

# ARMSTRONG WORLD INDUSTRIES INC

## FORM 10-K (Annual Report)

Filed 03/26/97 for the Period Ending 12/31/96

Address	2500 COLUMBIA AVE LANCASTER, PA 17603
Telephone	7173970611
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Symbol	AWI
SIC Code	3089 - Plastics Products, Not Elsewhere Classified
Industry	Constr. - Supplies & Fixtures
Sector	Capital Goods
Fiscal Year	12/31

# 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, 1996

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  
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Armstrong World Industries, Inc.  
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(Exact name of registrant as specified in its charter)

Pennsylvania 23-0366390  
-----  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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  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.

The aggregate market value of the Common Stock of registrant held by non-affiliates of the registrant based on the closing price (\$70.50 per share) on the New York Stock Exchange on February 10, 1997, was approximately \$2.2 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, 1997, as having sole or shared voting power over 5% or more of the outstanding Common Stock of registrant as of December 31, 1996. As of February 10, 1997, the number of shares outstanding of registrant's Common Stock was 40,968,157. This amount includes the 5,057,382 shares of Common Stock as of December 31, 1996, held by Mellon Bank, N.A., as Trustee for the employee stock ownership accounts of the Company's Retirement Savings and Stock Ownership Plan.

**Documents Incorporated by Reference**

Portions of the Proxy Statement dated March 17, 1997, relative to the April 28, 1997, annual meeting of the shareholders of registrant (the "Company's 1997 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.

**INDUSTRY SEGMENTS**

----- at December 31 (millions) -----	1996	1995	1994
-----			
Net trade sales:			
Floor coverings	\$1,091.8	\$1,053.9	\$1,063.5
Building products	718.4	682.2	630.0
Industry products	346.2	348.8	312.2
Ceramic tile	--	240.1	220.3
-----			
Total net sales	\$2,156.4	\$2,325.0	\$2,226.0
-----			
Operating income (loss): (Note 1)			
Floor coverings	\$ 146.9	\$ 145.0	\$ 189.6
Building products	95.1	92.2	86.8
Industry products	40.1	9.3	41.2
Ceramic tile (Note 2)	9.9	(168.4)	0.8
Unallocated corporate expense	(36.1)	(34.0)	(23.8)
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Total operating income	\$ 255.9	\$ 44.1	\$ 294.6
-----			
Depreciation and amortization:			
Floor coverings	\$ 53.9	\$ 47.9	\$ 49.2
Building products	37.0	36.8	34.5
Industry products	19.1	19.3	17.6
Ceramic tile	4.3	13.5	13.8
Corporate	9.4	5.6	5.6
-----			
Total depreciation and amortization	\$ 123.7	\$ 123.1	\$ 120.7
-----			
Capital additions: (Note 3)			
Floor coverings	\$ 117.7	\$ 77.3	\$ 56.7
Building products	67.7	49.2	31.5
Industry products	22.5	45.0	22.6
Ceramic tile	--	9.6	20.4
Corporate	12.8	6.3	3.0
-----			
Total capital additions	\$ 220.7	\$ 187.4	\$ 134.2
-----			
Identifiable assets:			
Floor coverings	\$ 687.9	\$ 583.2	\$ 575.7
Building products	541.1	513.5	478.1
Industry products	272.8	301.8	234.8
Ceramic tile	168.7	135.8	290.1
Discontinued business	--	--	182.1
Corporate	465.1	615.5	398.2
-----			
Total assets	\$2,135.6	\$2,149.8	\$2,159.0
-----			
Note 1:			
-----			
Restructuring charges in operating income (millions)			
	1996	1995	1994
-----			
Floor coverings	\$ 14.5	\$ 25.0	--
Building products	8.3	6.3	--
Industry products	4.0	31.4	--
Ceramic tile	--	--	--
Unallocated corporate expense	19.7	9.1	--
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Total restructuring charges			
in operating income	\$ 46.5	\$ 71.8	--
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**Note 2: 1995 operating income includes a \$177.2 million loss due to the ceramic tile business combination.** See "Equity Earnings From Affiliates" (see below).

**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 in cash. INTERCO also assumed \$8.0 million of Thomasville's interest-bearing debt. The company recorded a gain on the sale of \$83.9 million after tax. 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 and \$526.8 million in 1994.

#### EQUITY EARNINGS FROM AFFILIATES

Equity earnings from affiliates for 1996 were primarily comprised of the company's after-tax share of the net income of the Dal-Tile International Inc. business combination and the amortization of the excess of the company's investment in Dal-Tile over the underlying equity in net assets, and the 50% interest in the WAVE joint venture with Worthington Industries. Results in 1995 and 1994 reflect only the 50% interest in the WAVE joint venture.

In 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 in cash 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 exceeded 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.

In August 1996, Dal-Tile issued new shares in a public offering decreasing the company's ownership share from 37% to 33%.

Armstrong's ownership of the combined Dal-Tile is accounted for under the equity method. The summarized historical financial information for ceramic tile operations is presented below.

(millions)	1995	1994
Net sales	\$240.1	\$220.3
Operating income/(1)/	8.8	0.8
Assets/(2)/	269.8	290.1
Liabilities/(2)/	17.3	19.6

**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.**

## **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, together with laminate flooring, 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, including large home centers, 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, including large home centers. 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, manufactures and markets 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. Industry products are sold, depending on type and ultimate use, to original equipment manufacturers, contractors, wholesalers, fabricators and end users.

## Ceramic Tile

Ceramic tile for floors, walls and countertops, together with adhesives, installation and maintenance materials and accessories are sold through home centers, independent distributors and sales service centers operated by Dal-Tile.

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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 1996, 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 \$220.7 million in 1996, \$171.8 million in 1995, and \$134.2 million in 1994 for additions to the property, plant and equipment of its continuing businesses.

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 \$59.3 million in 1996, \$57.9 million in 1995, and \$53.1 million in 1994 on research and development activities worldwide for the continuing businesses.



## ENVIRONMENTAL MATTERS

In 1996, the company incurred capital expenditures of approximately \$3.0 million for environmental compliance and control facilities and anticipates comparable annual expenditures for those purposes for the years 1997 and 1998. The company does not anticipate that it will incur significant capital expenditures in order to meet the 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 currently involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund"), and similar state laws at approximately 18 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 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, 1996, 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, although the recording of future costs may be material to earnings in such future period.

As of December 31, 1996, the Company had approximately 10,580 active employees, of whom approximately 3,540 are located outside the United States. Year-end employment in 1996 was below the level at the end of 1995 primarily as the result of various restructuring activities. About 62% of the Company's approximately 4,540 hourly or salaried production and maintenance employees in the United States are represented by labor unions.

## Geographic Areas

### GEOGRAPHIC AREAS

at December 31 (millions)	1996	1995	1994
Net trade sales:			
United States	\$1,419.2	\$1,586.4	\$1,564.0
Europe	548.4	558.7	483.4
Other foreign	188.8	179.9	178.6
Interarea transfers:			
United States	105.0	101.1	95.0
Europe	13.2	13.8	8.7
Other foreign	30.4	32.1	26.1
Eliminations	(148.6)	(147.0)	(129.8)
Total net sales	\$2,156.4	\$2,325.0	\$2,226.0
Operating income:			
United States (See Note 2 on page 3)	\$ 202.7	\$ 7.7	\$ 235.5
Europe	79.3	62.6	75.3
Other foreign	10.0	7.8	7.6
Unallocated corporate expense	(36.1)	(34.0)	(23.8)
Total operating income	\$ 255.9	\$ 44.1	\$ 294.6
Identifiable assets:			
United States	\$1,180.1	\$1,044.5	\$1,130.1
Europe	383.7	406.7	376.5
Other foreign	107.3	83.4	72.6
Discontinued business	--	--	182.1
Corporate	465.1	615.5	398.2
Eliminations	(0.6)	(0.3)	(0.5)
Total assets	\$2,135.6	\$2,149.8	\$2,159.0

United States net trade sales include export sales to non-affiliated customers of \$34.0 million in 1996, \$32.1 million in 1995 and \$26.1 million in 1994. Also included in United States net trade sales were ceramic tile operations sales of \$240.1 million and \$220.3 million in 1995 and 1994, respectively.

"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 46 manufacturing plants in 12 countries; 23 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 17 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 15 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 1996 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**

### **Asbestos-Related Litigation**

The Company is one of many defendants in pending lawsuits and claims involving, as of December 31, 1996, approximately 43,600 individuals alleging personal injury from exposure to asbestos. This number includes approximately

19,500 lawsuits and claims from the approximately 87,000 individuals who opted out of the settlement class action (*Georgine v. Amchem*) referred to below. About 18,400 claims from purported settlement class members were received as of December 31, 1996, although many do not qualify at this time for payment.

Nearly all the personal injury suits and claims, except *Georgine* claims, seek general and punitive damages arising from alleged exposures, at various times, from World War II onward, to asbestos-containing products. Claims against the Company generally involve allegations of negligence, strict liability, breach of warranty and conspiracy with respect to its involvement with insulation products. 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 first exposure to asbestos. Nearly all suits name many defendants, 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 has decreased during the past several years in substantial part due to the *Georgine* settlement class action, 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 and future personal injury claims. The Judicial Panel for Multidistrict Litigation ordered the transfer of all pending federal cases to the Eastern District of Pennsylvania in Philadelphia for pretrial purposes. The Company has supported this transfer. Some cases are periodically released for trial, although the issue of punitive damages is retained by the transferee Court. State court cases have not been directly affected by the transfer. The transferee Court 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 claims.

### **Georgine Settlement Class Action**

*Georgine v. Amchem* is a settlement class action filed in the Eastern District of Pennsylvania on January 15, 1993, that includes essentially all future asbestos-related personal injury claims against members, including the Company, of the Center for Claims Resolution ("Center") referred to below. It is designed to establish a non-litigation system for the resolution of such claims against Center members. Other companies may be able to join the class action later. The settlement 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 they 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 burden of asbestos-related litigation on the courts. Each member of the Center is obligated for its own fixed share of compensation and fees. Potential claimants who neither filed a prior lawsuit against Center members nor filed an exclusion request 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 medical category (including amounts paid even more promptly under simplified payment procedures) are 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. Approximately 87,000 individuals have filed exclusion requests and have thus opted out of the settlement. Such opt outs are not claims but are reservations of rights possibly to bring claims in the future. The settlement will become final only after certain issues, including insurance coverage, are resolved and appeals are exhausted, a process which could take several years. The Center members stated their intention to resolve over a five-year period the claims pending when the class action was filed, and a significant number have been settled or are in negotiations.

The Center members are seeking agreement from insurance carriers or a binding judgment against them that the class action settlement will not jeopardize existing insurance coverage; the class action is contingent upon such an agreement or judgment. For carriers that do not agree, this matter will proceed through alternative dispute resolution (for carriers that subscribed to the Wellington Agreement referred to below), or through litigation.

On May 10, 1996, a three-judge panel of the U.S. Court of Appeals for the Third Circuit issued an adverse decision in an appeal from the preliminary injunction by the District Court that enjoined members of the Georgine class from proceeding against Center members in the tort system. The Court of Appeals decision ruled against maintaining the settlement class action, ordered that the preliminary injunction be vacated, and ordered decertification of the class. The Court ruled broadly that the case does not meet the requirements for class certification under Federal Rule of Civil Procedure 23, concluding that a class action cannot be certified for purposes of settlement unless it can be certified for full-scale litigation. The Company believes that the Court erred in several important respects. The Company believes that the Court's ruling was not consistent with rulings of several other courts that have considered Rule 23 issues in comparable cases. In particular, the recent ruling in the Ahearn case by the Fifth Circuit Court of Appeals reached a contrary conclusion on a central Rule 23 issue in Georgine.

On November 1, 1996, the U.S. Supreme Court accepted the Center's petition for certiorari and the appeal was argued on February 18, 1997. A decision from the Supreme Court is likely by July 1997. The preliminary injunction will remain

in place while the case is pending in the Supreme Court. The Center's counsel believes there to be substantial grounds for the Supreme Court to reverse the Court of Appeals' decision.

The Company remains optimistic that a form of future claimants settlement class action may ultimately be approved, although the courts may not uphold the Georgine settlement class action, and may not uphold the companion insurance action or, even if upheld, there is a potential that judicial action might result in substantive modification of this settlement.

If the final resolution by the Supreme Court is not favorable to the Center members, the District Court's injunction will likely be lifted and a large number of lawsuits might be filed within a short time against the Center members, resulting in a likely increase in the number of subsequent pending cases in the tort system against the Company. In due course, the consequences from lifting the injunction could result in presently undeterminable, but likely higher, liability and defense costs under a claims resolution mechanism alternative to Georgine which the Company believes would likely be negotiated.

Even if the appeal to the Supreme Court is successful, various issues remain to be resolved and the potential exists that those issues will cause the class action ultimately not to succeed or to be substantially modified. Similarly, the potential exists that the companion insurance action will not be successful.

### **Insurance Carriers/Wellington Agreement**

The Company's primary and excess insurance carriers have provided defense and indemnity coverage for asbestos-related personal injury claims, and the primary insurers are providing defense coverage for property damage claims.

Various insurance carriers provide products and non-products coverages for the Company's asbestos-related personal injury claims and product coverage for property damage claims. Most policies providing products coverage for personal injury claims have been exhausted. The insurance carriers that currently provide coverage or whose policies have provided or are believed to provide personal injury products and non-products or property damage coverages are 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 provided \$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 insolvency was 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 that 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.

The Wellington Agreement also provided for the establishment of the Asbestos Claims Facility to evaluate, settle, pay and defend all personal injury claims against member companies. Liability payments and allocated expenses were allocated by formula to each member. The Facility was dissolved when certain members raised concerns about their share of liability payments and allocated expenses and certain insurers raised concerns about defense costs and Facility operating expenses.

### **Center for Claims Resolution**

Following the dissolution of the Facility, the Center 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 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. The Center has revised the formula for shares of liability payments and defense costs over time and has defended the members' interests and addressed the claims in a manner consistent with the prompt, fair resolution of meritorious claims. The share adjustments have resulted in some increased liability share for the Company. In the settlement class action, each member will pay its own fixed share of every claim. If a member withdraws, the shares of remaining members will not change. The Center members have reached 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 ninth year of operation. The Center processes pending claims as well as future claims in the settlement class action.

An increase in the utilization of the Company's insurance 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. A substantial portion of the insurance asset involves non-products insurance which is in alternate dispute resolution. While the Company is seeking resolution of key issues in the alternate dispute resolution process during 1997, a shortfall may develop between available insurance and amounts necessary to pay claims, and that shortfall may occur in the third quarter of 1997 or earlier, depending on the timing of availability of certain coverages. The Company does not believe that such shortfall would be material either to the financial condition of the Company or to its liquidity. 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 ultimately successful, projections of the rate of disposition of future cases may be possible.

### **Property Damage Litigation**

The Company is also one of many defendants in a total of 11 pending lawsuits and claims as of December 31, 1996, 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. The claims 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. The Company vigorously denies the validity of the allegations against it 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 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 trial court issued final decisions in various phases in the insurance lawsuit filed by the Company in California, 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 decision established favorable defense and indemnity coverage for property damage claims holding that coverage would be in effect during the period of installation and during any subsequent period in which a release of fibers occurred. The California appellate courts substantially upheld the trial court, and that insurance coverage litigation is now concluded. The Company has resolved personal injury products coverage matters with all of its solvent carriers except one small excess carrier.

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 or otherwise decided between the Company and the insurance carrier.

### **Non-Products Insurance Coverage**

Non-products insurance coverage is included in the Company's primary and a number of excess policies for certain types of claims. The settlement agreement referenced above with a primary carrier included a provision for non-products claims. Non-products claims include among other things those claims that may have arisen out of exposure during installation of asbestos materials. Negotiations have been undertaken with the Company's primary insurance carriers 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 such claims is substantial, and at the primary level, includes defense costs in addition to limits. All the carriers raise various reasons why they should not pay their coverage obligations, including contractual defenses, waiver, laches and statutes of limitations. One primary carrier alleges that it is no longer bound by the Wellington Agreement, and another alleges that the Company agreed to limit its claims for non-products coverage against that carrier at the time the Wellington Agreement was signed.

The Company has initiated an alternative dispute resolution proceeding against the carriers. This proceeding is in the mediation phase. If coverage is not mutually resolved during that phase with the help of a neutral party, the proceeding moves to binding arbitration. Other proceedings against several non-Wellington carriers may become necessary.

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.

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 an Interim Agreement, the 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 reduced for that portion associated with personal injury suits and claims. In an insurance settlement on March 31, 1989, the Company received \$11.0 million, of which approximately \$4.4 million was credited to income and nearly all of the balance was recorded as an increase to its reserve. Costs of litigation against insurance carriers and other legal costs indirectly related to asbestos litigation will be expensed outside the reserve.

### **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 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, nor whether, if needed, an alternative to the Georgine settlement vehicle may ultimately emerge, or the ultimate liability if such alternative does not emerge, or the scope of its non-products coverage ultimately deemed available.

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 \$141.6 million in liability and defense costs recorded on the balance sheet will be incurred to resolve an estimated 43,600 asbestos-related personal injury claims pending against the Company as of December 31, 1996. 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 claims ultimately may be filed by claimants who have opted out of the class action or who are determined not to be subject to the settlement class action, or if the preliminary injunction is vacated, the number of claims that then would not be subject to the class action constraints.

An insurance asset in the amount of \$141.6 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. A substantial portion of the insurance asset involves non-products insurance which is in alternative dispute resolution. While the Company is seeking resolution of the key issues in the alternative dispute resolution process during 1997, a shortfall may develop between available insurance and amounts necessary to pay claims that may occur in the third quarter of 1997 or possibly in the second quarter, depending on the timing of the availability of certain coverages. The Company believes such shortfall would not be material either to the financial condition of the Company or to its liquidity. The Company also notes that, based on maximum mathematical projections covering a ten-year period from 1994 to 2004, its estimated cost in Georgine reflects a reasonably possible additional liability of \$245 million. If Georgine is not ultimately approved, the Company believes that a claims resolution mechanism alternative to the Georgine settlement will likely be negotiated, albeit at a likely higher liability and defense costs. 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 or in the cost of an alternative settlement format, 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 insurance coverage settlement agreement and through coverage from the outcome of the California 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, settlements with other insurance carriers, the results of the California insurance coverage litigation, the remaining reserve, the establishment of the Center, the Georgine settlement class action and the likelihood that if Georgine is not ultimately upheld, an alternative

to Georgine would be negotiated, 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 \$19 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. Also denied was a motion by TINS before the District Court to rescind an earlier 1984 agreement of settlement. TINS has appealed this later decision to the Circuit Court, and a hearing will likely be held on this issue during the first half of 1997. If the denial of the motion were reversed on appeal, TINS could possibly be entitled to litigate claims that had been resolved by means of the settlement agreement.

#### **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 10, 1997, there were approximately 7,396 holders of record of the Company's Common Stock.

	First	Second	Third	Fourth
-----				
1996				
Dividends per share of common stock	0.36	0.40	0.40	0.40
Price range of common stock--high	64 1/2	61 5/8	65 1/2	75 1/4
Price range of common stock--low	57 7/8	53 1/2	51 7/8	61 3/4
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1995				
Dividends per share of common stock	0.32	0.36	0.36	0.36
Price range of common stock--high	48 1/2	52	60 1/2	64 1/8
Price range of common stock--low	38 3/8	43	50 1/4	52 7/8
-----				
	Total year			
-----				
1996				
Dividends per share of common stock	1.56			
Price range of common stock--high	75 1/4			
Price range of common stock--low	51 7/8			
-----				
1995				
Dividends per share of common stock	1.40			
Price range of common stock--high	64 1/8			
Price range of common stock--low	38 3/8			
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During 1996, the Company issued a total of 1,400 shares of Common Stock to nonemployee directors of the Company pursuant to the Company's Restricted Stock Plan for Nonemployee Directors. Given the small number of persons to whom these shares were issued, applicable restrictions on transfer and the information regarding the Company possessed by the directors, these shares were issued without registration in reliance on Section 4(2) of the Securities Act of 1933, as amended.



## Item 6. Selected Financial Data

(Dollars in millions except for per-share data).	For year	1996	1995	1994	1993
Net sales		2,156.4	2,325.0	2,226.0	2,075.7
Cost of goods sold		1,459.9	1,581.1	1,483.9	1,453.7
Total selling, general and administrative expenses		413.2	457.0	449.2	435.6
Equity (earnings) loss from affiliates		(19.1)	(6.2)	(1.7)	(1.4)
Restructuring charges		46.5	71.8	--	89.3
Loss from ceramic tile business formation/ (gain) from sales of woodlands		--	177.2	--	--
Operating income (loss)		255.9	44.1	294.6	98.5
Interest expense		22.6	34.0	28.3	38.0
Other expense (income), net		(6.9)	1.9	0.5	(6.1)
Earnings (loss) from continuing businesses before income taxes		240.2	8.2	265.8	66.6
Income taxes		75.4	(5.4)	78.6	17.6
Earnings (loss) from continuing businesses		164.8	13.6	187.2	49.0
As a percentage of sales		7.6%	0.6%	8.4%	2.4%
As a percentage of average monthly assets (a)		8.5%	0.7%	10.7%	2.8%
Earnings (loss) from continuing businesses applicable to common stock (b)		158.0	(0.7)	173.1	35.1
Per common share--primary		3.97	(0.02)	4.60	0.93
Per common share--fully diluted (c)		3.81	(0.02)	4.10	0.92
Net earnings (loss)		155.9	123.3	210.4	63.5
As a percentage of sales		7.2%	5.3%	9.5%	3.1%
Net earnings (loss) applicable to common stock (b)		149.1	109.0	196.3	49.6
As a percentage of average shareholders' equity		19.6%	15.0%	31.3%	9.0%
Per common share--primary		3.76	2.90	5.22	1.32
Per common share--fully diluted (c)		3.60	2.67	4.64	1.26
Dividends declared per share of common stock		1.56	1.40	1.26	1.20
Purchases of property, plant and equipment		220.7	171.8	134.2	107.6
Aggregate cost of acquisitions		--	20.7	--	--
Total depreciation and amortization		123.7	123.1	120.7	117.0
Average number of employees--continuing businesses		10,572	13,433	13,784	14,796
Average number of common shares outstanding		39.1	37.1	37.5	37.2
Year-end position					
Working capital--continuing businesses		243.5	346.8	384.4	279.3
Net property, plant and equipment--continuing businesses		964.0	878.2	966.4	937.6
Total assets		2,135.6	2,149.8	2,159.0	1,869.2
Long-term debt		219.4	188.3	237.2	256.8
Total debt as a percentage of total capital (d)		37.2%	38.5%	41.4%	52.2%
Shareholders' equity		790.0	775.0	735.1	569.5
Book value per share of common stock		19.19	20.10	18.97	14.71
Number of shareholders (e) (f)		7,424	7,084	7,473	7,963
Common shares outstanding		41.2	36.9	37.2	37.2
Market value per common share		69 1/2	62	38 1/2	53 1/4

(Dollars in millions except for per-share data)	For year	1992	1991	1990	1989
Net sales		2,111.4	2,021.4	2,082.4	2,050.4
Cost of goods sold		1,536.1	1,473.7	1,469.8	1,423.2
Total selling, general and administrative expenses		446.6	415.1	404.0	380.7
Equity (earnings) loss from affiliates		(0.2)	--	--	--
Restructuring charges		160.8	12.5	6.8	5.9
Loss from ceramic tile business formation/ (gain) from sales of woodlands		--	--	(60.4)	(9.5)
Operating income (loss)		(31.9)	120.1	262.2	250.1
Interest expense		41.6	45.8	37.5	40.5
Other expense (income), net		(7.2)	(8.5)	19.7	(5.7)
Earnings (loss) from continuing businesses before income taxes		(66.3)	82.8	205.0	215.3
Income taxes		(2.9)	32.7	69.5	74.6
Earnings (loss) from continuing businesses		(63.4)	50.1	135.5	140.7
As a percentage of sales		-3.0%	2.5%	6.5%	6.9%
As a percentage of average monthly assets (a)		-3.3%	2.7%	7.5%	8.6%
Earnings (loss) from continuing businesses applicable to common stock (b)		(77.2)	30.7	116.0	131.0
Per common share--primary		(2.07)	0.83	2.98	2.88
Per common share--fully diluted (c)		(2.07)	0.83	2.74	2.76
Net earnings (loss)		(227.7)	48.2	141.0	187.6
As a percentage of sales		-10.8%	2.4%	6.8%	9.1%
Net earnings (loss) applicable to common stock (b)		(241.5)	28.8	121.5	177.9
As a percentage of average shareholders' equity		-33.9%	3.3%	13.0%	17.9%
Per common share--primary		(6.49)	0.77	3.12	3.92
Per common share--fully diluted (c)		(6.49)	0.77	2.86	3.72
Dividends declared per share of common stock		1.20	1.19	1.135	1.045
Purchases of property, plant and equipment		107.5	127.1	184.2	215.0
Aggregate cost of acquisitions		4.2	--	16.1	--
Total depreciation and amortization		123.4	122.1	116.5	121.6
Average number of employees--continuing businesses		16,045	16,438	16,926	17,167
Average number of common shares outstanding		37.1	37.1	38.8	45.4
Year-end position					
Working capital--continuing businesses		239.8	353.8	305.2	449.4
Net property, plant and equipment--continuing businesses		967.2	1,042.8	1,032.7	944.0
Total assets		1,944.3	2,125.7	2,124.4	2,008.9
Long-term debt		266.6	301.4	233.2	181.3
Total debt as a percentage of total capital (d)		57.2%	46.9%	45.7%	36.1%
Shareholders' equity		569.2	885.5	899.2	976.5
Book value per share of common stock		14.87	23.55	24.07	23.04

Number of shareholders (e) (f)	8,611	8,896	9,110	9,322
Common shares outstanding	37.1	37.1	37.1	42.3
Market value per common share	31 7/8	29 1/4	25	37 1/4

(Dollars in millions except for per-share data)	For year	1988	1987	1986
Net sales		1,843.4	1,608.7	1,295.0
Cost of goods sold		1,287.6	1,112.0	889.2
Total selling, general and administrative expenses		331.3	288.8	240.3
Equity (earnings) loss from affiliates		--	--	--
Restructuring charges		--	--	--
Loss from ceramic tile business formation/ (gain) from sales of woodlands		(1.9)	--	--
Operating income (loss)		226.4	207.9	165.5
Interest expense		25.8	11.5	5.4
Other expense (income), net		(13.1)	(4.3)	(3.1)
Earnings (loss) from continuing businesses before income taxes		213.7	200.7	163.2
Income taxes		79.4	82.2	70.0
Earnings (loss) from continuing businesses		134.3	118.5	93.2
As a percentage of sales		7.3%	7.4%	7.2%
As a percentage of average monthly assets (a)		10.4%	11.3%	10.8%
Earnings (loss) from continuing businesses applicable to common stock (b)		133.9	118.0	92.8
Per common share--primary		2.90	2.50	1.93
Per common share--fully diluted (c)		2.90	2.50	1.93
Net earnings (loss)		162.7	150.4	122.4
As a percentage of sales		8.8%	9.3%	9.4%
Net earnings (loss) applicable to common stock (b)		162.3	150.0	122.0
As a percentage of average shareholders' equity		17.0%	17.6%	16.0%
Per common share--primary		3.51	3.18	2.54
Per common share--fully diluted (c)		3.51	3.18	2.54
Dividends declared per share of common stock		0.975	0.885	0.7325
Purchases of property, plant and equipment		165.8	156.7	119.1
Aggregate cost of acquisitions		355.8	71.5	53.1
Total depreciation and amortization		99.4	83.6	67.6
Average number of employees--continuing businesses		15,016	14,036	12,953
Average number of common shares outstanding		46.2	47.2	48.1
Year-end position				
Working capital--continuing businesses		260.6	345.3	401.5
Net property, plant and equipment--continuing businesses		930.4	674.1	534.7
Total assets		2,073.1	1,574.9	1,277.5
Long-term debt		185.9	67.7	58.8
Total debt as a percentage of total capital (d)		35.9%	22.8%	16.9%
Shareholders' equity		1,021.8	913.8	813.0
Book value per share of common stock		21.86	19.53	16.85
Number of shareholders (e) (f)		10,355	9,418	9,621
Common shares outstanding		46.3	46.2	47.5
Market value per common share		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 preferred shares.
- (c) See definition of fully diluted earnings per share on page 37.
- (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 6,000 to 6,500 employees for years 1988 through 1996.
- (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.

Beginning in 1996, ceramic tile results were reported under the equity method, whereas prior to 1996, ceramic tile operations were reported on a consolidated or line item basis.

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

### **Results of Operations**

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#### 1996 COMPARED WITH 1995

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The 1995 and 1994 consolidated financial statements have been restated from the 1995 annual report to include the historical results of the ceramic tile operations on an operating or consolidated line item basis rather than under the equity method.

#### **FINANCIAL CONDITION**

As shown on the Consolidated Statements of Cash Flows (see page 35), net cash provided by operating activities and the sale of assets was sufficient to cover normal working capital requirements, payments related to restructuring activities and additional investment in plant, property and equipment. Most of the 1996 beginning cash balance plus proceeds from exercised stock options covered the reduction of debt, payments of dividends, preferred stock redemptions, repurchase of shares, purchase of computer software and additional investment in Dal-Tile International Inc., a company in which Armstrong has a 33% equity investment. The beginning cash balance of \$256.9 million included proceeds from the sale of Thomasville Furniture Industries, Inc., in December 1995.

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#### Uses of cash flow (\$ millions)

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#### **[BAR GRAPH APPEARS HERE]**

Working capital was \$243.5 million as of December 31, 1996, \$103.3 million lower than the \$346.8 million recorded at year-end 1995. The reduction in working capital over 12 months resulted primarily from the \$191.5 million decrease in cash. Partially offsetting the working capital decrease were increases in inventories of \$10.2 million, income tax benefits of \$22.5 million, the \$33.9 million decrease in short-term debt and current installments of long-term debt and the \$24.1 million decrease in accounts payable and accrued expenses.

The ratio of current assets to current liabilities was 1.76 to 1 as of December 31, 1996, compared with 1.92 to 1 as of December 31, 1995, primarily due to the reduced levels of cash.

In the second quarter, the company announced that effective October 1, 1996, the Employee Stock Ownership Plan (ESOP) and the Retirement Savings Plan (RSP) would be merged to form the new Retirement Savings and Stock Ownership Plan (RSSOP). On July 31, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock with a book value of \$139.1 million at a one-for-one ratio. The ultimate impact on the company's results will depend on the level of employee participation in the restructured plan and the stock price over time.

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#### Total debt/total debt + equity

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#### **[BAR GRAPH APPEARS HERE]**

Long-term debt, excluding the company's guarantee of the ESOP loan, increased \$31.1 million in 1996. The increase was primarily due to a low interest rate loan for a capital addition at the Kankakee, Illinois, floor tile plant. At December 31, 1996, long-term debt of \$219.4 million represented 17.4% of total capital compared with 14.9% at the end of 1995. The 1996 and 1995 year-end ratios of total debt (including the company's financing of the ESOP loan) as a percent of total capital were 37.2% and 38.5%, respectively.

In July 1996, the Board of Directors authorized the company to repurchase 3.0 million shares of its common stock (in addition to the 2.5 million shares authorized in 1994), through the open market or through privately negotiated transactions, bringing the total authorized common share repurchases to 5.5 million shares. The increased stock repurchase authorization will allow greater flexibility in deploying cash flow and, to the extent that shares can be repurchased at attractive prices, should increase earnings per share. Since the inception of the plan, the company has repurchased approximately 2,380,000 shares through December 31, 1996, including approximately 1,328,000 shares repurchased in 1996. In addition to shares repurchased under the above plan, approximately 364,600 ESOP shares were repurchased in 1996. By early February 1997, the company had completed the 1994 2.5 million share repurchase plan.

Capital in excess of par value increased \$112.8 million from December 31, 1995, primarily as a result of two transactions. First, the company reissued treasury stock to the trustee of the ESOP in the conversion of the preferred stock held by the trust as mentioned above. Capital in excess of par value increased \$102.4 million representing the excess of conversion value of the ESOP convertible shares over the average acquisition cost of the treasury shares. Second, Dal-Tile issued new shares in a public offering in August and used part of the proceeds from the public offering to refinance all of its existing debt. Although Armstrong's ownership share declined to 33% from 37%, Dal-Tile's net assets increased, adding to the overall carrying



value of Armstrong's investment and resulting in the company recording \$14.5 million as additional capital in excess of par value.

