	
	-----	-----	-----	-----	-----	
Plan equity at September 30, 1994	\$4,339,507	\$8,048,324	\$388,854	\$46,899,355	\$ 7,897,890	
	=====	=====	=====	=====	=====	
	"OTC" Portfolio Fd.	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
	-----	-----	-----	-----	-----	-----
Plan equity at October 1, 1993	\$134,271	\$ 190	\$ --	\$ 97	\$1,539,245	\$64,993,046
	-----	-----	-----	-----	-----	-----
Increases in plan equity:						
Contributions	87,560	73,860	13,085	104,853	--	6,636,711
Dividends	11,999	32,291	3,137	14,234	--	1,172,575
Interest	1,412	1,530	363	1,727	--	3,363,487
Realized gain(loss) on investments (note 3)	(3,025)	(5,237)	(593)	(4,889)	--	645,380
Loan activity, net	(4,979)	(26,984)	(13,265)	(8,847)	391,643	--
	-----	-----	-----	-----	-----	-----
	92,967	75,460	2,727	107,078	391,643	11,818,153
	-----	-----	-----	-----	-----	-----
Decreases in plan equity:						
Unrealized depreciation of investments	(11,375)	(30,988)	(2,941)	(16,454)	--	(1,197,869)
Benefits paid (note 4)	(1,171)	(4,777)	--	(22,934)	--	(4,071,889)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	--	--	--	(30,899)	(58,161)
Interfund transfers, net	236,438	625,306	80,104	745,363	--	--
	-----	-----	-----	-----	-----	-----
	223,892	589,541	77,163	705,975	(30,899)	(5,327,919)
	-----	-----	-----	-----	-----	-----
Plan equity at September 30, 1994	\$451,130	\$665,191	\$ 79,890	\$813,150	\$1,899,989	\$71,483,280
	=====	=====	=====	=====	=====	=====

See accompanying notes to financial statements.

(Continued)

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.
Statements of Changes in Plan Equity, Continued**

1993

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund
	-----	-----	-----	-----	-----
Plan equity at October 1, 1992	\$4,386,260	\$4,477,432	\$294,327	\$39,221,724	\$5,092,760
	-----	-----	-----	-----	-----
Increases in plan equity:					
Contributions	432,882	796,749	81,475	4,030,031	702,836
Dividends	142,358	617,693	10,820	--	214,445
Interest	7,356	11,427	3,128	3,318,955	13,284
Realized gain(loss) on investments (note 3)	158,379	48,725	--	--	(1,959)
Unrealized appreciation (depreciation) of investments	224,275	814,731	--	--	2,214,920
Loan activity, net	(79,125)	(92,389)	(16,984)	(236,907)	(22,946)
	-----	-----	-----	-----	-----
	886,125	2,196,936	78,439	7,112,079	3,120,580
	-----	-----	-----	-----	-----
Decreases in plan equity:					
Benefits paid (note 4)	(308,376)	(107,764)	(40,716)	(2,749,830)	(216,767)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(1,181)	(3,817)	--	(13,784)	(10,008)
Interfund transfers, net	(354,668)	64,658	14,821	378,248	(198,235)
	-----	-----	-----	-----	-----
	(664,225)	(46,923)	(25,895)	(2,385,366)	(425,010)
	-----	-----	-----	-----	-----
Plan equity at September 30, 1993	\$4,608,160	\$6,627,445	\$346,871	\$43,948,437	\$7,788,330
	=====	=====	=====	=====	=====
	"OTC" Portfolio Fd.	Asset Manager Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
	-----	-----	-----	-----	-----
Plan equity at October 1, 1992	\$ --	\$ --	\$ --	\$1,103,257	\$54,575,760
	-----	-----	-----	-----	-----
Increases in plan equity:					
Contributions	29,497	190	97	--	6,073,757
Dividends	9,814	--	--	--	995,130
Interest	374	--	--	--	3,354,524
Realized gain(loss) on investments (note 3)	(310)	--	--	--	204,835
Unrealized appreciation (depreciation) of investments	(1,656)	--	--	--	3,252,270
Loan activity, net	1,707	--	--	446,644	--
	-----	-----	-----	-----	-----
	39,426	190	97	446,644	13,880,516
	-----	-----	-----	-----	-----
Decreases in plan equity:					
Benefits paid (note 4)	(331)	--	--	--	(3,423,784)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	--	--	(10,656)	(39,446)
Interfund transfers, net	95,176	--	--	--	--
	-----	-----	-----	-----	-----
	94,845	--	--	(10,656)	(3,463,230)
	-----	-----	-----	-----	-----

Plan equity at September 30, 1993	\$134,271 =====	\$190 =====	\$97 =====	\$1,539,245 =====	\$64,993,046 =====
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See accompanying notes to financial statements.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis.

(b) Investments in Master Trust

The fair value of the commingled equity, specialized equity, over-the-counter portfolio, and Asset Manager funds is based on the underlying market value of the investments. The money market fund is stated at cost which approximates fair value. The fixed income fund is stated at the value of the underlying investment contracts which represents contributions plus interest at the contract rate, less benefits paid. The value of the Armstrong stock fund is based on quoted market price. The value of the loan portfolio fund represents the unpaid principal of employee loans.

Securities transactions are recognized on the settlement date (the date on which payment for a buy or sell order is made or received), since adjustment to a trade-date basis would not be material. Dividend income is recorded on the ex-dividend date.

Realized gains and losses on investments are determined by the average cost method.

(c) Expenses

All legal, accounting and administrative expenses associated with Plan operations are paid by the Company.

(2) Plan Description

Armstrong World Industries, Inc. (the Company) has adopted the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. (the Plan). The Plan is a defined contribution plan established for the purpose of providing to eligible hourly-paid employees a means for long-term savings intended for the accumulation of retirement income in addition to that provided under other retirement plans maintained for the benefit of employees.

During the Plan year ended September 30, 1993, four investment options were added to the Plan. Effective January 1, 1993, an over-the-counter portfolio mutual fund was made available for participant investment and, effective September 1, 1993, three Asset Manager mutual funds became investment options.

Participants may elect to make contributions to the Plan in each of the following methods:

1. Up to 15% of their before-tax compensation, as deferred compensation as permitted under Section 401(k) of the Internal Revenue Code.
2. Up to 10% of their after-tax compensation.

Separate accounts are maintained for contributions made by or on behalf of a participant. The accounts in each fund reflect the participants' contributions together with dividends, interest, other income, and realized and unrealized gains and losses allocated thereon.

Participants have an immediate 100 percent vested interest with respect to their contributions and are fully vested with regard to any previously made matching company contributions.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

(3) Investments in Master Trust

Assets are held in a Master Trust administered by Fidelity Management Trust Co., as Trustee, and are segregated into nine investment options: a commingled equity mutual fund (Fidelity U.S. Equity Index Portfolio), a specialized equity mutual fund (Fidelity Magellan), a money market mutual fund (Fidelity Return Money Market Portfolio), three Asset Manager mutual funds, an over-the-counter mutual fund (OTC Portfolio Fund), a fixed income fund, and an Armstrong stock fund. The Plan utilizes the Trustee and associated investment managers to direct investment activity. The Plan participates in all nine investment alternatives.

The following is a description of the investment funds to which Plan participants can elect to allocate their contributions.

1. Commingled Equity Fund - This fund is principally a portfolio of common stocks constructed and maintained with the objective of providing investment results which approximate the overall performance of the common stocks included in the Standard & Poor's Composite Index of 500 stocks. At September 30, 1995, there were 462 active participants in this investment fund.
2. Specialized Equity Fund - This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers. At September 30, 1995, there were 874 active participants in this investment fund.
3. Money Market Fund - This fund invests in short-term (less than one year maturity) fixed income instruments such as U.S. Treasury Bills, bank certificates of deposit, and high grade commercial paper. At September 30, 1995, there were 145 active participants in this investment fund.
4. Fixed Income Fund - Contributions to this fund are invested in the general accounts of insurance companies and are credited at contracted interest rates. At September 30, 1995, the interest rates ranged between 5.69% and 9.00%. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. At September 30, 1995, there were 2,612 active participants in this investment fund.
5. Armstrong Stock Fund - Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong common stock. At September 30, 1995, there were 1,686 active participants in this investment fund. Common stock shares held by the fund at September 30, 1995 and 1994 were 189,316 and 182,060, respectively.
6. OTC Portfolio Fund - This fund invests in securities traded in the over-the-counter securities market with the objective of maximizing capital appreciation. Over-the-counter securities include common and preferred stocks, securities convertible into common stock, warrants, and debt instruments. At September 30, 1995, there were 109 active participants in this investment fund.
7. Asset Manager Fund - An asset allocation fund which invests in a portfolio of stocks, bonds, and short-term instruments. The fund has a balanced investment strategy with a goal of high total return with reduced risk over the long term. At September 30, 1995, there were 96 active participants in this investment fund.
8. Asset Manager Income Fund - An asset allocation fund which invests in a diversified portfolio of stocks, bonds, and short-term instruments. The fund has a conservative investment strategy focusing on bonds and short-term instruments to achieve a high level of current income and capital preservation. At September 30, 1995, there were 19 active participants in this investment fund.
9. Asset Manager Growth Fund - An asset allocation fund invested in a diversified mix of stocks, bonds, and short-term instruments. The fund's investment strategy is an aggressive one emphasizing stocks with the goal of maximum total return over the long term. At September 30, 1995, there were 122 active participants in this investment fund.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

10. Loan Portfolio Fund - The amount in this fund represents the unpaid principal balances of loans made by Plan participants in accordance with established loan provision guidelines. At September 30, 1995, there were 628 loans outstanding.

The following table presents the cost and fair values of the investments in securities of the Master Trust at September 30, 1995 and 1994:

Investment	September 30, 1995		September 30, 1994	
	Cost	Fair Value	Cost	Fair Value
Commingled equity	\$ 3,842,761	\$ 5,767,464	\$ 3,471,594	\$ 4,339,507
Specialized equity	8,136,472	11,315,817	7,621,159	8,048,324
Money market	540,741	540,741	388,854	388,854
Fixed income	52,340,946	52,340,946	46,899,355	46,899,355
Armstrong stock	6,940,090	10,507,047	6,418,193	7,897,890
OTC portfolio	537,818	657,654	464,161	451,130
Asset manager	829,445	850,760	696,179	665,191
Asset manager income	100,379	103,847	82,831	79,890
Asset manager growth	687,901	733,731	829,604	813,150
Loan portfolio	2,381,480	2,381,480	1,899,989	1,899,989
	=====	=====	=====	=====
	\$76,338,033	\$85,199,487	\$68,771,919	\$71,483,280

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 1995, 1994, and 1993 are presented below:

1995	Aggregate	Aggregate	Realized
	Proceeds	Cost	Gain (Loss)
Commingled equity	\$ 472,019	\$ 365,070	\$106,949
Specialized equity	5,448,317	5,146,746	301,571
Armstrong stock	826,591	611,332	215,259
OTC portfolio	246,546	215,317	31,229
Asset manager	176,640	183,312	(6,672)
Asset manager income	24,947	25,162	(215)
Asset manager growth	391,525	409,490	(17,965)
	=====	=====	=====
	\$7,586,585	\$6,956,429	\$630,156
	=====	=====	=====
1994			
Commingled equity	\$ 878,672	\$ 699,100	\$179,572
Specialized equity	2,458,673	2,417,362	41,311
Armstrong stock	1,401,041	962,800	438,241
OTC portfolio	44,812	47,837	(3,025)
Asset manager	89,701	94,938	(5,237)
Asset manager income	15,000	15,593	(593)
Asset manager growth	142,652	147,541	(4,889)
	=====	=====	=====
	\$5,030,551	\$4,385,171	\$645,380
	=====	=====	=====

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

1993 ----	Aggregate ----- Proceeds	Aggregate ----- Cost	Realized ----- Gain (Loss)
Commingled equity	\$813,795	\$655,416	\$158,379
Specialized equity	2,026,637	1,977,912	48,725
Armstrong stock	577,975	579,934	(1,959)
OTC portfolio	74,147	74,457	(310)
	-----	-----	-----
	\$3,492,554	\$3,287,719	\$204,835
	=====	=====	=====

(4) Benefits

Under terms of the Plan, a participant (or a beneficiary) is eligible for benefits upon retirement, termination of employment, or death before retirement. Disbursement of the total amount credited to a participant's account is payable (i) in a lump sum or (ii) in the case of retirement, in such other manner as requested by the participant and approved by the Plan Administrator. In addition, a participant may elect to withdraw all or any part of his account attributable to his contributions.