In April 1996, the company increased the five-year revolving line of credit with 11 banks from \$200 million to \$300 million. The line of credit is used for general corporate purposes and as a backstop for commercial paper notes. On November 1, the company's shelf registration statement for an additional \$250 million of debt and/or equity securities was approved. The total amount of unissued securities registered with the Securities and Exchange Commission is now \$500 million.

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 financial markets.

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Funds from operations/total debt

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The company is involved in significant asbestos-related litigation which is described more fully on pages 48-51 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 (*Georgine v. Amchem*) 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 10-year period for the settlement class action or the compensation levels to be negotiated for such claims, nor whether, if needed, an alternative to the *Georgine* settlement vehicle may ultimately emerge, or the ultimate liability if such alternative does not emerge, or the scope of its nonproducts coverage ultimately deemed available.

Subject to the foregoing and based upon its experience and other factors also referred to above, the company believes that the estimated \$141.6 million in liability and defense costs recorded on the 1996 balance sheet will be incurred to resolve an estimated 43,600 asbestos-related personal injury claims pending against the company as of December 31, 1996.

An insurance asset in the amount of \$141.6 million recorded on the 1996 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. A substantial portion of the insurance asset involves nonproducts insurance which is in alternate dispute resolution. While the company is seeking resolution of key issues in the alternate dispute resolution process during 1997, a shortfall may develop between available insurance and amounts necessary to pay claims as early as the third quarter of 1997 or possibly in the second quarter depending on the timing of the availability of certain coverage (the company believes such shortfall would not be material either to the financial condition of the company or to its liquidity). 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. If the *Georgine* settlement class action mechanism is not ultimately approved, the company believes that a claims resolution mechanism alternative to the *Georgine* settlement will likely be negotiated, though at likely higher liability and defense costs. 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 or in the cost of an alternative settlement format, 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 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 as a result of the outcome of the California 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 California insurance coverage litigation, the remaining reserve, the establishment of the Center, the *Georgine* settlement class action and the likelihood that if *Georgine* is not ultimately upheld, an alternative to *Georgine* would be negotiated, 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 51. In 1994, a 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 subsequently 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 which denied the motion. Also denied was a motion by TINS before the District Court to rescind an earlier 1984 agreement of settlement. TINS has appealed this later decision to the Circuit Court, and it is expected that this appeal will be argued during the first half of 1997.

Reference is also made to environmental matters as discussed on page 46. 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 effect on its financial condition, liquidity or results of operations, although the recording of any future costs may be material to earnings in such future period.

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Book value per share at year-end (dollars)

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### **CONSOLIDATED RESULTS**

Net sales of \$2.16 billion were lower when compared with last year's net sales of \$2.33 billion which included \$0.24 billion of sales from the ceramic tile operations. Beginning in 1996, ceramic tile is reported on the equity method; therefore, a year-to-year sales comparison cannot be made for this industry segment. Sales growth occurred in the floor coverings and building products segments. The floor coverings segment sales growth came primarily from residential and commercial floor tile sold through the U.S. home center channel and floor sales in Eastern Europe and Russia. In the building products segment, strong commercial ceiling sales in the latter part of the year offset earlier servicing problems resulting from severe weather conditions in the first quarter 1996. Industry products sales were adversely affected by competitive pressure in European insulation products and lower global textile products sales which more than offset the positive impact of increases in the gasket and specialty paper business.

Earnings from continuing businesses after income taxes in 1996 were \$164.8 million or \$3.97 per share on a primary basis and \$3.81 per share on a fully diluted basis and included after-tax charges of \$29.6 million for restructuring and \$22.0 million for costs associated with the discoloration of a limited portion of flooring products. Earnings from continuing businesses after income taxes in 1995 were \$13.6 million and included a \$46.6 million charge after tax for restructuring and a loss of \$116.8 million after tax related to the business combination of Armstrong's ceramic tile operations with Dal-Tile International Inc.

Net earnings for 1996 were \$155.9 million, or \$3.76 per share on a primary basis and \$3.60 per share on a fully diluted basis and included the restructuring and discoloration charges mentioned above plus \$8.9 million or \$0.21 per share for the company's portion of an extraordinary loss from Dal-Tile related to the refinancing of Dal-Tile's outstanding debt. A reduction in Dal-Tile's interest expense should occur as a result of the debt refinancing. Net earnings in 1995 were \$123.3 million or \$2.90 per share on a primary basis and \$2.67 on a fully diluted basis and included \$25.8 million of after-tax earnings from the discontinued operations of Thomasville Furniture Industries, Inc., and \$83.9 million representing the after-tax gain from its sale.

The company's Economic Value Added (EVA) performance as measured by return on EVA capital was 14.8% in 1996, exceeding 1995's return on EVA capital of 14.0% and the company's 12% cost of capital. In 1997, the company's cost of capital for EVA will be reduced to 11% partially due to lower interest rates and stock price volatility.

Cost of goods sold in 1996 was 67.7% of sales, slightly lower than the 68.0% recorded in 1995. The 1996 cost of goods sold included \$5.9 million for charges associated with the floor discoloration issue which were offset by lower raw material and other manufacturing costs. The cost of goods sold in 1995 included the impact of start-up costs of approximately \$3.1 million related to the insulation products facility in Mebane, North Carolina.

Selling, general and administrative (SG&A) expenses in 1996 were \$413.2 million which included \$14.0 million of expenses related to the discoloration issue. In 1995, SG&A expenses were \$457.0 million and included \$59.9 million of SG&A expenses of the ceramic tile operations which was reported on an equity basis in 1996.

The second-quarter 1996 before-tax restructuring charge for continuing businesses of \$46.5 million, or \$29.6 million after tax (79 cents per share on a primary basis and 70 cents per share on a fully diluted basis), related primarily to the reorganization of corporate and business unit staff positions; realignment and consolidation of the Armstrong and W.W. Henry installation products businesses; restructuring of production processes in the Munster, Germany, ceilings facility; early retirement opportunities for employees in the Fulton, New York, gasket and specialty paper products facility; and write-down of assets. These actions affected approximately

500 employees, about two-thirds of whom were in staff positions. These restructuring actions continued the company's ongoing efforts to streamline the organization and enable the businesses to be the best-cost suppliers in their markets. The charges were estimated to be evenly split between cash payments and noncash charges. The majority of the cash outflow was expected to occur over 12 months. It was anticipated that ongoing cost reductions and productivity improvements should permit recovery of the charges in less than two years. In 1995, restructuring charges of \$71.8 million before tax or \$46.6 million after tax (\$1.09 per share on a fully diluted basis) were recorded. These charges related primarily to the closure of a plant in Braintree, Massachusetts, and for severance and early retirement incentives for approximately 670 employees in the North American resilient flooring business and the European industry products and building products businesses.

Actual severance payments charged against restructuring reserves were \$32.1 million in 1996 relating to the elimination of 724 positions, of which 323 terminations occurred since the beginning of 1996. As of December 31, 1996, \$50.3 million of reserves remained for restructuring actions.

In July, the company learned that discoloration in a limited portion of its residential sheet flooring product lines was occurring. The problem was traced to a raw material used in production primarily between September 1995 and July 1996. The manufacturing process was corrected to eliminate any further occurrence of this problem. New production was shipped to customers to meet demand for this product. A portion of the production of the affected product lines was shipped to retailers and potentially installed in consumers' homes. The remainder was in the company's, wholesalers' or retailers' inventory.

In September, the company recorded charges of \$34.0 million before tax or \$22.0 million after tax (\$0.53 per share) for costs associated with the discoloration issue. These charges included the write-down to realizable value of the company's inventory on hand or to be returned from independent wholesalers and the potential cost of removing and replacing discolored product installed in consumers' homes. The company will continue to monitor claims levels associated with these products and may make further adjustments in the reserve based on experience. Based on information currently available, the company believes that any additional loss would not be material to the financial condition of the company or to its liquidity, although the recording of any future liabilities may be material to earnings in such future period.

Interest expense in 1996 of \$22.6 million was lower than 1995's interest expense of \$34.0 million. The primary reasons for the decrease were the lower levels of short-term debt and lower interest expense requirements on long-term debt.

Armstrong's effective tax rate for continuing businesses in 1996 was 31.4%. In 1995, Armstrong's effective tax benefit for continuing businesses was 65.9%. Removing the tax effects of the loss on the ceramic tile business combination, the effective tax rate would have been 29.7%, reflecting tax benefits related to reduced foreign and state income tax expense.

## **GEOGRAPHIC AREA RESULTS (see page 39)**

### **UNITED STATES**

Net sales in 1996 were \$1.42 billion, slightly lower than the \$1.59 billion recorded in 1995 which included \$0.24 billion of ceramic tile sales. Sales through the home center channel had significant year-to-year increases. The commercial markets for ceilings and the residential and commercial markets for floor tile continue to show strength. U.S. residential sheet flooring sales were slightly below 1995.

Operating income of \$202.7 million was higher than 1995's operating income of \$7.7 million which included a \$177.2 million loss due to the ceramic tile business combination. An organizational effectiveness study to review the company's staff support activities was implemented by late 1996, and the restructuring activities associated with this study had an adverse impact on operating income of \$34.5 million before tax. Operating income was also negatively affected by the one-time charge of \$34.0 million related to the floor discoloration issue mentioned above. Restructuring activities in 1995 resulted in \$45.5 million before tax charged against operating income. Operating income for 1996 was positively impacted by higher sales levels in the floor coverings and building products segments and was leveraged through ongoing cost reduction efforts.

Export sales of Armstrong products from the U.S. to trade customers of \$34.0 million increased nearly \$1.9 million, or 6.1%, compared with 1995.

### **EUROPE**

Sales by the European affiliates reflected the soft economy largely offset by the ability to enter into new market areas such as Eastern Europe and Russia. Net sales decreased 1.8% to \$548.4 million compared with 1995. Insulation sales were negatively impacted by competitive pressures, although they increased in the latter half of 1996. Floor Products sales increased from 1995, setting several quarterly sales records in 1996. Building Products sales increased slightly, despite softened demand and competitive pressure in the Western European commercial market segment. Operating income increased 26.8% over 1995, primarily due to cost savings obtained from prior years' restructuring activities. Restructuring charges in Europe were \$11.0 million and \$24.9 million in 1996 and 1995, respectively. In floor products, increased volume in addition to productivity improvements have resulted in improved profits in the residential sheet business. European insulation products operating income has been positively impacted by its continued efforts to be the best-cost supplier in the industry.

## **OTHER FOREIGN**

Sales increased 4.9% over 1995, with ceiling sales in the Pacific Rim providing a significant part of the growth. Sales growth in Latin America for Building Products continues a trend established over the past three years. Operating income increased 28.6% over 1995, with start-up costs for the new ceilings plant in China totaling \$3.8 million offset by lower costs in the Pacific area Floor Products and Building Products Operations.

## **INDUSTRY SEGMENT RESULTS (see page 3)**

### **FLOOR COVERINGS**

In the floor coverings segment, 1996 net sales of \$1.09 billion were slightly above 1995's \$1.05 billion and included a reduction of \$14.1 million for customer returns associated with the discoloration of a limited portion of its Residential Inlaid Color Sheet Flooring products line. The adverse effect of these returns and the small decline in the U.S. residential sheet business were offset by increases in residential sheet flooring sales in Europe, especially Eastern Europe and Russia, and sales of all products to U.S. home centers. In the home center channel, which is serviced through the Corporate Retail Accounts Division, the strategy of segmenting products for the home centers has proven to be successful. In this channel, The Home Depot and Lowe's are important customers of our resilient floor products. Laminate flooring, manufactured and marketed in alliance with the F. Egger Company of Austria, had a good initial market reaction.

Operating income included a \$34.0 million charge associated with the discoloration issue and a \$14.5 million restructuring charge primarily related to the consolidation of the separate Armstrong and W.W. Henry installation products businesses and to other reorganizations in the floor products operations staff. Operating income in 1995 included a restructuring charge of \$25.0 million primarily related to the elimination of positions in North America. Records were set in both the U.S. residential and commercial tile businesses. Lower raw material costs and increased manufacturing productivity had a positive impact on the cost profile of this business. However, operating income was adversely impacted by start-up costs for laminate flooring. Capital expenditures in this segment increased \$40.4 million to \$117.7 million and were directed toward the rollout of the Quest display and merchandising system and toward improved manufacturing process effectiveness.

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Net trade sales (\$ millions)

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#### **Outlook**

The rollout of the Quest merchandising system with retailers was successful, with the October 1996 introduction in Canada providing additional impetus. The company believes that this state-of-the-art display system will provide a competitive advantage in the residential sheet flooring market segment. Laminate flooring, which was introduced to the U.S. market in late 1996, was introduced in Canada in early 1997. The company expects that the laminate flooring alliance with F. Egger Company, along with other business partnerships, should provide additional growth opportunities and manufacturing capacity for the floor coverings segment. The company will continue its strategy to increase its brand recognition through increased advertising. These and other merchandising costs plus small increases in raw material costs should be offset by the significant productivity improvements that have been occurring worldwide. In the home center channel, increases in the number of The Home Depot and Lowe's stores, in addition to the segmentation strategy, should contribute to sales growth. The company plans to have 14 independent regional distribution centers established by the end of 1997 to service these customers. (Five distribution centers were in place by the end of 1996.)

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Operating income (\$ millions)

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### **BUILDING PRODUCTS**

In the building products segment, net sales increased over 5.3% when compared to 1995 with growth primarily in North America and the Pacific Rim. North American sales increased significantly with the major areas of market strength in the commercial market segment and the home center channel. Manufacturing has recovered from the severe weather conditions of early 1996, while inventories and service levels have stabilized in anticipation of sales growth in 1997.

Operating income increased to \$95.1 million, 3.1% over 1995. Operating income in 1996 included an \$8.3 million restructuring charge, the majority of which related to simplifying production processes in the Munster, Germany, ceilings facility. The balance of the restructuring charge was associated with staff reorganizations and asset write-downs in Europe. In 1995, operating income was adversely impacted by a \$6.3 million restructuring charge, primarily related to elimination of



administrative functions in the European operations. In the earlier part of 1996, operating income had been adversely impacted by weather-related problems in North America and Europe. During 1996, additional costs were incurred for integration and start-up of the new metal ceilings products business and the wet-formed ceiling products plant in China. However, higher sales volume in 1996, improvements in its production processes and reductions in its nonmanufacturing expenses more than offset these additional costs. Capital expenditures in this segment increased by \$18.5 million to \$67.7 million. Excellent sales and profit growth continued in North America and Europe from WAVE, the grid system joint venture with Worthington Industries.

#### Outlook

Economic forecasts indicate continued growth in the U.S. commercial business and recovery in western and southern Europe. New products play an important part of the global building products segment. The most recent impact product is Ultima ceilings which provides exceptional noise reduction, sag resistance and a durable surface for commercial interiors. In 1996, the company announced its planned joint venture with Partek Insulation, the foremost producer of rockwool-based insulation in Finland and Sweden, to manufacture and distribute high-performance, soft-fiber ceilings throughout Europe. The addition of this alliance will strengthen the company's Scandinavian distribution business and enhance its current ceiling line in Europe. The company believes that this new product line, in addition to the metal ceilings business which will include the planned joint venture with Hunter Douglas, will provide additional growth opportunities primarily in Europe and serve as a foundation for growth in other geographic areas. The ceilings plant in China, aimed at servicing the fast-growing geographic market, began production in late 1996.

### INDUSTRY PRODUCTS

Sales for the industry products segment of \$346.2 million in 1996 decreased less than 1% when compared with 1995's sales of \$348.8 million. Sales in 1995 included \$7.9 million of an exchange translation benefit when compared to 1996 rates and \$4.9 million from the champagne cork business divested in 1995. Operating income for 1996 was \$40.1 million and includes a \$4.0 million restructuring charge, the majority of which related to an early retirement offering to employees of the Fulton, New York, gasket and specialty paper products facility. Operating income in 1995 of \$9.3 million included a \$31.4 million restructuring charge related to the closing of the Braintree, Massachusetts, plant and elimination of employee positions in Europe. For insulation products, cost reductions in Europe have enabled the business to remain competitive through lower selling prices and thus to continue to gain market share while in the U.S. sales growth was achieved through increased market share. The Mebane, North Carolina, facility, which became operational in 1996, will provide low-cost manufacturing for the U.S. As a result of these strategies, operating income for insulation products has increased. Income increased significantly for Armstrong Industrial Specialties, Inc., especially in its gaskets business. The textile products business continues to implement several cost-saving initiatives to reduce its overhead. Despite these changes, the business continued to generate a small operating loss of approximately \$3.0 million due to continued worldwide market softness in the textile industry. In 1995, the company announced its intentions to discuss with potential buyers the possible sale of the Textile Products Operations. Capital expenditures in the industry products segment decreased \$22.5 million from the higher levels of 1995 when expenditures were made for the construction of two plants and for the acquisition of another plant.

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Capital additions (\$ millions)

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#### Outlook

It is anticipated that the European insulation market environment will continue to be price competitive, and further cost-saving actions are planned to achieve volume increases through becoming the best-cost supplier in the industry. In addition, this business is continuing to seek profitable growth into new geographic areas such as Central Europe and Asia. Armstrong Industrial Specialties plans to take advantage of its implementation of effective logistic systems to enable on-time, defect-free delivery of its products. The company believes the market for textile products will stabilize during 1997, at which time cost reductions in the business will provide a better return. The evaluation of strategic alternatives, including a possible sale, continues for this business.

### CERAMIC TILE

In the ceramic tile segment, 1996 results represent the company's share of the after-tax net income of the Dal-Tile business combination reduced by the amortization of the excess of the company's initial investment in Dal-Tile over the underlying equity in net assets. Operating income for 1995 reflects the pre-tax operating income of the ceramic tile operations, primarily the American Olean Tile Company. Dal-Tile took several initiatives during 1996 to integrate the business, including the closure of two plants and numerous sales service centers. Sales growth in 1996 for ceramic tile occurred primarily in the home center and independent distributor channels.

#### Outlook

Dal-Tile will continue its efforts to integrate the two businesses and enhance operating efficiencies and capacity utilization. Continued growth is expected in the home center channel and independent distributor channel, and planned capacity expansions should provide a platform to improve Dal-Tile's

market share. Significant interest expense savings are anticipated from the refinancing of existing debt with proceeds from the initial public offering completed in 1996.

#### **FOURTH QUARTER 1996 COMPARED WITH FOURTH QUARTER 1995**

Sales from continuing businesses of \$528.6 million were \$29.0 million lower than 1995's fourth-quarter sales of \$557.6 million which included \$59.9 million of ceramic tile sales. Sales for the ceramic tile business combination are not included in the results for 1996 in accordance with the change to equity-based accounting. Sales increased in all segments other than ceramic tile, assisted primarily by growth in the following business units: the commercial and residential floor tile business units, the commercial ceilings business and the European insulation business.

Earnings from continuing businesses were \$53.7 million, or \$1.28 per share. These results compare with 1995's fourth-quarter loss from continuing businesses of \$74.7 million or a loss of \$2.09 per share on both a primary and fully diluted basis. Fourth-quarter 1995's results included an after-tax loss of \$116.8 million (\$2.73 per share on both a primary and fully diluted basis) related to the Dal-Tile business combination.

The increase in earnings from continuing businesses reflects, in addition to the effect of 1995's loss, a lower cost of goods sold of 69.2% when compared with the 70.7% of 1995's fourth quarter. Lower overall raw material costs in 1996 and strategic initiatives to become the industry's best-cost supplier have lowered the company's manufacturing costs.

All segments reported increases in operating income. In the floor coverings segment, operating income was \$45.6 million compared with \$35.1 million in 1995. Sales increases in residential and commercial floor tile, in addition to a sales increase in residential sheet flooring, were the major contributors to the growth. Fourth-quarter operating income for building products was \$21.7 million compared with 1995 fourth-quarter income of \$19.8 million. The significant factors driving this increase were sales growth, lower costs from productivity improvements and lower costs of raw materials.

Industry products operating income of \$9.9 million increased from \$5.7 million in the fourth quarter 1995. Sales volume continues to build in Europe and North America in a turnaround from weaker levels earlier in 1996.

The ceramic tile segment fourth-quarter results, of \$4.7 million, represent Armstrong's after-tax share of the net income of the Dal-Tile business combination and the amortization of the excess of the company's investment in Dal-tile over the underlying equity in net assets. Prior year's fourth-quarter results of \$2.6 million, excluding the \$177.2 million loss due to the ceramic tile business combination, reflect the pre-tx operating income of the ceramic tile operations. This segment continues to experience sales growth through the home centers and independent distributor channels and significant cost savings from the integration of the two businesses.

Armstrong's effective tax rate for continuing businesses in the fourth-quarter 1996 was 31.4%. In fourth quarter 1995, Armstrong had an effective tax benefit for continuing businesses of 40.1%. Removing the tax effects of the loss on the ceramic tile business combination, the effective tax rate would have been 19.9%. This favorable rate included tax benefits related to reductions in foreign and state income tax expense.

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 1995 earnings from this discontinued business were \$7.6 million, or \$0.20 per share on a primary basis and \$0.18 on a fully diluted basis.

Fourth-quarter 1996 net earnings were \$53.2 million compared with \$16.8 million in 1995. Net earnings per share were \$1.27 million compared with 1995's \$0.35 on a primary basis and \$0.34 on a fully diluted basis.

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#### **1995 COMPARED WITH 1994**

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#### **FINANCIAL CONDITION**

As shown on the Consolidated Statements of Cash Flows (see page 35), 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 in cash and the

stock of its ceramic tile operations, consisting primarily of American Olean Tile Company, a wholly owned subsidiary, for a 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 1995, 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 did not have a significant impact on financial results.

These actions showed 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 used 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 continued 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 had 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, \$37.6 million lower than the \$384.4 million recorded at year-end 1994. The reduction in working capital resulted primarily from the \$79.6 million net reduction in current assets and liabilities after the change to equity-based accounting for the ceramic tile business combination completed December 29, 1995. Also contributing to the reduction in working capital were higher levels of accrued expenses, primarily as a result of accruals for restructuring actions and higher current installments on long-term debt. The effect of the ceramic tile business combination and higher short-term liabilities was partially offset by the increase in cash resulting from the sale of Thomasville, a decrease in receivables and a decrease in inventories. The majority of the change in receivables was due to the transfer of American Olean Tile receivables to Dal-Tile as a part of the business combination. Although inventories decreased by \$33.2 million, without the effects of the business combination, inventories would have increased \$30.9 million, primarily due to the building of finished stock for anticipated service level requirements. Included in these increases was approximately \$8.0 million due to the translation of foreign currency receivables and inventories to U.S. dollars.

The 1995 year-end ratio of current assets to current liabilities was 1.92 to 1 compared with a ratio of 2.11 to 1 reported in 1994. Excluding the effects of the ceramic tile business combination, the ratio remained unchanged when compared with 1994.

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 ratios of total debt (including the company's guarantee of the ESOP loan) as a percent of total capital were 38.5% and 41.4%, respectively.

## **CONSOLIDATED RESULTS**

Net sales of \$2.33 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 \$2.23 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.

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 68.0% of sales, slightly higher than the 66.7% recorded in 1994. This increase largely reflects start-up costs at the new insulation products facility in Mebane, North Carolina, and the impact of an unfavorable sales mix 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 1.7% higher than 1994. The increased costs primarily 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 \$46.6 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 included costs accrued for the elimination of 223 salaried and hourly employee positions, for the obsolescence of equipment and for other costs to be incurred after operations cease. Cash outlays were 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 related to severance and early retirement incentives for approximately 670 employees, half of whom are hourly with the other half 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 were estimated to be evenly split between cash payments throughout 1996 and noncash charges, primarily to cover retirement-related expenses. It was 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 continuing businesses for 1995, excluding the tax benefit on the loss related to the ceramic tile business combination, was 29.7% compared with a 29.6% rate in 1994.

## **GEOGRAPHIC AREA RESULTS (see page 39)**

### **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 were offset by lower levels in 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 of \$14.6 million 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 \$6.0 million, or 22.9%, compared with 1994.

### **EUROPE**

During 1995, economic conditions continued to improve and increased demand in 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 pressure. An organizational effectiveness study was completed in 1995 to align the staff with the global business units and reduce costs.

### **OTHER FOREIGN**

Sales in 1995 increased slightly when compared with 1994, assisted by an increase in building products sales to China. Operating income also increased slightly, but reflected continued competitive pressure and higher expenses needed to expand to China and other Far East markets. The company continued 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 (see page 3)**

**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 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 to \$77.3 million and were directed toward modernization of equipment, manufacturing capacity and operating efficiencies.

### **BUILDING PRODUCTS**

The announcement in October 1995 that U.S. Building Products Operations was the first building materials manufacturer and marketer to win a Malcolm Baldrige National Quality Award demonstrated 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. In 1995, 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 delivered excellent results. Capital expenditures in this segment, which increased by \$17.7 million to \$49.2 million, were directed at increasing capacity through productivity improvements.

### **INDUSTRY PRODUCTS**

The industry products segment's sales grew by almost 12%, with the weaker U.S. dollar accounting 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-to-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 Products 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 principally reflecting the acquisition in March of a gasket and specialty paper manufacturing facility in Beaver Falls, New York. However, operating income was negatively impacted by lower automotive and diesel market sales and higher raw material costs. Effective in 1996, this business became a wholly owned subsidiary company, Armstrong Industrial Specialties, Inc. In the third quarter 1995, the company divested the champagne cork business in Spain. The textile products business generated a modest operating loss; however, the loss was lower than the amount recorded in 1994.

### **CERAMIC TILE**

The ceramic tile segment recorded sales increases in both the commercial and residential market segments of the business with the residential segment continuing to reflect the highest growth.

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 targeted at opening price points.

## Item 8. Financial Statements and Supplementary Data

### QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (millions except for per-share data)		First	Second	Third	Fourth	Total year
1996	Net sales	\$501.2	\$563.2	\$563.4	\$258.6	\$2,156.4
	Gross profit	156.7	198.4	178.4	163.0	696.5
	Earnings from continuing business	36.3	30.6	44.2	53.7	164.8
	Net earnings	36.3	30.6	35.8	53.2	155.9
	Per share of common stock:*					
	Primary:					
	Earnings from continuing businesses	0.88	0.73	1.06	1.28	3.97
	Net earnings	0.88	0.73	0.86	1.27	3.76
	Fully diluted:					
	Earnings from continuing businesses	0.81	0.68	1.06	1.28	3.81
	Net earnings	0.81	0.68	0.86	1.27	3.60
	Dividends per share of common stock	0.36	0.40	0.40	0.40	1.56
	Price range of common stock--high	64 1/2	61 5/8	65 1/2	75 1/4	75 1/4
	price range of common stock--low	57 7/8	53 1/2	51 7/8	61 3/4	51 7/8
1995	Net sales	\$558.8	\$596.8	\$611.8	\$557.6	\$2,325.0
	Gross profit	183.1	194.6	203.6	162.6	743.9
	Earnings (loss) from continuing business	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--high	48 1/2	52	60 1/2	64 1/8	64 1/8
	price range of common stock--low	38 3/8	43	50 1/4	52 7/8	38 3/8

\*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.

### CONSOLIDATED STATEMENTS OF EARNINGS

Millions except for per-share data	Years ended December 31		1996	1995	1994
Net sales			\$2,156.4	\$2,325.0	\$2,226.0
Cost of goods sold			1,459.9	1,581.1	1,483.9
Gross profit			696.5	743.9	742.1
Selling, general and administrative expenses			413.2	457.0	449.2
Equity (earnings) from affiliates			(19.1)	(6.2)	(1.7)
Restructuring charges			46.5	71.8	--
Loss from ceramic tile business combination			--	177.2	--
Operating income			255.9	44.1	294.6
Interest expense			22.6	34.0	28.3
Other expense (income), net			(6.9)	1.9	0.5
Earnings from continuing businesses before income taxes			240.2	8.2	265.8
Income taxes			75.4	(5.4)	78.6
Earnings from continuing businesses			164.8	13.6	187.2
Discontinued business:					
Earnings from operations of Thomasville Furniture Industries, Inc. (less income taxes of \$13.9 in 1995 and \$15.5 in 1994)			--	25.8	23.2
Gain on disposal of discontinued business (less income taxes of \$53.4)			--	83.9	--
Earnings before extraordinary loss			164.8	123.3	210.4
Extraordinary loss, less income taxes of \$0.7			(8.9)	--	--
Net earnings			\$ 155.9	\$ 123.3	\$ 210.4
Dividends paid on Series A convertible preferred stock			8.8	18.8	19.0
Tax benefit on dividends paid on unallocated preferred shares			2.0	4.5	4.9
Net earnings applicable to common stock			\$ 149.1	\$ 109.0	\$ 196.3
Per share of common stock (See note on page 37-51):					
Primary:					
Earnings (loss) from continuing businesses			\$ 3.97	\$ (0.02)	\$ 4.60
Earnings from discontinued business			--	0.68	0.62
Gain on sale of discontinued business			--	2.24	--
Earnings before extraordinary loss			3.97	2.90	5.22
Extraordinary loss			(0.21)	--	--

Net earnings	\$ 3.76	\$ 2.90	\$ 5.22
Fully diluted:			
Earnings (loss) from continuing businesses	\$ 3.81	\$ (0.02)	\$ 4.10
Earnings from discontinued business	--	0.60	0.54
Gain on sale of discontinued business	--	1.96	--
Earnings before extraordinary loss	3.81	2.67	4.64
Extraordinary loss	(0.21)	--	--
Net earnings	\$ 3.60	\$ 2.67	\$ 4.64

The Notes to Consolidated Financial Statements, pages 37-51, are an integral part of these statements.



## CONSOLIDATED BALANCE SHEETS

Millions except for numbers of shares and per-share data	As of December 31	1996	1995
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 65.4	\$ 256.9
Accounts and notes receivable (less allowance for discounts and losses: 1996--\$34.9; 1995--\$29.0)		216.7	217.9
Inventories		205.7	195.5
Income tax benefits		49.4	26.9
Other current assets		27.3	25.5
<b>Total current assets</b>		<b>564.5</b>	<b>722.7</b>
Property, plant and equipment (less accumulated depreciation and amortization: 1996--\$974.9; 1995--\$975.9)			
Insurance for asbestos-related liabilities		141.6	166.0
Investment in affiliates		204.3	162.1
Other noncurrent assets		261.2	220.8
<b>Total assets</b>		<b>\$2,135.6</b>	<b>\$2,149.8</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Short-term debt		14.5	22.0
Current installments of long-term debt		13.7	40.1
Accounts payable and accrued expenses		273.3	297.4
Income taxes		19.5	16.4
<b>Total current liabilities</b>		<b>321.0</b>	<b>375.9</b>
Long-term debt			
Employee Stock Ownership Plan (ESOP) loan guarantee		221.3	234.7
Deferred income taxes		30.5	16.5
Postretirement and postemployment benefit liabilities		247.6	244.5
Asbestos-related liabilities		141.6	166.0
Other long-term liabilities		151.9	138.9
Minority interest in subsidiaries		12.3	10.0
<b>Total noncurrent liabilities</b>		<b>1,024.6</b>	<b>998.9</b>
Shareholders' equity:			
Class A preferred stock. Authorized 20 million shares; issued 5,654,450 shares of Series A convertible preferred stock; outstanding: 1996--0 shares; 1995--5,421,998 shares; cumulative retired: 1996--5,654,450 shares; 1995--232,452 shares		--	258.9
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		162.1	49.3
Reduction for ESOP loan guarantee		(217.4)	(225.1)
Retained earnings		1,222.6	1,133.8
Foreign currency translation		17.3	18.0
		<b>1,236.5</b>	<b>1,286.8</b>
Less common stock in treasury, at cost: 1996--10,714,572 shares; 1995--15,014,098 shares		446.5	511.8
<b>Total shareholders' equity</b>		<b>790.0</b>	<b>775.0</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$2,135.6</b>	<b>\$2,149.8</b>

The Notes to Consolidated Financial Statements, pages 37-51, are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Years ended December 31	1996	1995	1994
<b>Cash flows from operating activities:</b>				
Net earnings		\$ 155.9	\$ 123.3	\$ 210.4
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization excluding furniture		123.7	123.1	120.7
Depreciation and amortization for furniture		--	13.0	12.7
Deferred income taxes		11.2	(8.7)	14.6
Equity change in affiliates		(18.2)	(6.3)	(0.9)
Gain on sale of discontinued businesses		--	(83.9)	--
Loss on ceramic tile business combination net of taxes		--	116.8	--
Loss from restructuring activities		46.5	71.8	--
Restructuring payments		(37.4)	(18.3)	(20.2)
(Increase) decrease in net assets of discontinued business		--	2.3	(4.4)
Extraordinary loss		8.9	--	--
Changes in operating assets and liabilities net of effect of discontinued business, restructuring and dispositions:				
(Increase) decrease in receivables		3.6	6.9	(18.8)
(Increase) in inventories		(11.5)	(34.3)	(6.8)
(Increase) decrease in other current assets		(22.8)	9.8	(3.6)
(Increase) in other noncurrent assets		(57.4)	(23.4)	(18.9)
Increase (decrease) in accounts payable and accrued expenses		(3.2)	(37.0)	32.1
Increase (decrease) in income taxes payable		2.5	(8.2)	(10.1)
Increase (decrease) in other long-term liabilities		15.2	20.0	(5.3)
Other, net		3.9	3.1	3.7
<b>Net cash provided by operating activities</b>		<b>220.9</b>	<b>270.0</b>	<b>305.2</b>
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment excluding furniture		(220.7)	(171.8)	(134.2)
Purchases of property, plant and equipment for furniture		--	(14.3)	(14.1)
Investment in computer software		(7.3)	(10.9)	(4.3)
Proceeds from sale of land, facilities and discontinued businesses		3.6	342.6	12.8
Acquisitions		--	(20.7)	--
Investment in affiliates		(15.4)	(27.6)	--
<b>Net cash provided by (used for) investing activities</b>		<b>(239.8)</b>	<b>97.3</b>	<b>(139.8)</b>
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term debt		(7.1)	3.2	(89.6)
Issuance of long-term debt		40.8	--	--
Reduction of long-term debt		(40.0)	(20.1)	(5.7)
Cash dividends paid		(70.1)	(70.8)	(66.2)
Purchase of common stock for the treasury		(79.6)	(41.3)	(10.6)
Preferred stock redemption		(21.4)	(2.9)	--
Proceeds from exercised stock options		6.2	7.0	8.4
Other, net		(0.6)	2.3	(0.8)
<b>Net cash used for financing activities</b>		<b>(171.8)</b>	<b>(122.6)</b>	<b>(164.5)</b>
Effect of exchange rate changes on cash and cash equivalents		(0.8)	0.2	2.0
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>\$ (191.5)</b>	<b>\$ 244.9</b>	<b>\$ 2.9</b>
Cash and cash equivalents at beginning of year		\$ 256.9	\$ 12.0	\$ 9.1
Cash and cash equivalents at end of year		\$ 65.4	\$ 256.9	\$ 12.0
<b>Supplemental cash flow information</b>				
Interest paid		\$ 20.7	\$ 29.6	\$ 31.9
Income taxes paid		\$ 65.5	\$ 76.9	\$ 62.0

The Notes to Consolidated Financial Statements, pages 37-51, are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Millions except for per-share data	Years ended December 31		
	1996	1995	1994
Series A convertible preferred stock:			
Balance at beginning of year	\$ 258.9	\$ 261.6	\$ 263.9
Conversion of preferred stock to common	(241.5)	--	--
Shares retired	(17.4)	(2.7)	(2.3)
Balance at end of year	\$ --	\$ 258.9	\$ 261.6
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	\$ 49.3	\$ 39.3	\$ 29.7
Gain in investment in affiliates	14.5	--	--
Minimum pension liability adjustments	(7.4)	--	--
Conversion of preferred stock to common	102.4	--	--
Stock issuances	3.3	10.0	9.6
Balance at end of year	\$ 162.1	\$ 49.3	\$ 39.3
Reduction for ESOP loan guarantee:			
Balance at beginning of year	\$ (225.1)	\$ (233.9)	\$ (241.8)
Principal paid	13.4	10.7	8.4
Loans to ESOP	(4.2)	--	--
Accrued compensation	(1.5)	(1.9)	(0.5)
Balance at end of year	\$ (217.4)	\$ (225.1)	\$ (233.9)
Retained earnings:			
Balance at beginning of year	\$1,133.8	\$1,076.8	\$ 927.7
Net earnings for year	155.9	123.3	210.4
Tax benefit on dividends paid on unallocated common shares	1.0	--	--
Tax benefit on dividends paid on unallocated preferred shares	2.0	4.5	4.9
Total	\$1,292.7	\$1,204.6	\$1,143.0
Less dividends:			
Preferred stock			
\$3.462 per share	\$ 8.9	\$ 18.8	\$ 19.0
Common stock			
\$1.56 per share in 1996;	61.2		
\$1.40 per share in 1995;		52.0	
\$1.26 per share in 1994;			47.2
Total dividends	\$ 70.1	\$ 70.8	\$ 66.2
Balance at end of year	\$1,222.6	\$1,133.8	\$1,076.8
Foreign currency translation:			
Balance at beginning of year	\$ 18.0	\$ 8.3	\$ (3.4)
Translation adjustments and hedging activities	(4.4)	10.9	11.7
Allocated income taxes	3.7	(1.2)	--
Balance at end of year	\$ 17.3	\$ 18.0	\$ 8.3
Less treasury stock at cost:			
Balance at beginning of year	\$ 511.8	\$ 468.9	\$ 458.5
Stock purchases	81.5	41.3	10.6
Conversion of preferred stock to common	(139.1)	--	--
Stock issuance activity, net	(7.7)	1.6	(0.2)
Balance at end of year	\$ 446.5	\$ 511.8	\$ 468.9
Total shareholders' equity	\$ 790.0	\$ 775.0	\$ 735.1

The Notes to Consolidated Financial Statements, pages 37-51, are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The 1995 and 1994 consolidated financial statements have been restated from the 1995 annual report to include the historical results of the ceramic tile operations on an operating or consolidated line item basis rather than under the equity method.

**Use of Estimates.** 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.

**Consolidation Policy.** 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. All significant intercompany transactions have been eliminated from the consolidated statements.

**Earnings per Common Share.** In the third quarter, the employee stock ownership plan (ESOP) and retirement savings plan were merged resulting in the conversion of convertible preferred shares into common stock. Primary earnings per share for "Earnings from continuing businesses" and for "Net earnings" in 1996 are determined by dividing the earnings, after deducting preferred dividends (net of tax benefits on unallocated shares), by the average number of common shares outstanding, including the converted shares from the conversion date forward. Fully diluted earnings per share for 1996 include the shares of common stock outstanding and the adjustments to common shares and earnings required to portray the convertible preferred shares on an "if converted" basis prior to conversion. The earnings per share calculation for 1996 reflects different levels of shares for primary and fully diluted calculations since the converted shares are only included in the weighted average common shares outstanding from the conversion date forward.

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

**Postretirement Benefits.** The company has plans that provide for medical and life insurance benefits to certain eligible employees when they retire from active 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 limitations.

**Taxes.** Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The tax benefit for dividends paid on unallocated shares of stock held by the ESOP was recognized in shareholders' equity.

**Cash and Cash Equivalents.** 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.

**Inventories.** Inventories are valued at the lower of cost or market. Approximately 57% of 1996's inventories are valued using the last in, first out (LIFO) method. Other inventories are generally determined on a first in, first out (FIFO) method.

**Long-Lived Assets.** Property, plant and equipment values are stated at acquisition cost, with accumulated depreciation and amortization deducted to arrive at net book value. 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."

Costs of the construction of certain long-term assets include capitalized interest which is amortized over the estimated useful life of the related asset.

Effective January 1, 1996, the company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 requires that impairment losses be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The adoption of this standard did not have a material impact on the company's operating results, cash flows or financial position.

**Goodwill and Other Intangibles.** Goodwill and other intangibles are amortized on a straight-line basis over periods up to 31 years. On a periodic basis, the company estimates the future undiscounted cash flows of the businesses to which goodwill relates in order to ensure that the carrying value of goodwill has not been impaired.

**Financial Instruments.** The company uses financial instruments to diversify or offset the effect of currency and interest rate variability.

The company may enter into foreign currency forward contracts and options to offset the effect of exchange rate changes on cash flow exposures denominated in foreign currencies. The exposures include firm commitments and anticipated events encompassing sales, royalties, service fees, dividends and intercompany loans.

Realized and unrealized gains and losses on contracts are marked to market and recognized in the consolidated statements of earnings. Unrealized gains and losses on foreign currency options (which consist primarily of purchased options that are designated as effective hedges) as well as option premium expense are deferred and included in the statements of earnings as part of the underlying transactions. Realized and unrealized gains and losses on foreign currency contracts used to hedge intercompany transactions having the character of long-term investments are included in the foreign currency translation component of shareholders' equity.

The company may enter into interest rate swap agreements to alter the interest rate risk profile of outstanding debt, thus altering the company's exposure to changes in interest rates. In these swaps, the company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a notional principal amount. Any differences paid or received on interest rate swap agreements are recognized as adjustments to interest rate expense over the life of the swap.

The company continuously monitors developments in the capital markets and only enters into currency and swap transactions with established counterparties having investment-grade ratings. The exposure to individual counterparties is limited, and thus the company considers the risk of counterparty default to be negligible.

Stock Compensation. On January 1, 1996, the company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied.

## NATURE OF OPERATIONS

INDUSTRY SEGMENTS			
at December 31 (millions)	1996	1995	1994
Net trade sales:			
Floor coverings	\$1,091.8	\$1,053.9	\$1,063.5
Building products	718.4	682.2	630.0
Industry products	346.2	348.8	312.2
Ceramic tile	--	240.1	220.3
Total net sales	\$2,156.4	\$2,325.0	\$2,226.0
Operating income (loss): (Note 1)			
Floor coverings	\$ 146.9	\$ 145.0	\$ 189.6
Building products	95.1	92.2	86.8
Industry products	40.1	9.3	41.2
Ceramic tile (Note 2)	9.9	(168.4)	0.8
Unallocated corporate expense	(36.1)	(34.0)	(23.8)
Total operating income	\$ 255.9	\$ 44.1	\$ 294.6
Depreciation and amortization:			
Floor coverings	\$ 53.9	\$ 47.9	\$ 49.2
Building products	37.0	36.8	34.5
Industry products	19.1	19.3	17.6
Ceramic tile	4.3	13.5	13.8
Corporate	9.4	5.6	5.6
Total depreciation and amortization	\$ 123.7	\$ 123.1	\$ 120.7
Capital additions: (Note 3)			
Floor coverings	\$ 117.7	\$ 77.3	\$ 56.7
Building products	67.7	49.2	31.5
Industry products	22.5	45.0	22.6
Ceramic tile	--	9.6	20.4
Corporate	12.8	6.3	3.0
Total capital additions	\$ 220.7	\$ 187.4	\$ 134.2
Identifiable assets:			
Floor coverings	\$ 687.9	\$ 583.2	\$ 575.7
Building products	541.1	513.5	478.1
Industry products	272.8	301.8	234.8
Ceramic tile	168.7	135.8	290.1
Discontinued business	--	--	182.1
Corporate	465.1	615.5	398.2
Total assets	\$2,135.6	\$2,149.8	\$2,159.0
Note 1:			
Restructuring charges in operating income (millions)			
	1996	1995	1994
Floor coverings	\$14.5	\$25.0	--
Building products	8.3	6.3	--
Industry products	4.0	31.4	--
Ceramic tile	--	--	--
Unallocated corporate expense	19.7	9.1	--
Total restructuring charges in operating income	\$46.5	\$71.8	--

**Note 2: 1995 operating income includes a \$177.2 million loss due to the ceramic tile business combination. See "Equity Earnings From Affiliates" on page 36.**

**Note 3: 1995 capital additions for industry segments include property, plant and**

equipment from acquisitions of \$15.6 million.

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 and sales to home centers, which have become an important part of the company's business. To improve logistical cost-effectiveness, 14 independent regional distribution centers are being established to service these customers (five of the centers were in place by the end of 1996). To reduce interchannel conflict, segmented resilient flooring products were 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 the worldwide market of these materials and is subject to cost changes.

The building products segment manufactures both residential and architectural ceiling systems. Grid products, manufactured 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. Through a joint venture with a Chinese partner, production began in late 1996 in Shanghai to manufacture ceilings and suspension systems for the Pacific area.

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 manufacturing. 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. Other products in the industry products segment are textile mill supplies, including cots and aprons sold to equipment manufacturers and textile mills. 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 includes ceramic tile sold through home centers, company-owned sales service centers and independent distributors. Ceramic tile products face significant competition from foreign suppliers. Starting in 1996, this segment's results are reported as "Equity Earnings from Affiliates" (see page 39) and are included in operating income.

## GEOGRAPHIC AREAS

at December 31 (millions)	1996	1995	1994
Net trade sales:			
United States	\$1,419.2	\$1,586.4	\$1,564.0
Europe	548.4	558.7	483.4
Other foreign	188.8	179.9	178.6
Interarea transfers:			
United States	105.0	101.1	95.0
Europe	13.2	13.8	8.7
Other foreign	30.4	32.1	26.1
Eliminations	(148.6)	(147.0)	(129.8)
Total net sales	\$2,156.4	\$2,325.0	\$2,226.0
Operating income:			
United States (See Note 2 on page 35)	\$ 202.7	\$ 7.7	\$ 235.5
Europe	79.3	62.6	75.3
Other foreign	10.0	7.8	7.6
Unallocated corporate expense	(36.1)	(34.0)	(23.8)
Total operating income	\$ 255.9	\$ 44.1	\$ 294.6
Identifiable assets:			
United States	\$1,180.1	\$1,044.5	\$1,130.1
Europe	383.7	406.7	376.5
Other foreign	107.3	83.4	72.6
Discontinued business	--	--	182.1
Corporate	465.1	615.5	398.2
Eliminations	(0.6)	(0.3)	(0.5)
Total assets	\$2,135.6	\$2,149.8	\$2,159.0

United States net trade sales include export sales to non-affiliated customers of \$34.0 million in 1996, \$32.1 million in 1995 and \$26.1 million in 1994. Also included in United States net trade sales were ceramic tile operations sales of \$240.1 million and \$220.3 million in 1995 and 1994, respectively.

"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.

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## OPERATING STATEMENT ITEMS

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### NET SALES

Net sales in 1996 totaled \$2,156.4 million, 7.2% below the 1995 total of \$2,325.0 million and 3.1% below the 1994 total of \$2,226.0 million. Sales are not reported in 1996 for the ceramic tile segment in which Armstrong has a minority interest. Prior to 1996, ceramic tile segment sales were consolidated with total company results. Ceramic tile net sales for 1995 and 1994 were \$240.1 million and \$220.3 million, respectively.

### EARNINGS FROM CONTINUING BUSINESSES

Earnings from continuing businesses were \$164.8 million in 1996 compared with \$13.6 million in 1995 and \$187.2 million in 1994. 1995 earnings included the \$116.8 million after-tax loss for the ceramic tile business combination mentioned above. Included in the earnings for 1996 and 1995 were after-tax restructuring charges of \$29.6 million and \$46.6 million, respectively.

### 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 in cash. INTERCO also assumed \$8.0 million of Thomasville's interest-bearing debt. The company recorded a gain on the sale of \$83.9 million after tax. 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 and \$526.8 million in 1994.

## NET EARNINGS

Net earnings were \$155.9 million for 1996 compared with \$123.3 million and \$210.4 million in 1995 and 1994, respectively.

## EQUITY EARNINGS FROM AFFILIATES

Equity earnings from affiliates for 1996 were primarily comprised of the company's after-tax share of the net income of the Dal-Tile International Inc. business combination and the amortization of the excess of the company's investment in Dal-Tile over the underlying equity in net assets, and the 50% interest in the WAVE joint venture with Worthington Industries. Results in 1995 and 1994 reflect only the 50% interest in the WAVE joint venture.

In 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 in cash 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 exceeded 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.

In August 1996, Dal-Tile issued new shares in a public offering decreasing the company's ownership share from 37% to 33%.

Armstrong's ownership of the combined Dal-Tile is accounted for under the equity method. The summarized historical financial information for ceramic tile operations is presented below.

(millions)	1995	1994
Net sales	\$240.1	\$220.3
Operating income/(1)/	8.8	0.8
Assets/(2)/	269.8	290.1
Liabilities/(2)/	17.3	19.6

**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.**

## RESTRUCTURING CHARGES

Restructuring charges amounted to \$46.5 million in 1996 and \$71.8 million in 1995.

The second-quarter 1996 restructuring charge related primarily to the reorganization of corporate and business unit staff positions; realignment and consolidation of the Armstrong and W.W. Henry installation products businesses; restructuring of production processes in the Munster, Germany, ceilings facility; early retirement opportunities for employees in the Fulton, New York, gasket and specialty paper products facility; and write-down of assets. These actions affected approximately 500 employees, about two-thirds of whom were in staff positions. The charges were estimated to be evenly split between cash payments and noncash charges. The majority of the cash outflow was expected to occur within the following 12 months. It was anticipated that ongoing cost reductions and productivity improvements should permit recovery of these charges in less than two years. The 1995 restructuring charges related primarily to the closure of a plant in Braintree, Massachusetts, and for severance of 670 employees in the North American flooring business and the European industry products and building products businesses.

Actual severance payments charged against restructuring reserves were \$32.1 million in 1996 relating to the elimination of 724 positions, of which 323 terminations occurred since the beginning of 1996. As of December 31, 1996, \$50.3 million of reserves remained for restructuring actions.

## DEPRECIATION AND AMORTIZATION

(millions)	1996	1995	1994
Depreciation	\$108.6	\$114.9	\$113.0
Amortization	15.1	8.2	7.7
Total	\$123.7	\$123.1	\$120.7

The increase in amortization of intangible assets relates principally to the amortization of \$4.1 million of the excess of the company's 1995 investment in the ceramic tile business combination over its underlying equity in net assets.

## SELECTED OPERATING EXPENSES

(millions)	1996	1995	1994
Maintenance and repair costs	\$105.3	\$120.2	\$117.5
Research and development costs	59.3	57.9	53.1
Advertising costs	18.4	25.5	29.6

### OTHER EXPENSE (INCOME), NET

(millions)	1996	1995	1994
Interest and dividend income	\$(6.5)	\$(3.3)	\$(3.7)
Foreign exchange, net loss	1.2	2.6	2.6
Postretirement liability transition obligation	--	1.6	--
Environmental recoveries discontinued businesses	(2.8)	--	--
Minority interest	0.3	0.6	1.8
Other	0.9	0.4	(0.2)
Total	\$(6.9)	\$ 1.9	\$ 0.5

## EMPLOYEE COMPENSATION

Employee compensation and the average number of employees are presented in the table below. Restructuring charges for severance costs and early retirement incentives have been excluded.

Employee compensation cost summary (millions)	1996	1995	1994
Wages and salaries	\$509.7	\$589.2	\$585.9
Payroll taxes	51.5	61.7	54.8
Pension credits	(16.1)	(12.1)	(13.3)
Insurance and other benefit costs	50.7	58.7	46.3

Stock-based compensation	5.8	0.8	0.1
Total	\$601.6	\$698.3	\$673.8
Average number of employees	10,572	13,433	13,784

## 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.

The company also had 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 42.

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 1996, 1995 and 1994, and the company made no contribution to that plan in any of those years.

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

Total pension (credit) cost (millions)	1996	1995	1994
U.S. defined-benefit plans:			
Net pension credit	\$(39.9)	\$(26.5)	\$(29.1)
Early retirement incentives	10.1	28.7	--
Net curtailment gain	--	(1.2)	--
Defined contribution plans	9.9	4.2	4.3
Net pension cost of non-U.S. defined-benefit plans	8.5	8.1	8.6
Other funded and unfunded pension costs	5.4	3.3	2.9
Total pension (credit) cost	\$ (6.0)	\$ 16.6	\$(13.3)

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

The net credit for U.S. defined-benefit pension plans was determined using the assumptions presented in the table below.

Net credit for U.S. defined-benefit pension plans (millions)	1996	1995	1994
Assumptions:			
Discount rate	7.00%	8.00%	7.00%
Rate of increase in future compensation levels	4.25%	5.25%	4.75%
Expected long-term rate of return on assets	8.75%	8.75%	8.25%
Actual (return) loss on assets	\$(124.2)	\$(406.7)	\$ 93.6
Less amount deferred	10.4	313.0	(182.5)
Expected return on assets	\$(113.8)	\$(93.7)	\$(88.9)
Net amortization and other	(9.4)	(9.3)	(9.5)
Service cost--benefits earned during the year	17.2	16.7	17.9
Interest on the projected benefit obligation	66.1	59.8	51.4
Net pension credit	\$ (39.9)	\$ (26.5)	\$ (29.1)

The funded status of the company's U.S. defined-benefit pension plans at the end of 1996 and 1995 is presented in the following table.

Funded status of U.S. defined-benefit pension plans (millions)	1996	1995
Assumptions:		
Discount rate	7.25%	7.00%
Compensation rate	4.50%	4.25%
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ (824.4)	\$ (726.7)
Accumulated benefit obligation	\$ (899.4)	\$ (802.4)
Projected benefit obligation for services rendered to date	\$ (981.2)	\$ (901.2)
Plan assets at fair value	\$ 1,501.9	\$1,446.6
Plan assets in excess of projected benefit obligation	\$ 520.7	\$545.4
Unrecognized transition asset	(33.9)	(40.3)
Unrecognized prior service cost	99.9	81.8
Unrecognized net gain--experience different from assumptions	(462.6)	(491.8)
Provision for restructuring charges	(9.1)	(9.9)
Prepaid pension cost	\$ 115.0	\$ 85.2

The plan assets, stated at estimated fair value as of December 31, are primarily listed stocks and bonds.

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)	1996	1995	1994
Actual (return) loss on assets	\$(8.4)	\$(11.2)	\$ 1.8
Less amount deferred	2.5	5.9	(6.1)
Expected return on assets	\$(5.9)	\$(5.3)	\$(4.3)
Net amortization and other	0.5	0.4	0.6
Service cost--benefits earned during the year	5.3	4.9	5.2
Interest on the projected benefit obligation	8.6	8.1	7.1
Net pension cost	\$ 8.5	\$ 8.1	\$ 8.6

The funded status of the non-U.S. defined-benefit pension plans at the end of 1996 and 1995 is presented in the following table.

Funded status of non-U.S. defined-benefit pension plans (millions)	1996	1995
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$(112.8)	\$(103.0)
Accumulated benefit obligation	\$(117.2)	\$(107.6)
Projected benefit obligation for services rendered to date	\$(125.5)	\$(115.8)
Plan assets at fair value	84.5	71.4
Projected benefit obligation greater than plan assets	\$(41.0)	\$(44.4)
Unrecognized transition obligation	2.4	3.3
Unrecognized prior service cost	5.1	3.4
Unrecognized net gain--experience different from assumptions	(16.9)	(13.4)
Adjustment required to recognize minimum liability	(0.6)	(0.4)
Accrued pension cost	\$(51.0)	\$(51.5)

#### POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

The company has postretirement benefit 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 and 1990 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 common stock are scheduled to be allocated to these employees, based on employee age and years to expected retirement, to help offset future postretirement medical costs. In addition, they may enroll in a voluntary portion of the ESOP to purchase additional shares.

The postretirement benefit costs were determined using the assumptions presented in the table below.

Periodic postretirement benefit costs (millions)	1996	1995	1994
Assumptions:			
Discount rate	7.00%	8.25%	7.75%
Rate of increase in future compensation levels	4.25%	5.25%	4.75%
Service cost of benefits earned during the year	\$ 3.7	\$ 2.8	\$ 3.0
Interest cost on accumulated postretirement benefit obligation	17.0	17.1	16.5
Net amortization and other	0.5	(0.8)	(0.8)
Periodic postretirement benefit cost	\$21.2	\$19.1	\$18.7

The status of the company's postretirement benefit plans at the end of 1996 and 1995 is presented in the following table.

Status of postretirement benefit plans (millions)	1996	1995
Assumptions:		
Discount rate	7.25%	7.00%
Compensation rate	4.50%	4.25%
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$164.9	\$161.5
Fully eligible active plan participants	14.7	17.2
Other active plan participants	67.5	67.9
Total APBO	\$247.1	\$246.6
Unrecognized prior service credit	7.8	7.3
Unrecognized net loss	(37.9)	(40.7)
Accrued postretirement benefit cost	\$217.0	\$213.2

The assumed health care cost trend rate used to measure the APBO was 11% in 1995, 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, 1996, would be increased by \$23.6 million. The effect of this change on the total of service and interest costs for 1996 would be an increase of \$2.4 million.

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

Postemployment benefit expense totaled \$3.1 million in 1996, which included a \$2.9 million credit resulting from favorable actuarial experience with regard to assumed plan retirement and mortality rates. 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.

#### EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In 1989, Armstrong established an Employee Stock Ownership Plan (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. In 1996, the ESOP was merged with the Retirement Savings Plan to form the new Retirement Savings and Stock Ownership Plan (RSSOP).

On July 31, 1996, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock at a one-for-one ratio. In December 1996, the trustee borrowed \$4.2 million at 5.9% from the company. The loan was made to ensure that the financial arrangements provided to employees remain consistent with the original intent of the ESOP.

The number of 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, 1996, the ESOP had allocated to participants a total of 2,245,230 shares and retired 597,068 shares.

The ESOP currently covers parent company nonunion employees, some union employees and employees of 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)	1996	1995	1994
Preferred dividends paid	\$ 8.9	\$18.8	\$19.0
Common stock dividends paid	4.0	--	--
Employee contributions	5.3	6.7	6.2
Company contributions	11.0	6.2	4.9
Company loan to ESOP	4.2	--	--
Debt service payments made by ESOP trustee	\$33.4	\$31.7	\$30.1

The company recorded costs for the ESOP, utilizing the 80% of the shares allocated method, of \$9.4 million in 1996, \$3.5 million in 1995 and \$3.6 million in 1994. These costs were partially offset by savings realized from changes to company-sponsored health care benefits and elimination of the contribution- matching feature in the company-sponsored voluntary retirement savings plan.

## TAXES

Taxes totaled \$140.4 million in 1996, \$71.7 million in 1995 and \$150.4 million in 1994.

Details of taxes (millions)	1996	1995	1994
Earnings (loss) from continuing businesses before income taxes:			
Domestic	\$176.5	\$(28.7)	\$262.7
Foreign	87.6	68.0	52.1
Eliminations	(23.9)	(31.1)	(49.0)
Total	\$240.2	\$ 8.2	\$265.8
Income tax provision (benefit):			
Current:			
Federal	\$ 36.2	\$(19.7)	\$ 12.8
Foreign	33.4	23.4	25.9
State	1.4	(0.2)	5.0
Total current	71.0	3.5	43.7
Deferred:			
Federal	4.9	(6.2)	41.4
Foreign	(0.5)	(2.7)	(2.2)
State	--	--	(4.3)
Total deferred	4.4	(8.9)	34.9
Total income taxes	75.4	(5.4)	78.6
Payroll taxes	50.3	61.5	54.8
Property, franchise and capital stock taxes	14.7	15.6	17.0
Total taxes	\$140.4	\$ 71.7	\$150.4

At December 31, 1996, unremitted earnings of subsidiaries outside the United States were \$125.2 million (at December 31, 1996, 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 \$9.4 million. The company's intention, however, is to reinvest those earnings permanently or to repatriate them only when it is tax effective to do so.

Reconciliation to U.S. statutory tax rate (millions)	1996	1995	1994
Tax expense at statutory rate	\$84.1	\$ 2.9	\$93.0
State income taxes	0.9	--	(1.5)
(Benefit) on ESOP dividend	(1.5)	(2.1)	(1.7)
Tax (benefit) on foreign and foreign-source income	6.2	(7.7)	(1.4)
Utilization of excess foreign tax credit	(6.5)	--	(5.4)
Equity in earnings of affiliates	(4.2)	--	--
Reversal of prior year provisions	--	--	(6.5)
Insurance programs	(1.2)	--	--
Other items	(2.4)	(0.1)	2.1
Loss from ceramic tile business combination	--	1.6	--
Tax (benefit) expense at effective rate	\$75.4	\$(5.4)	\$78.6

### EXTRAORDINARY LOSS

In 1996, Dal-Tile refinanced all of its existing debt resulting in an extraordinary loss. The company's share of the extraordinary loss was \$8.9 million after tax, or \$0.21 per share.

### BALANCE SHEET ITEMS

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased to \$65.4 million at the end of 1996 from \$256.9 million at the end of 1995. The large cash balance at the end of 1995 was primarily due to the cash proceeds received from the sale of Thomasville Furniture Industries, Inc., in December 1995. Most of the 1996 beginning cash balance covered the decrease of debt, repurchase of shares of company stock, payment of dividends, redemption of preferred stock, purchase of computer software and additional investment in Dal-Tile. Operating and other factors associated with the decrease in cash and cash equivalents are detailed in the Consolidated Statements of Cash Flows on page 35.

#### RECEIVABLES

Accounts and notes receivable (millions)	1996	1995
Customers' receivables	\$214.7	\$213.4
Customers' notes	18.4	21.3
Miscellaneous receivables	18.5	12.2
	251.6	246.9
Less allowance for discounts and losses	34.9	29.0
Net	\$216.7	\$217.9

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 \$205.7 million in 1996, \$10.2 million higher than at the end of 1995. The increase was primarily due to higher inventory levels for the introduction of the new laminate flooring product.



Approximately 57% in 1996 and 51% in 1995 of the company's total inventory was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis, by \$60.6 million at the end of 1996 and \$62.4 million at year-end 1995.

Inventories (millions)	1996	1995
Finished goods	\$143.7	\$119.9
Goods in process	20.1	24.0
Raw materials and supplies	41.9	51.6
Total	\$205.7	\$195.5

#### INCOME TAX BENEFITS

Income tax benefits were \$49.4 million in 1996 and \$26.9 million in 1995. The increase was primarily due to prepayment of income taxes. Of these amounts, deferred tax benefits were \$26.9 million in 1996 and \$26.4 million in 1995.

#### OTHER CURRENT ASSETS

Other current assets were \$27.3 million in 1996, an increase of \$1.8 million from the \$25.5 million in 1995.

#### PROPERTY, PLANT AND EQUIPMENT

(millions)	1996	1995
Land	\$ 24.4	\$ 25.6
Buildings	409.2	390.6
Machinery and equipment	1,344.8	1,313.7
Construction in progress	160.5	124.2
	1,938.9	1,854.1
Less accumulated depreciation and amortization	974.9	975.9
Net	\$ 964.0	\$ 878.2

The \$84.8 million increase in gross book value to \$1,938.9 million at the end of 1996 included \$220.7 million for capital additions and a \$122.2 million reduction from sales, retirements, dispositions and other changes.

The unexpended cost of approved capital appropriations amounted to \$62.6 million at year-end 1996, substantially all of which is scheduled to be expended during 1997.

## INSURANCE FOR ASBESTOS-RELATED LIABILITIES

Insurance for asbestos-related liabilities was \$141.6 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 46). Such insurance has either been agreed upon or is probable of recovery through negotiation, alternative dispute resolution or litigation. See discussion on pages 48-51.

## OTHER NONCURRENT ASSETS

(millions)	1996	1995
Goodwill and other intangibles	\$ 46.1	\$ 50.2
Pension-related assets	158.3	108.4
Other	56.8	62.2
Total	\$261.2	\$220.8

Other noncurrent assets increased \$40.4 million in 1996. Goodwill and other intangibles decreased \$4.1 million reflecting lower spending levels in computer software systems and acquired intangibles from acquisitions. The \$49.9 million increase in pension-related assets reflects the net pension credit of \$39.9 million and an increase in the assets of the deferred compensation plans. Noncurrent assets are carried at the lower of cost or market or under the equity method of accounting.

## INVESTMENTS IN AFFILIATES

Investments in affiliates were \$204.3 million in 1996, an increase of \$42.2 million, reflecting the December 29, 1995, 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.

In August Dal-Tile issued new shares in a public offering and used part of the proceeds from the offering to refinance all of its existing debt. Although the company's ownership share declined to 33% from 37%, Dal-Tile's net assets increased, adding to the overall value of the company's investment. In 1996 the company purchased an additional \$15.4 million of Dal-Tile shares through open market trades and as a part of the initial public offering.

## ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(millions)	1996	1995
Payables, trade and other	\$158.2	\$168.3
Employment costs	49.7	51.2
Restructuring costs	27.6	40.1
Other	37.8	37.8
Total	\$273.3	\$297.4

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

## INCOME TAXES

(millions)	1996	1995
Payable--current	\$19.3	\$15.0
Deferred--current	0.2	1.4
Total	\$19.5	\$16.4

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. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets.