If the amount of a withdrawal exceeds the amount of contributions made by the participant and not previously withdrawn, the participant shall be ineligible to make contributions for a specified period, except that a participant may elect to withdraw all or any portion of his account attributable to tax deductible contributions.

Under the rules of the Plan, the participant may borrow up to 90 percent of his account, other than amounts attributable to tax deductible contributions or amounts invested in the Armstrong Stock Fund, with the approval of the Plan Administrator. The amount of the loan is transferred to a Loan Reserve pledged as security for the loan and is evidenced by a promissory note payable to the Plan. Interest rates are determined periodically by the Retirement Savings Plan Committee in accordance with prevailing interest rates. The loans are reflected in the Loan Portfolio investment fund. Loan repayments are made by payroll deductions or in a manner agreed to by the employee and the Plan Administrator.

(5) Obligation for Benefits

All the funds of the Plan are held by investing institutions appointed by the Company under a trust agreement or investment contract. Benefits under the Plan are payable only out of these funds. The Company has no legal obligation to make any direct payment of benefits accrued under the Plan.

Except as may be provided in an investment contract, neither the Company nor any investing institution guarantees the funds of the Plan against any loss or depreciation or guarantees the payment of any benefit hereunder. Although the Company has not expressed any intent to terminate the Plan, it may do so at any time. In case of termination or partial termination, the total amount in each employee's account will be distributed as the Plan Administrator directs.

(6) Federal Income Taxes

By a letter dated February 13, 1996, the Internal Revenue Service has determined and informed the Company that the Plan qualifies under the applicable provisions of the Internal Revenue Code and is therefore exempt from federal income taxes.

Independent Auditors' Report

The Retirement Committee
Armstrong World Industries, Inc.:

We have audited the accompanying statements of net assets of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. as of September 30, 1995 and 1994 and the changes in its plan equity for each of the years in the three-year period ended September 30, 1995, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The fund information in the statements of net assets and the statements of changes in plan equity is presented for purposes of additional analysis rather than to present the net assets and changes in plan equity of each fund. The fund information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
February 26, 1996

EXHIBIT INDEX

24 Consent of Independent Auditors

Consent of Independent Auditors

The Retirement Committee
Armstrong World Industries, Inc.:

We consent to incorporation by reference in the Registration Statement No. 33- 18997 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 26, 1996, relating to the statements of net assets of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995, which report is included herein.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania

March 21, 1996

FORM 11-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended September 30, 1995

OR

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

For the transition period from _____ to _____

Commission file number 1-2116

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE, INC.**

401 East Main Street
Thomasville, N.C. 27360
(Full title and address of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.

Liberty and Charlotte Streets
Lancaster, Pennsylvania 17604

(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Item 1. Statements of Net Assets 4

September 30, 1995 and 1994

Item 2. Statements of Changes in Plan Equity 5-7

- (a) Year ended September 30, 1995
- (b) Year ended September 30, 1994
- (c) Year ended September 30, 1993

Notes to Financial Statements 8-11

Item 3. Independent Auditors' Report 12

Exhibits

- 24. Consent of Independent Auditors

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the committee constituting the administrator which administers the plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID
EMPLOYEES OF THOMASVILLE FURNITURE
INDUSTRIES, INC.**

March 24, 1996

By: /s/ Richard O. Millen

*Richard O. Millen
Chairman of Thomasville Hourly-Paid
Retirement Committee*

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.**

Statements of Net Assets
September 30, 1995 and 1994

	1995					
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.
	-----	-----	-----	----	-----	-----
Assets:						
Investments in master trust at fair value (note 3)	\$453,689	\$2,075,704	\$27,124	\$7,557,768	\$1,013,874	\$67,955
	-----	-----	-----	-----	-----	-----
Total assets	\$453,689	\$2,075,704	\$27,124	\$7,557,768	\$1,013,874	\$67,955
	-----	-----	-----	-----	-----	-----
Plan equity	\$453,689	\$2,075,704	\$27,124	\$7,557,768	\$1,013,874	\$67,955
	=====	=====	=====	=====	=====	=====
	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total	
	-----	-----	-----	-----	----	
Assets:						
Investments in master trust at fair value (note 3)	\$86,146	\$14,358	\$11,798	\$243,422	\$11,551,838	
	-----	-----	-----	-----	-----	
Total assets	\$86,146	\$14,358	\$11,798	\$243,422	\$11,551,838	
	-----	-----	-----	-----	-----	
Plan equity	\$86,146	\$14,358	\$11,798	\$243,422	\$11,551,838	
	=====	=====	=====	=====	=====	
	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total	
	-----	-----	-----	-----	----	
Assets:						
Investments in master trust at fair value (note 3)	\$93,661	\$1,519	\$7,882	\$203,387	\$9,858,893	
	-----	-----	-----	-----	-----	
Total assets	\$93,661	\$1,519	\$7,882	\$203,387	\$9,858,893	
	-----	-----	-----	-----	-----	
Plan equity	\$93,661	\$1,519	\$7,882	\$203,387	\$9,858,893	
	=====	=====	=====	=====	=====	

1994

See accompanying notes to financial statements.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.**

Statements of Changes in Plan Equity

Years Ended September 30, 1995, 1994, and 1993

	1995					
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.
Plan equity at October 1, 1994	\$ 465,846	\$1,787,904	\$ 20,577	\$6,383,024	\$ 850,417	\$44,676
Increases in plan equity:						
Contributions	14,008	47,878	36,187	455,723	38,778	1,324
Dividends	11,899	7,342	1,574	--	25,977	1,705
Interest	356	3,429	371	473,708	751	80
Realized gain (loss) on investments (note 3)	15,736	47,268	--	--	33,786	117
Unrealized appreciation of investments	87,155	516,048	--	--	193,747	16,142
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	16,454	26,403	--	393	(9,856)	3,885
Loan activity, net	(726)	(21,620)	(31,585)	4,459	(10,532)	525
	144,882	626,748	6,547	934,283	272,651	23,778
Decreases in plan equity:						
Benefits paid (note 4)	(46,152)	(78,504)	--	(209,920)	(41,702)	(499)
Interfund transfers, net	(110,887)	(260,444)	--	450,381	(67,492)	--
	(157,039)	(338,948)	--	240,461	(109,194)	(499)
Plan equity at September 30, 1995	\$ 453,689	\$2,075,704	\$ 27,124	\$7,557,768	\$1,013,874	\$67,955
	=====	=====	=====	=====	=====	=====
	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total	
Plan equity at October 1, 1994	\$ 93,661	\$ 1,519	\$ 7,882	\$203,387	\$ 9,858,893	
Increases in plan equity:						
Contributions	3,201	1,606	3,441	--	602,146	
Dividends	3,379	271	220	--	52,367	
Interest	25	266	8	--	478,994	
Realized gain (loss) on investments (note 3)	(868)	110	59	--	96,208	
Unrealized appreciation of investments	6,982	749	886	--	821,709	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(1,301)	--	--	(15,860)	20,118	
Loan activity, net	(2,366)	5,905	45	55,895	--	
	9,052	8,907	4,659	40,035	2,071,542	
Decreases in plan equity:						
Benefits paid (note 4)	(1,077)	--	(743)	--	(378,597)	
Interfund transfers, net	(15,490)	3,932	--	--	--	
	(16,567)	3,932	(743)	--	(378,597)	
Plan equity at September 30, 1995	\$ 86,146	\$14,358	\$11,798	\$243,422	\$11,551,838	
	=====	=====	=====	=====	=====	

See accompanying notes to financial statements.

(Continued)

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.
Statements of Changes in Plan Equity, Continued**

1994

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.
Plan equity at October 1, 1993	\$499,160	\$1,803,185	\$13,805	\$5,900,380	\$828,332	\$53,964
Increases in plan equity:						
Contributions	5,788	38,612	3,846	348,617	47,582	748
Dividends	18,382	191,388	542	--	24,484	2,542
Interest	912	2,843	55	433,604	534	--
Realized gain (loss) on investments (note 3)	5,887	7,013	--	--	22,284	186
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	2,576	(27,694)	2,624	(5,428)	786	--
Loan activity, net	(9,243)	(2,792)	154	(26,429)	1,520	--
	24,302	209,370	7,221	750,364	97,190	3,476
Decreases in plan equity:						
Unrealized appreciation (depreciation) of investments	(5,171)	(224,772)	--	--	11,076	(2,286)
Benefits paid (note 4)	(45,422)	(61,339)	--	(148,260)	(60,160)	--
Interfund transfers, net	(7,023)	61,460	(449)	(119,460)	(26,021)	(10,478)
	(57,616)	(224,651)	(449)	(267,720)	(75,105)	(12,764)
Plan equity at September 30, 1994	\$465,846	\$1,787,904	\$20,577	\$6,383,024	\$850,417	\$ 44,676
	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total	
Plan equity at October 1, 1993	\$ 313	\$ --	\$ --	\$178,401	\$9,277,540	
Increases in plan equity:						
Contributions	833	554	2,976	--	449,556	
Dividends	2,146	106	194	--	239,784	
Interest	9	366	--	--	438,323	
Realized gain (loss) on investments (note 3)	(696)	(513)	(274)	--	33,887	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	--	--	(10,429)	(37,565)	
Loan activity, net	298	1,077	--	35,415	--	
	2,590	1,590	2,896	24,986	1,123,985	
Decreases in plan equity:						
Unrealized appreciation (depreciation) of investments	(6,216)	(9)	(73)	--	(227,451)	
Benefits paid (note 4)	--	--	--	--	(315,181)	
Interfund transfers, net	96,974	(62)	5,059	--	--	
	90,758	(71)	4,986	--	(542,632)	
Plan equity at September 30, 1994	\$93,661	\$1,519	\$7,882	\$203,387	\$9,858,893	

See accompanying notes to financial statements.