Deferred income taxes (millions)	1996	1995
Postretirement and postemployment benefits	\$ (87.0)	\$ (82.6)
Restructuring benefits	(13.6)	(13.4)
Asbestos-related liabilities	(49.4)	(58.1)

Capital loss carry forward	(22.1)	--
Other	(65.8)	(64.6)
Valuation allowance	22.1	--
-----		
Net deferred assets	\$ (215.8)	\$ (218.7)
-----		
Accumulated depreciation	\$ 95.6	\$ 90.7
Pension costs	38.2	35.8
Insurance for asbestos-related liabilities	49.4	58.1
Other	36.4	25.6
-----		
Total deferred income tax liabilities	\$ 219.6	\$ 210.2
-----		
Net deferred income tax liabilities (assets)	\$ 3.8	\$ (8.5)
-----		
Less net income tax (benefits)--current	(26.7)	(25.0)
Deferred income taxes--long term	\$ 30.5	\$ 16.5
=====		

## DEBT

(millions)	1996	Average year-end interest rate	1995	Average year-end interest rate
-----				
Short-term debt:				
Commercial paper	\$ --	--	\$ --	--
Foreign banks	14.5	6.81%	22.0	7.27%
-----				
Total short-term debt	\$ 14.5	6.81%	\$ 22.0	7.27%
-----				
Long-term debt:				
93/4% debentures due 2008	\$125.0	9.75%	\$125.0	9.75%
Medium-term notes 8.75-9% due 1997-2001	52.8	8.93%	92.8	8.74%
Bank loan due 1999 Industrial development bonds	\$ 21.0	4.79%	--	--
Other	19.5	5.25%	8.5	5.35%
	14.8	8.57%	2.1	12.29%
-----				
Total long-term debt	\$233.1	8.67%	\$228.4	9.20%
-----				
Less current installments	13.7	8.91%	40.1	8.50%
-----				
Net long-term debt	\$219.4	8.65%	\$188.3	9.35%
=====				
-----				
Scheduled amortization of long-term debt (millions)				
1998	\$18.2		2001	\$ 7.5
1999	25.0		2002	--
2000	21.9			
-----				

The December 31, 1996, 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 \$252.8 million and \$234.9 million at December 31, 1996 and 1995, 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 9 3/4% debentures and the medium-term notes are not redeemable until maturity and have no sinking-fund requirements.

The bank loan has a favorable variable interest rate and may be prepaid prior to maturity.

The industrial development bonds mature in 2004 and 2024 with interest rates typical of their type.

Other debt includes an \$18.6 million zero-coupon note due in 2013 that had a carrying value of \$2.2 million at December 31, 1996.

In April 1996, Armstrong increased the five-year revolving line of credit for general corporate purposes from \$200.0 million to \$300.0 million. In addition, the company's foreign subsidiaries have approximately \$141.3 million of unused short-term lines of credit available from banks. Some 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 uses foreign currency forward contracts and options to reduce the risk that future cash flows from transactions in foreign currencies will be negatively impacted by changes in exchange rates.

The following table shows anticipated net cash flows for goods, services and financing transactions for the next 12 months:

Foreign currency exposure (millions)/1/	Commercial exposure	Financing exposure	Net hedge	Net position
British pound	\$ (6.2)	\$(34.2)	\$ 34.2	\$ (6.2)
Canadian dollar	47.7	(0.0)	(2.2)	45.5
French franc	(25.9)	2.6	(2.6)	(25.9)
German mark	(39.0)	33.2	(33.2)	(39.0)
Italian lira	14.3	2.5	(2.5)	14.3
Spanish peseta	7.0	2.7	(2.7)	7.0

**Note 1: A positive amount indicates the company is a net receiver of this currency, while a negative amount indicates the company is a net payer.**

The company policy allows hedges of cash flow exposures up to one year. The table below summarizes the company's foreign currency forward contracts and options by currency at December 31, 1996. Foreign currency amounts are translated at exchange rates as of December 31, 1996.

Foreign currency contracts (millions)	Forward contracts		Option contracts	
	Sold	Bought	Sold	Bought
British pound	\$ 1.3	\$35.5	\$ --	\$ --
Canadian dollar	6.2	4.0	--	--
French franc	6.4	3.8	--	--
German mark	46.6	13.4	--	--
Italian lira	2.5	--	--	--
Spanish peseta	2.7	--	--	--

The foreign currency hedges are straightforward contracts that have no embedded 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 as follows:

Gain (loss) (millions)	Foreign currency hedging/1/	Interest rate swaps

-----		
Year 1996		
-----		
Income statement:		
Realized	\$ (1.1)	\$ --
Unrealized	(0.9)	--
On balance sheet	1.9	--
Off balance sheet	--	--
-----		
Total	\$ (0.1)	\$ --
=====		
Year 1995		
-----		
Income statement:		
Realized	\$ (3.5)	\$ --
Unrealized	0.5	--
On balance sheet	0.3	--
Off balance sheet	--	--
-----		
Total	\$ (2.7)	\$ --
=====		
Year 1994		
-----		
Income statement:		
Realized	\$ (3.2)	\$ 0.2
Unrealized	0.4	--
On balance sheet	0.9	--
Off balance sheet	--	--
-----		
Total	\$ (1.9)	\$ 0.2
=====		

**Note 1: Excludes the offsetting effect of interest rate differentials on** underlying intercompany transactions being hedged of \$0.6 million in 1996, \$0.1 million in 1995 and \$0.6 million in 1994.

The company had no interest rate hedging agreements on December 31, 1995 and 1996.

As of December 31, 1996, the company had provided \$178.1 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 \$151.9 million in 1996, an increase of \$13.0 million from \$138.9 million in 1995. Increases of \$3.0 million for pension-related liabilities and \$9.6 million for deferred compensation 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 \$4.7 million residual 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--the residual reserve 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 45-48.

The fair value of other long-term liabilities was estimated to be \$141.4 million at December 31, 1996, and \$128.9 million at December 31, 1995, using a discounted cash flow approach at discount rates of 6.5% in 1996 and 5.8% in 1995.

## **ASBESTOS-RELATED LIABILITIES**

Asbestos-related liabilities of \$141.6 million represent the estimated potential liability and defense cost to resolve approximately 43,600 personal injury claims pending against the company as of December 31, 1996. The company has recorded an insurance asset (see page 44) in the amount of \$141.6 million for coverage of these claims. See discussion on pages 48-51.

## **ENVIRONMENTAL MATTERS**

In 1996, the company incurred capital expenditures of approximately \$3.0 million for environmental compliance and control facilities and anticipates comparable annual expenditures for those purposes for the years 1997 and 1998. The company does not anticipate that it will incur significant capital expenditures in order to meet the 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 currently involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund"), and similar state laws at approximately 18 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 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, 1996, 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, although the recording of future costs may be material to earnings in such future period.

## STOCK-BASED COMPENSATION PLANS

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.

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. The options generally become exercisable in one to three years and expire 10 years from the date of grant.

Changes in option shares outstanding (thousands except for share price)	1996	1995	1994
Option shares at beginning of year	1,841.6	1,612.1	1,708.4
Options granted	728.7	642.8	247.1
Option shares exercised	(376.7)	(390.9)	(323.1)
Stock appreciation rights exercised	(10.8)	(11.5)	(8.5)
Options cancelled	(21.4)	(10.9)	(11.8)
Option shares at end of year	2,161.4	1,841.6	1,612.1
Option shares exercisable at end of year	1,185.8	1,196.7	1,367.1
Shares available for grant	1,914.6	2,838.9	3,691.5
Weighted average price per share:			
Options outstanding	\$50.06	\$43.00	\$36.82
Options exercisable	41.11	37.93	33.67
Options granted	60.30	52.47	54.39
Option shares exercised	36.27	33.48	31.20

The following table summarizes information about stock options outstanding at December 31, 1996.

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at 12/31/96	Weighted- average remaining option life	Weighted- average exercise price	Number exercisable at 12/31/96	Weighted- average exercise price
\$28-37	453,086	5.4	\$31.52	453,086	\$31.52
37-46	484,059	6.1	43.64	484,059	43.64
46-55	248,620	7.3	53.64	248,620	53.64
55-64	915,880	9.1	60.57	0	--
64-72	59,800	9.8	66.37	0	--
	2,161,445			1,185,765	

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 company or individual business units meet certain predetermined performance measures during defined performance periods (generally three years). Total company performance measures include Armstrong's total shareholder return relative to the Standard and Poor's 500 group of companies. At the end of the performance periods, common stock awarded will carry additional restriction periods (generally three or four years), whereby the shares will be held in custody by the company until the expiration or termination of the restrictions. Compensation expense will be charged to earnings over the period in which the restrictions lapse. At the end of 1996, there were 121,440 performance restricted shares outstanding, with 3,834 accumulated dividend equivalent shares, and 204,510 shares of restricted common stock were outstanding with 5,132 accumulated dividend equivalent shares, based on performance periods ending prior to 1996. No common stock awards will be issued in 1997 based on the performance period ending December 1996.

Restricted stock awards can be used for the purposes of recruitment, special recognition and retention of key employees. Awards for 42,950 shares of restricted stock were granted (excluding performance based awards discussed above) during 1996. At the end of 1996, there were 124,339 restricted shares of common stock outstanding with 3,702 accumulated dividend equivalent shares.

On January 1, 1996, the company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings and pro forma earnings per share disclosures. Had compensation cost for these plans been determined consistent with SFAS No. 123, the company's net earnings and earnings per share (EPS) would have been reduced to the following pro forma amounts.

(millions)	1996	1995
------------	------	------

Net earnings:	As reported	\$155.9	\$123.3
	Pro forma	150.7	121.4
Primary EPS:	As reported	3.76	2.90
	Pro forma	3.63	2.85
Fully diluted EPS:	As reported	3.60	2.67
	Pro forma	3.48	2.62

The fair value of grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for 1996 and 1995.

	1996	1995
Risk-free interest rates	6.17%	6.38%
Dividend yield	2.32%	2.39%
Expected lives	5 years	5 years
Volatility	21%	25%

Because the SFAS No. 123 method of accounting has not been applied to grants prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.



## TREASURY SHARES

Treasury share changes for 1996, 1995 and 1994 are as follows:

Years ended December 31 (thousands)	1996	1995	1994
Common shares			
Balance at beginning of year	15,014.1	14,602.1	14,656.5
Stock purchases/(1)/	1,357.6	795.7	272.4
Stock issuance activity, net/(2)/	(5,657.1)	(383.7)	(326.8)
Balance at end of year	10,714.6	15,014.1	14,602.1

**Note 1: Includes small unsolicited buybacks of shares, shares received under share tax withholding transactions and open market purchases of stock through brokers.**

**Note 2: 1996 includes 5,057,400 shares issued as a result of conversion of preferred to common stock.**

In July 1996, the Board of Directors authorized the company to repurchase an additional 3.0 million shares of its common stock through the open market or through privately negotiated transactions bringing the total authorized common share repurchases to 5.5 million shares. Under the total plan, Armstrong has repurchased approximately 2,380,000 shares through December 31, 1996, with a total cash outlay of \$130.7 million, including 1,328,000 repurchased in 1996. In addition to shares repurchased under the above plan, approximately 364,600 ESOP shares were repurchased in 1996.

## PREFERRED STOCK PURCHASE RIGHTS PLAN

In 1996, the Board of Directors renewed the company's 1986 shareholder rights plan and in connection therewith declared a distribution of one right for each share of the company's common stock outstanding on and after January 19, 1996. In general, the rights become exercisable at \$300 per right for a fractional share of a new series of Class A preferred stock 10 days after a person or group, other than certain affiliates of the company, 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% shareholder) would be entitled to purchase shares of company 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, 2006.

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## LITIGATION AND RELATED MATTERS

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### ASBESTOS-RELATED LITIGATION

The company is one of many defendants in pending lawsuits and claims involving, as of December 31, 1996, approximately 43,600 individuals alleging personal injury from exposure to asbestos-containing products. Included in the above number are approximately 19,500 lawsuits and claims from the approximately 87,000 individuals who opted out of the settlement class action (Georgine v. Amchem) referred to below. About 18,400 claims from purported class members were received as of December 31, 1996. Nearly all the pending personal injury suits and claims, except Georgine claims, seek general and 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.

### GEORGINE SETTLEMENT CLASS ACTION

Georgine v. Amchem is a settlement class action that includes essentially all future asbestos-related personal injury claims against members, including the company, of the Center for Claims Resolution ("Center") referred to below that was filed on January 15, 1993, in the Eastern District of Pennsylvania and was given tentative approval on August 16, 1994. It is designed to establish a nonlitigation system for the resolution of claims against the Center members. Other companies may be able to join the class action later. The settlement 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 they 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 burden on the courts. Each member of the Center is obligated for its own fixed share of compensation and fees. Potential claimants who neither filed a prior 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 medical category (including amounts paid even more promptly under the simplified payment procedures) are 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. Opt-outs from the settlement class action are not claims as such but rather are reservation of rights possibly to 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, a process which could take several years. The Center members 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 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; 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.

On May 10, 1996, a three-judge panel of the U.S. Court of Appeals for the Third Circuit issued an adverse decision in an appeal from the preliminary injunction by the District Court enjoining members of the Georgine class from litigating asbestos-related personal injury claims in the tort system. The appeal was brought by certain intervenors who opposed the class action. The Court of Appeals decision-which will not become effective until that Court issues its mandate-ruled against maintaining the settlement class action, ordered that the preliminary injunction issued by the District Court be vacated, and ordered the District Court to decertify the class. The Court ruled broadly that the case does not meet the requirements for class certification under Federal Rule of Civil Procedure 23, concluding that a class action cannot be certified for purposes of settlement unless it can be certified for full-scale litigation. The company believes that the Court erred in several important respects. The Center's petition for rehearing before the Third Circuit en banc was denied.

On November 1, 1996, the U.S. Supreme Court accepted the Center's petition for certiorari and, accordingly, the appeal will proceed through briefing to argument heard on February 18, 1997, and a likely decision by July 1997. The preliminary injunction will remain in place while the case is pending in the Supreme Court.

The company remains optimistic that a future claimants settlement class action may ultimately be approved, although the courts may not uphold this settlement class action, and may not uphold the companion insurance action or, even if upheld, there is a potential that judicial action might result in substantive modification of this settlement.

If the final resolution by the Supreme Court is not favorable to the Center, the District Court's injunction will likely be lifted. If the injunction is lifted, a large number of new asbestos-related personal injury lawsuits might be filed within a short period of time against the Center members, including the company. The company believes that the number of subsequent pending cases in the tort system against the company would likely increase. In due course, the consequences from a lifting of the injunction could result in presently undeterminable, but likely higher, liability and defense costs under a claims resolution mechanism alternative to the Georgine settlement which the company believes would likely be negotiated.

Even if the appeal to the Supreme Court is successful, various issues remain to be resolved in the class action, and the potential exists that those issues will cause the class action ultimately not to succeed or to be substantially modified. Similarly, the potential exists that the above-referenced companion insurance action will not be successful.

## **INSURANCE SETTLEMENTS**

Pending personal injury lawsuits and claims are being paid by insurance proceeds under the 1985 Agreement Concerning Asbestos-Related Claims (the "Wellington Agreement") and under other insurance settlements noted below. A new claims handling organization, known as the Center for Claims Resolution (the "Center"), was created in October 1988 by Armstrong and 20 other companies to replace the Wellington Asbestos Claims Facility (the "Facility"), which was dissolved. Generally, the dissolution of the Facility did not affect the company's overall Wellington Agreement insurance settlement. That settlement provided for 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 of coverage for asbestos-related personal injury and property damage claims. In addition, other excess-insurance carriers have entered into settlement agreements with the company which complement the Wellington Agreement. ACandS, Inc., a former subsidiary of the company, which has for certain insurance periods coverage rights under some company insurance policies, subscribed to the Wellington Agreement but did not become a member of the Center.

One excess carrier (providing \$25 million of 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 that reserves for ACandS, Inc., a certain amount of insurance from joint policies solely for its use in the payment of costs for asbestos-related 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 and current experience, and it defends the members' interests and addresses claims in a manner consistent with the prompt, fair resolution of meritorious claims. The Center sharing formula has been revised over time. These changes have caused some increase in the company's share in certain areas. As to 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 a ninth year and to funding of the Center's operating expenses. With the filing of the settlement class action, the Center continued to process pending claims and has handled the program for processing future asbestos-related personal injury claims. 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 11 pending lawsuits and claims, as of December 31, 1996, 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. 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.

## **INSURANCE COVERAGE LITIGATION**

In 1996, Armstrong concluded 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 which ruled favorably for the company. Upon remand, the Court of Appeal issued its final decision favorable to the company in keeping with the Supreme Court's ruling.

## **NONPRODUCTS INSURANCE COVERAGE**

Nonproducts insurance coverage is included in the company's primary insurance policies and certain excess policies for certain claims, including those that may have arisen out of exposure during installation of asbestos materials or before control of such materials was relinquished. An alternate dispute resolution proceeding has been initiated, and negotiations are currently underway with several of the company's primary carriers to resolve the nonproducts coverage issues. 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 insurance carriers have raised various reasons why they should not pay their coverage obligations, including contractual defenses, waiver, laches and the statute of limitations.

## **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 whether, if needed, an alternative to the Georgine settlement vehicle may ultimately emerge, or the ultimate liability if such alternative does not emerge, or the scope of its nonproducts coverage ultimately deemed available.

Subject to the foregoing and based upon its experience and other factors also referred to above, the company believes that the estimated \$141.6 million in liability and defense costs recorded on the 1996 balance sheet will be incurred to resolve an estimated 43,600 asbestos-related personal injury claims pending against the company as of December 31, 1996. 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 \$141.6 million recorded on the 1996 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. A substantial portion of the insurance asset involves nonproducts insurance which is in alternative dispute resolution. While the company is seeking resolution of key issues in the alternative dispute resolution process during 1997, a shortfall may develop between available insurance and amounts necessary to pay claims, and that shortfall may occur as early as the third quarter of 1997 or possibly in the second quarter depending on the timing of the availability of certain coverage; the company believes such shortfall would not be material either to the financial condition of the company or to its liquidity. The company also notes that, based on maximum mathematical projections covering a ten-year period from 1994 to 2004, its estimated cost in Georgine reflects a reasonably possible additional liability of \$245 million. If Georgine is not ultimately approved, the company believes that a claims resolution mechanism alternative to the Georgine settlement will likely be negotiated, albeit at a likely higher liability and defense costs. 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 or in the cost of an alternative settlement format, 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 insurance coverage settlement agreement and through coverage from the outcome of the California 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 California insurance coverage litigation, the remaining reserve, the establishment of the Center, the Georgine settlement class action and the likelihood that if Georgine is not ultimately upheld an alternative to Georgine would be negotiated, 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 10-K 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. That motion has been denied. Also denied was a motion by TINS before the District Court to rescind our earlier 1984 agreement of settlement. TINS has appealed this later decision to the Circuit Court and a hearing will likely be held on this issue during the first half of 1997. If the denial of the motion is reversed on appeal, TINS could possibly be entitled to litigate claims that had been resolved by means of the settlement agreement.

Independent auditors' report

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

We have audited the consolidated balance sheets of Armstrong World Industries, Inc. and subsidiaries as of December 31, 1996, and 1995, and the related consolidated financial statements of earnings, cash flows, and shareholders' equity for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, 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 14, 1997

**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**

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**Directors of the Registrant**

The information appearing in the tabulation in the section captioned "Election of Directors" on pages 1-4 of the Company's 1997 Proxy Statement is incorporated by reference herein.

**Executive Officers of the Registrant**

George A. Lorch\* -- Age 55; 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 61; Executive Vice President since March 1, 1988.**

Marc R. Olivie -- Age 43; President, Worldwide Building Products Operations since October 15, 1996; and the following positions with Sara Lee Corporation (branded consumer products): President, Sara Lee Champion Europe, Inc. (Italy) March 1994-October 1996; Vice President, Corporate Development, Sara Lee/DE (Netherlands) September 1993-March 1994; Executive Director, Corporate Development, Sara Lee Corporation (Chicago, Illinois/France) April 1990-September 1993.

Robert J. Shannon, Jr. -- Age 48, President, Worldwide Floor Products Operations since February 1, 1997; President Floor Products Operations International February 1, 1996, through February 1, 1997; President American Olean Tile Company, Inc. March 1, 1992 through December 29, 1995.

Stephen E. Stockwell -- Age 51; 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 52; 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.



Douglas L. Boles -- Age 39; 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 57; Senior Vice President, Secretary and General Counsel since February 1, 1990.

Frank A. Riddick, III -- Age 40; 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 54; 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.

Edward R. Case -- Age 50; Vice President and Treasurer since May 8, 1996; and the following positions with Campbell Soup Company (branded food products):

Director, Corporate Development October 1994-May 1996; Director, Financial Planning, U.S. Soup May 1993-September 1994; Deputy Treasurer September 1991-April 1993.

**Bruce A. Leech, Jr. -- Age 54; Controller since February 1, 1990.**

All information presented above is current as of March 1, 1997. 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, Case, Olivie and Riddick. Members of the Executive Committee of the Board of Directors as of March 1, 1997, 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 4-6 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 10-16 of the Company's 1997 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 6 of the Company's 1997 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 62.

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

Exhibits

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- No. 3(a) Copy of Registrant's By-laws, as amended effective December 16, 1996.
- 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 dated March 15, 1996, wherein it appeared as Exhibit 4.
- No. 4(b) Copy of Registrant's Retirement Savings and Stock Ownership Plan as amended and restated effected October 1, 1996.
- No. 4(d) Registrant's 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, is incorporated herein by reference from registrant's 1995 Annual Report on Form 10-K wherein it appears as Exhibit 4(c).
- No. 4(e) 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) Copy of Producer Agreement concerning Center for Claims Resolution dated September 23, 1988, among the registrant and other companies as amended.

- 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(i)(d) Stock Purchase Agreement dated as of December 21, 1995, by and among Dal-Tile International Inc., Armstrong Enterprises, Inc., Armstrong Cork Finance Corporation and Armstrong World Industries, Inc. is incorporated herein by reference from the registrant's Current Report on Form 8-K filed January 16, 1996, wherein it appeared as Exhibit 2.01.
- No. 10(i)(e) Stock Purchase Agreement dated as of November 18, 1995, by and among Armstrong World Industries, Inc., Armstrong Enterprises, Inc., and Interco Incorporated is incorporated herein by reference from the registrant's Current Report on Form 8-K filed January 16, 1996, wherein it appeared as Exhibit 2.
- No. 10(iii)(a) Registrant's Long-Term Stock Option Plan for Key Employees, as amended, is incorporated by reference herein from registrant's 1995 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(a). \*
- 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) Copy of registrant's Directors' Retirement Income Plan, as amended. \*
- No. 10(iii)(d) Copy of registrant's Management Achievement Plan for Key Executives, as amended. \*
- No. 10(iii)(e) Copy of registrant's Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended. \*
- 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) Copy of registrant's Restricted Stock Plan For Nonemployee Directors, as amended. \*

No. 10(iii)(i) Registrant's Severance Pay Plan for Salaried Employees, is incorporated by referenced herein from registrant's 1994 Annual Report on Form 10-K wherein it appeared 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 appeared as Exhibit A. \*

No. 10(iii)(k) Form of Agreement Between the Company and certain of its Executive Officers, together with a schedule identifying those executives is incorporated by reference herein from registrant's quarterly report on Form 10-Q for the quarter ended June 30, 1996, wherein it appears as Exhibit 10. \*

No. 10(iii)(l) Form of Indemnification Agreement between the registrant and each of the registrant's Nonemployee Directors. \*

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 63 and 64 of this Annual Report on Form 10-K.

No. 21 List of the registrant's domestic and foreign subsidiaries.

No. 23 Consent of Independent Auditors.

No. 24 Powers of Attorney and authorizing resolutions.

No. 27 Financial Data Statement

No. 99(a) Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1996, for the Retirement Savings Plan For Hourly-Paid Employees of Armstrong World Industries, Inc. is herewith filed with the Commission.

No. 99(b)

Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1996, for the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc., is herewith filed with the Commission.

No. 99(c)

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.

\* Compensatory Plan

b. During the last quarter of 1996, three reports on Form 8-K were filed.

On October 3, 1996, the registrant filed a Current Report on Form 8-K to report the October 3, 1996, press release regarding the impact of the discoloration problem.

On October 18, 1996, the registrant filed a Current Report on Form 8-K to reflect the restated consolidated financial statements of Armstrong World Industries, Inc. that included the historical results of the ceramic tile operations on an operating or consolidated line item basis rather than under the equity method.

On November 6, 1996, the registrant filed a Current Report on Form 8-K to report that on November 1, 1996, the U.S. Supreme Court granted the petition of certiorari filed by the Center for Claims Resolution, a group of 20 defendant companies including Armstrong World Industries, Inc., which sought appeal of the May 10, 1996, decision of a three-judge panel of the U.S. Court of Appeals for the Third Circuit which had overturned the 1994 District Court decision tentatively approving a national asbestos class action settlement in *Georgine v.*

#### **Armchem.**

This 10-K contains certain "forward-looking statements"(within the meaning of the Private Securities Litigation Reform Act of 1995). Among other things they regard the company's earnings; liquidity and financial condition; the ultimate outcome of the company's asbestos- related litigation (including the likelihood that an alternative to the *Georgine* settlement will be negotiated); and certain operational matters. Words or phrases denoting the anticipated results of future events - such as "anticipate," "believe," "estimate," "expect," "will likely," "are expected to," "will continue," "project," and similar expressions that denote uncertainty - are intended to identify such forward-looking statements. Actual results may differ materially:

(1) as a result of risk and uncertainties identified in connection with those forward-looking statements, including those factors identified under the sections captioned "Outlook" in Management's Discussion and Analysis of Financial Condition and Results of Operations and those factors identified under the caption "Litigation and Related Matters" in the Notes to Consolidated Financial Statements in connection with the company's asbestos-related litigation; (2) as a result of factors over which the company has no control, including the strength of domestic and foreign economies, sales growth, competition and certain cost increases; or (3) if the factors on which the company's conclusions are based do not conform the company's expectations.

#### **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, 1997**

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
Donald C. Clark	Director
E. Allen Deaver	Director
James E. Marley	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, 1997**



# 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, 1996 and 1995

Consolidated Statements of Earnings for the Years Ended December 31, 1996, 1995, and 1994

Consolidated Statements of Cash Flows for the Years Ended December 31, 1996, 1995, and 1994

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 1996, 1995, and 1994

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. -----
Supplementary information to financial review	
Computation for Primary Earnings per Share	63
Computation for Fully Diluted Earnings per Share	64
Depreciation Rates	65
Schedule II - Valuation and Qualifying Reserves	66

COMPUTATION FOR PRIMARY EARNINGS PER SHARE  
FOR THE YEARS ENDED DECEMBER 31  
(AMOUNTS IN MILLIONS EXCEPT FOR PER-SHARE DATA)

	1996	1995	1994
	----	----	----
Common Stock and Common Stock Equivalents			
-----			
Average number of common shares outstanding	39.7	37.6	37.6
including shares issuable under stock options	====	====	====
Primary Earnings Per Share			
-----			
Earnings from continuing businesses	\$164.8	\$13.6	\$187.2
Less:			
Dividend requirement on Series A			
convertible preferred stock	8.8	18.8	19.0
Plus:			
Tax benefit on dividends paid on unallocated			
preferred shares	2.0	4.5	4.9
	---	---	---
Pro forma earnings (loss) available for common			
-----			
shareholders:			
-----			
Continuing businesses	158.0	(0.7)	173.1
Discontinued business	--	109.7	23.2
	-----	-----	-----
Before Extraordinary Loss	158.0	109.0	196.3
Extraordinary Loss	(8.9)	--	--
	-----	-----	-----
Net Earnings	\$149.1	\$109.0	\$196.3
	=====	=====	=====
Primary earnings (loss) per share of common stock			
-----			
Continuing businesses	\$3.97	\$(0.02)	\$4.60
Discontinued business	--	2.92	0.62
	--	----	----
Before Extraordinary Loss	3.97	2.90	5.22
Extraordinary Loss	(0.21)	--	--
	-----	----	----
Net Earnings	\$3.76	\$2.90	\$5.22
	=====	=====	=====

Exhibit No. 11(b)

**COMPUTATION FOR FULLY DILUTED EARNINGS PER SHARE  
FOR THE YEARS ENDED DECEMBER 31**  
(AMOUNTS IN MILLIONS EXCEPT FOR PER-SHARE DATA)

	1996	1995	1994
	----	----	----
Common Stock and Common Stock Equivalents			
-----			
Average number of common shares outstanding including shares issuable under stock options	39.7	37.6	37.6
Average number of common shares issuable under the Employee Stock Ownership Plan	2.6	5.4	5.8
	---	---	---
Average number of common and common equivalent shares outstanding	42.3	43.0	43.4
	====	====	====
Adjustments to Earnings			
-----			
Earnings from continuing businesses	\$164.8	\$13.6	\$187.2
Less:			
Increased contribution to the Employee Stock Ownership Plan assuming conversion of preferred shares to common	3.2	7.3	7.9
Net reduction in tax benefits assuming conversion of the Employee Stock Ownership Plan preferred shares to common	0.6	1.2	1.0
	---	---	---
Pro forma net earnings available for common shareholders:			
-----			
Continuing businesses	161.0	5.1	178.3
Discontinued business	--	109.7	23.2
	----	-----	----
Before Extraordinary Loss	161.0	114.8	201.5
Extraordinary Loss	(8.9)	--	--
	-----	-----	-----
Net Earnings	\$152.1	\$114.8	\$201.5
	=====	=====	=====
Fully diluted net earnings (loss) per share of common stock			
-----			
Continuing businesses	\$3.81	(a)\$(0.02)	\$4.10
Discontinued business	--	2.56	.54
	---	-----	----
Before Extraordinary Loss	3.81	2.67	4.64
Extraordinary Loss	(0.21)	--	--
	-----	-----	-----
Net Earnings	\$3.60	\$2.67	\$4.64
	=====	=====	=====

(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:

	1996	1995	1994
	----	----	----
	%	%	%
Domestic companies:			
Buildings	3.2	3.3	3.2
Machinery and Equipment	6.5	6.2	6.6
Foreign companies:			
Buildings	3.5	3.8	3.3
Machinery and Equipment	7.8	8.5	9.5

**SCHEDULE II**

**Valuation and Qualifying Reserves of Accounts Receivable**

**For Years Ended December 31**

(amounts in millions)

Provision for Losses	1996	1995	1994
-----	-----	-----	-----
Balance at Beginning of Year	\$ 8.7	\$ 9.7	\$11.1
Additions Charged to Earnings	\$ 5.4	\$ 2.9	\$ 4.0
Deductions	\$ 3.2	\$ 3.9	\$ 5.4
Balance at End of Year	\$10.9	\$ 8.7	\$ 9.7
-----			
Provision for Discounts			
-----			
Balance at Beginning of Year	\$20.3	\$17.3	\$14.0
Additions Charged to Earnings	\$74.5	\$82.2	\$77.7
Deductions	\$70.8	\$79.2	\$74.4
Balance at End of Year	\$24.0	\$20.3	\$17.3
-----			
Provision for Discounts and Losses			
-----			
Balance at Beginning of Year	\$29.0	\$27.0	\$25.1
Additions Charged to Earnings	\$79.9	\$85.1	\$81.7
Deductions	\$74.0	\$83.1	\$79.8
Balance at End of Year	\$34.9	\$29.0	\$27.0

## EXHIBIT INDEX

### Exhibits

- No. 3(a) Copy of Registrant's By-laws, as amended effective December 16, 1996.
- 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 dated March 15, 1996, wherein it appeared as Exhibit 4.
- No. 4(b) Copy of Registrant's Retirement Savings and Stock Ownership Plan as amended and restated effected October 1, 1996.
- No. 4(d) Registrant's 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, is incorporated herein by reference from registrant's 1995 Annual Report on Form 10-K wherein it appears as Exhibit 4(c).
- No. 4(e) 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) Copy of Producer Agreement concerning Center for Claims Resolution dated September 23, 1988, among the registrant and other companies as amended.

- 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(i)(d) Stock Purchase Agreement dated as of December 21, 1995, by and among Dal-Tile International Inc., Armstrong Enterprises, Inc., Armstrong Cork Finance Corporation and Armstrong World Industries, Inc. is incorporated herein by reference from the registrant's Current Report on Form 8-K filed January 16, 1996, wherein it appeared as Exhibit 2.01.
- No. 10(i)(e) Stock Purchase Agreement dated as of November 18, 1995, by and among Armstrong World Industries, Inc., Armstrong Enterprises, Inc., and Interco Incorporated is incorporated herein by reference from the registrant's Current Report on Form 8-K filed January 16, 1996, wherein it appeared as Exhibit 2.
- No. 10(iii)(a) Registrant's Long-Term Stock Option Plan for Key Employees, as amended, is incorporated by reference herein from registrant's 1995 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(a). \*
- 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) Copy of registrant's Directors' Retirement Income Plan, as amended. \*
- No. 10(iii)(d) Copy of registrant's Management Achievement Plan for Key Executives, as amended. \*
- No. 10(iii)(e) Copy of registrant's Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended. \*
- 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) Copy of registrant's Restricted Stock Plan For Nonemployee Directors, as amended. \*

No. 10(iii)(i) Registrant's Severance Pay Plan for Salaried Employees, is incorporated by referenced herein from registrant's 1994 Annual Report on Form 10-K wherein it appeared 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 appeared as Exhibit A. \*

No. 10(iii)(k) Form of Agreement Between the Company and certain of its Executive Officers, together with a schedule identifying those executives is incorporated by reference herein from registrant's quarterly report on Form 10-Q for the quarter ended June 30, 1996, wherein it appears as Exhibit 10. \*

No. 10(iii)(l) Form of Indemnification Agreement between the registrant and each of the registrant's Nonemployee Directors. \*

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 63 and 64 of this Annual Report on Form 10-K.

No. 21 List of the registrant's domestic and foreign subsidiaries.

No. 23 Consent of Independent Auditors.

No. 24 Powers of Attorney and authorizing resolutions.

No. 27 Financial Data Statement

No. 99(a) Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1996, for the Retirement Savings Plan For Hourly-Paid Employees of Armstrong World Industries, Inc. is herewith filed with the Commission.



No. 99(b)

Copy of Annual Report on Form 11-K for the fiscal year ended September 30, 1996, for the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc., is herewith filed with the Commission.

No. 99(c)

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.

\* Compensatory Plan

**Bylaws**

of

**Armstrong**

**Armstrong World Industries, Inc.**

**Exhibit No. 3(a)**

**Bylaws**

of

**Armstrong**

**ARMSTRONG WORLD INDUSTRIES, INC.  
LANCASTER, PENNSYLVANIA  
EFFECTIVE DECEMBER 21, 1996**

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**ARTICLE I**

**Office**

The principal office of the Company shall be in Lancaster, Pennsylvania.

All meetings of directors and stockholders shall be held at the principal office of the Company unless the Board of Directors shall decide otherwise, in which case such meetings may be held within or without the Commonwealth of Pennsylvania as the Board may from time to time direct.

**ARTICLE II**

**Stockholder's Meetings**

An annual meeting of stockholders shall be held in each calendar year on such date and at such time as may be fixed by the Board of Directors for the purpose of electing

directors and the transaction of such other business as may properly come before the meeting.

Special meetings of the stockholders may be called at any time by the President or the Board of Directors. At any time, upon written request of any person or persons who have duly called a special meeting, it shall be the duty of the Secretary to fix the date of the meeting, to be held not more than sixty days after the receipt of the request, and to give due notice thereof. If the Secretary shall neglect or refuse to fix the date of the meeting and give notice thereof, the person or persons calling the meeting may do so.

Special meetings of the holders of No Par Preferred Stock for the purpose of electing directors may be called as provided in the Articles of Incorporation, as amended.

Written notice of the place, day, and hour of all meetings of stockholders and, in the case of a special meeting, of the general nature of the business to be transacted, shall be given to each stockholder of record entitled to vote at the particular meeting either personally or by sending a copy of the notice through the mail, or by telegram, charges prepaid, to the address of the stockholder appearing on the books of the Company or supplied by him to the Company for the purpose of notice. Except as otherwise provided by these bylaws or by law, such notice shall be given at least five days

before the date of the meeting by the President, Vice President, or Secretary. A waiver in writing of any written notice required to be given, signed by the person entitled to such notice, whether before or after the time stated, shall be deemed equivalent to the giving of such notice. Attendance of a person, either in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

Nominations of candidates for election to the Board of Directors may be made by the Board of Directors or by any stockholder of the Company entitled to notice of, and to vote at, any meeting called for the election of directors. Nominations, other than those made by or on behalf of the Board of Directors of the Company, shall be made in writing and shall be received by the Secretary of the Company not later than (i), with respect to an election of directors to be held at an annual meeting of stockholders, ninety (90) days prior to the anniversary date of the immediately preceding annual meeting and (ii), with respect to an election of directors to be held at a special meeting of stockholders, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders or public disclosure of the meet-

ing is made, whichever is earlier. Such notification shall contain the following information to the extent known to the notifying stockholder: (a) the name, age, business address, and residence address of each proposed nominee and of the notifying stockholders; (b) the principal occupation of each proposed nominee; (c) a representation that the notifying stockholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (d) the class and total number of shares of the Company that are beneficially owned by the notifying stockholders and, if known, by the proposed nominee; (e) the total number of shares of the Company that will be voted by the notifying stockholder for each proposed nominee; (f) a description of all arrangements or understandings between the notifying stockholders and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the notifying stockholder; (g) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed with the Securities and Exchange Commission pursuant to Rule 14(a) under the Securities Exchange Act of 1934, as amended, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (h) the consent of each nominee to serve as a director of the Company if so elected. Nominees

of the Board of Directors shall, to the extent appropriate, provide the same information about themselves as in (a) through (h) above to the Secretary of the Company. The Company may request any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the qualifications of the proposed nominee to serve as a director of the Company. Within fifteen (15) days following the receipt by the Secretary of a stockholder notice of nomination pursuant hereto, the Board Affairs and Governance Committee shall instruct the Secretary of the Company to advise the notifying stockholder of any deficiencies in the notice as determined by the Committee. The notifying stockholder shall cure such deficiencies within fifteen (15) days of receipt of such notice. No persons shall be eligible for election as a director of the Company unless nominated in accordance herewith. Nominations not made in accordance herewith may, in the discretion of the presiding officer at the meeting and with the advice of the Board Affairs and Governance Committee, be disregarded by the presiding officer and, upon his or her instructions, all votes cast for each such nominee may be disregarded. The determinations of the presiding officer at the meeting shall be conclusive and binding upon all stockholders of the Company for all purposes.

At any meeting of the stockholders, the presence, in person or by proxy, of stockholders entitled to cast at least a majority of the votes which all stockholders are entitled to cast upon any matter shall constitute a quorum for the transaction of business upon such matter, and the stockholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. If a meeting cannot be organized because a quorum has not attended, those present may, except as otherwise provided by law, adjourn the meeting to such time and place as they may determine, but in the case of any meeting called for the election of directors, those who attend the second of such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors.

Except as otherwise provided in the Articles of Incorporation, as amended, or by law, every stockholder of record shall have the right, at every stockholders' meeting, to one vote for every share standing in his name on the books of the Company. In each election of directors, every stockholder entitled to vote shall have the right to multiply the number of votes to which he may be entitled by the total number of directors to be elected, and he may cast the whole number of such votes for one candidate or he may distribute them among any two or more candidates.



Every stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the stockholder or by his duly authorized attorney in fact and filed with the Secretary of the Company.

All questions shall be decided by the vote of the stockholders present, in person or by proxy, entitled to cast at least a majority of the votes which all stockholders present are entitled to cast, unless otherwise provided by the Articles of Incorporation, as amended, or by law.

Elections for directors need not be by ballot except on demand made by a stockholder at the election and before the voting begins. In advance of any meeting of stockholders, the Board of Directors may appoint judges of election who need not be stockholders to act at such meeting or any adjournment thereof, and if such appointment is not made, the chairman of any such meeting may, and on request of any stockholder or his proxy shall, make such appointment at the meeting. The number of judges shall be one or three; and if appointed at a meeting on request of one or more stockholders or proxies, the majority of the shares present and entitled to vote shall determine whether one or three judges are to be appointed. No person who is a candidate for office shall act as a judge. In case any person appointed as judge fails to appear or fails or refuses to act,

the vacancy may be filled by appointment made by the Board of Directors in advance of the convening of the meeting or at the meeting by the person or officer acting as chairman. On request of the chairman of the meeting or of any stockholder or his proxy, the judges shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them.

### **ARTICLE III**

#### **Directors**

SECTION 1. The business and affairs of the Company shall be managed by a Board of Directors. The directors need not be stockholders of the Company. The Board shall consist of not less than eight (8) nor more than thirteen (13) directors, the exact number to be fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority vote of the directors then in office, such number being in addition to any directors that the holders of any class of preferred stock, voting as a class, may be entitled to elect as provided in the Articles of Incorporation, as amended, or in a resolution of the Board establishing any series of preferred stock.

The directors, other than the directors to be elected by the holders of No Par Preferred Stock, voting as a class, shall be classified in respect to the time for which they shall sever-

ally hold office by dividing them into three classes, each consisting, as nearly as possible, of one-third of the whole number of such directors. At each annual meeting, the successors to the class of directors whose terms expire that year shall be elected to hold office for the term of three years. Each such director shall hold office for the term for which he is elected and until his successor shall have been elected and qualified. Any vacancy in the office of any such directors shall be filled by an election by the Board for the unexpired term.

Directors to be elected by the holders of No Par Preferred Stock, voting as a class, shall be elected and hold office as provided in the Articles of Incorporation, as amended.

SECTION 2. The Board of Directors shall hold an annual meeting, without notice, immediately following the annual meeting of the stockholders and shall elect a President, such number of Vice Presidents and Operation or Division Presidents as the Board may deem advisable, a Secretary, a Treasurer, a Controller, and such Assistant Secretaries and Assistant Treasurers as the Board may deem advisable. The Board may also at its discretion elect a Chairman of the Board. Unless sooner removed by the Board, all officers shall hold office until the next annual meeting of the Board and until their successors shall have been elected. The Board shall also, from time to time, elect such other officers and agents as it deems advisable.

The President and the Chairman of the Board, if elected, must be selected from the members of the Board of Directors, but the other officers may but need not be directors.

Any two or more offices may be held by the same person except the offices of President and Secretary, but in no case shall the same person act in the same matter in two such official capacities.

SECTION 3. All vacancies in office shall be filled by the Board of Directors, and the Board shall have power to define the duties of all officers and agents and fix their compensation and may remove at its discretion any officer or agent.

SECTION 4. The Board of Directors shall hold meetings at such times and places as it may determine. Directors may participate in a meeting of the Board or a Committee thereof by conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. No notice of regular meetings of the Board need be given. Special meetings of the Board may be called by the President or a Vice President or the Secretary or by any two directors by giving written notice at least twenty-four hours in advance of the time of the meeting to each director, either personally or by telegram, charges prepaid, or by sending a copy of the notice through the mail at least two days before the day of the meeting, to the

director's address appearing on the books of the Company or supplied by the director to the Company for the purpose of notice.

Attendance at any meeting of the Board shall be a waiver of notice thereof. If all the members of the Board are present at any meeting, no notice shall be required. A majority of the whole number of the directors shall constitute a quorum for the transaction of business, but if at any meeting a quorum shall not be present, the meeting may adjourn from time to time until a quorum shall be present.

SECTION 5. The Board of Directors shall cause to be sent to the stockholders, within 120 days after the close of each fiscal year, financial statements which shall include a balance sheet as of the close of such year, together with statements of income and surplus for such year, prepared so as to present fairly its financial condition and results of its operations. Such financial statements shall have been examined in accordance with generally accepted auditing standards by a firm of independent certified public accountants selected by the Board and shall be accompanied by such firm's opinion as to the fairness of the presentation thereof.

SECTION 6. The Board of Directors may, by resolution adopted by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the directors of the Company. The Board

may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee to the extent provided in such resolution shall have and exercise the authority of the Board in the management of the business and affairs of the Company.

## **ARTICLE IV**

### **OFFICERS**

#### **President**

SECTION 1. The President shall be the chief executive officer of the Company. He shall preside at all meetings of the stockholders and, in the absence of a Chairman of the Board, at all meetings of the Board of Directors at which he is present. He shall be ex-officio a member of all standing committees. He shall have the custody of the corporate seal or may entrust the same to the Secretary. He shall make reports of the Company's business to the Board at such times as the Board shall require. He shall perform all the usual duties incident to the office of President.

#### **Vice-Presidents and Operation or Division Presidents**

SECTION 2. In the absence or disability of the President, his duties shall be performed by one or more Vice-Presidents or Operation or Division Presidents designated by the Board of Directors. They shall perform such other duties as may be assigned to them by the Board.

### **Chairman of the Board**

SECTION 3. The Chairman of the Board, if elected, shall preside at all meetings of the Board of Directors at which he is present. He shall perform such other duties as may be assigned to him by the Board.

### **Secretary**

SECTION 4. The Secretary shall attend the meetings of the stockholders and Board of Directors and keep minutes thereof in suitable books. He shall send out notices of all meetings as required by law or these bylaws. He shall be ex-officio an Assistant Treasurer. He shall perform all the usual duties incident to the office of Secretary.

### **Assistant Secretaries**

SECTION 5. In the absence or disability of the Secretary, his duties shall be performed by the Assistant Secretaries. They shall perform such other duties as may be assigned to them by the Board of Directors.

### **Treasurer**

SECTION 6. The Treasurer shall have custody of funds of the Company and keep or cause to be kept accurate accounts of all money received or payments made in books kept for that purpose. He shall deposit all money received by him in the name and to the credit of the Company in such bank or other place or places of deposit as the Board of

Directors shall designate. He shall be ex-officio an Assistant Secretary. He shall perform all the usual duties incident to the office of Treasurer.

### **Assistant Treasurers**

SECTION 7. In the absence or disability of the Treasurer, his duties shall be performed by the Assistant Treasurers. They shall perform such other duties as may be assigned to them by the Board of Directors.

### **Controller**

SECTION 8. The Controller shall have general charge of the accounting of the Company and shall perform all the usual duties incident to the office of Controller.

### **Bonds**

SECTION 9. Such officers and employees of the Company as the Board of Directors shall determine shall give bond for the faithful discharge of their duties in such form and for such amount and with such surety or sureties as the Board shall require. The expense of procuring such bonds shall be borne by the Company.

## **ARTICLE V**

### **Seal**

The Company shall have a seal which shall contain the words "Armstrong World Industries, Inc.," in a circle within which the words "Incorporated Dec. 30, 1891" shall be contained.



## ARTICLE VI

### Stock Certificates and Transfers

Stock certificates shall be in such form as the Board of Directors may from time to time determine and shall either be signed by the President or one of the Vice-Presidents or other officer designated by the Board, and countersigned by the Treasurer or an Assistant Treasurer or other officer designated by the Board and sealed with the seal of the Company, or, if not so signed and sealed, shall bear the engraved or printed facsimile signatures of the officers authorized to sign and the engraved or printed facsimile of the seal of the Company.

The Board of Directors may appoint for any class of stock one or more incorporated banks or trust companies in the city of New York, New York, or elsewhere, to act as Registrar or Registrars, and also one or more incorporated banks or trust companies in the city of New York, New York, or elsewhere, to act as Transfer Agent or Transfer Agents. No certificate of stock of any class for which a Transfer Agent and Registrar have been appointed shall be valid or binding unless countersigned by a Transfer Agent and registered by a Registrar before issue.

The shares of the capital stock of the Company shall, upon the surrender and cancellation of the certificate or certificates representing the same, be transferred upon the

books of the Company at the request of the holder thereof, named in the surrendered certificate or certificates, in person or by his legal representatives or by his attorney duly authorized by written power of attorney filed with the Company's Transfer Agent. In case of loss or destruction of a certificate of stock, another may be issued in lieu thereof in such manner and upon such terms as the Board shall authorize.

The Board of Directors may fix a time, not more than seventy (70) days prior to the date of any meeting of the stockholders, or the date fixed for the payment of any dividend or distribution or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock will be made or go into effect, as a record date for the determination of the stockholders entitled to notice of, or to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of capital stock. In such case, only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting, or to receive payment of such dividend or distribution, or to receive such allotment of rights, or exercise such rights, as the case may be, notwithstanding any transfer of stock on the books of the Company after any record date fixed as aforesaid.

## **ARTICLE VII**

### **Fiscal Year**

The fiscal year of the Company shall end on the 31st day of December.

## **ARTICLE VIII**

### **Amendments**

Unless otherwise provided in the Articles of Incorporation, as amended, these bylaws may be amended by a vote of two-thirds of the members of the Board of Directors at any regular or special meeting duly convened after the notice of that purpose, subject always to the power of stockholders under law and in accordance with the Articles of Incorporation, as amended, to change such action.

## **ARTICLE IX**

Limitation on Directors' Personal Liability; Indemnification of Directors and Officers

SECTION 1. A director of the Company shall not be personally liable for monetary damages for any action taken or failure to take any action unless the director has breached or failed to perform the duties of his or her office under Section 8363 of the Pennsylvania Directors' Liability Act and such breach or failure to perform constitutes self-dealing, willful misconduct or recklessness; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director (i) for any responsibility or liability of such director pursuant to

any criminal statute, or (ii) for any liability of a director for the payment of taxes pursuant to local, state or federal law.

SECTION 2. The Company shall indemnify to the full extent authorized or permitted by law any person made, or threatened to be made, a party to or otherwise involved in (as a witness or otherwise) an action, suit or proceeding (whether civil, criminal, administrative or investigative, and whether by or in the right of the Company or otherwise) by reason of the fact that the person is or was a director or officer of the Company or while a director or officer of the Company, either serves or served as a director, officer, trustee, employee or agent of any other related enterprise or in connection with a related employee benefit plan at the request of the Company or serves or served as a director, officer, trustee, employee or agent of any other unrelated enterprise at the specific written request of the Company against any expenses and liability actually incurred including without limitation judgments and amounts paid or to be paid in settlement of and in actions brought by or in the right of the Company. Expenses incurred by such a person in defending a civil or criminal action, suit or proceeding or in enforcing any right under this Article shall be paid by the Company in advance of the final disposition of the action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay

such amount to the extent it shall ultimately be determined that such person is not entitled to be indemnified by the Company or, in the case of a criminal action, the majority of the Board of Directors so determines. The right to indemnification and advancement of expenses conferred in this Section shall not be deemed exclusive of any other rights to which any person indemnified may be entitled under any agreement, vote of stockholders or directors or otherwise, the Company having the express authority to enter such agreements as the Board of Directors deems appropriate for the indemnification of and advancement of expenses, including the creation of a fund therefor or equivalent guarantee, to present or future directors and officers of the Company in connection with their service as director or officer of the Company or their service as director, officer, trustee, employee or agent of any other enterprise or in connection with an employee benefit plan at the request of the Company. The right to indemnification and the advancement of expenses provided in this Section shall be a contract right, shall continue as to a person who has ceased to serve in the capacities described herein, and shall inure to the benefit of the heirs, executors and administrators of such person.

SECTION 3. No amendment, alteration or repeal of this Article IX, nor the adoption of any provision inconsistent with this Article IX,

shall adversely affect any limitation on the personal liability of a director or officer, or the rights of a director or officer to indemnification and advancement of expenses, existing at the time of such amendment, modification or repeal, or the adoption of such an inconsistent provision.



**RETIREMENT SAVINGS AND  
STOCK OWNERSHIP PLAN OF  
ARMSTRONG WORLD INDUSTRIES, INC.**

As Amended and Restated  
Effective October 1, 1996



**RETIREMENT SAVINGS AND  
STOCK OWNERSHIP PLAN OF  
ARMSTRONG WORLD INDUSTRIES, INC.**

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**Exhibit No. 4(b)**

**RETIREMENT SAVINGS AND  
STOCK OWNERSHIP PLAN OF  
ARMSTRONG WORLD INDUSTRIES, INC.**

**PREAMBLE**

The purpose of the Retirement Savings and Stock Ownership Plan of Armstrong World Industries, Inc. (the "Plan"), formerly known as the "Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc.," is to build a better and more prosperous Armstrong World Industries, Inc. (the "Company"). The Plan is designed to provide a means for long-term savings while providing employees with additional incentive to give their best efforts to help the Company prosper and grow, by permitting eligible employees to acquire a proprietary interest in the Company and accumulate capital for their future economic security. The Plan is designed to help provide additional benefits to eligible employees at the time of retirement, disability or termination of service, or for their beneficiaries in the event of their death.

The Plan consists of two portions. The first portion is a profit sharing plan with a cash or deferred arrangement intended to qualify under Code Sections 401(a) and 401(k), under which contributions shall be made regardless of Armstrong's profits. The second portion (the assets of which are invested in the "Stock Ownership Fund") is both a stock bonus plan and an employee stock ownership plan intended to qualify under Sections 401(a), 401(k) and 4975(e)(7) of the Code, and as such is designed to invest primarily in common stock of Armstrong. All

Trust assets acquired under the Plan as a result of contributions, income and other additions to the Plan shall be administered, distributed, forfeited and otherwise governed by the provisions of the Plan.

The Plan was originally established effective August 1, 1983, and has been amended from time to time since its adoption to comply with changes in the law and certain design changes. The Plan was amended and restated in order to comply with the Tax Reform Act of 1986 and other subsequent legislation and official guidance.

Effective as of the close of business on September 30, 1996, the assets and liabilities of the Armstrong World Industries, Inc. Employee Stock Ownership Plan and the portion of the assets and liabilities of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. attributable to hourly employees employed at the Company's Mobile Plant and to all hourly employees of the Affiliated Companies who are not members of a collective bargaining unit were merged into the Plan. The Plan is hereby amended and restated to change its name to the "Retirement Savings and Stock Ownership Plan of Armstrong World Industries, Inc.," to reflect the merger of the Armstrong World Industries, Inc. Employee Stock Ownership Plan and part of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc., and to make certain changes in the design of the employee stock ownership portion of the Plan.

The rights of any Member or former Member whose employment terminates prior to the effective date of any amendment or restatement of the Plan, and the rights of the Beneficiary of such Member or former Member, shall be governed by the provisions of the Plan as in effect at the time of the Member's termination of employment, except in the event such Member is rehired and except as otherwise specifically provided herein or as required by law.

Unless a different date is specified for some purpose in the Plan, the provisions of the Plan are generally effective as of October 1, 1996. However, any Plan provision necessary to comply with the requirements of the Tax Reform Act of 1986, other subsequent legislation, or official guidance, which requirement has an earlier effective date, shall be effective retroactively to the date required by the applicable law or guidance.

## Article 1. Definitions

1.01 "Acquisition Loan" means a loan or other extension of credit described in Section 4975(d)(3) of the Code which is used to finance or refinance the purchase of Company Stock by the Trustee.

1.02 "Actual Deferral Percentage" means, with respect to a specified group of Employees, any of whom is a Member or eligible to become a Member for a Plan Year, the average of the ratios, calculated separately for each Employee in that group, of (1) the amount of Exchange Contributions made on the Employee's behalf pursuant to Section 4.01(a) for the Plan Year plus the amount of any qualified nonelective contributions made on the Employee's behalf pursuant to Section 6.03(c) for the Plan Year, to (2) the Employee's Compensation for that Plan Year. In the case of a Highly Compensated Employee who is subject to the family aggregation requirements of Section 414(q)(6) of the Code, the combined Actual Deferral Percentage for the family group (which is treated as one Highly Compensated Employee) is determined by combining the Exchange Contributions, Compensation, and amounts treated as Exchange Contributions that are paid to the Trust Fund on behalf of all eligible family members for such Plan Year. In all events, Actual Deferral Percentages will be determined in accordance with all of the applicable requirements (including to the extent applicable, the plan aggregation and disaggregation requirements) of Section 401(k) of the Code, and the regulations



issued thereunder. The percentage is determined by multiplying the ratio calculated above by one hundred (100).

Notwithstanding the foregoing provisions, a separate Actual Deferral Percentage with respect to Sheltered Contributions shall be determined in the manner indicated above, but with "Sheltered Contributions" replacing "Exchange Contributions," "Section 4.01(b)" replacing "Section 4.01 (a)," and "Section 6.04(c)" replacing "Section 6.03(c)."

1.03 "Affiliated Company" means any corporation which is a member with the Company of a controlled group of corporations (determined under Section 1563(a) of the Code without regard to Section 1563(a)(4) and (e)(3)(C)); any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Company; a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Company; and any other entity which is required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code. Solely for purposes of applying the Code Section 415 limitations under Section 6.08, when determining whether an entity is an "Affiliated Company," "more than 50 percent" shall be substituted for "at least 80 percent" where it appears in Section 1563(a)(1) of the Code.

1.04 "Beneficiary" means the person, persons or entity designated in writing by a Member (on forms prescribed and filed with the Committee) to receive benefits payable after the

Member's death; provided, however, that the surviving spouse of a Member who is married on the date of his death automatically shall be the Beneficiary unless the spouse consents in writing to the Member's designation of another Beneficiary. Any such consent shall be duly witnessed by a Plan representative or notary public and shall acknowledge the effect to the spouse of the Member's designation. If no person or entity is designated as "Beneficiary" or if no designated person or entity survives the Member, the term "Beneficiary" shall mean the Member's surviving spouse, or if none, the Member's estate.

1.05 "Board of Directors" means the Board of Directors of the Company.

1.06 "Break in Service" means a calendar year during which an Employee fails to complete more than 500 Hours of Service.

1.07 "Change in Control" means the occurrence of any of the following events:

(1) any "person" becomes the "beneficial owner" of twenty-eight percent (28%) or more of the then outstanding "voting stock" of the Company and within five years thereafter, "disinterested directors" cease to constitute a majority of the Company's entire Board of Directors; or (2) a "business combination" with an "interested shareholder" that has not been approved by a majority of disinterested directors occurs. The terms "person," "beneficial owner," "voting stock," "disinterested directors," "business combination," and "interested shareholder" shall have the meaning given to them in

Article 7 of the Company's Articles of Incorporation as in effect on May 1, 1985.

1.08 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.09 "Committee" means the entity appointed to administer and supervise the

Plan as provided in Article 11.

1.10 "Company" means Armstrong World Industries, Inc., a Pennsylvania corporation, or any successor by merger, purchase, or otherwise with respect to its employees.

1.11 "Company Stock" means the common stock of the Company which shall constitute employer securities within the meaning of Section 409 (l) of the Code. Prior to August 1, 1996, Company Stock under the Stock Ownership Plan included shares of convertible preferred stock of the Company; on August 1, 1996, all such shares under the Stock Ownership Plan were converted to shares of common stock of the Company.

1.12 "Company Suspense Account" means the account under which Leveraged Shares are held until released and allocated pursuant to Sections 5.02 and 6.02.

1.13 "Compensation" means the total earnings payable to an Employee while a Member by a Participating Company during a Plan Year. Compensation shall be determined prior to any elective deferrals made on behalf of the Member under this Plan or under any other "qualified cash or deferred arrangement" (as defined under Section 401(k) of the Code and applicable regulations), or under a cafeteria plan (as defined under Section 125 of the Code

and applicable regulations) maintained by the Company or an Affiliated Company, and shall not include reimbursements for expenses or any payments made following termination of employment and resulting from such termination, nor shall it include any awards, allowances, cost of living payments, payments on account of long-term disability, payments made in lieu of vacation time, or payments following layoff. Notwithstanding the foregoing, for purposes of Section 6.08, Compensation means an Employee's wages as defined in Section 3401(a) of the Code (without regard to any rules under Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Section 3401(a)(2))) and all other payments of compensation to the Employee by his Participating Company (in the course of the Participating Company's trade or business) for which the Participating Company is required to furnish the Employee a written statement under Sections 6041(d), 6051(a)(3) and 6052 of the Code (a Form W-2), and for purposes of Sections 1.02, 1.14 and 1.52, Compensation shall be as defined above for purposes of Section 6.08, plus any elective deferrals made on behalf of the Member under this Plan or under any other "qualified cash or deferred arrangement" (as defined under Section 401(k) of the Code and applicable regulations), or under a cafeteria plan (as defined under Section 125 of the Code and applicable regulations) maintained by the Company or an Affiliated Company. In the case of a Member who begins, resumes, or ceases to be eligible to make

contributions during a Plan Year, the amount of Compensation taken into account in determining the Actual Deferral Percentage, Contribution Percentage, and the Standard Contributions Percentage is the amount of Compensation received by the Member during the entire Plan Year. Further, for purposes of Sections 1.02, 1.14 and 1.52, and for purposes of any Equity Allocations, the amount of Compensation taken into account during any Plan Year shall not exceed \$150,000 (adjusted in accordance with Section 401(a)(17) of the Code and the regulations and other guidance issued thereunder). In determining a Member's Compensation for this purpose, the family aggregation rules of Section 414(q)(6) of the Code shall apply, except that in applying such rules, the term "family" shall include only the Member's spouse and any lineal descendants of the Member who have not attained age nineteen (19) before the close of the Plan Year. If any Plan Year consists of fewer than twelve (12) months, the foregoing annual Compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is twelve (12). The annual Compensation limit that is in effect for a calendar year shall apply to any Plan Year that begins in such calendar year.

1.14 "Contribution Percentage" means, with respect to a specified group of Employees, any of whom is a Member or eligible to become a Member, the average of the ratios, calculated separately for each Employee in that group, of (1) the value of Company Stock at the time allocated on behalf of the Employee to

his Match Account for a Plan Year plus the amount of any qualified nonelective contributions made on the Employee's behalf pursuant to Section 6.06(c) for the Plan Year, to (2) the Employee's Compensation for that Plan Year. In the case of a Highly Compensated Employee who is subject to the family aggregation requirements of Section 414(q)(6) of the Code, the combined Contribution Percentage for the family group (which is treated as one Highly Compensated Employee) is determined by combining the Match Allocations, Compensation, and amounts treated as Match Allocations that are paid to the Stock Ownership Trust Fund on behalf of all eligible family members for such Plan Year. In all events, Contribution Percentages will be determined in accordance with all of the applicable requirements (including to the extent applicable, the plan aggregation requirements) of Section 401(m) of the Code, and the regulations issued thereunder. The percentage is determined by multiplying the ratio calculated above by one hundred (100).

1.15 "Effective Date" means August 1, 1983.

1.16 "Eligible Employee" means an Employee who has satisfied the applicable eligibility requirements of Section 2.01.

1.17 "Eligible Member" means a Member who is eligible for an allocation to his Equity Account and/or his Match Account during the Stock Ownership Allocation Period in accordance with Section 6.01.

1.18 "Employee" means any person (including leased employees within the meaning of Section 414(n)(2) of the Code) employed by

the Company or an Affiliated Company and paid on an hourly or a salaried basis. Notwithstanding the foregoing, the term "Employee" shall not include leased employees covered by a plan described in Section 414(n)(5)(B) of the Code if leased employees constitute less than twenty percent (20%) of the Company's nonhighly compensated workforce within the meaning of Section 414(n)(5)(C)(ii) of the Code.

1.19 "Equity Account" means the account established for each Eligible Member under Section 6.01(b) to receive and hold Equity Allocations.

1.20 "Equity Allocations" means Company Stock allocated on behalf of an Eligible Member pursuant to Section 6.02(c).

1.21 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.22 "Excess Exchange Contributions" means, with respect to each Highly Compensated Employee, the amount of Exchange Contributions made to the Plan on his behalf during the Plan Year, determined after application of Section 6.03(b) and prior to application of the leveling procedure described below, minus the product of the Member's Actual Deferral Percentage, determined after application of Section 6.03(b) and the leveling procedure described below, multiplied by the Member's Compensation, as determined for purposes of Section 1.02. In accordance with the regulations issued under Section 401(k) of the Code, Excess Exchange Contributions shall be determined by a leveling procedure under which the Actual Deferral Percentage of

the Highly Compensated Employee with the highest such percentage shall be reduced to the extent required to enable the limitation of Section 6.03(a) to be satisfied, or, if it results in a lower reduction, to the extent required to cause such Member's Actual Deferral Percentage to equal the Actual Deferral Percentage of the Highly Compensated Employee with the next highest Actual Deferral Percentage. This leveling procedure shall be repeated until the limitation of Section 6.03(a) is first satisfied. In no case shall the amount of Excess Exchange Contributions with respect to any Highly Compensated Employee exceed the amount of Exchange Contributions made on behalf of such Member in any Plan Year. The determination and correction of Excess Exchange Contributions of a Highly Compensated Employee whose Actual Deferral Percentage is determined under the family aggregation requirements of Code Sections 401(k) and 414(q)(6) shall be accomplished by reducing the family unit's Actual Deferral Percentage under the leveling procedure described in this Section 1.22 and allocating the Exchange Contributions among the family group in proportion to the Exchange Contributions made on behalf of each family member that are combined to determine the family unit's Actual Deferral Percentage.