(Continued)

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.**

Statements of Changes in Plan Equity, Continued

1993

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.
Plan equity at October 1, 1992	\$ 12,302	\$ 52,039	\$ 7,626	\$1,565,638	\$582,701	\$ --
Increases in plan equity:						
Contributions	8,195	24,213	5,157	331,489	48,934	372
Dividends	16,872	141,129	286	--	23,698	4,081
Interest	938	2,958	34	423,048	595	6
Realized gain (loss) on investments (note 3)	7,012	2,555	--	--	(5,799)	782
Unrealized appreciation (depreciation) of investments	26,902	236,224	--	--	241,799	(594)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	490,254	1,208,043	7,584	3,971,275	9,155	--
Loan activity, net	(32,520)	(68,478)	(2,493)	11,809	(1,013)	90
	517,653	1,546,644	10,568	4,737,621	317,369	4,737
Decreases in plan equity:						
Benefits paid (note 4)	(2,093)	(3,363)	(3,225)	(179,542)	(67,091)	(483)
Interfund transfers, net	(28,702)	207,865	(1,164)	(223,337)	(4,647)	49,710
	30,795	204,502	(4,389)	(402,879)	(71,738)	49,227
Plan equity at September 30, 1993	\$499,160	\$1,803,185	\$13,805	\$5,900,380	\$828,332	\$53,964

	Asset Manager Fund	Loan Portfolio Fund	Total
Plan equity at October 1, 1992	\$ --	\$ 98,931	\$2,319,237
Increases in plan equity:			
Contributions	12	--	418,372
Dividends	--	--	186,066
Interest	1	--	427,580
Realized gain (loss) on investments (note 3)	--	--	4,550
Unrealized appreciation (depreciation) of investments	5	--	504,336
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	(13,115)	5,673,196
Loan activity, net	20	92,585	--
	38	79,470	7,214,100
Decreases in plan equity:			
Benefits paid (note 4)	--	--	(255,797)
Interfund transfers, net	275	--	--
	275	--	(255,797)
Plan equity at September 30, 1993	\$313	\$178,401	\$9,277,540

See accompanying notes to financial statements.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.**

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis.

(b) Investments in Master Trust

The fair value of the commingled equity, specialized equity, over-the-counter portfolio, and Asset Manager funds is based on the underlying market value of the investments. The money market fund is stated at cost which approximates fair value. The fixed income fund is stated at the value of the underlying investment contracts which represents contributions plus interest at the contract rate, less benefits paid. The value of the Armstrong stock fund is based on quoted market price. The value of the loan portfolio fund represents the unpaid principal of employee loans.

Securities transactions are recognized on the settlement date (the date on which payment for a buy or sell order is made or received), since adjustment to a trade-date basis would not be material. Dividend income is recorded on the ex-dividend date.

Realized gains and losses on investments are determined by the average cost method.

(c) Expenses

All legal, accounting and administrative expenses associated with Plan operations are paid by the Company.

(2) Plan Description

Thomasville Furniture Industries, Inc. (the Company), a wholly-owned subsidiary of Armstrong World Industries, Inc., adopted on February 1, 1988, the Retirement Savings Plan for Hourly-Paid Employees of Thomasville Furniture Industries, Inc. (the Plan). The Plan is a defined contribution plan established for the purpose of providing to eligible hourly-paid employees a means for long-term savings intended for the accumulation of retirement income in addition to that provided under other retirement plans maintained for the benefit of employees.

The Company's Board of Directors amended the Plan, effective October 1, 1992, to permit former participants of the Capital Accumulation Plan for Commissioned Sales Representatives of Thomasville Furniture Industries, Inc. (the CAP Plan) to make a rollover contribution into the Plan of their CAP Plan account balances. During the Plan year ended September 30, 1993, rollover contributions made to the Plan totaled \$5.9 million. The CAP Plan participants are fully vested with regard to their rollover amounts, but are ineligible to make further contributions to the Plan. CAP Plan participants are treated as members of the Plan with regard to provisions addressing investment, distribution, withdrawal, and loan eligibility.

During the Plan year ended September 30, 1993, four investment options were added to the Plan. Effective January 1, 1993, an over-the-counter portfolio mutual fund was made available for participant investment and, effective September 1, 1993, three Asset Manager mutual funds became investment options.

Participants may elect to make contributions to the Plan, up to 15 percent of their before-tax compensation, as deferred compensation as permitted under Section 401(k) of the Internal Revenue Code.

Separate accounts are maintained for contributions made by or on behalf of a participant. The accounts in each fund reflect the participants' contributions together with dividends, interest, other income, and realized and unrealized gains and losses allocated thereon.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

Participants have an immediate 100 percent vested interest with respect to their contributions and are fully vested with regard to any previously made matching company contributions.

(3) Investments in Master Trust

Assets are held in a Master Trust administered by Fidelity Management Trust Co., as Trustee, and are segregated into nine investment options: a commingled equity mutual fund (Fidelity U.S. Equity Index Portfolio), a specialized equity mutual fund (Fidelity Magellan), a money market mutual fund (Fidelity Return Money Market Portfolio), three Asset Manager mutual funds, an over-the-counter mutual fund (OTC Portfolio Fund), a fixed income fund, and an Armstrong stock fund. The Plan utilizes the Trustee and associated investment managers to direct investment activity. The Plan participates in all nine investment alternatives.

The following is a description of the investment funds to which Plan participants can elect to allocate their contributions.

1. Commingled Equity Fund - This fund is principally a portfolio of common stocks constructed and maintained with the objective of providing investment results which approximate the overall performance of the common stocks included in the Standard & Poor's Composite Index of 500 stocks. At September 30, 1995, there were 33 active participants in this investment fund.
2. Specialized Equity Fund - This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers. At September 30, 1995, there were 82 active participants in this investment fund.
3. Money Market Fund - This fund invests in short-term (less than one year maturity) fixed income instruments such as U.S. Treasury Bills, bank certificates of deposit, and high grade commercial paper. At September 30, 1995, there were 15 active participants in this investment fund.
4. Fixed Income Fund - Contributions to this fund are invested in the general accounts of insurance companies and are credited at contracted interest rates. At September 30, 1995, the interest rates ranged between 5.69% and 9.00%. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. At September 30, 1995, there were 574 active participants in this investment fund.
5. Armstrong Stock Fund - Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong common stock. At September 30, 1995, there were 441 active participants in this investment fund. Common stock shares held by the fund at September 30, 1995 and 1994 were 18,268 and 19,606, respectively.
6. OTC Portfolio Fund - This fund invests in securities traded in the over-the-counter securities market with the objective of maximizing capital appreciation. Over-the-counter securities include common and preferred stocks, securities convertible into common stock, warrants, and debt instruments. At September 30, 1995, there were 4 active participants in this investment fund.
7. Asset Manager Fund - An asset allocation fund which invests in a portfolio of stocks, bonds, and short-term instruments. The fund has a balanced investment strategy with a goal of high total return with reduced risk over the long term. At September 30, 1995, there were 5 active participants in this investment fund.
8. Asset Manager Income Fund - An asset allocation fund which invests in a diversified portfolio of stocks, bonds, and short-term instruments. The fund has a conservative investment strategy focusing on bonds and short-term instruments to achieve a high level of current income and capital preservation. At September 30, 1995, there were 3 active participants in this investment fund.

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

9. Asset Manager Growth Fund - An asset allocation fund invested in a diversified mix of stocks, bonds, and short-term instruments. The fund's investment strategy is an aggressive one emphasizing stocks with the goal of maximum total return over the long term. At September 30, 1995, there were 3 active participants in this investment fund.

10. Loan Portfolio Fund - The amount in this fund represents the unpaid principal balances of loans made by Plan participants in accordance with established loan provision guidelines. At September 30, 1995, there were 108 loans outstanding.

The following table presents the cost and fair values of the investments in securities of the Master Trust at September 30, 1995 and 1994:

Investment	September 30, 1995		September 30, 1994	
	Cost	Fair Value	Cost	Fair Value
Commingled equity	\$ 343,064	\$ 453,689	\$ 442,376	\$ 465,846
Specialized equity	1,546,928	2,075,704	1,775,176	1,787,904
Money market	27,124	27,124	20,577	20,577
Fixed income	7,557,768	7,557,768	6,383,024	6,383,024
Armstrong stock	668,404	1,013,874	698,694	850,417
OTC portfolio	54,693	67,955	47,556	44,676
Asset manager	85,375	86,146	99,872	93,661
Asset manager income	13,618	14,358	1,528	1,519
Asset manager growth	10,985	11,798	7,955	7,882
Loan portfolio	243,422	243,422	203,387	203,387
	-----	-----	-----	-----
	\$10,551,381	\$11,551,838	\$9,680,145	\$9,858,893
	=====	=====	=====	=====

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 1995, 1994, and 1993 are presented below:

	Aggregate	Aggregate	Realized
	Proceeds	Cost	Gain (Loss)
1995			

Commingled equity	\$160,033	\$144,297	\$15,736
Specialized equity	522,460	475,192	47,268
Armstrong stock	132,286	98,500	33,786
OTC portfolio	499	382	117
Asset manager	30,298	31,166	(868)
Asset manager income	4,000	3,890	110
Asset manager growth	743	684	59
	-----	-----	-----
	\$850,319	\$754,111	\$96,208
	=====	=====	=====
1994			

Commingled equity	\$ 64,647	\$ 58,760	\$ 5,887
Specialized equity	396,430	389,417	7,013
Armstrong stock	87,480	65,196	22,284
OTC portfolio	11,000	10,814	186
Asset manager	9,388	10,084	(696)
Asset manager income	14,762	15,275	(513)
Asset manager growth	4,726	5,000	(274)
	-----	-----	-----
	\$588,433	\$554,546	\$33,887
	=====	=====	=====

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF THOMASVILLE FURNITURE INDUSTRIES, INC.**

Notes to Financial Statements

1993 ----	Aggregate ----- Proceeds	Aggregate ----- Cost	Realized ----- Gain (Loss)
Commingled equity	\$220,464	\$213,452	\$ 7,012
Specialized equity	238,812	236,257	2,555
Armstrong stock	76,506	82,305	(5,799)
OTC portfolio	104,846	104,064	782
	-----	-----	-----
	\$640,628	\$636,078	\$ 4,550
	=====	=====	=====

(4) Benefits

Under terms of the Plan, a participant (or a beneficiary) is eligible for benefits upon retirement, termination of employment, or death before retirement. Disbursement of the total amount credited to a participant's account is payable (i) in a lump sum or (ii) in the case of retirement, in such other manner as requested by the participant and approved by the Plan Administrator.

If the amount of a withdrawal exceeds the amount of contributions made by the participant and not previously withdrawn, the participant shall be ineligible to make contributions for a specified period, except that a participant may elect to withdraw all or any portion of his account attributable to tax deductible contributions.

Under the rules of the Plan, the participant may borrow up to 90 percent of his account, other than amounts attributable to tax deductible contributions or amounts invested in the Armstrong Stock Fund, with the approval of the Plan Administrator. The amount of the loan is transferred to a Loan Reserve pledged as security for the loan and is evidenced by a promissory note payable to the Plan. Interest rates are determined periodically by the Retirement Savings Plan Committee in accordance with prevailing interest rates. The loans are reflected in the Loan Portfolio investment fund. Loan repayments are made by payroll deductions or in a manner agreed to by the employee and the Plan Administrator.

(5) Obligation for Benefits

All the funds of the Plan are held by investing institutions appointed by the Company under a trust agreement or investment contract. Benefits under the Plan are payable only out of these funds. The Company has no legal obligation to make any direct payment of benefits accrued under the Plan.

Except as may be provided in an investment contract, neither the Company nor any investing institution guarantees the funds of the Plan against any loss or depreciation or guarantees the payment of any benefit hereunder. Although the Company has not expressed any intent to terminate the Plan, it may do so at any time. In case of termination or partial termination, the total amount in each employee's account will be distributed as the Plan Administrator directs.

(6) Federal Income Taxes

The Internal Revenue Service issued its latest determination letter on April 13, 1990, which stated that the Plan qualifies under the applicable provisions of the Internal Revenue Code and therefore is exempt from federal income taxes. The Plan has been amended since receiving the determination letter. However, it is the opinion of the Plan administrator that the Plan remains qualified under the applicable provisions of the Internal Revenue Code.

(7) Subsequent Event

On December 29, 1995, Armstrong World Industries, Inc., sold Thomasville Furniture to INTERCO Incorporated. The agreement of sale requires INTERCO to establish a savings plan for Thomasville employees comparable to those it maintains for its other employees. The anticipated start-up date of the successor plan is April 1, 1996. The participants of the Plan have been allowed to make contributions to the Plan through March 31, 1996, at which time they will be given the option to transfer their account balances to the INTERCO plan.

Independent Auditors' Report

The Retirement Committee
Thomasville Furniture Industries, Inc.

We have audited the accompanying statements of net assets of the Retirement Savings Plan for Hourly-Paid Employees of Thomasville Furniture Industries, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Savings Plan for Hourly-Paid Employees of Thomasville Furniture Industries, Inc. as of September 30, 1995 and 1994 and the changes in its plan equity for each of the years in the three-year period ended September 30, 1995, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The fund information in the statements of net assets and the statements of changes in plan equity is presented for purposes of additional analysis rather than to present the net assets and changes in plan equity of each fund. The fund information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
February 26, 1996

EXHIBIT INDEX

24 Consent of Independent Auditors

Consent of Independent Auditors

The Retirement Committee
Thomasville Furniture Industries, Inc.:

We consent to incorporation by reference in the Registration Statement No. 33- 18998 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 26, 1996, relating to the statements of net assets of the Retirement Savings Plan for Hourly-Paid Employees of Thomasville Furniture Industries, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995, which report is included herein.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania

March 21, 1996

FORM 11-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended September 30, 1995

OR

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

For the transition period from _____ to _____

Commission file number 1-2116

**ARMSTRONG WORLD INDUSTRIES, INC.
EMPLOYEE STOCK OWNERSHIP PLAN
("SHARE IN SUCCESS PLAN")**

(Full title of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.
Liberty and Charlotte Streets
Lancaster, Pennsylvania 17604

(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Item 1. Statements of Net Assets Available for Plan Benefits

September 30, 1995 and 1994 4

Item 2. Statements of Changes in Net Assets Available

for Plan Benefits

Years ended September 30, 1995, 1994, and 1993 5

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24. Consent of Independent Auditors

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the committee constituting the administrator which administers the plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

**ARMSTRONG WORLD INDUSTRIES, INC.
EMPLOYEE STOCK OWNERSHIP PLAN
("SHARE IN SUCCESS PLAN")**

March 25, 1996

By: /s/ E. Allen Deaver

*E. Allen Deaver
Chairman of the Retirement Committee*

**ARMSTRONG WORLD INDUSTRIES, INC.
EMPLOYEE STOCK OWNERSHIP PLAN**

Statements of Net Assets Available for Plan Benefits September 30, 1995 and 1994

	1995			1994		
	Allocated	Unallocated	Total	Allocated	Unallocated	Total
Assets						
Investment in Armstrong World Industries, Inc, Preferred Stock (note 2)	\$ 85,204,819	\$215,716,530	\$300,921,349	\$60,224,715	\$201,433,916	\$261,658,631
Cash and short-term investments	75,583	1,039,001	1,114,584	20,970	994,647	1,015,617
Employee contributions receivable	--	463,981	463,981	--	537,086	537,086
Employer contributions receivable	--	2,125,167	2,125,167	--	1,620,924	1,620,924
Dividends receivable	1,553,813	3,933,872	5,487,685	1,275,486	4,270,106	5,545,592
Interest receivable	107	1,479	1,586	24	1,127	1,151
Total assets	86,834,322	223,280,030	310,114,352	61,521,195	208,857,806	270,379,001
Liabilities						
Guaranteed ESOP notes (note 6)	--	240,405,403	240,405,403	--	249,954,403	249,954,403
Accrued interest	--	6,068,624	6,068,624	--	6,301,726	6,301,726
Total liabilities	--	246,474,027	246,474,027	--	256,256,129	256,256,129
Net assets available for plan benefits	\$ 86,834,322	\$(23,193,997)	\$ 63,640,325	\$61,521,195	\$(47,398,323)	\$ 14,122,872

See accompanying notes to financial statements.

**ARMSTRONG WORLD INDUSTRIES, INC.
EMPLOYEE STOCK OWNERSHIP PLAN**

Statements of Changes in Net Assets Available for Plan Benefits Years Ended September 30, 1995, 1994 and 1993

	1995			1994		
	Allocated	Unallocated	Total	Allocated	Unallocated	Total
Increases:						
Employee contributions (note 1)	\$ --	\$ 6,744,735	\$ 6,744,735	\$ --	\$ 6,158,036	\$ 6,158,036
Employer contributions	--	5,670,971	5,670,971	--	4,533,805	4,533,805
Dividends (note 2)	4,879,273	13,984,817	18,864,090	3,942,264	15,108,800	19,051,064
Interest income	2,149	55,411	57,560	--	29,957	29,957
Realized gain (note 4)	202,717	--	202,717	156,242	--	156,242
Unrealized appreciation (note 2)	11,897,970	30,122,579	42,020,549	--	--	--
Allocation of preferred stock of Armstrong World Industries, Inc.	11,239,017	--	11,239,017	11,377,004	--	11,377,004
	28,221,126	56,578,513	84,799,639	15,475,510	25,830,598	41,306,108
Decreases:						
Interest expense	--	(21,135,170)	(21,135,170)	--	(21,807,401)	(21,807,401)
Benefits paid (note 3)	(2,907,999)	--	(2,907,999)	(2,508,168)	--	(2,508,168)
Allocation of preferred stock of Armstrong World Industries, Inc.	--	(11,239,017)	(11,239,017)	--	(11,377,004)	(11,377,004)
	(2,907,999)	(32,374,187)	(35,282,186)	(2,508,168)	(33,184,405)	(35,692,573)
Net increase (decrease)	25,313,127	24,204,326	49,517,453	12,967,342	(7,353,807)	5,613,535
Net assets available for plan benefits:						
Beginning of year	61,521,195	(47,398,323)	14,122,872	48,553,853	(40,044,516)	8,509,337
End of year	\$86,834,322	\$(23,193,997)	\$63,640,325	\$61,521,195	\$(47,398,323)	\$14,122,872
1993						
	Allocated	Unallocated	Total			
Increases:						
Employee contributions (note 1)	\$ --	\$ 5,956,851	\$ 5,956,851			
Employer contributions	--	3,274,572	3,274,572			
Dividends (note 2)	3,043,702	16,174,289	19,217,991			
Interest income	--	20,905	20,905			
Realized gain (note 4)	--	--	--			
Unrealized appreciation (note 2)	--	--	--			
Allocation of preferred stock of Armstrong World Industries, Inc.	11,570,821	--	11,570,821			
	14,614,523	25,426,617	40,041,140			
Decreases:						
Interest expense	--	(22,477,390)	(22,477,390)			
Benefits paid (note 3)	(2,334,716)	--	(2,334,716)			
Allocation of preferred stock of Armstrong World Industries, Inc.	--	(11,570,821)	(11,570,821)			
	(2,334,716)	(34,048,211)	(36,382,927)			
Net increase (decrease)	12,279,807	(8,621,594)	3,658,213			
Net assets available for plan benefits:						
Beginning of year	36,274,046	(31,422,922)	4,851,124			
End of year	\$48,553,853	\$(40,044,516)	\$ 8,509,337			

See accompanying notes to financial statements.

**ARMSTRONG WORLD INDUSTRIES, INC.
EMPLOYEE STOCK OWNERSHIP PLAN**

Notes to Financial Statements

1. Plan Description

Armstrong World Industries, Inc. (the Company) established the Armstrong World Industries, Inc. Employee Stock Ownership Plan (the Plan) in 1989. The Plan, which is both a stock bonus plan with a cash or deferred arrangement and an employee stock ownership plan, is designed to attract and keep employees possessing the qualities required for future growth of the Company. The Plan intends to provide such employees with additional incentive for enhanced performance by permitting eligible employees to acquire a proprietary interest in the Company and to accumulate capital for future economic security.

All employees of the Company and of certain domestic subsidiaries, who are at least twenty-one years of age and have completed one year of service, are eligible to participate in the Plan except for foreign nationals, leased employees, and those employees in a collective bargaining unit unless the collective bargaining agent for that unit agrees to coverage under the Plan.

Under the Plan, participants receive interest in shares of Company preferred stock held by the trust established under the Plan. The shares of Company preferred stock held by the trust were purchased from the Company from the proceeds of the sale of the Guaranteed ESOP notes in a total principal amount of \$270,000,000 in 1989. All shares of preferred stock acquired with the proceeds of the notes are held in a suspense account and released to members' accounts as the notes are repaid. The shares are released in proportion to the ratio of the proportion of principal and interest paid down by any debt payment to the total principal and interest to be paid over the life of the notes.

The Plan maintains three accounts for each member for contributions and allocations of shares from the suspense account. Participants who elect to reduce their before-tax compensation in amounts ranging from one percent to four percent (exchange contributions) will have such amounts credited to an exchange contribution account. Shares released from the suspense account will be first allocated to members' exchange contribution accounts with a value as of the allocation date equal to the amount of their exchange contributions.

Shares released from the suspense account not used for the purpose of exchange allocations will be allocated to members' equity accounts (equity allocations) based on an established shares released schedule. The equity account is intended to provide a source of funds to replace certain retiree medical benefits which were phased-out in conjunction with the adoption of this Plan. The allocation schedule, therefore, is designed to provide greater allocation of shares to older employees.

If any shares released from the suspense account remain unallocated after the exchange and equity allocations, such shares will be allocated to members' bonus accounts in proportion to the ratio of exchange contributions made by a member to the exchange contributions made by all members.

Participants have an immediate 100 percent vested interest with respect to their exchange contributions. Interest in the Equity and Bonus Accounts vest after five years of service.

**ARMSTRONG WORLD INDUSTRIES, INC.
EMPLOYEE STOCK OWNERSHIP PLAN**

Notes to Financial Statements, (Continued)

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on an accrual basis.

(b) Investment in Armstrong World Industries, Inc., Preferred Stock

According to the terms of the trust agreement between Mellon Bank, N.A., the Trustee, and Armstrong World Industries, Inc., the Trustee manages a trust fund that has been created under the Plan and has been granted authority to purchase and sell stock of the Company as is necessary to administer the Plan in accordance with its terms.

The investment in Company preferred stock is presented at fair value. Fair value is determined to be the greater of \$47.75 per share, the preferred stock's minimum conversion value, or the market price per share of Company common stock. The investment in preferred stock at September 30, 1995 represents 5,422,006 shares, valued at a market price per share of \$55.50. At September 30, 1994, the investment in preferred stock reflects 5,479,762 shares, purchased at a cost per share of \$47.75. Each share of preferred stock is convertible into one share of Company common stock. A dividend of \$3.462 per share per annum is payable semi-annually on the preferred stock held in the trust. The preferred stock is redeemable at the option of the holder at a redemption price of \$47.75 per share plus accrued but unpaid dividends.