1.23 "Excess Matching Allocations" means, with respect to each Highly Compensated Employee, the value of Company Stock allocated to his Match Account during the Plan Year, determined prior to application of the leveling procedure described below, minus the product of the Member's Contribution Percentage, determined after



application of the leveling procedure described below, multiplied by the Member's Compensation, as determined for purposes of Section 1.14. In accordance with the regulations issued under Section 401(m) of the Code, Excess Matching Allocations shall be determined by a leveling procedure under which the Contribution Percentage of the Highly Compensated Employee with the highest such percentage shall be reduced to the extent required to enable the limitation of Section 6.06(a) to be satisfied, or, if it results in a lower reduction, to the extent required to cause such Highly Compensated Employee's Contribution Percentage to equal that of the Highly Compensated Employee with the next highest Contribution Percentage. This leveling procedure shall be repeated until the limitation of Section 6.06(a) is first satisfied. In no case shall the amount of Excess Matching Allocations with respect to any Highly Compensated Employee exceed the amount of Matching Allocations made on behalf of such Member in such Plan Year. The determination and correction of Excess Matching Allocations of a Highly Compensated Employee whose Contribution Percentage is determined under the family aggregation requirements of Code Sections 401(m) and 414(q)(6) shall be accomplished by reducing the family unit's Contribution Percentage under the leveling procedure described in this Section 1.23 and allocating the Excess Matching Allocations among the family group in proportion to the Matching Allocations made on behalf of each family member that are combined to determine the family unit's Contribution Percentage.

1.24 "Excess Sheltered Contributions" means, with respect to each Highly Compensated Employee, the amount of Sheltered Contributions made to the Plan on his behalf during the Plan Year, determined after application of Section 6.04(b) and prior to application of the leveling procedure described below, minus the product of the Member's Actual Deferral Percentage, determined after application of Section 6.04(b) and the leveling procedure described below, multiplied by the Member's Compensation, as determined for purposes of Section 1.02. In accordance with the regulations issued under Section 401(k) of the Code, Excess Sheltered Contributions shall be determined by a leveling procedure under which the Actual Deferral Percentage of the Highly Compensated Employee with the highest such percentage shall be reduced to the extent required to enable the limitation of Section 6.04(a) to be satisfied, or, if it results in a lower reduction, to the extent required to cause such Member's Actual Deferral Percentage to equal the Actual Deferral Percentage of the Highly Compensated Employee with the next highest Actual Deferral Percentage. This leveling procedure shall be repeated until the limitation of Section 6.04(a) is first satisfied. In no case shall the amount of Excess Sheltered Contributions with respect to any Highly Compensated Employee exceed the amount of Sheltered Contributions made on behalf of such Member in any Plan Year. The determination and correction of Excess Sheltered Contributions of a Highly Compensated Employee whose Actual Deferral Percentage is determined under the family aggregation

requirements of Code Sections 401(k) and 414(q)(6) shall be accomplished by reducing the family unit's Actual Deferral Percentage under the leveling procedure described in this Section 1.24 and allocating the Sheltered Contributions among the family group in proportion to the Sheltered Contributions made on behalf of each family member that are combined to determine the family unit's Actual Deferral Percentage.

1.25 "Excess Standard Contributions" means, with respect to each Highly Compensated Employee, the amount equal to his Standard Contributions (including the amount of any Sheltered Contributions recharacterized pursuant to Section 6.07(c)) during the Plan Year, determined prior to application of the leveling procedure described below, minus the product of the Member's Standard Contribution Percentage, determined after the application of the leveling procedure described below, multiplied by the Member's Compensation, as determined for purposes of Section 1.52. In accordance with the regulations issued under Section 401(m) of the Code, Excess Standard Contributions shall be determined by a leveling procedure under which the Standard Contribution Percentage of the Highly Compensated Employee with the highest such percentage shall be reduced to the extent required to enable the limitation of Section 6.07(a) to be satisfied, or, if it results in a lower reduction, to the extent required to cause such Member's Standard Contribution Percentage to equal that of the Highly Compensated Employee with the next highest Standard Contribution Percentage. This leveling

procedure shall be repeated until the limitation of Section 6.07(a) is first satisfied. In no case shall the amount of Excess Standard Contributions with respect to any Highly Compensated Employee exceed his Standard Contributions in any Plan Year. The determination and correction of Excess Standard Contributions of a Highly Compensated Employee whose Standard Contribution Percentage is determined under the family aggregation requirements of Code Sections 401(m) and 414(q)(6) is accomplished by reducing the family unit's Standard Contribution Percentage under the leveling procedure described in this Section 1.25 and allocating the Excess Standard Contributions among the family group in proportion to the Standard Contributions made on behalf of each family member that are combined to determine the family unit's Standard Contribution Percentage.

1.26 "Exchange Contribution Account" means the subaccount established for each Member under his Stock Ownership Account to receive and hold Exchange Contributions and Stock Ownership Contributions made pursuant to Section 4.04(b)(i).

1.27 "Exchange Contributions" means that portion of a Member's Compensation which is deferred and contributed to his Stock Ownership Account, in accordance with Section 401(k) of the Code and as described in Section 4.01(a).

1.28 "Full-Time Employee" means any Employee who is employed on a continuing basis and is expected to work the normal number of

work hours for the location as determined by the Participating Company.

1.29 "Highly Compensated Employee" means any Employee who meets the definition of "Highly Compensated Employee" as determined under Section 414(q) of the Code and regulations issued thereunder, as set forth herein. The term "Highly Compensated Employee" includes "Highly Compensated Active Employees" and "Highly Compensated Former Employees" and shall be determined as follows:

(a) A "Highly Compensated Active Employee" means an Employee who performs services for the Company or an Affiliated Company during the current Plan Year (the "determination year") and who, during the preceding Plan Year (the "look-back year"), was an Employee who:

(i) received Compensation in excess of \$75,000 (adjusted at the same time and in the same manner as under Section 415(d) of the Code),

(ii) received Compensation in excess of \$50,000 (adjusted at the same time and in the same manner as under Section 415(d) of the Code) and was a member of the "top-paid group", or

(iii) was an officer earning more than fifty percent (50%) of the dollar limitation under Section 415(b)(1)(A) of the Code.

(b) A "Highly Compensated Active Employee" also includes an Employee described in the preceding sentence if:

- (i) the term "determination year" is substituted for the term "look-back year" and the Employee was one of the one hundred (100) Employees who earned the most Compensation during the determination year, or
  - (ii) the Employee was at any time during the determination year or the look-back year a five percent (5%) owner of the Company or an Affiliated Company as defined in Section 416(i)(1) of the Code.
- (c) The "top-paid group" for any determination year or look-back year shall include all Employees who are in the top twenty percent (20%) of all Employees on the basis of Compensation. For purposes of determining the number of Employees in the top-paid group, the following Employees shall be excluded:
- (i) Employees who have not completed six (6) months of service by the end of the year;
  - (ii) Employees who normally work less than seventeen and one-half (17 1/2) hours per week for the year;
  - (iii) Employees who normally work during not more than six (6) months during any year; and
  - (iv) Employees who have not attained age twenty-one (21) by the end of such year.
- (d) For purposes of determining the number of Employees who will be considered "officers," no more than fifty (50) Employees (or, if less, the greater of three Employees or ten percent (10%) of the Employees), excluding those Employees who

are excluded for purposes of determining the top-paid group under the preceding Subsection, shall be treated as officers. If for any year no officer has earned more than fifty percent (50%) of the dollar limitation under Section 415(b)(1)(A) of the Code, the highest paid officer of the Company or an Affiliated Company shall be treated as having earned such amount.

(e) A "Highly Compensated Former Employee" means an Employee who separated from service prior to the determination year, who performed no services for the Company or an Affiliated Company during the determination year, and who was a Highly Compensated Active Employee for either such Employee's separation year or any determination year ending on or after the Employee's 55th birthday.

(f) If during a determination year a Highly Compensated Employee is a five percent (5%) owner or one of the ten (10) most Highly Compensated Employees on the basis of Compensation paid during such determination year, then such Employee shall be subject to the family aggregation requirements of Section 414(q)(6) of the Code, and the Compensation and contributions paid to or on behalf of all family members who are Employees shall be aggregated with and attributable to the Highly Compensated Employee. For this purpose, family members shall include the Highly Compensated Employee's spouse and lineal ascendants or descendants and the spouse of such lineal ascendants or descendants.

(g) For purposes of determining Highly Compensated Employees, Employees who are nonresident aliens receiving no United States source income within the meaning of Sections 861(a)(3) and 911(d)(2) of the Code shall be disregarded.

(h) For purposes of determining Highly Compensated Employees, "Compensation" for a determination year or a look-back year shall be determined in the same manner as "Compensation" for purposes of Section 6.08, increased by pre-tax amounts described in Sections 125 and 402(e)(3) of the Code under plans maintained by the Company or an Affiliated Company.

(i) Notwithstanding the foregoing, the determination of Highly Compensated Employees may be made under the calendar year calculation election under the regulations issued pursuant to Code Section 414(q). In accordance with such election, if it is made by the Committee or its designee, each look- back year calculation shall be based on the calendar year ending within the applicable determination year. Such election shall apply to all other plans maintained by an Affiliated Company. The Committee or its designee may elect to apply the calendar year election for any Plan Year. Further, the Committee or its designee may elect to apply such other rules for determining Highly Compensated Employees, including substantiation guidelines, as issued pursuant to Code Section 414(q).

1.30 "Hour of Service" means each hour credited under Section 3.02.



1.31 "Investment Fund" means any of the separate funds in which contributions to the Plan are invested in accordance with Article 7.

1.32 "Leveraged Shares" means shares of Company Stock acquired by the Trustee with the proceeds of an Acquisition Loan pursuant to Section 5.01. Except as required by Section 409(h) of the Code and by Treasury Regulation Sections 54.4975-7(b)(9) and (10), or as otherwise required by applicable law, no Leveraged Shares may be subject to a put, call or other option, or buy-sell or similar arrangement while held by, or when distributed from, the Plan, whether or not the Plan is an employee stock ownership plan, within the meaning of Code Section 4975(e)(7), at that time.

1.33 "Match Account" means the subaccount established for each Eligible Member under his Stock Ownership Account pursuant to Section 6.01(c) to receive and hold Matching Allocations and to hold bonus allocations made under the Stock Ownership Plan prior to October 1, 1996.

1.34 "Matching Allocations" means Company Stock allocated on behalf of an Eligible Member pursuant to Section 6.02(d).

1.35 "Member" means any Eligible Employee included in the membership of the Plan, as provided in Article 2.

1.36 "Member Account" or "Account" means, as of any Valuation Date, the total value of each Member's Retirement Savings Account and Stock Ownership Account.

1.37 "Parental Leave" means a period in which the Employee is absent from work immediately following his active employment because of the Employee's pregnancy, the birth of the Employee's child or the placement of a child with the Employee in connection with the adoption of that child by the Employee, or for purposes of caring for that child for a period beginning immediately following that birth or placement. Parental leave shall include such periods of leave described in the Family and Medical Leave Act of 1993 solely to the extent required thereunder.

1.38 "Participating Company" means the Company and any other Affiliated Company which adopts the Plan as provided in Section 13.04.

1.39 "Part-Time Employee" means any Employee who is employed on a continuing basis and is expected to work less than the normal number of work hours for the location as determined by the Participating Company, or any Employee who is not employed on a continuing basis as determined by the Participating Company.

1.40 "Plan" means the Retirement Savings and Stock Ownership Plan of Armstrong World Industries, Inc. (formerly named the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc.), as set forth in this document or as amended from time to time.

1.41 "Plan Fiduciary" means the boards of directors of the Participating Companies, the Committee, the Trustees, and all other persons who exercise discretionary authority or have

responsibility of a fiduciary nature as described in Title I of ERISA.

1.42 "Plan Year" means a period of twelve consecutive months commencing on each October 1 and ending on September 30.

1.43 "Qualifying Year of Employment" means the twelve consecutive month period beginning on a Part-Time Employee's first date of employment (or date of re-employment, if applicable) or any calendar year commencing after such date, during which the Part-Time Employee completes at least 1,000 Hours of Service.

1.44 "Retirement" means early, disability, normal or deferred retirement under the Retirement Income Plan for Employees of Armstrong World Industries, Inc. or any other retirement plan maintained by an Affiliated Company provided such retirement results in the Member's separation from the employment of the Company or Affiliated Company with no continuing employment immediately thereafter with any Affiliated Company. "Retirement" for Members not covered by any such retirement plan shall mean separation from Service on or after attaining age 65.

1.45 "Retirement Savings Account" means the portion of a Member's Account that is attributable to Sheltered Contributions, Standard Contributions, Rollover Contributions, Tax Deductible Contributions, and Retirement Savings Matching Contributions, determined as of any Valuation Date.

1.46 "Retirement Savings Matching Contributions" means those contributions to the Plan that were made as of no later than

December 31, 1989 by Participating Companies to match Tax Deferred Contributions to the Plan.

1.47 "Retirement Savings Trustee" means the party or parties, individual or corporate, named in a Trust Agreement who holds the assets of the Plan determined as of September 30, 1996; amounts attributable to Sheltered Contributions, Standard Contributions, and Rollover Contributions made subsequent to September 30, 1996; amounts attributable to Exchange Contributions invested in a Money Market Fund until the allocation of Leveraged Shares for the Stock Ownership Allocation Period in which such Exchange Contributions are made; and amounts attributable to the shares of Company Stock that are diversified in accordance with Section 7.08, as provided in Article 10.

1.48 "Rollover Contributions" means contributions made by an Eligible Employee who is eligible to make Sheltered Contributions and Standard Contributions, in accordance with Section 4.09.

1.49 "Service" means service credited pursuant to Article 3 of the Plan.

1.50 "Sheltered Contributions" means that portion of a Member's Compensation which is deferred and contributed to the profit sharing portion of the Plan, in accordance with Section 401(k) of the Code and as described in Section 4.01(b) and which were referred to as "Tax Deferred Contributions" prior to October 1, 1996.

1.51 "Standard Contributions" means contributions made by a Member to the profit sharing portion of the Plan, in accordance

with Section 4.02 and which were, prior to October 1, 1996, referred to as "Additional (After Tax) Contributions" and included "Catch-Up Contributions," if any, that were made under the Plan prior to January 1, 1990.

1.52 "Standard Contributions Percentage" means, with respect to a specified group of Employees, any of whom is a Member or eligible to become a Member, the average of the ratios, calculated separately for each Employee in that group, of (1) the sum of (a) Standard Contributions made pursuant to Section 4.02 for such Plan Year; (b) any Sheltered Contributions that are recharacterized as Standard Contributions pursuant to Section 6.07(c) for such Plan Year; (c) any Sheltered Contributions that are utilized in satisfying the requirements of Section 6.07(a) for such Plan Year; and (d) any qualified nonelective contributions made on the Employee's behalf pursuant to Section 6.07(d) for the Plan Year, to (2) the Employee's Compensation for that Plan Year. In the case of a Highly Compensated Employee who is subject to the family aggregation requirements of Section 414(q)(6) of the Code, the combined Standard Contributions Percentage for the family group (which is treated as one Highly Compensated Employee) is determined by combining the Standard Contributions, the recharacterized Sheltered Contributions, the Sheltered Contributions that are utilized in satisfying the requirements of Section 6.07(a), qualified nonelective contributions, and Compensation, on behalf of all eligible family members for such Plan Year. In all events,

Standard Contributions Percentages will be determined in accordance with all of the applicable requirements (including to the extent applicable, the plan aggregation requirements) of Section 401(m) of the Code, and the regulations issued thereunder. The percentage is determined by multiplying the ratio calculated above by one hundred (100).

1.53 "Stock Ownership Account" means all Leveraged Shares and other assets held by the Stock Ownership Trustee under the Plan and allocated for the benefit of a Member attributable to Exchange Contributions, Matching Allocations and Equity Allocations, and all amounts attributable to Exchange Contributions invested in a Money Market Fund until the allocation of Leveraged Shares for the Stock Ownership Allocation Period in which such Exchange Contributions are made and all amounts attributable to the shares of Company Stock that are diversified in accordance with Section 7.08 held by the Retirement Savings Trustee, determined as of any Valuation Date.

1.54 "Stock Ownership Allocation Period" means the period for which an allocation of Leveraged Shares released from the Company Suspense Account under Section 6.02 is made to Members' Stock Ownership Accounts; the Stock Ownership Allocation Period initially shall be the period beginning July 1, 1996 and ending December 12, 1996, and thereafter, shall be the approximate six-month period ending on the second prior day on which the New York Stock Exchange is open for trading that immediately precedes

the scheduled repayment of principal and interest on the Acquisition Loan.

1.55 "Stock Ownership Contributions" means contributions by a Participating Company under Section 4.04.

1.56 "Stock Ownership Plan" means the Armstrong World Industries, Inc. Employee Stock Ownership Plan, which was merged into this Plan on September 30, 1996.

1.57 "Stock Ownership Trustee" means the party or parties, individual or corporate, named in a Trust Agreement by whom the funds of the employee stock ownership portion of the Plan (other than amounts attributable to Exchange Contributions made in a Stock Ownership Allocation Period invested in a Money Market Fund until the allocation of Leveraged Shares for such Stock Ownership Allocation Period and amounts attributable to the shares of Company Stock that are diversified in accordance with Section 7.08) are held, as provided in Article 10.

1.58 "Tax Deductible Contributions" means a Member's contributions to the Plan made prior to January 1, 1987, that were tax deductible, in accordance with Section 219 of the Code and as described in Section 3.06 of the Plan in effect immediately preceding the effective date of this amendment and restatement.

1.59 "Trust" means the legal entity resulting from the Trust Agreements between the Company and the Stock Ownership and Retirement Savings Trustees.

1.60 "Trust Agreement" means the individual agreements entered into between the Company and the Stock Ownership Trustee and the Company and the Retirement Savings Trustee, which fix the rights and liabilities of each such party with respect to holding and administering the applicable Trust Fund for the purposes of the Plan.

1.61 "Trust Fund" means, depending on the context in which used, the portion of the Trust consisting of all Members' Retirement Savings Accounts and/or the portion of the Trust consisting of all Members' Stock Ownership Accounts.

1.62 "Valuation Date" means each day that the New York Stock Exchange is open for trading.

1.63 "Year of Service" means any calendar year in which the Employee has completed 1,000 or more Hours of Service.



## Article 2. Eligibility and Membership

### 2.01 Eligibility

Each Employee who was a Member in the Plan on September 30, 1996 shall remain a Member hereunder, subject to the remaining provisions of this Article

2. On or after October 1, 1996, each Full-Time Employee shall become an Eligible Employee on the first date on which he is credited with an Hour of Service, and each Part-Time Employee shall become an Eligible Employee on the first day of the month next following the date upon which he completes a Qualifying Year of Employment. Notwithstanding Section 2.02(a), each hourly Employee employed at the Company's Mobile Plant also shall be eligible to become a Member in the manner indicated in the preceding sentence.

### 2.02 Excluded Employees

The following Employees shall be excluded from becoming Eligible Employees under the Plan:

- (a) An Employee who is (or becomes) a member of a collective bargaining unit that is a party to a collective bargaining agreement with a Participating Company unless there is in effect an agreement making the Plan available to Employees in such unit.
- (b) Any Employee who is a leased employee of a Participating Company and who is employed by a leasing organization (as defined in Code Section 414(n)(2)) which is not an Affiliated Company.

- (c) Any foreign national whose services are performed primarily for and at a branch facility of the Participating Company outside the United States.
- (d) Any citizen of a territorial possession of the United States whose employment relationship or contract of employment originates at, and whose services are performed primarily for and at, a branch facility of the Participating Company outside the United States
- (e) Any person not employed by a Participating Company unless designated as eligible by the Committee.
- (f) Any person employed by a Participating Company at locations established or acquired after June 1, 1989, unless included pursuant to Section 13.04.
- (g) Any person employed on an hourly basis by Armstrong Industrial Specialties, Inc. or The W.W. Henry Company.

### 2.03 Membership

An Eligible Employee under Section 2.01 or Section 2.05(a) shall become a Member under the Plan by designating a percentage of his Compensation to be contributed to the Plan under Section 4.01(a), 4.01(b) and/or 4.02(a). An Eligible Employee shall be provided one opportunity at any time during the calendar year in which he becomes an Eligible Employee to designate the percentage of his Compensation to be contributed to

the Plan for following calendar years under Section 4.01(a) only during the annual election period designated by the Committee. An Eligible Employee may designate the percentage of his Compensation to be contributed to the Plan under Sections 4.01(b) and 4.02(a) at any time after becoming an Eligible Employee. Any designation under the preceding sentences shall become effective as soon as practicable thereafter, provided the designation is made in the manner authorized by the Committee and is accompanied by:

- (a) an authorization for the Participating Company to make regular payroll deductions to cover the amount of such contributions elected pursuant to Section 4.01 and/or 4.02;
- (b) an investment election with respect to Sheltered Contributions under Section 4.01(b), Standard Contributions under Section 4.02(a), and the remaining portion of his Retirement Savings Account, if any; and
- (c) a designation of Beneficiary.

Notwithstanding the foregoing, an Eligible Employee's failure to designate contribution percentages under Sections 4.01 and 4.02 shall not affect his status as a Member and his entitlement to an allocation under Section 6.02(c), in accordance with Section 6.01(b).

#### 2.04 Events Affecting Membership

- (a) If a Member is no longer employed by a Participating Company, is transferred to employment with an Affiliated Company that is not a Participating Company, or is transferred to a

position with the Company or an Affiliated Company that makes him ineligible to be a Member under Section 2.02, his active participation under the Plan shall be suspended and, during the period of his unemployment or his employment in such ineligible position, he shall not be eligible to have allocated to his Retirement Savings Account or Stock Ownership Account any contributions made under Section 4.01, 4.02 or 4.04, except as may be required to satisfy the allocation requirements of Section 6.02(a).

(b) A Member who is employed by the Company and who is transferred directly to an Affiliated Company (whether or not a Participating Company) other than the Company shall not be eligible to have any Company Stock allocated to his Equity Account during the period of his employment with such Affiliated Company.

#### 2.05 Membership Upon Reemployment

(a) Each individual described in Section 2.04(a) who is reemployed by a Participating Company or who ceases to be an excluded Employee under Section 2.02, shall again be an Eligible Employee on his date of reemployment or the date he ceases to be an excluded Employee, in accordance with such rules and regulations which are adopted by the Committee. Any such Eligible Employee shall again become a Member in accordance with Section 2.03.

(b) Each individual described in Section 2.04(b) who is transferred to the Company other than as an excluded Employee

under Section 2.02, shall again become eligible to have Company Stock allocated to his Equity Account as of his date of transfer.

(c) A Part-Time Employee who terminates employment with the Company or an Affiliated Company prior to becoming an Eligible Employee and who is rehired by the Company or an Affiliated Company after a one-year Break in Service, shall be treated as a newly-hired Employee upon his reemployment. A Part-Time Employee who terminates employment with the Company or an Affiliated Company prior to becoming an Eligible Employee and who is rehired before the end of a one-year Break in Service, shall be eligible to become a Member in accordance with Sections 2.01, 2.02 and 2.03, based on his original date of hire.

### Article 3. Service

#### 3.01 Companies For Whom Credited

Service shall mean periods of an Employee's employment with the Company, an Affiliated Company (on and after the date of affiliation unless determined otherwise by the Committee), and any predecessor corporation of a Participating Company, or a corporation merged, consolidated or liquidated into the Participating Company or a predecessor of the Participating Company, or a corporation, substantially all of the assets of which have been acquired by the Participating Company, if the Participating Company maintains a plan of such a predecessor corporation. If the Participating Company does not maintain a plan maintained by such a predecessor, periods of employment with such a predecessor shall be credited as Service only to the extent required under regulations prescribed by the Secretary of the Treasury pursuant to Section 414(a)(2) of the Code.

#### 3.02 Hours of Service

For the purposes of determining a Part-Time Employee's eligibility to participate under Section 2.01 of the Plan and a Member's vested interest in his Match Account and Equity Account under Section 9.01, with respect to any applicable computation period:

(a) An Employee shall be credited with Hours of Service during periods for which he is directly or indirectly paid by, or entitled to payment from the Company or an Affiliated Company for the performance of duties;

(b) An Employee shall be credited with Hours of Service during periods when no duties are performed:

(i) Due to vacation, holiday, layoff, or leave of absence; and during which he is paid or entitled to payment from the Company or an Affiliated Company;

(ii) Because of temporary total disability due to sickness, injury, or incapacity; for which he receives or is entitled to receive either disability benefits or Worker's Compensation, directly or indirectly from the Company or an Affiliated Company;

(iii) Due to total disability for which he receives or is entitled to receive benefits under a long-term disability income plan maintained by the Company or an Affiliated Company or under the provisions of Article VI, Section (8) of the Retirement Income Plan for Employees of Armstrong World Industries, Inc.; or

(iv) Due to jury duty or military duty in the Armed Forces of the United States; and during which he is paid or entitled to payment from the Company or an Affiliated Company.

(c) An Employee shall be credited with Hours of Service during periods for which back pay, irrespective of mitigation of damages, has been awarded or agreed to by the Company or an Affiliated Company.

(d) The Committee shall determine whether an Employee is entitled to credit for an Hour of Service on the basis of records of hours worked and payments made or due. An exempt salaried Employee shall be credited with 45 Hours of Service for each week

for which it is determined that he is entitled to credit for at least one such Hour of Service.

(e) Hours of Service credited under Section 3.02(b) or (c) hereof for a period during which the Employee is not performing duties but for which he is paid or entitled to payment, directly or indirectly, by the Company or an Affiliated Company shall be subject to the following rules:

(i) If payments made for a period of absence are computed with specific reference to units of time, the number of Hours of Service credited shall be the number of regularly scheduled working hours included in the units of time on the basis of which the payment is calculated, consistently determined with respect to all Employees within the same job classification.

(ii) If payments made for a period of absence are computed without regard to units of time, the number of Hours credited shall be equal to the amount of the payment made with respect to such period of absence divided by the Employee's most recent hourly rate of pay or its equivalent.

(iii) Hours of Service credited hereunder for an absence shall be credited to the calendar year during which the period of absence occurs; provided, however, that if the period of absence falls within more than one calendar year, the Committee, following uniform rules and governmental regulations, may prorate such Hours between such calendar years. Hours of Service credited by reason of an award or agreement for back pay



shall be credited to the calendar year to which the award or agreement pertains.

(iv) The Hours of Service credited hereunder for any period of absence shall not exceed the number of working hours regularly scheduled for the performance of duties during such period of absence, as determined in accordance with procedures consistently applied by the Committee with respect to all Employees within any one job classification. Nothing contained herein shall result in double credit for the same period.

(v) No more than 501 Hours of Service shall be credited for a period described under Section 3.02(b) or (c) on account of any single continuous period during which the Employee performs no duties (whether or not such period occurs in a single computation period).

(vi) No credit shall be given under this Section 3.02 during periods for which payments are made or due under a plan maintained solely to comply with applicable worker's compensation laws or unemployment compensation laws, for which payments are made solely to reimburse an Employee for medical or medically-related expenses incurred by the Employee, or for which payments are made for the period following retirement.

(vii) The number of Hours of Service credited under the Plan for military service or for any other period described in Section 3.02(b)(iv) hereof during which the Employee is not paid or entitled to payment, directly or indirectly, from the Company or an Affiliated Company shall be determined on the basis

of the number of regularly scheduled hours the Employee was working prior to the absence.

(f) For the purposes of determining whether an Employee has incurred a Break in Service, an Employee who is absent from work due to Parental Leave and who is not entitled to credit for such absence under any of the other provisions of this Section 3.02 shall be credited with a number of Hours of Service for such absence equal to the number of Hours of Service that would have been credited to the Employee had he been performing duties during the absence or, if the Committee is unable to determine the number of such Hours, eight (8) Hours of Service per day of such absence; provided, however, that in no event shall more than 501 Hours of Service be credited for any single continuous period of absence described in this Section 3.02(f). If in the year in which the absence begins, the Employee has not yet been credited with 501 Hours of Service, then the Hours of Service credited by reason of this Section shall be credited in such year; in any other case, the Hours of Service credited by reason of this Section shall be credited in the year following the year in which the absence begins.

### 3.03 Additional Service Credit

The Committee, in its sole discretion, may provide additional credit for eligibility or vesting purposes for periods not required to be credited under this Article 3, provided that the Committee shall act in a nondiscriminatory manner.

Article 4. Contributions and Dividends

- 4.01 Member Pre-Tax Contributions  
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- (a) Exchange Contributions  
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Each Member may authorize the Participating Company by which he is

employed, in the manner described in Section 2.03, to reduce his Compensation by not less than 1% and not more than 6% (or such lower maximum percentage as the Committee may from time to time determine), in multiples of 1% as elected by the Member, and have that amount contributed to the Plan by the Participating Company as Exchange Contributions, subject to the limits of Sections 6.03 and 6.05. The specified portion of the Member's Compensation which would otherwise be paid to the Member shall be paid by the Participating Employer to the Stock Ownership Trustee as soon as practicable after the end of each payroll period, and shall be credited to the Member's Exchange Contribution Account. An Eligible Employee who does not elect to reduce his Compensation under this Section 4.01(a) as of the first day of the payroll period that begins coincident with or immediately following the date on which he becomes an Eligible Employee under Section 2.01, may make an election, in the manner described in Section 2.03, to reduce his Compensation effective for the payroll period coincident with or immediately following any subsequent January 1.

(b) Sheltered Contributions

Subject to the last sentence of this Subsection (b), each Member may authorize the Participating Company by which he

is employed, in the manner described in Section 2.03, to reduce his Compensation by not less than 1% and not more than 15% (or such lower maximum percentage as the Committee may from time to time determine), in multiples of 1% as elected by the Member, and have that amount contributed to the Plan by the Participating Company as Sheltered Contributions, subject to the limits of Sections 6.04 and 6.05. The specified portion of the Member's Compensation which would otherwise be paid to the Member shall be paid by the Participating Employer to the Retirement Savings Trustee as soon as practicable after the end of each payroll period, and will be credited to the Member's Sheltered Account. Notwithstanding the foregoing, any Member employed by The W.W. Henry Company shall not be permitted to make Sheltered Contributions.

(c) In the event that Exchange Contributions or Sheltered Contributions made under this Section are returned to the Employer in accordance with Section 4.06, the elections to reduce Compensation which were made by Members on whose behalf those contributions were made shall be void retroactively to the beginning of the period for which those contributions were made.

(d) Notwithstanding anything to the contrary in this Section 4.01, the Committee may at any time reduce the maximum percentage by which some or all Members may reduce their Compensation pursuant to Subsection (a) or (b) above. The duration of such reduction shall be determined by the Committee at such time.

(e) Notwithstanding any other provision of the Plan to the contrary, in no event may the Exchange Contributions and Sheltered Contributions under Subsections (a) and (b) above by any Member exceed in a Plan Year an amount equal to 15% (or such lower maximum percentage as set by the Committee pursuant to Sections 6.03 and 6.04) multiplied by the Member's Compensation not in excess of \$150,000 (adjusted in accordance with Section 401(a)(17) of the Code and the regulations and other guidance issued thereunder). This limitation shall be applied on a Plan Year basis, shall not be prorated for any part of such Plan Year, and shall be applied only with respect to amounts earned after becoming a Member.

#### 4.02 Standard Contributions

(a) Subject to the last sentence of this Subsection (a), each Member may authorize contributions by payroll deduction on an after-tax basis of a stated whole percentage of Compensation from 1% to 10%, with such amount being rounded to the next higher multiple of one dollar per pay period and with such amount being subject to the limits of Section 6.07. The specified portion of the Member's Compensation shall be paid by the Participating Company to the Retirement Savings Trustee as soon as practicable after the end of each payroll period, and will be credited to the Member's Standard Account. Notwithstanding the foregoing, any Member employed by The W.W. Henry Company shall not be permitted to make Standard Contributions.

(b) Notwithstanding anything to the contrary in this Section 4.02, the Committee may at any time reduce the maximum percentage by which some or all Members may reduce their Compensation pursuant to Subsection (a) above. The duration of such reduction shall be determined by the Committee at such time.

(c) Notwithstanding any other provision of the Plan to the contrary, in no event may the Standard Contributions under Subsection (a) above by any Member in a Plan Year exceed an amount equal to 10% (or such lower maximum percentage as set by the Committee pursuant to Section 6.07) multiplied by the Member's Compensation not in excess of \$150,000 (adjusted in accordance with Section 401(a)(17) of the Code and the regulations and other guidance issued thereunder). This limitation shall be applied on a Plan Year basis, shall not be prorated for any part of such Plan Year, and shall be applied only with respect to amounts earned after becoming a Member.