(c) Expenses

All costs and expenses incurred in administering the Trust and the Plan are paid by the Company.

3. Benefits

Upon death or any other separation from service from the Company, participants are entitled to receive a distribution of their vested ESOP account. Distributions are in the form of a lump sum cash payment or, upon request, Company common stock. Participants entitled to a distribution can direct the Trustee to either sell their ESOP Preferred Shares to the Company at a per share price of \$47.75 or convert the shares into shares of Company common stock on a one-for-one basis.

During the years ended September 30, 1995, 1994 and 1993, distributions were made to participants of \$2,907,999 representing 57,756 shares, \$2,508,168 representing 49,609 shares, and \$2,334,716 representing 48,894 shares, respectively.

**ARMSTRONG WORLD INDUSTRIES, INC.
EMPLOYEE STOCK OWNERSHIP PLAN**

Notes to Financial Statements, (Continued)

4. Realized Gain

During the years ended September 30, 1995 and 1994, the number of shares of preferred stock redeemed at prices per share in excess of \$47.75 totaled 30,660 and 21,012, respectively. The amount of redemption proceeds in excess of the minimum conversion value totaled \$202,717 in 1995 and \$156,242 in 1994.

5. Plan Termination

While it is intended to be permanent, the Plan may be terminated at anytime by the Company's Board of Directors. Upon Plan termination, all participants become fully vested in their entire ESOP account balance. Any unallocated shares held by the Trust will be either sold to the Company or converted to Company common stock and then sold to the Company or sold on the open market, whichever produces the greatest cash proceeds. The cash proceeds will be used to satisfy any outstanding Guaranteed ESOP notes, with the balance of any excess proceeds being allocated to individual ESOP account balances on a pro-rated basis.

6. Guaranteed ESOP Notes

The Company has guaranteed the payment of principal and interest on the notes. The notes must be repaid in semi-annual installments with interest per annum at 8.35% on the Series A Guaranteed Serial ESOP Notes due 1989-2001 (\$120,362,403 and \$129,911,403 at September 30, 1995 and 1994, respectively) and 8.92% on the Series B Guaranteed Serial ESOP Notes due 2001-2004 (\$120,043,000 at September 30, 1995 and 1994). The scheduled amortization of the notes for the next five fiscal years is as follows:
1996 - \$12,023,000; 1997 - \$14,801,000; 1998 - \$17,908,000; 1999 - \$21,392,000; 2000 - \$25,277,000.

7. Company Contributions

The Company is obligated to make semi-annual contributions in cash or Company stock to the Plan, on June 15 and December 15 of each year, which when aggregated with all exchange contributions, dividends received by the Trustee on the preferred stock held by the Trust, and trust earnings, is at least equal to the amount necessary to enable the Trustee to pay currently maturing obligations under the Guaranteed ESOP notes.

8. Federal Income Taxes

By a letter dated February 13, 1996, the Internal Revenue Service has determined and informed the Company that the plan qualifies under the applicable provisions of the Internal Revenue Code and is therefore exempt from federal income taxes.

Independent Auditors' Report

The Retirement Committee
Armstrong World Industries, Inc.:

We have audited the accompanying statements of net assets available for plan benefits of the Armstrong World Industries, Inc. Employee Stock Ownership Plan as of September 30, 1995 and 1994 and the related statements of changes in net assets available for plan benefits for each of the years in the three-year period ended September 30, 1995. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Armstrong World Industries, Inc. Employee Stock Ownership Plan as of September 30, 1995 and 1994 and the changes in its net assets available for plan benefits for each of the years in the three-year period ended September 30, 1995, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
February 26, 1996

EXHIBIT INDEX

24 Consent of Independent Auditors

Consent of Independent Auditors

The Retirement Committee
Armstrong World Industries, Inc.:

We consent to incorporation by reference in the Registration Statement No. 33- 29768 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 26, 1996, relating to the statements of net assets available for plan benefits of the Armstrong World Industries, Inc. Employee Stock Ownership Plan as of September 30, 1995 and 1994 and the related statements of changes in net assets available for plan benefits for each of the years in the three-year period ended September 30, 1995, which report is included herein.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania

March 21, 1996

FORM 11-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended September 30, 1995

OR

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

For the transition period from _____ to _____

Commission file number 1-2116

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE
EMPLOYEES OF AMERICAN OLEAN TILE COMPANY, INC.**

1000 Cannon Avenue
Lansdale, PA 19446
(Full title of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.

Liberty and Charlotte Streets
Lancaster, Pennsylvania 17604

(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Item 1. Statements of Net Assets Available for Participants 4

September 30, 1995 and 1994

Item 2. Statements of Changes in Plan Equity 5-7

- (a) Year ended September 30, 1995
- (b) Year ended September 30, 1994
- (c) Year ended September 30, 1993

Notes to Financial Statements 8-11

Item 3. Independent Auditors' Report 12

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the committee constituting the administrator which administers the plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

**AMERICAN OLEAN TILE COMPANY, INC.
SAVINGS PLAN FOR PRODUCTION &
MAINTENANCE EMPLOYEES**

March 25, 1996

By: /s/ Michael J. Farley

*Michael J. Farley
Chairperson, Employee Benefits
Administrative Authority for the
American Olean Tile Company, Inc.,
Savings Plan for Production &
Maintenance Employees*

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Statements of Net Assets
September 30, 1995 and 1994

	1995						
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager
	-----	-----	-----	-----	-----	-----	-----
Assets:							
Investments in master trust at fair value (note 3)	\$348,744	\$1,117,446	\$212,465	\$3,429,888	\$17,457	\$53,802	\$49,977
	-----	-----	-----	-----	-----	-----	-----
Total assets	\$348,744	\$1,117,446	\$212,465	\$3,429,888	\$17,457	\$53,802	\$49,977
	-----	-----	-----	-----	-----	-----	-----
Plan equity	\$348,744	\$1,117,446	\$212,465	\$3,429,888	\$17,457	\$53,802	\$49,977
	=====	=====	=====	=====	=====	=====	=====
	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total			
	-----	-----	-----	-----			
Assets:							
Investments in master trust at fair value (note 3)	\$5,197	\$15,967	\$5,663	\$5,256,606			
	-----	-----	-----	-----			
Total assets	\$5,197	\$15,967	\$5,663	\$5,256,606			
	-----	-----	-----	-----			
Plan equity	\$5,197	\$15,967	\$5,663	\$5,256,606			
	=====	=====	=====	=====			
	1994						
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager
	-----	-----	-----	-----	-----	-----	-----
Assets:							
Investments in master trust at fair value (note 3)	\$271,388	\$712,289	\$97,112	\$3,297,779	\$6,365	\$39,012	\$36,675
	-----	-----	-----	-----	-----	-----	-----
Total assets	\$271,388	\$712,289	\$97,112	\$3,297,779	\$6,365	\$39,012	\$36,675
	-----	-----	-----	-----	-----	-----	-----
Plan equity	\$271,388	\$712,289	\$97,112	\$3,297,779	\$6,365	\$39,012	\$36,675
	=====	=====	=====	=====	=====	=====	=====
	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total			
	-----	-----	-----	-----			
Assets:							
Investments in master trust at fair value (note 3)	\$404	\$3,377	\$ --	\$4,464,401			
	-----	-----	-----	-----			
Total assets	\$404	\$3,377	\$ --	\$4,464,401			
	-----	-----	-----	-----			
Plan equity	\$404	\$3,377	\$ --	\$4,464,401			
	=====	=====	=====	=====			

See accompanying notes to financial statements.

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY, INC.**
Statements of Changes in Plan Equity

Years Ended September 30, 1995, 1994, and 1993

	1995						
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager Fund
Plan equity at October 1, 1994	\$271,388	\$ 712,289	\$ 97,112	\$3,297,779	\$ 6,365	\$39,012	\$36,675
Increases in plan equity:							
Contributions	24,050	100,788	79,530	227,610	8,631	9,002	9,163
Dividends	7,868	3,728	6,999	--	298	1,370	1,481
Interest	--	--	8	224,706	--	--	--
Realized gain (loss) on investments (note 3)	4,877	14,584	--	--	(507)	(307)	(12)
Unrealized appreciation of investments	65,059	270,956	--	--	3,471	12,493	2,926
Loan activity, net	--	--	(3,396)	(867)	--	--	--
	101,854	390,056	83,141	451,449	11,893	22,558	13,558
Decreases in plan equity:							
Benefits paid	(27,292)	(17,364)	(15,109)	(235,767)	(2,949)	--	--
Interfund transfers, net	2,794	32,465	47,321	(83,573)	2,148	(7,768)	(256)
	(24,498)	15,101	32,212	(319,340)	(801)	(7,768)	(256)
Plan equity at September 30, 1995	\$348,744	\$1,117,446	\$212,465	\$3,429,888	\$17,457	\$53,802	\$49,977
	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total			
Plan equity at October 1, 1994	\$ 404	\$ 3,377	\$ --	\$4,464,401			
Increases in plan equity:							
Contributions	4,389	5,720	--	468,883			
Dividends	132	288	--	22,164			
Interest	--	--	--	224,714			
Realized gain (loss) on investments (note 3)	81	(76)	--	18,640			
Unrealized appreciation of investments	244	1,136	--	356,285			
Loan activity, net	(1,400)	--	5,663	--			
	3,446	7,068	5,663	1,090,686			
Decreases in plan equity:							
Benefits paid	--	--	--	(298,481)			
Interfund transfers, net	1,347	5,522	--	--			
	1,347	5,522	--	(298,481)			
Plan equity at September 30, 1995	\$ 5,197	\$15,967	\$ 5,663	\$5,256,606			

See accompanying notes to financial statements. (Continued)

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY, INC.
Statements of Changes in Plan Equity, Continued**

1994

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Asset Manager Fund
Plan equity at October 1, 1993	\$257,638	\$668,079	\$ 86,435	\$3,122,566	\$ 10,111	\$24,959	\$ --
Increases in plan equity:							
Contributions	17,572	65,968	24,322	221,634	3,365	3,677	1,370
Dividends	10,109	68,515	3,153	--	116	1,566	747
Interest	--	--	--	231,859	--	--	--
Realized gain (loss) on investments (note 3)	1,632	2,768	--	--	2,888	(16)	--
Transfers from other employee benefit plans of Armstrong World Industries, Inc.	--	--	--	6,329	--	--	--
	29,313	137,251	27,475	459,822	6,369	5,227	2,117
Decreases in plan equity:							
Unrealized depreciation of investments	(2,904)	(80,050)	--	--	(3,088)	(1,175)	(1,366)
Benefits paid	(7,627)	(27,826)	(15,643)	(234,772)	--	--	--
Interfund transfers, net	(5,032)	14,835	(1,155)	(49,837)	(7,027)	10,001	35,924
	(15,563)	(93,041)	(16,798)	(284,609)	(10,115)	8,826	34,558
Plan equity at September 30, 1994	\$271,388	\$712,289	\$ 97,112	\$3,297,779	\$ 6,365	\$39,012	\$36,675
	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Total				
Plan equity at October 1, 1993	\$ --	\$ --	\$4,169,788				
Increases in plan equity:							
Contributions	363	1,073	339,344				
Dividends	2	84	84,292				
Interest	--	--	231,859				
Realized gain(loss) on investments (note 3)	--	--	7,272				
Transfers from other employee benefit plans of Armstrong World Industries, Inc.	--	--	6,329				
	365	1,157	669,096				
Decreases in plan equity:							
Unrealized depreciation of investments	(2)	(30)	(88,615)				
Benefits paid	--	--	(285,868)				
Interfund transfers, net	41	2,250	--				
	39	2,220	(374,483)				
Plan equity at September 30, 1994	\$404	\$3,377	\$4,464,401				