4.03 Change or Suspension in Member Contributions  
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(a) Exchange Contributions  
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Once a Member initially elects to reduce his Compensation under

Section 4.01(a), the Member may elect to change or suspend his rate of Exchange Contributions only during the annual election period designated by the Committee. Any such change or suspension shall be effective beginning with the first payroll period that begins on or immediately following the next January 1. Once made, a Member may not change his annual election with respect to the remainder of the calendar year. If

the Member does not elect to change or suspend his Exchange Contributions during the annual election period, the Member's elected reduction in Compensation shall continue until the earlier of the end of the next calendar year, or the Member's separation from Service. Any attempt to change or suspend a Member's Exchange Contributions which does not comply with the provisions of Section 4.01(a) shall be invalid and the last election with respect to Exchange Contributions shall be deemed to have remained fully in effect. In the event a Member becomes an inactive Member, his Exchange Contributions shall be deemed suspended on the first day of such Member's payroll period next following the date he becomes an inactive Member and such suspension shall end on the first day of such Member's payroll period subsequent to the date he again becomes an active Member. A Member who is granted a hardship withdrawal under Section 8.02 shall have his Exchange Contributions automatically suspended for the 12-month period beginning with the first day of the Member's payroll period next following the date the hardship withdrawal is granted, and the percentage of Compensation designated by the Member to measure such Exchange Contributions in effect immediately preceding such suspension shall automatically be reinstated as soon as practicable following the end of such 12-month period.

(b) Sheltered Contributions and Standard Contributions

The percentages of Compensation designated by a Member to measure the Sheltered Contributions and Standard

Contributions made to his Retirement Savings Account will continue in effect, notwithstanding any change in his Compensation, until he elects to change or suspend such percentage. A Member may change or suspend such percentage at any time by applying to make such change or suspension in the manner prescribed by the Committee (including telephonic application). Any such change or suspension will become effective as of the first day of the payroll period that begins as soon as practicable after the Member applies to make such change or suspension. In the event a Member becomes an inactive Member, his Sheltered Contributions and Standard Contributions shall be deemed suspended on the first day of such Member's payroll period next following the date he becomes an inactive Member and such suspension shall end on the first day of such Member's payroll period subsequent to the date he again becomes an active Member. A Member who is granted a hardship withdrawal shall have his Sheltered Contributions and Standard Contributions automatically suspended for the 12-month period beginning with the first day of the Member's payroll period next following the date the hardship withdrawal is granted, and the percentages of Compensation designated by the Member to measure such Sheltered Contributions and Standard Contributions in effect immediately preceding such suspension shall automatically be reinstated as



soon as practicable following the end of such 12-month period.

#### 4.04 Stock Ownership Contributions

(a) For each Stock Ownership Allocation Period during which there are Leveraged Shares in the Company Suspense Account, the Participating Companies shall make Stock Ownership Contributions which, when aggregated with Exchange Contributions made pursuant to Section 4.01 (a), earnings on such Exchange Contributions, and any cash dividends received by the Stock Ownership Trustee on Company Stock (and earnings thereon), will at least equal the amount necessary to enable the Stock Ownership Trustee to pay any currently maturing obligation under an Acquisition Loan, without regard to the accumulated earnings and profits of each Participating Company. To the extent the total of such Stock Ownership and Exchange Contributions exceeds the amount required to pay any such currently maturing obligation, such excess amount may then be used to repay any outstanding Acquisition Loan.

(b) (i) In addition to contributions under Section 4.04(a), each Participating Company shall contribute for each Plan Year, additional Stock Ownership Contributions equal to the difference, if any, between: (1) the total amount equal to the Exchange Contributions credited to the Members employed by such Participating Company during the Plan Year, plus earnings, and (2) the fair market value of the Leveraged Shares allocated to each such Member's Exchange Contribution Account during the Plan

Year excluding Leveraged Shares released and allocated pursuant to Sections 5.02(b) and 6.02(a).

(ii) The Company also shall contribute for each Plan Year additional Stock Ownership Contributions (in cash or Company Stock) in the amount necessary to enable the Trustee to acquire such number of shares of Company Stock equal to the difference, if any, between (1) the number of shares of Company Stock initially intended to be credited to the Equity Accounts of Eligible Members of the Company during the Plan Year in accordance with Section 6.02(c), and (2) the number of Leveraged Shares actually allocated to each Member's Equity Account during the Plan Year in the absence of this Section 4.04(b)(ii).

(iii) The Company also shall contribute for each Plan Year additional Stock Ownership Contributions (in cash or Company Stock) in the amount necessary to enable the Trustee to acquire such number of shares of Company Stock equal to the difference, if any, between (1) the number of shares of Company Stock initially intended to be credited as base allocations and supplemental allocations to the Match Accounts of Eligible Members during the Plan Year in accordance with Section 6.02(d), and (2) the number of Leveraged Shares actually allocated as base allocations and supplemental allocations to each Member's Match Account during the Plan Year in the absence of this Section 4.04(b)(iii).

(c) Notwithstanding anything to the contrary in this Section 4.04, except as is necessary to satisfy the allocation

requirements of Sections 6.02(a) and 6.02(b), each Participating Company's contribution to the Plan shall not exceed the amount deductible from the Participating Company's income tax return for the Plan Year under Section 404 of the Code when combined with amounts contributed by the Participating Company to its other benefit plans qualified under Section 401 of the Code and each contribution shall be conditioned upon such deductibility.

#### 4.05 Manner of Contributions

Each Participating Company shall make its contributions for a Plan Year in cash or Company Stock on any date or dates which the Company may select, subject to the consent of the Trustee; provided that the total contributions for any Plan Year shall be paid within the time prescribed by law for filing the Company's Federal income tax return for such taxable year, including extensions thereof. Except to the extent applied to the payment of principal and/or interest on an Acquisition Loan, the Stock Ownership Trustee shall invest cash contributions in Company Stock or allocate such contributions to Members' Stock Ownership Accounts in accordance with instructions from the Committee as soon as practicable after it receives the contribution.

#### 4.06 Return of Contributions

Notwithstanding anything herein to the contrary, a contribution which (i) was made under a mistake of fact, or (ii) was conditioned upon deduction of the contributions under Section 404 of the Code and such deduction is disallowed, shall be

returned to the Participating Company within one year after the payment of the mistaken contribution or the disallowance of the deduction (to the extent disallowed), whichever is applicable.

#### 4.07 Dividends on Company Stock

All cash dividends on Company Stock held in the Stock Ownership Fund and earnings thereon shall be utilized to repay an Acquisition Loan and shall be allocated pursuant to Section 6.02, with such dividends first being utilized to repay the principal amount of such Acquisition Loan.

#### 4.08 Correction of Errors in Contributions

If, with respect to any Plan Year, any Member's Stock Ownership Account is not credited with the Member's allocable share of Exchange Contributions or Stock Ownership Contributions (including Matching Allocations or Equity Allocations), any Member's Retirement Savings Account is not credited with the Member's designated amount of Sheltered Contributions or Standard Contributions, or earnings on any such contributions to which such Member is entitled under the Plan are not credited to the appropriate account, and such failure is due to administrative error in determining or allocating the proper amount of such contributions or earnings, or any other error or mistake of fact in determining an individual's eligibility for a contribution, the Committee may correct such error by reallocation of amounts among Members' Stock Ownership Accounts and/or Retirement Savings Accounts, as the case may be, and/or the Participating Company may make additional contributions to the Stock Ownership Account

or Retirement Savings Account, as the case may be, of any affected Member to place the affected Member's Stock Ownership Account or Retirement Savings Account, as the case may be, in the position that would have existed if the error had not been made; provided that any such reallocations or additional contributions are made on a uniform and nondiscriminatory basis. In addition to the foregoing, if an error is made with respect to the investment of the Trust's assets which results in an error in the amount credited to a Member's Account, the Committee may correct such error by reallocation of amounts among Members' Accounts and/or the Participating Company may make additional contributions to the Account of any affected Member to place the affected Member's Account in the position that would have existed if the error had not been made; provided that any such reallocations or additional contributions are made on a uniform and nondiscriminatory basis.

#### 4.09 Rollover Contributions

(a) An Eligible Employee who is eligible to make Sheltered Contributions and Standard Contributions may, with the permission of the Committee (which shall be uniformly applied), make a Rollover Contribution. Such Eligible Employee's Rollover Contribution shall be paid to the Retirement Savings Trustee as soon as practicable and shall be credited to his "Rollover Contribution Account" under his Retirement Savings Account.

(b) The term "Rollover Contribution" means the contribution of an "eligible rollover distribution" to the

Trustee by the Eligible Employee on or before the 60th day immediately following the day such Eligible Employee receives the "eligible rollover distribution" or a contribution of an "eligible rollover distribution" to the Trustee by the Eligible Employee or the trustee of another "eligible retirement plan" (as defined in Section 402(c)(8) of the Code) in the form of a direct transfer under Section 401(a)(31) of the Code.

(c) The term "eligible rollover distribution" means:

(i) part or all of a distribution to the Eligible Employee from an individual retirement account or individual retirement annuity (as defined in Section 408 of the Code) maintained for the benefit of such Employee making the Rollover Contribution, the funds of which are solely attributable to an eligible rollover distribution from an employee plan and trust described in Section 401(a) of the Code which is exempt from tax under Section 501(a) of the Code (a "conduit IRA"); or

(ii) part or all of the amount (other than nondeductible employee contributions) received by such Eligible Employee or distributed directly to this Plan on such Employee's behalf from an employee plan and trust described in Code Section 401(a) which is exempt from tax under Code Section 501(a).

In all events, such amount shall constitute an "eligible rollover distribution" only if such amount qualifies as such under Code Section 402(c) and the regulations and other guidance thereunder and is a distribution of all or any portion of the balance to the credit of the Employee from the distributing plan

or conduit IRA other than any distribution: (i) that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or for a specified period of ten years or more; (ii) to the extent such distribution is required under Code Section 401(a)(9); (iii) to the extent such distribution is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); or (iv) that is made to a non-spouse beneficiary.

(d) Once accepted by the Trust, an amount rolled over pursuant to this Section 4.09 shall be credited to the Member's "Rollover Contributions Account" under his Retirement Savings Account, and thereafter, such Rollover Contributions shall be administered and invested in accordance with Article 7 and subject to the withdrawal and distribution provisions set forth in Articles 8 and 9. The limitations of Sections 6.03 through 6.08 shall not apply to Rollover Contributions. All Rollover Contributions shall be made in cash and shall be fully vested.

## Article 5. Acquisition Loans

### 5.01 Acquisition Loan

The Company may direct the Trustee to incur Acquisition Loans from time to time to finance the acquisition of Leveraged Shares or to repay a prior Acquisition Loan. Any Acquisition Loan shall be primarily for the benefit of Members and their beneficiaries. The proceeds of any Acquisition Loan shall be used within a reasonable period of time only to finance the acquisition of Leveraged Shares or to repay a prior Acquisition Loan. Any Acquisition Loan shall be for a specific term, shall bear a reasonable rate of interest, and shall not be payable on demand except in the event of default. In the event of default upon an Acquisition Loan, the value of Trust assets transferred in satisfaction of any Acquisition Loan shall not exceed the amount of the default. Any Acquisition Loan may be secured by collateral pledge of the Leveraged Shares so acquired. No other Trust assets may be pledged as collateral for an Acquisition Loan, and no lender shall have recourse against Trust assets other than any Leveraged Shares remaining subject to pledge. Any pledge of Leveraged Shares must provide for the release of shares so pledged on a pro rata basis as principal and interest on the Acquisition Loan are repaid by the Trustee and such Leveraged Shares are allocated to Members' Stock Ownership Accounts as provided under Section 6.02. Except upon termination of the Plan as provided under Section 13.02, repayments of principal and interest on any Acquisition Loan shall be made by the Trustee (as



directed by the Committee) only from Stock Ownership Contributions or Exchange Contributions paid in cash to enable the Trustee to repay such Loan, from earnings attributable to such contributions, from any cash dividends received by the Trustee on Company Stock and earnings thereon, and from another Acquisition Loan that refinances such Acquisition Loan. Any Acquisition Loan that refinances an earlier Acquisition Loan shall bear an interest rate based on the market conditions at the time such loan is made, and may be prepaid at any time, without penalty. Any prepayment of an Acquisition Loan within the 30-day period immediately following the end of the Stock Ownership Allocation Period shall be deemed to be a repayment of principal and interest on the Acquisition Loan for such Stock Ownership Allocation Period. In acquiring Leveraged Shares, the Trustee shall pay no more than "adequate consideration" (as defined in Section 3(18) of ERISA).

#### 5.02 Allocation of Leveraged Shares

(a) Any Leveraged Shares shall initially be credited to the Company Suspense Account and shall be allocated to the Members' Stock Ownership Accounts for each Stock Ownership Allocation Period only as payments of principal and interest on the Acquisition Loan used to purchase such Leveraged Shares are made by the Trustee. The number of Leveraged Shares to be released from the Company Suspense Account following any amortization of an Acquisition Loan shall equal the number of Leveraged Shares in the Company Suspense Account immediately

before release multiplied by a fraction. The numerator of the fraction shall be the amount of Stock Ownership Contributions, Exchange Contributions and any dividends on Company Stock which are applied to the payment of principal and interest on the Acquisition Loan during the Stock Ownership Allocation Period. The denominator of the fraction shall be the sum of the numerator plus the principal and interest to be paid for all future periods over the duration of the Acquisition Loan repayment period, including the principal and interest to be paid on an Acquisition Loan that refinances such Acquisition Loan. For this purpose, the number of future Allocation Periods under the Acquisition Loan must be definitely ascertainable and must be determined without taking into account any possible extensions or renewal periods. If the interest rate under the Acquisition Loan is variable, the interest to be paid in future Allocation Periods shall be computed by using the interest rate applicable as of the end of the Plan Year. Any Leveraged Shares released within thirty (30) days following the end of the Stock Ownership Allocation Period shall be deemed to be "Released Leveraged Shares" for purposes of Section 6.02.

(b) In connection with the release of Leveraged Shares from the Company Suspense Account as a result of a loan amortization payment made in whole or in part with cash dividends on Company Stock held in Members' Stock Ownership Accounts ("Allocated Dividends"), a portion of the total number of shares so released, calculated with respect to each class of Company

Stock, shall be released for allocation to the Members' Accounts as of a date during the Plan Year which is no later than the last day of the Plan Year in which the Allocated Dividends are paid, based on the amount of such Allocated Dividends used to make the loan amortization payment. The number of released shares with respect to Allocated Dividends shall be the total number of shares released on account of the loan amortization payment multiplied by a fraction. The numerator of the fraction shall be the amount of the Allocated Dividends used to make the loan amortization payment. The denominator of the fraction shall be the fair market value of the total number of shares released as a result of the loan amortization payment. The number of released shares with respect to Allocated Dividends shall be allocated among the Members in the same proportion that each Member's Allocated Dividends used to make the loan amortization payment bears to the total amount of such Allocated Dividends, in accordance with Section 6.02(a).

Article 6. Allocations of and Limitations on Contributions

6.01 Members Eligible for Allocations

The Stock Ownership Account maintained for each Member will be credited as of the last day of each Stock Ownership Allocation Period with his allocable share of Company Stock released from the Company Suspense Account during the Stock Ownership Allocation Period as determined under Section 6.02.

(a) Each Member shall be eligible for an allocation under Sections 6.02(a) and 6.02(b).

(b) For purposes of allocations under Section 6.02(c), an Eligible Member shall be any Member who is: (1) employed by the Company on a permanent full-time basis; (2) employed by the Company at its Mobile Plant and paid on an hourly basis (regardless of the employment status); or (3) employed by Armstrong Industrial Specialties, Inc. on a permanent full-time basis and paid on a salaried basis after having been transferred from the Company on or after January 1, 1996, provided the Member was an Eligible Member under clause (1) of this Section 6.01 (b) immediately prior to such Member's transfer of employment; and who:

(i) is employed by a Participating Company on the last day of the Stock Ownership Allocation Period;

(ii) enters Retirement, dies, becomes disabled within the meaning of Section 9.01(c), or commences a period of long-term military leave, at any time during, but after the first day of, the Stock Ownership Allocation Period;

(iii) is on a Parental Leave as of the last day of the Stock Ownership Allocation Period that has been approved by the Participating Company for which he is employed; or

(iv) terminates employment with a Participating Company during the Stock Ownership Allocation Period on account of a reduction in the workforce at the office or manufacturing location at which the Member is employed which the Committee determines is a result of (1) adverse economic conditions, (2) a reorganization of the workforce or operating procedures, (3) technological change, or (4) layoff.

Notwithstanding the above, a Member who is totally disabled (within the meaning of Section 9.01(c)) while actively employed by a Participating Company or an Affiliated Company shall be eligible for an Equity Allocation under Section 6.02(c) for each Stock Ownership Allocation Period in which he receives disability payments under a long-term disability plan sponsored by the Participating Company for which he was employed or under the provisions of Article VI, Section (8) of the Retirement Income Plan for Employees of Armstrong World Industries, Inc., or until he is no longer a Member, if earlier.

(c) For purposes of allocations under Section 6.02(d), an Eligible Member shall be any Member who satisfies any one of the four conditions described in Section 6.01(b)(i) - (iv).

## 6.02 Method of Allocations

(a) For each Plan Year in which Allocated Dividends are paid, Company Stock with a fair market value equal to the amount of each Member's Allocated Dividends shall be allocated to the Member's Exchange Contribution Account, Equity Account and/or Match Account, as the case may be, to the extent such Allocated Dividends are attributable to Company Stock held in such Accounts. Each Participating Company shall be authorized to make a special contribution to the Plan with respect to any Member (as determined by the Committee) to assure that this requirement is satisfied.

(b) Leveraged Shares released from the Company Suspense Account as a result of loan amortization payments made with respect to a Stock Ownership Allocation Period ("Released Leveraged Shares") that have not and will not be allocated pursuant to Section 6.02(a) and Stock Ownership Contributions made pursuant to Section 4.04(b)(i) shall be allocated to the Exchange Contribution Accounts of Members in dollar amounts equal to the Exchange Contributions made on the Member's behalf pursuant to Section 4.01(a) prior to the end of such Stock Ownership Allocation Period, plus earnings thereon. For purposes of this Section 6.02(b), the value of all Company Stock allocated to Members' Exchange Contribution Accounts shall be based on the closing price of such Company Stock on the New York Stock Exchange on the last day of the Stock Ownership Allocation Period.

(c) Released Leveraged Shares that have not and will not be allocated pursuant to Section 6.02(a) and 6.02(b), and Company Stock acquired with the Stock Ownership Contributions made pursuant to Section 4.04(b)(ii), shall be allocated to the Equity Accounts so that each Eligible Member under Section 6.01(b) receives his Equity Allocation. Except as provided below with respect to each such Eligible Member who (i) is an hourly Employee employed at the Company's Mobile Plant, (ii) initially became a Member on June 19, 1989, the effective date of the Stock Ownership Plan, or (iii) was employed by a Participating Company on June 19, 1989, the effective date of the Stock Ownership Plan, but who initially became an Eligible Member after such date, the Equity Allocation shall be the number of shares designated in Schedule A hereof with respect to individuals who are the same age as the Member was on such effective date. The Equity Allocation with respect to an Eligible Member who first is employed by a Participating Company after June 19, 1989, the effective date of the Stock Ownership Plan, shall be the number of shares designated in Schedule A hereof with respect to individuals who are age 21 on such effective date. Notwithstanding the foregoing, with respect to each Eligible Member who was employed as an hourly Employee at the Company's Mobile Plant and who initially became a Member on October 1, 1990 or who was employed as an hourly Employee at the Company's Mobile Plant on October 1, 1990 but who initially became a Member after October 1, 1990, the Equity Allocation shall be the number of

shares designated in Schedule B hereof with respect to individuals who are the same age as the Member was on October 1, 1990. The Equity Allocation with respect to any Eligible Member who first is employed as an hourly Employee at the Company's Mobile Plant after October 1, 1990, shall be the number of shares designated in Schedule B hereof with respect to individuals who are age 21 on October 1, 1990.

(d) Released Leveraged Shares that have not and will not be allocated pursuant to Section 6.02(a), 6.02(b), or 6.02(c), and Company Stock acquired with the Stock Ownership Contributions made pursuant to Section 4.04(b)(iii), shall be allocated to the Match Accounts so that each Eligible Member under

Section 6.01(c) receives a base allocation in accordance with Paragraph (i) below, and a supplemental allocation in accordance with Paragraph (ii) below.

(i) With respect to each Stock Ownership Allocation Period, each Eligible Member under Section 6.01(c) shall receive a base allocation equal to 50% of the Exchange Contributions made by such Member for the Stock Ownership Allocation Period. Such base allocations shall be made from amounts attributable to Matching Allocations, subject to Sections 6.06 and 6.08, and shall be credited to the Member's Match Account as of the last day of each Stock Ownership Allocation Period in which the Member's Exchange Contributions were made.

(ii) With respect to each Stock Ownership Allocation Period, each Eligible Member under Section 6.01(c) also may have



allocated to his Match Account a supplemental allocation made from amounts attributable to Matching Allocations, subject to Sections 6.06 and 6.08. Any supplemental allocation shall be credited to the Member's Match Account as of the last day of each Stock Ownership Allocation Period in which the Member's Exchange Contributions were made. For the Stock Ownership Allocation Periods ending December 12, 1996, June 12, 1997 and December 11, 1997, the supplemental allocation shall equal twenty-five percent (25%) of the Exchange Contributions made by such Member for each such Stock Ownership Allocation Period. For each subsequent Stock Ownership Allocation Period, a twenty-five percent (25%) supplemental allocation will be made if the fair market value of the Company Stock on the last business day of such Stock Ownership Allocation Period is at least equal to the "share price target" as determined by the Committee for such Stock Ownership Allocation Period. The Committee shall determine the share price target annually in advance of each open enrollment period in which Eligible Members under Section 6.01(c) can elect to change or suspend their Exchange Contributions under Section 4.03(a). Notwithstanding the foregoing, if Released Leveraged Shares remain at the end of a Stock Ownership Allocation Period after allocations pursuant to Sections 6.02(a), 6.02(b), 6.02(c), 6.02(d)(i), and the preceding sentences of this Section 6.02(d)(ii) have been made with respect to such Stock Ownership Allocation Period, all or a portion of such Released Leveraged Shares shall be used to make additional supplemental allocations

for such Stock Ownership Allocation Period to the Match Account of each Eligible Member as determined under Section 6.01(c) to the extent not used to restore the forfeited portion of a Member's Stock Ownership Account under Subsection (e) below.

(e) If Released Leveraged Shares remain after each Eligible Member has had allocated to his Stock Ownership Account an allocation pursuant to Sections 6.02(a), 6.02(b), 6.02(c), and 6.02(d), all or a portion of such Released Leveraged Shares may be used to restore the forfeited portion of the Stock Ownership Account of a Member who is reemployed by the Company or a Participating Company, pursuant to Section 9.05(b). The Committee shall determine whether Released Leveraged Shares may be used for this purpose.

6.03    Limitation on Exchange Contributions Affecting Highly Compensated  
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Employees  
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(a) Notwithstanding anything herein to the contrary, in no event shall the Exchange Contributions made on behalf of Highly Compensated Employees with respect to any Plan Year result in an Actual Deferral Percentage for such group of Highly Compensated Employees that exceeds the greater of:

- (i) an amount equal to 125% of the Actual Deferral Percentage for all Members other than Highly Compensated Employees; or
- (ii) an amount equal to the sum of the Actual Deferral Percentage for all Members other than Highly Compensated Employees and two percent (2%), provided that such amount does

not exceed 200% of the Actual Deferral Percentage for all Members other than Highly Compensated Employees.

(b) The Committee shall be authorized to implement rules limiting the Exchange Contributions that may be made on behalf of Highly Compensated Employees during the Plan Year (prior to any contributions to the Trust) so that the limitation of Section 6.03(a) is satisfied.

(c) Notwithstanding any reductions pursuant to Section 6.03(b), if the limitation under Section 6.03(a) is exceeded in any Plan Year, a Participating Company may, in the sole discretion of the Committee and in accordance with the regulations issued under Section 401(k) of the Code, make additional contributions to the Exchange Contribution Accounts of Members who are not Highly Compensated Employees, which additional contributions shall be qualified nonelective contributions as described in Section 401(m)(4)(C) of the Code and the regulations issued thereunder, up to an amount necessary to assure that the limitation under Section 6.03(a) is not exceeded in the Plan Year. Qualified nonelective contributions shall be nonforfeitable when made and are distributable only in accordance with the distribution and withdrawal provisions that are applicable to Exchange Contributions under the Plan.

(d) To the extent the limitation under Section 6.03(a) continues to be exceeded following the contribution of such qualified nonelective contributions, if any, such Excess Exchange Contributions made on behalf of Highly Compensated Employees with

respect to a Plan Year and income allocable thereto shall be distributed to such Highly Compensated Employees as soon as practicable after the close of such Plan Year, but no later than twelve months after the close of such Plan Year. The amount of income allocable to Excess Exchange Contributions shall be determined in accordance with the regulations issued under Section 401(k) of the Code. The amount of any Excess Exchange Contributions distributed to any Member under this Section 6.03(d) shall be reduced by the amount of any excess deferrals attributable to Exchange Contributions previously distributed to such Member pursuant to Section 6.05, if any, for such Plan Year.

(e) The Committee is authorized to implement rules under which it may utilize any combination of the foregoing methods in Sections 6.03(b), (c) or (d) to assure that the limitation of Section 6.03(a) is satisfied.

6.04    Limitation on Sheltered Contributions Affecting Highly Compensated  
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          Employees  
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(a) Notwithstanding anything herein to the contrary, in no event shall the Sheltered Contributions made on behalf of Highly Compensated Employees with respect to any Plan Year result in an Actual Deferral Percentage for such group of Highly Compensated Employees that exceeds the greater of:

(i) an amount equal to 125% of the Actual Deferral Percentage for all Members other than Highly Compensated Employees; or

(ii) an amount equal to the sum of the Actual Deferral Percentage for all Members other than Highly Compensated Employees and two percent (2%), provided that such amount does not exceed 200% of the Actual Deferral Percentage for all Members other than Highly Compensated Employees.

(b) The Committee shall be authorized to implement rules limiting the Sheltered Contributions that may be made on behalf of Highly Compensated Employees during the Plan Year (prior to any contributions to the Trust) so that the limitation of Section 6.04(a) is satisfied.

(c) Notwithstanding any reductions pursuant to Section 6.04(b), if the limitation under Section 6.04(a) is exceeded in any Plan Year, a Participating Company may, in the sole discretion of the Committee and in accordance with the regulations issued under Section 401(k) of the Code, make additional contributions to the Sheltered Accounts of Members who are not Highly Compensated Employees, which additional contributions shall be qualified nonelective contributions as described in Section 401(m)(4)(C) of the Code and the regulations issued thereunder, up to an amount necessary to assure that the limitation under Section 6.04(a) is not exceeded in the Plan Year. Qualified nonelective contributions shall be nonforfeitable when made and are distributable only in accordance with the distribution and withdrawal provisions that are applicable to Sheltered Contributions under the Plan.

(d) To the extent the limitation under Section 6.04(a) continues to be exceeded following the contribution of such qualified nonelective contributions, if any, such Excess Sheltered Contributions made on behalf of Highly Compensated Employees with respect to a Plan Year and income allocable thereto shall be distributed to such Highly Compensated Employees as soon as practicable after the close of such Plan Year, but no later than twelve months after the close of such Plan Year. The amount of income allocable to Excess Sheltered Contributions shall be determined in accordance with the regulations issued under Section 401(k) of the Code. The amount of any Excess Sheltered Contributions distributed to any Member under this Section 6.04(d) shall be reduced by the amount of any excess deferrals attributable to Sheltered Contributions previously distributed to such Member pursuant to Section 6.05, if any, for such Plan Year.

(e) The Committee is authorized to implement rules under which it may utilize any combination of the foregoing methods in Sections 6.04(b), (c) or (d) to assure that the limitation of Section 6.04(a) is satisfied.

#### 6.05 Maximum Exchange Contributions and Sheltered Contributions

Notwithstanding any other provision of the Plan including the limitations of Section 6.03(a) and 6.04(a), in no event may the total of Exchange Contributions and Sheltered Contributions to this Plan on behalf of any Member, in addition to all such deferrals on behalf of such Member under all other cash or

deferred arrangements (as defined in Section 401(k) of the Code) maintained by the Company or any Affiliated Company in which the Member participates, exceed \$7,000 (indexed as provided in Section 402(g)(5) of the Code) in any calendar year of the Member. If a Member participates in another cash or deferred arrangement in any calendar year which is not maintained by the Company or an Affiliated Company, and his total elective deferral contributions under this Plan and such other plan exceed \$7,000 (as indexed) in a calendar year, he may request to receive a distribution of the amount of the excess deferral (a deferral in excess of \$7,000, as indexed) that is attributable to Exchange Contributions or Sheltered Contributions in this Plan together with earnings thereon, notwithstanding any limitations on distributions contained in this Plan. Such distribution shall be made by the April 15 following the calendar year of the Exchange Contributions or Sheltered Contributions were made, provided that the Member notifies the Committee of the amount of the excess deferral that is attributable to Exchange Contributions or Sheltered Contributions to this Plan and requests such a distribution. The Member's notice must be received by the Committee no later than the March 1 following the calendar year of the excess deferral. In the absence of such notice, the amount of such excess deferral attributable to Exchange Contributions or Sheltered Contributions to this Plan shall be subject to all limitations on withdrawals and distributions in this Plan. The amount of excess deferrals that may be

distributed under this Section 6.05 with respect to any Member for any Plan Year shall be reduced by the amount of any Excess Exchange Contributions previously distributed pursuant to Section 6.03(a) or any Excess Sheltered Contributions previously distributed pursuant to Section 6.04(a), if any, for such Plan Year.

6.06 Limitation on Matching Allocations Affecting Highly Compensated Employees

(a) Notwithstanding anything herein to the contrary, in no event shall the Matching Allocations made on behalf of Highly Compensated Employees with respect to any Plan Year result in a Contribution Percentage for such group of Highly Compensated Employees that exceeds the greater of:

(i) an amount equal to 125% of the Contribution Percentage for all Members other than Highly Compensated Employees; or

(ii) an amount equal to the sum of the Contribution Percentage for all Members other than Highly Compensated Employees and two percent (2%), provided that such amount does not exceed 200% of the Contribution Percentage for all Members other than Highly Compensated Employees.

(b) The Committee shall be authorized to implement rules limiting the Matching Allocations that may be allocated on behalf of Highly Compensated Employees during the Plan Year (prior to any contributions to the Trust) so that the limitation of Section 6.06(a) is satisfied.



(c) Notwithstanding any reductions pursuant to Section 6.06(b), if the limitation under Section 6.06(a) is exceeded in any Plan Year, a Participating Company may, in the sole discretion of the Committee and in accordance with the regulations issued under Section 401(m) of the Code, make additional contributions to the Match Accounts of Members who are not Highly Compensated Employees, which additional contributions shall either be qualified nonelective contributions as described in Section 401(m)(4)(C) of the Code and the regulations issued thereunder, or additional Match Allocations, up to an amount necessary to assure that the limitation under Section 6.06(a) is not exceeded in the Plan Year. Qualified nonelective contributions shall be nonforfeitable when made and are distributable only in accordance with the distribution and withdrawal provisions that are applicable to Exchange Contributions under the Plan. In addition, in accordance with regulations issued under Section 401(m) of the Code, the Committee may elect to treat amounts attributable to Exchange Contributions as such additional Match Allocations solely for the purposes of satisfying the limitation of Section 6.06(a).

(d) To the extent the limitation under Section 6.06(a) continues to be exceeded following the contribution of such additional Matching Allocations, if any, such Excess Matching Allocations made on behalf of Highly Compensated Employees with respect to a Plan Year and income allocable thereto shall then be distributed to such Highly Compensated Employees to the extent

vested pursuant to Section 9.01, or if not vested, forfeited. Any such forfeitures shall be used to pay administrative expenses under the Plan in accordance with Section 9.05(a). All Excess Matching Allocations and any income allocable thereto shall be forfeited or distributed, as described above, as soon as practicable after the close of the Plan Year in which they occur, but no later than twelve months after the close of such Plan Year. The amount of income allocable to Excess Matching Allocations shall be determined in accordance with the regulations issued under Code Section 401(m).

(e) The Committee is authorized to implement rules under which it may utilize any combination of the foregoing methods described in Section 6.06(b),

(c) and (d) to assure that the limitation of Section 6.06(a) is satisfied.