See accompanying notes to financial statements. (Continued)

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY, INC.
Statements of Changes in Plan Equity, Continued**

	1993						
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.	Total
	-----	-----	-----	-----	-----	-----	-----
Plan equity at October 1, 1992	\$252,326	\$459,743	\$72,228	\$3,104,287	\$ 18,800	\$ --	\$3,907,384
	-----	-----	-----	-----	-----	-----	-----
Increases in plan equity:							
Contributions	17,894	60,637	16,039	261,081	1,290	1,769	358,710
Dividends	7,827	62,000	2,373	--	524	1,866	74,590
Interest	--	--	--	235,754	--	--	235,754
Realized gain(loss) on investments (note 3)	2,706	(1,609)	--	--	1,485	--	2,582
Unrealized appreciation (depreciation) of investments	18,395	90,417	--	--	2,946	(496)	111,262
	-----	-----	-----	-----	-----	-----	-----
	46,822	211,445	18,412	496,835	6,245	3,139	782,898
	-----	-----	-----	-----	-----	-----	-----
Decreases in plan equity:							
Benefits paid	(30,004)	(26,158)	(9,669)	(454,479)	(184)	--	(520,494)
Interfund transfers, net	(11,506)	23,049	5,464	(24,077)	(14,750)	21,820	--
	-----	-----	-----	-----	-----	-----	-----
	(41,510)	(3,109)	(4,205)	(478,556)	(14,934)	21,820	(520,494)
	-----	-----	-----	-----	-----	-----	-----
Plan equity at September 30, 1993	\$257,638	\$668,079	\$86,435	\$3,122,566	\$ 10,111	\$24,959	\$4,169,788
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to financial statements.

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis.

(b) Investments in Master Trust

The fair value of the commingled equity, specialized equity, over-the-counter portfolio, and Asset Manager funds is based on the underlying market value of the investments. The money market fund is stated at cost which approximates fair value. The fixed income fund is stated at the value of the underlying investment contracts which represents contributions plus interest at the contract rate, less benefits paid. The value of the Armstrong stock fund is based on quoted market price. The value of the loan portfolio fund represents the unpaid principal of employee loans.

Securities transactions are recognized on the settlement date (the date on which payment for a buy or sell order is made or received), since adjustment to a trade-date basis would not be material. Dividend income is recorded on the ex-dividend date.

Realized gains and losses on investments are determined by the average cost method.

(c) Expenses

All legal, accounting and administrative expenses associated with Plan operations are paid by the Company.

(2) Plan Description

The Plan is a defined contribution plan, the purpose of which is to provide a means for long-term savings intended for the accumulation of retirement income in addition to that provided under other retirement plans maintained for the benefit of employees of American Olean Tile Company, Inc. (the Company), a wholly-owned subsidiary of Armstrong World Industries, Inc. (Armstrong). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Participants may contribute to the Plan by electing an amount up to 10%, but not less than 2% of their compensation.

Until December 31, 1989, the Company made a matching contribution to the Plan in an amount equal to 50% of a participant's contribution, up to \$400 per calendar year. Effective January 1, 1990, the matching Company contribution feature was discontinued.

In the event of a withdrawal during employment, a participant will not be permitted to resume making contributions until the first day of the following January, April, July, or October.

Separate accounts are maintained for contributions made by or on behalf of a participant. The accounts in each fund reflect the participants' and Company-matching contributions together with allocated dividends, interest, realized gains (losses) on investments, and unrealized appreciation (depreciation) of investments.

Participants have an immediate 100 percent vested interest with respect to their contributions and are fully vested with regard to any previously made matching company contributions.

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Notes to Financial Statements, (Continued)

(3) Investments in Master Trust

Assets of the Plan are held in a Master Trust administered by the Fidelity Management Trust Co. The assets are segregated into nine investment options: a commingled equity mutual fund (Fidelity U.S. Equity Index Portfolio), a specialized equity mutual fund (Fidelity Magellan), a money market mutual fund (Fidelity Return Money Market Portfolio), three Asset Manager mutual funds, an over-the-counter mutual fund (OTC Portfolio Fund), a fixed income fund, and an Armstrong stock fund. The Plan utilizes the Trustee and associated investment managers to direct investment activity. The Plan participates in all nine investment alternatives.

The following is a description of the investment funds to which Plan participants can elect to allocate their contributions.

1. Commingled Equity Fund - This fund is principally a portfolio of common stocks constructed and maintained with the objective of providing investment results which approximate the overall performance of the common stocks included in the Standard & Poor's Composite Index of 500 stocks. At September 30, 1995, there were 103 active participants in this investment fund.
2. Specialized Equity Fund - This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers. At September 30, 1995, there were 222 active participants in this investment fund.
3. Money Market Fund - This fund invests in short-term (less than one year maturity) fixed income instruments such as U.S. Treasury Bills, bank certificates of deposit, and high grade commercial paper. At September 30, 1995, there were 140 active participants in this investment fund.
4. Fixed Income Fund - Contributions to this fund are invested in the general accounts of insurance companies and are credited at contracted interest rates. At September 30, 1995, the interest rates ranged between 5.69% and 9.00%. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. At September 30, 1995, there were 471 active participants in this investment fund.
5. Armstrong Stock Fund - Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong common stock. At September 30, 1995, there were 15 active participants in this investment fund. Common stock shares held by the fund at September 30, 1995 and 1994 were 315 and 147, respectively.
6. OTC Portfolio Fund - This fund invests in securities traded in the over-the-counter securities market with the objective of maximizing capital appreciation. Over-the-counter securities include common and preferred stocks, securities convertible into common stock, warrants, and debt instruments. At September 30, 1995, there were 21 active participants in this investment fund.
7. Asset Manager Fund - An asset allocation fund which invests in a portfolio of stocks, bonds, and short-term instruments. The fund has a balanced investment strategy with a goal of high total return with reduced risk over the long term. At September 30, 1995, there were 16 active participants in this investment fund.
8. Asset Manager Income Fund - An asset allocation fund which invests in a diversified portfolio of stocks, bonds, and short-term instruments. The fund has a conservative investment strategy focusing on bonds and short-term instruments to achieve a high level of current income and capital preservation. At September 30, 1995, there were 10 active participants in this investment fund.

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Notes to Financial Statements, (Continued)

9. Asset Manager Growth Fund - An asset allocation fund invested in a diversified mix of stocks, bonds, and short-term instruments. The fund's investment strategy is an aggressive one emphasizing stocks with the goal of maximum total return over the long term. At September 30, 1995, there were 18 active participants in this investment fund.

10. Loan Portfolio Fund - The amount in this fund represents the unpaid principal balances of loans made by Plan participants in accordance with established loan provision guidelines. At September 30, 1995, there were 2 loans outstanding.

The following table presents the cost and fair values of the investments in securities of the Master Trust at September 30, 1995 and 1994:

Investment	September 30, 1995		September 30, 1994	
	Cost	Fair Value	Cost	Fair Value
Commingled equity	\$ 255,016	\$ 348,744	\$ 242,719	\$ 271,388
Specialized equity	855,063	1,117,446	720,862	712,289
Money market	212,465	212,465	97,112	97,112
Fixed income	3,429,888	3,429,888	3,297,779	3,297,779
Armstrong stock	14,348	17,457	6,727	6,365
OTC portfolio	42,980	53,802	40,683	39,012
Asset manager	48,417	49,977	38,041	36,675
Asset manager income	4,955	5,197	406	404
Asset manager growth	14,861	15,967	3,407	3,377
Loan portfolio	5,663	5,663	--	--
	\$4,883,656	\$5,256,606	\$4,447,736	\$4,464,401

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 1995, 1994, and 1993 are presented below:

1995	Aggregate	Aggregate	Realized
	Proceeds	Cost	Gain (Loss)
Commingled equity	\$ 31,292	\$ 26,415	\$ 4,877
Specialized equity	76,993	62,409	14,584
Armstrong stock	3,776	4,283	(507)
OTC portfolio	7,768	8,075	(307)
Asset manager	256	268	(12)
Asset manager income	1,400	1,319	81
Asset manager growth	1,196	1,272	(76)
	\$122,681	\$104,041	\$18,640
	=====	=====	=====
1994			
Commingled equity	\$ 15,875	\$ 14,243	\$ 1,632
Specialized equity	80,984	78,216	2,768
Armstrong stock	12,733	9,845	2,888
OTC portfolio	281	297	(16)
	\$109,873	\$102,601	\$ 7,272
	=====	=====	=====
1993			
Commingled equity	\$ 42,010	\$ 39,304	\$ 2,706
Specialized equity	65,167	66,776	(1,609)
Armstrong stock	14,934	13,449	1,485
	\$122,111	\$119,529	\$ 2,582
	=====	=====	=====

**SAVINGS PLAN FOR PRODUCTION AND MAINTENANCE EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Notes to Financial Statements, (Continued)

(4) Benefits

Under terms of the Plan, a participant (or a beneficiary) is eligible for benefits upon retirement, termination of employment, or death before retirement. Disbursement of the total amount credited to a participant's account is payable (i) in a lump sum or (ii) in the case of retirement, in such other manner as requested by the participant and approved by the Plan Administrator. In addition, a participant may elect to withdraw all or any part of his account attributable to his contributions.

If the amount of a withdrawal exceeds the amount of contributions made by the participant and not previously withdrawn, the participant shall be ineligible to make contributions for a specified period, except that a participant may elect to withdraw all or any portion of his account attributable to tax deductible contributions.

(5) Obligation for Benefits

All the funds of the Plan are held by investing institutions appointed by the Company under a trust agreement or investment contract. Benefits under the Plan are payable only out of these funds. The Company has no legal obligation to make any direct payment of benefits accrued under the Plan.

Except as may be provided in an investment contract, neither the Company nor any investing institution guarantees the funds of the Plan against any loss or depreciation or guarantees the payment of any benefit hereunder. Although the Company has not expressed any intent to terminate the Plan, it may do so at any time. In case of termination or partial termination, the total amount in each employee's account will be distributed as the Plan Administrator directs.

(6) Federal Income Taxes

By a letter dated February 1, 1996, the Internal Revenue Service has determined and informed the Company that the Plan qualifies under the applicable provisions of the Internal Revenue Code and is therefore exempt from federal income taxes.

(7) Subsequent Event

On December 29, 1995, American Olean Tile Company, Inc., formed a business combination with Dal-Tile International, Inc. It is anticipated that Dal-Tile will merge the Plan into a comparable defined contribution plan on April 1, 1996.

Independent Auditors' Report

The Executive Committee
American Olean Tile Company, Inc.:

We have audited the accompanying statements of net assets of the Savings Plan for Production and Maintenance Employees of American Olean Tile Company, Inc. as of September 30, 1995 and 1994, and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Savings Plan for Production and Maintenance Employees of American Olean Tile Company as of September 30, 1995 and 1994, and the changes in its plan equity for each of the years in the three-year period ended September 30, 1995, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The fund information in the statements of net assets and the statements of changes in plan equity is presented for purposes of additional analysis rather than to present the net assets and changes in plan equity of each fund. The fund information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

Philadelphia, Pennsylvania
February 1, 1996

EXHIBIT INDEX

24 Consent of Independent Auditors

Consent of Independent Auditors

The Executive Committee
American Olean Tile Company, Inc.:

We consent to incorporation by reference in the Registration Statement No. 33-60070 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 1, 1996 relating to the statements of net assets of the Savings Plan for Production and Maintenance Employees of American Olean Tile Company, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995, which report is included herein.

KPMG Peat Marwick LLP

Philadelphia, Pennsylvania

March 21, 1996

Exhibit 28(ii)(f)

FORM 11-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended September 30, 1995

OR

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

For the transition period from _____ to _____

Commission file number _____ 1-2116 _____

**SAVINGS PLAN FOR SALARIED EMPLOYEES OF
AMERICAN OLEAN TILE COMPANY, INC.**

1000 Cannon Avenue
Lansdale, PA 19446
(Full title of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.

Liberty and Charlotte Streets
Lancaster, Pennsylvania 17604

(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Item 1. Statements of Net Assets Available for Participants 4

September 30, 1995 and 1994

Item 2. Statements of Changes in Plan Equity

for Participants 5-7

- (a) Year ended September 30, 1995
- (b) Year ended September 30, 1994
- (c) Year ended September 30, 1993

Notes to Financial Statements 8-11

Item 3. Independent Auditors' Report 12

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the committee constituting the administrator which administers the plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

**AMERICAN OLEAN TILE COMPANY, INC.
SAVINGS PLAN FOR SALARIED EMPLOYEES**

March 25, 1996

By: /s/ Michael J. Farley

*Michael J. Farley
Chairperson, Employee Benefits
Administrative Authority for the
American Olean Tile Company, Inc.,
Savings Plan for Salaried Employees*

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Statements of Net Assets
September 30, 1995 and 1994

1995

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund
	-----	-----	-----	-----	-----
Assets:					
Investments in master trust at fair value (note 3)	\$1,727,578	\$3,296,426	\$733,177	\$11,360,637	\$127,279
	-----	-----	-----	-----	-----
Total assets	\$1,727,578	\$3,296,426	\$733,177	\$11,360,637	\$127,279
	-----	-----	-----	-----	-----
Plan equity	\$1,727,578	\$3,296,426	\$733,177	\$11,360,637	\$127,279
	=====	=====	=====	=====	=====

1995

	"OTC" Portfolio Fd.	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
	-----	-----	-----	-----	-----	-----
Assets:						
Investments in master trust at fair value (note 3)	\$305,196	\$136,817	\$2,187	\$139,599	\$430,649	\$18,259,545
	-----	-----	-----	-----	-----	-----
Total assets	\$305,196	\$136,817	\$2,187	\$139,599	\$430,649	\$18,259,545
	-----	-----	-----	-----	-----	-----
Plan equity	\$305,196	\$136,817	\$2,187	\$139,599	\$430,649	\$18,259,545
	=====	=====	=====	=====	=====	=====

1994

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund
	-----	-----	-----	-----	-----
Assets:					
Investments in master trust at fair value (note 3)	\$1,266,140	\$2,508,818	\$386,345	\$10,986,093	\$93,825
	-----	-----	-----	-----	-----
Total assets	\$1,266,140	\$2,508,818	\$386,345	\$10,986,093	\$93,825
	-----	-----	-----	-----	-----
Plan equity	\$1,266,140	\$2,508,818	\$386,345	\$10,986,093	\$93,825
	=====	=====	=====	=====	=====

1994

	"OTC" Portfolio Fd.	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
	-----	-----	-----	-----	-----	-----
Assets:						
Investments in master trust at fair value (note 3)	\$231,492	\$136,309	\$86,261	\$114,092	\$400,699	\$16,210,074
	-----	-----	-----	-----	-----	-----
Total assets	\$231,492	\$136,309	\$86,261	\$114,092	\$400,699	\$16,210,074
	-----	-----	-----	-----	-----	-----
Plan equity	\$231,492	\$136,309	\$86,261	\$114,092	\$400,699	\$16,210,074
	=====	=====	=====	=====	=====	=====

See accompanying notes to financial statements.

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY, INC.**
Statements of Changes in Plan Equity

Years Ended September 30, 1995, 1994, and 1993

1995

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	
Plan equity at October 1, 1994	\$1,266,140	\$2,508,818	\$ 386,345	\$10,986,093	\$ 93,825	
Increases in plan equity:						
Contributions	135,576	315,880	126,215	465,332	24,684	
Dividends	38,384	12,511	27,413	--	3,168	
Interest	3,586	(2,866)	1,875	755,248	132	
Realized gain(loss) on investments (note 3)	33,918	71,680	--	--	2,395	
Unrealized appreciation of investments	315,922	833,088	--	--	24,745	
Loan activity, net	(5,508)	30,119	(10,333)	(89,784)	2,017	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	3,264	(151,505)	(5,739)	(13,472)	(9,784)	
	525,142	1,108,907	139,431	1,117,324	47,357	
Decreases in plan equity:						
Benefits paid	(87,972)	(63,155)	(46,738)	(754,529)	(12,623)	
Interfund transfers, net	24,268	(258,144)	254,139	11,749	(1,280)	
	(63,704)	(321,299)	(207,401)	(742,780)	(13,903)	
Plan equity at September 30, 1995	\$1,727,578	\$3,296,426	\$ 733,177	\$11,360,637	\$127,279	
	"OTC"	Asset	Asset Mgr.	Asset Mgr.	Loan	Total
	Portfolio	Fd. Manager	Income	Growth	Portfolio	Fund
Plan equity at October 1, 1994	\$231,492	\$136,309	\$ 86,261	\$114,092	\$400,699	\$16,210,074
Increases in plan equity:						
Contributions	40,942	25,401	2,322	38,471	--	1,174,823
Dividends	7,581	4,940	3,605	3,292	--	100,894
Interest	677	102	--	1,010	--	759,764
Realized gain(loss) on investments (note 3)	12,108	(1,395)	832	1,005	--	120,543
Unrealized appreciation of investments	58,506	9,966	3,941	10,407	--	1,256,575
Loan activity, net	(7,997)	670	--	5,143	75,673	--
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(41,529)	4,317	--	--	(45,723)	(260,171)
	70,288	44,001	10,700	59,328	29,950	3,152,428
Decreases in plan equity:						
Benefits paid	(36,441)	(5,646)	(94,349)	(1,504)	--	(1,102,957)
Interfund transfers, net	39,857	(37,847)	(425)	(32,317)	--	--
	3,416	(43,493)	(94,774)	(33,821)	--	(1,102,957)
Plan equity at September 30, 1995	\$305,196	\$136,817	\$ 2,187	\$139,599	\$430,649	\$18,259,545

See accompanying notes to financial statements. (Continued)

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY, INC.
Statements of Changes in Plan Equity, Continued**

1994

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	
Plan equity at October 1, 1993	\$1,344,427	\$2,250,245	\$379,911	\$10,423,771	\$47,845	
Increases in plan equity:						
Contributions	150,243	348,055	97,377	503,274	24,197	
Dividends	49,197	235,582	14,498	--	2,038	
Interest	3,485	10,873	2,020	781,273	88	
Realized gain(loss) on investments (note 3)	25,528	8,108	--	--	2,523	
Unrealized depreciation of investments	(28,451)	(265,483)	--	--	(2,562)	
Loan activity, net	(28,243)	(26,926)	(30,254)	51,581	1,133	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	3,792	24,651	(14,041)	7,226	13,362	
	175,551	334,860	69,600	1,343,354	40,779	
Decreases in plan equity:						
Benefits paid	(104,101)	(284,290)	(29,592)	(455,164)	(6,656)	
Interfund transfers, net	(149,737)	208,003	(33,574)	(325,868)	11,857	
	(253,838)	(76,287)	(63,166)	(781,032)	5,201	
Plan equity at September 30, 1994	\$1,266,140	\$2,508,818	\$386,345	\$10,986,093	\$93,825	
	"OTC"	Asset	Asset Mgr.	Asset Mgr.	Loan	Total
	Portfolio Fd.	Manager Fund	Income Fund	Growth Fund	Portfolio Fund	Fund
Plan equity at October 1, 1993	\$175,265	\$ 80	\$ --	\$ 17,153	\$423,830	\$15,062,527
Increases in plan equity:						
Contributions	49,110	16,577	6,175	26,507	--	1,221,515
Dividends	10,178	6,318	3,829	1,546	--	323,186
Interest	665	77	22	697	--	799,200
Realized gain(loss) on investments (note 3)	(2,385)	(1,953)	(105)	(44)	--	31,672
Unrealized depreciation of investments	(6,072)	(6,785)	(3,817)	(1,196)	--	(314,366)
Loan activity, net	2,884	735	1,041	(645)	28,694	--
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(4,555)	--	--	(1,119)	(51,825)	(22,509)
	49,825	14,969	7,145	25,746	(23,131)	2,038,698
Decreases in plan equity:						
Benefits paid	(6,736)	(412)	--	(4,200)	--	(891,151)
Interfund transfers, net	13,138	121,672	79,116	75,393	--	--
	6,402	121,260	79,116	71,193	--	(891,151)
Plan equity at September 30, 1994	\$231,492	\$136,309	\$86,261	\$114,092	\$400,699	\$16,210,074

See accompanying notes to financial statements. (Continued)

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY, INC.
Statements of Changes in Plan Equity, Continued**

1993

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund
Plan equity at October 1, 1992	\$1,205,383	\$1,397,522	\$ 461,412	\$10,144,449	\$21,271
Increases in plan equity:					
Contributions	157,397	268,666	76,458	623,188	12,670
Dividends	39,894	194,534	12,385	--	1,054
Interest	4,374	8,879	2,992	828,198	21
Realized gain (loss) on investments (note 3)	20,198	919	--	--	(52)
Unrealized appreciation (depreciation) of investments	90,326	296,726	--	--	12,140
Loan activity, net	(26,357)	(18,752)	(25,237)	(71,144)	311
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	1,478	76,216	--	8,930	2,576
	287,310	827,188	66,598	1,389,172	28,720
Decreases in plan equity:					
Benefits paid	(114,149)	(124,922)	(72,439)	(924,027)	(1,051)
Interfund transfers, net	(34,117)	150,457	(75,660)	(185,823)	(1,095)
	(148,266)	25,535	(148,099)	(1,109,850)	(2,146)
Plan equity at September 30, 1993	\$1,344,427	\$2,250,245	\$ 379,911	\$10,423,771	\$47,845
	"OTC"	Asset	Asset Mgr.	Loan	Total
	Portfolio	Fd. Manager	Growth	Portfolio	Fund
	Fund	Fund	Fund	Fund	Fund
Plan equity at October 1, 1992	\$ --	\$ --	\$ --	\$275,100	\$13,505,137
Increases in plan equity:					
Contributions	27,550	80	591	--	1,166,600
Dividends	13,252	--	--	--	261,119
Interest	915	--	46	--	845,425
Realized gain (loss) on investments (note 3)	162	--	--	--	21,227
Unrealized appreciation (depreciation) of investments	(3,087)	--	164	--	396,269
Loan activity, net	2,548	--	71	138,560	--
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	11,638	--	--	10,170	111,008
	52,978	80	872	148,730	2,801,648
Decreases in plan equity:					
Benefits paid	(7,670)	--	--	--	(1,244,258)
Interfund transfers, net	129,957	--	16,281	--	--
	122,287	--	16,281	--	(1,244,258)
Plan equity at September 30, 1993	\$175,265	\$80	\$17,153	\$423,830	\$15,062,527

See accompanying notes to financial statements.

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis.

(b) Investments in Master Trust

The fair value of the commingled equity, specialized equity, over-the-counter portfolio, and Asset Manager funds is based on the underlying market value of the investments. The money market fund is stated at cost which approximates fair value. The fixed income fund is stated at the value of the underlying investment contracts which represents contributions plus interest at the contract rate, less benefits paid. The value of the Armstrong stock fund is based on quoted market price. The value of the loan portfolio fund represents the unpaid principal of employee loans.

Securities transactions are recognized on the settlement date (the date on which payment for a buy or sell order is made or received), since adjustment to a trade-date basis would not be material. Dividend income is recorded on the ex-dividend date.

Realized gains and losses on investments are determined by the average cost method.

(c) Expenses

All legal, accounting and administrative expenses associated with Plan operations are paid by the Company.

(2) Plan Description

The Plan is a defined contribution plan, the purpose of which is to provide a means for long-term savings intended for the accumulation of retirement income in addition to that provided under other retirement plans maintained for the benefit of employees of American Olean Tile Company, Inc. (the Company), a wholly-owned subsidiary of Armstrong World Industries, Inc. (Armstrong). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Participants may contribute to the Plan in each of the following methods:

1. Up to 15%, but not less than 2%, of their compensation as deferred compensation as permitted under Section 401(k) of the Internal Revenue Code.
2. Up to 10%, but not less than 2%, of their compensation.

Until December 31, 1989, the Company made a matching contribution to the Plan in an amount equal to 50% of a participant's contribution, up to \$400 per calendar year. Effective January 1, 1990, the matching Company contribution feature was discontinued.

In the event of a withdrawal during employment of amounts attributable to before-tax contributions, a participant will not be permitted to resume making contributions until the first day of January, April, July, or October which follows twelve months from the date of the withdrawal.

In the event of a withdrawal during employment of amounts attributable to after-tax contributions, a participant will not be permitted to resume making contributions until the first day of the following January, April, July, or October.

Separate accounts are maintained for contributions made by or on behalf of a participant. The accounts in each fund reflect the participants' and Company-matching contributions together with allocated dividends, interest, realized gains (losses) on investments, and unrealized appreciation (depreciation) of investments.

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Notes to Financial Statements, (Continued)

Participants have an immediate 100 percent vested interest with respect to their contributions and are fully vested with regard to any previously made matching company contributions.

Under the rules of the Plan, a participant may borrow up to 50% of his or her account other than amounts attributable to after-tax contributions or amounts invested in the Armstrong Stock Fund attributable to Company-matching contributions, subject to a \$50,000 maximum, with the approval of the Plan Administrator. The amount of the loan is transferred to a loan portfolio fund pledged as security for the loan and is evidenced by a promissory note payable to the Plan. Interest rates are determined periodically by the Company in accordance with prevailing interest rates. Loan repayments are made by payroll deductions or in a manner agreed to by the participant and the Plan Administrator.

(3) Investments in Master Trust

Assets of the Plan are held in a Master Trust administered by the Fidelity Management Trust Co. The assets are segregated into nine investment options: a commingled equity mutual fund (Fidelity U.S. Equity Index Portfolio), a specialized equity mutual fund (Fidelity Magellan), a money market mutual fund (Fidelity Return Money Market Portfolio), three Asset Manager mutual funds, an over-the-counter mutual fund (OTC Portfolio Fund), a fixed income fund, and an Armstrong stock fund. The Plan utilizes the Trustee and associated investment managers to direct investment activity. The Plan participates in all nine investment alternatives.

The following is a description of the investment funds to which Plan participants can elect to allocate their contributions.

1. Commingled Equity Fund - This fund is principally a portfolio of common stocks constructed and maintained with the objective of providing investment results which approximate the overall performance of the common stocks included in the Standard & Poor's Composite Index of 500 stocks. At September 30, 1995, there were 206 active participants in this investment fund.
2. Specialized Equity Fund - This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers. At September 30, 1995, there were 297 active participants in this investment fund.
3. Money Market Fund - This fund invests in short-term (less than one year maturity) fixed income instruments such as U.S. Treasury Bills, bank certificates of deposit, and high grade commercial paper. At September 30, 1995, there were 165 active participants in this investment fund.
4. Fixed Income Fund - Contributions to this fund are invested in the general accounts of insurance companies and are credited at contracted interest rates. At September 30, 1995, the interest rates ranged between 5.69% and 9.00%. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. At September 30, 1995, there were 508 active participants in this investment fund.
5. Armstrong Stock Fund - Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong common stock. At September 30, 1995, there were 56 active participants in this investment fund. Common stock shares held by the fund at September 30, 1995 and 1994 were 2,293 and 2,163, respectively.
6. OTC Portfolio Fund - This fund invests in securities traded in the over-the-counter securities market with the objective of maximizing capital appreciation. Over-the-counter securities include common and preferred stocks, securities convertible into common stock, warrants, and debt instruments. At September 30, 1995, there were 63 active participants in this investment fund.

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY
Notes to Financial Statements, (Continued)**

7. Asset Manager Fund - An asset allocation fund which invests in a portfolio of stocks, bonds, and short-term instruments. The fund has a balanced investment strategy with a goal of high total return with reduced risk over the long term. At September 30, 1995, there were 28 active participants in this investment fund.

8. Asset Manager Income Fund - An asset allocation fund which invests in a diversified portfolio of stocks, bonds, and short-term instruments. The fund has a conservative investment strategy focusing on bonds and short-term instruments to achieve a high level of current income and capital preservation. At September 30, 1995, there were 7 active participants in this investment fund.

9. Asset Manager Growth Fund - An asset allocation fund invested in a diversified mix of stocks, bonds, and short-term instruments. The fund's investment strategy is an aggressive one emphasizing stocks with the goal of maximum total return over the long term. At September 30, 1995, there were 41 active participants in this investment fund.

10. Loan Portfolio Fund - The amount in this fund represents the unpaid principal balances of loans made by Plan participants in accordance with established loan provision guidelines. At September 30, 1995, there were 76 loans outstanding.

The following table presents the cost and fair values of the investments in securities of the Master Trust at September 30, 1995 and 1994:

Investment	September 30, 1995		September 30, 1994	
	Cost	Fair Value	Cost	Fair Value
Commingled equity	\$ 1,289,642	\$ 1,727,578	\$ 1,144,126	\$ 1,266,140
Specialized equity	2,482,720	3,296,426	2,528,200	2,508,818
Money market	733,177	733,177	386,345	386,345
Fixed income	11,360,637	11,360,637	10,986,093	10,986,093
Armstrong stock	96,538	127,279	87,829	93,825
OTC portfolio	255,849	305,196	240,651	231,492
Asset manager	133,636	136,817	143,094	136,309
Asset manager income	2,063	2,187	90,078	86,261
Asset manager growth	130,224	139,599	115,124	114,092
Loan portfolio	430,649	430,649	400,699	400,699
	\$16,915,135	\$18,259,545	\$16,122,239	\$16,210,074
	=====	=====	=====	=====

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 1995, 1994, and 1993 are presented below:

1995	Aggregate	Aggregate	Realized
	Proceeds	Cost	Gain (Loss)
Commingled equity	\$ 205,346	\$ 171,428	\$ 33,918
Specialized equity	622,238	550,558	71,680
Armstrong stock	26,732	24,337	2,395
OTC portfolio	154,894	142,786	12,108
Asset manager	63,132	64,527	(1,395)
Asset manager income	94,774	93,942	832
Asset manager growth	42,558	41,553	1,005
	\$1,209,674	\$1,089,131	\$120,543
	=====	=====	=====

**SAVINGS PLAN FOR SALARIED EMPLOYEES
OF AMERICAN OLEAN TILE COMPANY**

Notes to Financial Statements, (Continued)

1994 ----	Aggregate -----	Aggregate -----	Realized -----
	Proceeds -----	Cost -----	Gain (Loss) -----
Commingled equity	\$ 304,239	\$278,711	\$25,528
Specialized equity	585,116	577,008	8,108
Armstrong stock	8,409	5,886	2,523
OTC portfolio	68,779	71,164	(2,385)
Asset manager	36,646	38,599	(1,953)
Asset manager income	2,906	3,011	(105)
Asset manager growth	23,364	23,408	(44)
	-----	-----	-----
	\$1,029,459	\$997,787	\$31,672
	=====	=====	=====
1993 ----			
Commingled equity	\$ 233,149	\$212,951	\$20,198
Specialized equity	252,641	251,722	919
Armstrong stock	2,396	2,448	(52)
OTC portfolio	16,404	16,242	162
	-----	-----	-----
	\$ 504,590	\$483,363	\$21,227
	=====	=====	=====

(4) Benefits

Under terms of the Plan, a participant (or a beneficiary) is eligible for benefits upon retirement, termination of employment, or death before retirement. Disbursement of the total amount credited to a participant's account is payable (i) in a lump sum or (ii) in the case of retirement, in such other manner as requested by the participant and approved by the Plan Administrator. In addition, a participant may elect to withdraw all or any part of his account attributable to his contributions.

If the amount of a withdrawal exceeds the amount of contributions made by the participant and not previously withdrawn, the participant shall be ineligible to make contributions for a specified period, except that a participant may elect to withdraw all or any portion of his account attributable to tax deductible contributions.

(5) Obligation for Benefits

All the funds of the Plan are held by investing institutions appointed by the Company under a trust agreement or investment contract. Benefits under the Plan are payable only out of these funds. The Company has no legal obligation to make any direct payment of benefits accrued under the Plan.

Except as may be provided in an investment contract, neither the Company nor any investing institution guarantees the funds of the Plan against any loss or depreciation or guarantees the payment of any benefit hereunder. Although the Company has not expressed any intent to terminate the Plan, it may do so at any time. In case of termination or partial termination, the total amount in each employee's account will be distributed as the Plan Administrator directs.

(6) Federal Income Taxes

By a letter dated February 1, 1996, the Internal Revenue Service has determined and informed the Company that the Plan qualifies under the applicable provisions of the Internal Revenue Code and is therefore exempt from federal income taxes.

(7) Subsequent Event

On December 29, 1995, American Olean Tile Company, Inc., formed a business combination with Dal-Tile International, Inc. It is anticipated that Dal-Tile will merge the Plan into a comparable defined contribution plan on April 1, 1996.

Independent Auditors' Report

The Executive Committee
American Olean Tile Company, Inc.:

We have audited the accompanying statements of net assets of the Savings Plan for Salaried Employees of American Olean Tile Company, Inc. as of September 30, 1995 and 1994, and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of September 30, 1995 and 1994, and the changes in its plan equity for each of the years in the three-year period ended September 30, 1995, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The fund information in the statements of net assets and the statements of changes in plan equity is presented for purposes of additional analysis rather than to present the net assets and changes in plan equity of each fund. The fund information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
February 1, 1996

EXHIBIT INDEX

24 Consent of Independent Auditors

Consent of Independent Auditors

The Executive Committee
American Olean Tile Company, Inc.:

We consent to incorporation by reference in the Registration Statement No. 33-60070 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 1, 1996 relating to the statements of net assets of the Savings Plan for Salaried Employees of American Olean Tile Company, Inc. as of September 30, 1995 and 1994 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1995, which report is included herein.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
March 21, 1996

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