(f) Notwithstanding anything to the contrary in Section 6.03 or this

Section 6.06, Exchange Contributions and Matching Allocations may not be made to this Plan in violation of the rules prohibiting multiple use of the alternative limitation described in Sections 401(k)(3)(A)(ii)(II) and 401(m)(2)(A)(ii) of the Code and the provisions of Treasury Regulation section 1.401(m)-2(b) and any further guidance issued thereunder. If such multiple use occurs, the Contribution Percentages for all Highly Compensated Employees (determined after applying the foregoing provisions of Sections 6.03 and 6.06) shall be reduced in accordance with Treasury Regulation section 1.401(m)-2(c) and

any further guidance issued thereunder in order to prevent such multiple use of the alternative limitation.

(g) Notwithstanding anything in the Plan to the contrary, if the rate of Matching Allocations (determined after application of the corrective mechanisms described in the foregoing provisions of this Section 6.06) discriminates in favor of Highly Compensated Employees, the Matching Allocations attributable to any Excess Exchange Contributions, Excess Matching Allocations, or excess deferrals (as described in Section 6.05) of each affected Highly Compensated Employee shall be forfeited so that the rate of Matching Allocations is nondiscriminatory. Any such forfeitures shall be made no later than the end of the Plan Year following the Plan Year for which the Matching Allocations were made. Forfeitures, if any, shall be applied as set forth in Section 9.05(b).

6.07    Limitation on Standard Contributions Affecting Highly Compensated  
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Employees  
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(a) Notwithstanding anything herein to the contrary, in no event shall

the Standard Contributions made on behalf of eligible Highly Compensated Employees with respect to any Plan Year result in a Standard Contribution Percentage for such group of Highly Compensated Employees that exceeds the greater of:

(i) an amount equal to 125% of the Standard Contribution Percentage for all Members other than Highly Compensated Employees; or

- (ii) an amount equal to the sum of the Standard Contribution Percentages for all Members other than Highly Compensated Employees and two percent (2%), provided that such amount does not exceed 200% of the Standard Contribution Percentage for all Members other than Highly Compensated Employees.
- (b) The Committee shall be authorized to implement rules authorizing or requiring reductions in the Standard Contributions that may be made by Highly Compensated Employees during the Plan Year (prior to any contributions to the Trust) so that the limitation of Section 6.07(a) is satisfied.
- (c) Notwithstanding any reductions pursuant to Section 6.07(b), if the limitation under Section 6.07(a) is exceeded in any Plan Year, the Committee may, in accordance with the regulations issued under Sections 401(k) and 401(m) of the Code, elect to treat amounts attributable to Sheltered Contributions as additional Standard Contributions solely for the purposes of satisfying the limitation of Section 6.07(a).
- (d) Notwithstanding any reductions pursuant to Section 6.07(b), if the limitation under Section 6.07(a) is exceeded in any Plan Year, a Participating Company may, in the sole discretion of the Committee and in accordance with the regulations issued under Section 401(m) of the Code, make additional contributions to the Standard Accounts of Members who are not Highly Compensated Employees, which additional contributions shall be qualified nonelective contributions as

described in Section 401(m)(4)(C) of the Code and the regulations issued thereunder, up to an amount necessary to assure that the limitation under

Section 6.07(a) is not exceeded in the Plan Year. Qualified nonelective contributions shall be nonforfeitable when made and are distributable only in accordance with the distribution and withdrawal provisions that are applicable to Sheltered Contributions under the Plan. In addition, in accordance with regulations issued under Section 401(m) of the Code, the Committee may elect to treat amounts attributable to Sheltered Contributions as such additional Standard Contributions solely for the purposes of satisfying the limitation of Section 6.07(a).

(e) To the extent the limitation under Section 6.07(a) continues to be exceeded following the application of Section 6.07(b), the Excess Standard Contributions made with respect to Highly Compensated Employees with respect to a Plan Year and income allocable thereto shall then be distributed to such Highly Compensated Employees in an amount equal to each such Member's Standard Contributions (including recharacterized Sheltered Contributions), as soon as practicable after the close of the Plan Year in which they occur, but no later than twelve months after the close of such Plan Year. The amount of income allocable to Excess Standard Contributions shall be determined in accordance with the regulations issued under Code Section 401(m).

(f) The Committee is authorized to implement rules under which it may utilize any combination of the foregoing methods

described in Section 6.07(b), (c) and (d) to assure that the limitation of Section 6.07(a) is satisfied.

(g) Notwithstanding anything to the contrary in Section 6.04 or this

Section 6.07, Sheltered Contributions and Standard Contributions may not be made to this Plan in violation of the rules prohibiting multiple use of the alternative limitation described in Sections 401(k)(3)(A)(ii)(II) and 401(m)(2)(A)(ii) of the Code and the provisions of Treasury Regulation section 1.401(m)-2(b) and any further guidance issued thereunder. If such multiple use occurs, the Contribution Percentages for all Highly Compensated Employees (determined after applying the foregoing provisions of Sections 6.04 and 6.07) shall be reduced in accordance with Treasury Regulation section 1.401(m)-2(c) and any further guidance issued thereunder in order to prevent such multiple use of the alternative limitation.

6.08    Limitations on Annual Additions  
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(a)    Basic Limitation  
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Subject to the adjustments hereinafter set forth, the maximum

aggregate Annual Addition allocated to a Member's Account in any calendar year (which shall be the Limitation Year) shall not exceed the lesser of:

- (i) 25% of the Member's Compensation in such Limitation Year, or
- (ii) \$30,000 or such greater amount in effect as established by regulations issued pursuant to Section 415(d) of the Code.

(b) Limitation for Members in a Combination of Plans

Notwithstanding the foregoing, in the case of a Member who participates in this Plan and a qualified defined benefit plan maintained by the Company or an Affiliated Company, the sum of the defined contribution plan fraction (as defined in Section 415(e)(3) of the Code) and the defined benefit plan fraction (as defined in Section 415(e)(2) of the Code) in any Limitation Year shall not exceed 1.0.

(c) Preclusion of Excess Annual Additions; Reduction of Benefits

The Committee shall maintain records showing the contributions allocated to a Member's Account in any Limitation Year, and prior to the allocation of any contributions, the Committee shall determine whether the amount to be allocated would cause the limitations prescribed hereunder to be exceeded with respect to any Member.

(i) In the event that the Committee determines that the allocation of a contribution would cause the restrictions imposed by Section 6.08(a) to be exceeded with respect to this Plan when combined with any other defined contribution plan pursuant to Section 6.08(e), allocations shall be reduced in the following order, but only to the extent necessary to satisfy such restrictions:

(1) First, the Annual Additions under any other qualified defined contribution plan maintained by the Company or an Affiliated Company;

(2) Second, the Annual Additions under this Plan.

(ii) If it becomes necessary to make an adjustment in Annual Additions to a Member's Account under this Plan, either because of the limitations as applied to this Plan alone or as applied to this Plan in combination with another qualified defined contribution plan, the excess Annual Addition under this Plan with respect to the affected Member shall be reallocated proportionately in the same manner as Contributions are allocated to the Accounts of other Members until the Annual Addition to the Account of each Member reaches the limits of Section 415 of the Code.

(iii) Notwithstanding Paragraph (i) above, if the combination limitation prescribed under Section 6.08(b) hereof would be exceeded, benefits under the defined benefit plan shall be frozen, or reduced if necessary, prior to making any reductions in this Plan or any other qualified defined contribution plan; provided, however, if in a subsequent year the limitations are increased due to cost of living adjustments or any other factor, the freeze or reduction of the Member's benefits shall lapse to the extent that additional benefits may be payable under the increased limitations.

(iv) The Committee shall advise an affected Member of any limitation on his Annual Addition required by this Section 6.08.



(d) Disposal of Excess Annual Additions

In the event that, notwithstanding the foregoing, the limitations with respect to Annual Additions prescribed hereunder are exceeded with respect to any Member, and such excess arises as a consequence of the allocation of forfeitures, a reasonable error in estimating the Member's Compensation, a reasonable error in determining the amount of Sheltered Contributions or Exchange Contributions that may be made with respect to the Member under the limits of Code Section 415, or under other limited facts and circumstances that the Commissioner finds justify the availability of the rules set forth in this

Section 6.08(d), such excess amounts shall not be deemed Annual Additions in that Limitation Year to the extent corrected hereunder. First, Standard Contributions (together with earnings thereon) shall be returned to each affected Member to the extent that such distribution would reduce the excess amounts in the Member's Account. These amounts shall be disregarded in applying the limitations of Sections 6.07. To the extent excess amounts remain after any such distribution, Sheltered Contributions (together with earnings thereon) shall be returned to each affected Member to the extent that such distribution would reduce the excess amounts in the Member's Account. These amounts shall be disregarded in applying the limitations of Sections 6.04 and 6.05. To the extent excess amounts remain after any such distributions, Exchange Contributions (together with earnings thereon) shall be returned to each affected Member to the extent

that such distribution would reduce the excess amounts in the Member's Account. These amounts shall be disregarded in applying the limitations of Sections 6.03 and 6.05. To the extent excess amounts remain after all such distributions, such excess amounts shall be used to reduce future contributions on behalf of the Member for the next succeeding Limitation Year and succeeding Limitation Years as necessary. If the Member is not covered by the Plan as of the end of such succeeding year, but an excess amount still exists, such excess amount will be held unallocated in a suspense account. The suspense account will be applied to reduce future contributions on behalf of the other Members entitled to an allocation, in that Limitation Year, and succeeding Limitation Years, if necessary.

(e) Aggregation of Plans

For purposes of this Section 6.08, all qualified defined contribution plans maintained by the Company or any Affiliated Company shall be treated as a single plan, and all qualified defined benefit plans maintained by the Company or any Affiliated Company shall be treated as a single plan.

(f) Definition of "Annual Additions" For purposes of this Section, the term "Annual Additions" shall mean the sum for any Limitation Year of the following amounts allocated to an account on behalf of a Member:

(i) Stock Ownership Contributions, and any other Company or Affiliated Company contributions allocated to the Member's account under any defined contribution plan maintained

by the Company or an Affiliated Company and qualified under Section 401(a) of the Code;

(ii) Exchange Contributions, Sheltered Contributions, Standard Contributions, and any other contributions by the Member or on behalf of the Member to any defined contribution plan maintained by the Company or an Affiliated Company and qualified under Section 401(a) of the Code;

(iii) Any forfeitures allocated to the Member's account under any other defined contribution plan maintained by the Company or an Affiliated Company and qualified under Section 401(a) of the Code; and

(iv) Amounts described in Sections 415(l)(1) and 419A(d)(2) of the Code.

Notwithstanding the above, any contributions under this Plan which are applied by the Trustee (not later than the due date, including extension, for filing the Company's federal income tax return for the taxable year which ends with or within such Limitation Year) to pay interest on an Acquisition Loan, and any forfeitures allocated to a Member's Stock Ownership Account shall not be "Annual Additions."

In any case where an Acquisition Loan has been made to finance the acquisition of Leveraged Shares for the Trust or to repay a prior Acquisition Loan, the amount of contributions under this Plan which are considered Annual Additions for the Limitation Year shall be calculated with respect to the

contributions which are used to repay principal on the Acquisition Loan during such Limitation Year and not with respect to the Leveraged Shares which are allocated to a Member's Account during such Limitation Year.

Article 7. Investment of Contributions

7.01 Investment Funds

The Committee shall designate the Investment Funds of the Trust which shall include, but not be limited to, the following Investment Funds:

(a) Equity Investment Fund

One or more diversified equity funds, as may be available from time to time, invested in equity securities or securities convertible into equity securities or in a commingled equity trust for the collective investment of funds of employee benefit plans qualified under Section 401(a) of the Code (or corresponding provisions of any subsequent Federal revenue law at the time in effect), excluding, however, any stocks or other securities of the Retirement Savings Trustee. This exclusion shall not apply to any investment in a commingled trust or insurance company account not proscribed by applicable law. Pending the selection and purchase of suitable investments for this Fund, any part of this Fund may be invested in short-term and medium-term fixed income securities, such as commercial paper, notes of finance companies, and obligations of the U.S. Government and any agency or instrumentality thereof.

(b) Fixed Income Investment Fund

One or more fixed income funds, as may be available from time to time, invested in, but not limited to, guaranteed income contracts, bonds, notes, debentures, asset-backed securities and fixed income derivatives, excluding securities of

the Retirement Savings Trustee. This exclusion shall not apply to any investment in a commingled trust or insurance company account not prescribed by applicable law. Pending the selection and purchase of suitable investments for this Fund, any part of this Fund may be invested in short-term and medium-term fixed income securities, such as commercial paper, notes of finance companies, bankers acceptances, certificates of deposit, and obligations of the U.S. Government and any agency or instrumentality thereof.

(c) Money Market Fund

One or more money market funds, as may be available from time to time, invested in short-term obligations of the United States Government, bank certificates of deposit, commercial paper, bankers' acceptances, shares of money market mutual funds and other similar types of short-term investments which may include investment in any commingled trust fund qualified under Section 401(a) of the Code (or corresponding provisions of any subsequent Federal revenue law at the time in effect) and which is invested primarily in similar types of securities.

(d) Balanced Fund One or more balanced funds, as may be available from time to time, that invest in a mixture of bonds, equities, and short-term instruments, as determined by the Fund manager.

(e) Company Stock Fund

A fund designed solely to invest in Company Stock or to hold Company Stock contributed to the Plan by the Company. Up to 100% of the assets of a Member's Retirement Savings Account may be invested in the Company Stock Fund.

(f) Stock Ownership Fund

A fund consisting of Company Stock and cash for fractional shares and earnings attributable thereto. All amounts credited to a Member's Stock Ownership Account shall be invested in the Stock Ownership Fund (except that a Member's Exchange Contributions made in each Stock Ownership Allocation Period shall be invested in a Money Market Fund until the allocation of Leveraged Shares under Section 6.02(b) for such Stock Ownership Allocation Period) and may not be transferred from such fund to any of the other Investment Funds, except as provided in Section 7.08.

If there shall be available for investment at any time more than one Equity Investment Fund, Fixed Income Investment Fund, Money Market Fund or Balanced Fund, there shall be separate accounting for each available Fund. To the extent allowed by applicable law and all other provisions of this Plan, all or any portion of a Fund identified above in (a) through (d) may be invested in securities of a foreign corporation or a foreign government and in other property located outside the United States. Each such Fund may keep such amounts of cash and cash equivalents as its managers shall deem necessary or advisable as

a part of such Fund, all within the limitations specified in the applicable Trust Agreement. Dividends, interest and other distributions received on the assets held in each Fund shall be reinvested in the respective Fund.

#### 7.02 Investment of Contributions

Each Member, as a part of the application for membership in the Plan, shall designate the Investment Fund or Funds (other than the Stock Ownership Fund) in which his Sheltered Contributions, Standard Contributions, and Rollover Contributions, if any, shall be invested. The designated investments shall be in 1% increments, provided that the total designated equals 100% of the contributions to his Retirement Savings Account. In the event a Member fails to designate the investment of his Retirement Savings Account, the Member's Sheltered Contribution, Standard Contributions, and Rollover Contributions shall be invested in one or more Fixed Income Investment Funds until the Member properly designates other Funds. Amounts held in a Member's Stock Ownership Account may not be invested in any Fund other than the Stock Ownership Fund, provided, however, a Member's Exchange Contributions made in each Stock Ownership Allocation Period shall be invested in a Money Market Fund until the allocation of Leveraged Shares under Section 6.02(b) for such Stock Ownership Allocation Period and all or a portion of a Member's Stock Ownership Account may be invested in any of the Investment Funds described in Section 7.01(a), (b), or (d), pursuant to Section 7.08.



### 7.03 Change of Election

A Member, by notice to the Retirement Savings Trustee in a format approved by the Committee, may change the election of the Investment Funds in which future contributions to his Retirement Savings Account shall be invested. A Member may change the election of the Investment Funds in which such contributions are to be invested by designating the percentage of contributions that shall be invested in each of the Investment Funds, in 1% increments, provided the total equals 100%. Such change shall be effective as soon as practicable after such notice is received by the Retirement Savings Trustee.

### 7.04 Transfers Among Funds

(a) An active or inactive Member may elect to transfer all or any portion of the value of his Retirement Savings Account in one of the Investment Funds to any other Investment Fund (except the Stock Ownership Fund) at the following times (and under such uniform rules as the Committee may adopt from time to time):

(i) Any election to transfer between and among the Equity Investment Fund, the Money Market Fund and the Balanced Fund (and any related funds maintained in the Equity Investment Fund, the Money Market Fund and the Balanced Fund) may be made at any time, to be effective as soon as practicable thereafter; and

(ii) Any election to transfer to or from the Fixed Income Investment Fund or the Company Stock Fund may be made during the first ten (10) days of each month, to be effective as

soon as practicable thereafter. For purposes of the preceding sentence, if the tenth day of a month falls on a Saturday, Sunday or holiday, the tenth day of such month shall be deemed to be the last business day preceding the tenth.

(b) An active or inactive Member who has diversified all or part of his Stock Ownership Account pursuant to Section 7.08 may elect to transfer the diversified portion of his Stock Ownership Account in one of the Investment Funds to any other Investment Fund (except the Stock Ownership Fund) at the following times (and under such uniform rules as the Committee may adopt from time to time):

(i) Any election to transfer between and among the Equity Investment Fund and the Balanced Fund (and any related funds maintained in the Equity Investment Fund and the Balanced Fund) may be made at any time, to be effective as soon as practicable thereafter; and

(ii) Any election to transfer to or from the Fixed Income Investment Fund may be made during the first ten (10) days of each month, to be effective as soon as practicable thereafter. For purposes of the preceding sentence, if the tenth day of a month falls on a Saturday, Sunday or holiday, the tenth day of such month shall be deemed to be the last business day preceding the tenth.

(c) Notwithstanding the foregoing:

(i) no transfers are permitted to be made from the Company Stock Fund with respect to that portion of a Member's

Account attributable to his Retirement Savings Matching Contributions prior to the Member's attainment of age 59-1/2;

(ii) no direct transfers are permitted between the Fixed Income Investment Fund and the Money Market Fund, or between the Fixed Income Investment Fund and any funds maintained in the Balanced Fund that are designated by the Company as having goals and objectives comparable to the Fixed Income Investment Fund (collectively the "Balanced Income Fund");

(iii) amounts transferred from the Fixed Income Investment Fund to any other Fund may not thereafter be transferred to the Money Market Fund or any Balanced Income Fund or back to the Fixed Income Investment Fund for three (3) months following such transfer;

(iv) amounts transferred from the Balanced Income Fund or Money Market Fund to any other Fund, may not thereafter be transferred to the Fixed Income Investment Fund for three (3) months following such transfer; and

(v) amounts transferred from the Stock Ownership Fund to the Equity Investment Fund, the Fixed Income Investment Fund, or any Balanced Income Fund, in accordance with the diversification rules under Section 7.08, may not thereafter be transferred to the Company Stock Fund or the Money Market Fund.

(d) Except as otherwise provided, transfers pursuant to this Section 7.04 may be made by telephoning notice to the Retirement Savings Trustee, and shall be effective as soon as

practicable following the Retirement Savings Trustee's receipt of the notice.

#### 7.05 Investment Options

Each active and inactive Member is solely responsible for the selection of his investment options with respect to the amounts in his Retirement Savings Account. The Retirement Savings Trustee, the Committee, the Participating Companies or any of the officers or supervisors of the Participating Companies are not empowered to advise a Member as to the manner in which his Retirement Savings Account shall be invested. The fact that a security is available to Members for investment under the Plan shall not be construed as a recommendation for the purchase of that security, nor shall the designation of any option impose any liability on any Participating Company, its directors, officers or employees, the Retirement Savings Trustee, the Committee or any Member of the Plan.

#### 7.06 Valuations

(a) The market value of each Investment Fund (other than the Stock Ownership Fund) shall be determined by the Retirement Savings Trustee as of each Valuation Date. The valuation shall reflect all income, as well as the payment of brokerage fees and transfer taxes applicable to purchases and sales for each Fund and all similar transactions, and any Plan administrative expenses to the extent they are not paid by a Participating Company, occurring since the last Valuation Date with respect to each Fund. The value of a Member's interest in each Investment

Fund shall be represented by mutual fund shares, shares of Company stock, or in dollars, whichever is applicable. Contributions made by a Member for any payroll period shall be invested based on the value of the Fund as of the last Valuation Date in that payroll period, regardless of when such contributions are actually paid to and become part of an Investment Fund. The Trust Fund attributable to Members' Retirement Savings Accounts, and each Member's allocable share of such Trust Fund, shall be valued at fair market value periodically as determined necessary by the Retirement Savings Trustee or as requested by the Committee.

(b) The market value of the Trust Fund attributable to Members' Stock Ownership Accounts, and each Member's allocable share of such Trust Fund, shall be determined by the Stock Ownership Trustee as of each Valuation Date.

#### 7.07 Annual Statements

At least once each Plan Year, each active and inactive Member shall be furnished with a statement setting forth the value of his Retirement Savings Account and Stock Ownership Account.

#### 7.08 Diversification of Stock Ownership Accounts

##### (a) Eligibility for Diversification

A Member shall be permitted during each diversification period (as

defined in Subsection 7.08(c)), beginning with the diversification period that immediately follows the calendar quarter in which he attains an age and

completes the number of Years of Service or Years of Participation specified in the schedule below, to direct the investment of up to a corresponding percentage of the number of shares of Company Stock in his Stock Ownership Account, as specified in the schedule below and as determined in Subsection 7.08(b), in any of the Investment Funds described in Section 7.01(a), (b), or (d).

Age	Years of Service	Years of Participation	Maximum Percentage of Stock Ownership Account Eligible for Diversification
50-54	5	0	25%
55-59	5	10	50%
60 and older	5	10	100%

A Member's years of participation shall equal the number of Plan Years in which contributions or allocations are made to the Member's Account (other than the allocation of earnings and dividends) plus, in the case of a Member who participated in the Plan prior to October 1, 1996, the number of Plan Years prior to October 1, 1996 in which the Member elected to make Sheltered Contributions or Standard Contributions. In addition to the foregoing, a Member who is fully vested in his Stock Ownership Account upon his termination of employment for reasons other than Retirement and who has not received a distribution of his Stock Ownership Account in accordance with Section 9.02, shall be permitted during each diversification period, beginning with the diversification period that immediately follows the calendar

quarter in which he terminates employment, to direct the investment of up to 100% of the shares of Company Stock in his Stock Ownership Account in accordance with any of the Investment Funds described in Section 7.01(a), (b), or (d). A Member who terminates because of Retirement and who has not received a distribution of his Stock Ownership Account in accordance with Section 9.02, shall be permitted during each diversification period, beginning with the diversification period that begins on the Member's date of Retirement in the case of Retirements that fall on January 1, April 1, July 1 or October 1, or beginning with the diversification period that immediately follows the calendar quarter in which the Member's Retirement occurs in the case of Retirements that fall on any other date, to direct the investment of up to 100% of the shares of Company Stock in his Stock Ownership Account in accordance with any of the Investment Funds described in Section 7.01(a), (b), or (d). Notwithstanding the foregoing, no Member shall be permitted to direct the investment of any portion of his Stock Ownership Account under this Section 7.08 during the calendar quarter commencing October 1, 1996.

(b) Maximum Number of Shares Permitted to be Diversified

The maximum number of shares of Company Stock that may be directed by a Member in any diversification period under this Section 7.08 shall equal the total number of shares of Company Stock that have ever been allocated to the Member's Stock Ownership Account multiplied by the applicable percentage (based

on the schedule in Subsection (a) above), and then reduced by the number of shares of Company Stock previously directed by the Member under this Section 7.08, rounded to the nearest whole integer.

(c) Separate Diversification Elections

Effective for any diversification period that begins on or after April 1, 1997, a Member who is eligible to diversify his Stock Ownership Account under Subsection (a) above shall be permitted to designate separately the percentage of his Exchange Contribution Account, Equity Account, and Match Account to be diversified in such diversification period, in accordance with the maximum percentages specified above.

(d) Direction to Diversify

A Member's direction to diversify pursuant to this Section 7.08 may be made only within the first fifteen (15) days of a calendar quarter (the "diversification period"). If the fifteenth day of any diversification period falls on a Saturday, Sunday or holiday, the last day of such diversification period shall be deemed to be the last business day preceding the fifteenth. Any direction to diversify for the diversification period beginning January 1, 1997 must be in writing and any direction to diversify for a subsequent diversification period may be made by telephoning direction to the Retirement Savings Trustee, and shall be effective as soon as practicable following the Retirement Savings Trustee's receipt of the direction. Any direction made during the diversification period may be revoked



or modified during such 15-day period in the manner authorized by the Committee. All directions shall be in accordance with any notice, rulings, or regulations or other guidance issued by the Internal Revenue Service with respect to Section 401(a)(28)(B) of the Code.

(e) Diversified Shares

Notwithstanding a Member's direction to diversify under this Section 7.08, any amounts invested in the Investment Funds described in Section 7.01(a),

(b), or (d) as a result of such direction shall continue to be part of the Member's Stock Ownership Account.

Article 8. In-Service Withdrawals and Loans.

8.01 In-Service Withdrawals

A Member who is actively employed by the Company or any Affiliated Company may elect to withdraw in cash a portion or all of his Standard Contributions Account, Tax Deductible Contributions Account, Rollover Account, or Sheltered Account, less the amount of any outstanding loan, according to the order in which the following Subsections are presented, as the amounts described in each successive Subsection are exhausted:

(a) An amount equal to all or part of the Member's before-1987 Standard Contributions (i.e., after-tax contributions made by the Member), but no more

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than the current value thereof in the event such value is less than the net amount of such Standard Contributions.

(b) An amount equal to all or part of the Member's after-1986 Standard Contributions and a pro rata portion of the earnings on all Standard Contributions, but no more than the current value thereof in the event such value is less than the net amount of such Standard Contributions.

(c) An amount equal to all or part of the Member's Tax Deductible Contributions Account.

(d) An amount equal to all or part of the Member's Rollover Contributions, but no more than the current value thereof in the event such value is less than the net amount of such Rollover Contributions.

(e) An amount equal to all or part of the Member's Sheltered Contributions, but no more than the current value thereof in the event such value is less than the net amount of such Sheltered Contributions, provided:

(i) the Member has attained age 59-1/2;

(ii) the Member demonstrates financial hardship in accordance with the rules provided under Section 8.02, and only to the extent required to meet the need created by the financial hardship; or

(iii) the Member becomes disabled in accordance with Code Section 401(k)(2)(B)(i)(A).

In no event shall a Member who is actively employed be permitted to withdraw any portion of his Retirement Savings Matching Contributions (and earnings thereon) or Stock Ownership Account.

#### 8.02 Determination of Financial Hardship

(a) In order to demonstrate financial hardship, the Member shall provide written notice to the Committee setting forth the amount requested and the facts establishing the existence of such hardship. Upon receipt of such a request, the Committee shall determine whether an immediate and heavy financial hardship exists; if the Committee determines that such a hardship exists, it shall further determine what portion of the amount requested by the Member is required to meet the immediate and heavy financial need created by the hardship, taking into account such additional amounts necessary to pay any federal,

state, or local income taxes or penalties reasonably anticipated to result from the distribution.

(b) The amount to be withdrawn must not be reasonably available from other resources of the Member, as determined by the Committee under rules uniformly applicable to all Members similarly situated. Notwithstanding the foregoing, a Member shall be deemed to have no other resources reasonably available only if: (i) the Member has obtained all withdrawals and distributions currently available to the Member under the Plan and all other qualified defined contribution plans maintained by the Company or an Affiliated Company; (ii) the Member has obtained all loans reasonably available to the Member under the Plan and all other qualified defined contribution plans maintained by the Company or an Affiliated Company, to the extent any required repayment of such loan would not itself cause an immediate and heavy financial need; (iii) the Member agrees to cease all Exchange Contributions, Sheltered Contributions and Standard Contributions under the Plan as well as all similar contributions to all other qualified defined contribution plans maintained by the Company or an Affiliated Company for a period of 12 months from the date of the hardship withdrawal; and (iv) the amount of pre-tax elective contributions under all qualified defined contribution plans maintained by the Company or an Affiliated Company for the year following the year of the withdrawal are limited in accordance with regulations issued under Section 401(k) of the Code.

(c) The determination of whether an immediate and heavy financial need exists shall be based on all relevant facts and circumstances, which need shall not be disqualified because it was reasonably foreseeable or voluntarily incurred by the Member, and shall be determined in accordance with regulations (and any other rulings, notices, or documents of general applicability) issued pursuant to Section 401(k) of the Code and, to the extent permitted by such authorities, shall be limited to any financial need arising from:

(i) medical expenses (as defined in Section 213(d) of the Code) incurred by the Member or a Member's spouse or any dependent of the Member (as defined in Code Section 152), or expenses necessary for these persons to obtain medical care (as defined in Section 213(d) of the Code);

(ii) expenses relating to the payment of tuition and related educational fees for the next 12 months of post-secondary education for the Member, his spouse, children or dependents (as defined in Code Section 152);

(iii) costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Member;

(iv) payments necessary to prevent the eviction of the Member from his principal residence or foreclosure on the mortgage of the Member's principal residence; or

(v) expenses arising from circumstances of sufficient severity that a Member is confronted by present or

impending financial ruin or his family is clearly endangered by present or impending want or deprivation. To demonstrate such a need, the Member must prepare a statement indicating the reason for the need and the extent to which the Member has other resources reasonably available to relieve that need.

(d) The amount of Sheltered Contributions that is available for withdrawal under Section 8.01(c)(ii) shall not exceed the lesser of: (i) the value of pre-tax contributions as of December 31, 1988 (taking into account earnings and losses attributable to such amounts), plus the total amount of the Member's pre-tax contributions (without account earnings) that are made after December 31, 1988, or (ii) the value of all pre-tax contributions made to the Plan (taking into account earnings and losses attributable to such amounts), reduced by any amounts previously withdrawn from the Member's Sheltered Account.

(e) Notwithstanding the foregoing, no withdrawal may be made by a Member during the period in which the Committee is making a determination of whether a domestic relations order affecting the Member's Account is a qualified domestic relations order, within the meaning of Section 414(p) of the Code. Further, if the Committee is in receipt of a qualified domestic relations order with respect to any Member's Account, it may prohibit such Member from making a withdrawal until the alternate payee's rights under such order are determined.

### 8.03 Investment Fund to be Charged with Withdrawal

The amount withdrawn under Section 8.01 shall be charged to the Investment Fund or Funds in which the amounts withdrawn are invested in accordance with such uniform rules as the Committee shall adopt from time to time.

### 8.04 Loans to Eligible Borrowers

Loans from the Plan may be made to any Member who is actively employed by a Participating Company, or any Member or Beneficiary who is a "party in interest" within the meaning of Section 3(14) of ERISA. Each such individual is referred to herein as an "Eligible Borrower."

(a) An application for a loan by an Eligible Borrower setting forth the reasons therefore shall be made in writing to the Committee, whose action in approving or disapproving such application shall be final. The decisions by the Committee on loan applications shall be made on a reasonably equivalent, uniform and nondiscriminatory basis and within a reasonable period after each loan application is received. In determining whether to make a loan pursuant to this

Section 8.03, the Committee shall consider only those factors which would be considered in a normal commercial setting by an entity in the business of making loans which are similar to loans made hereunder. Notwithstanding the foregoing, the Committee may apply different terms and conditions for loans to Eligible Borrowers who are not actively employed by an Employer, or for whom payroll deduction is not available, based on economic and

other differences affecting the individuals' ability to repay any loan. In no event shall loans be made from a Member's Stock Ownership Account, or from amounts attributable to a Member's Tax Deductible Contributions or a Member's Retirement Savings Matching Contributions.

(b) The amount of the loan must be at least \$1,000 and shall not exceed the lesser of:

(i) \$50,000, reduced by the highest outstanding balance of loans from the Plan and any other defined contribution plan maintained by the Company or an Affiliated Company during the one-year period ending on the day before the date on which the loan was made, and

(ii) one-half of the value of his Member Account (other than his Tax Deductible Contributions) as of the Valuation Date coincident with or immediately following the date the Committee receives the proper forms from the Eligible Borrower.

(c) The interest rate to be charged on loans made during the Plan Year shall be a reasonable rate as determined by the Committee from time to time. For loans granted or renewed after October 18, 1989, and for changes in the interest rate under an existing loan after that date, the interest rate shall not be less than the commercial rate of interest charged by persons in the business of lending money on loans which are made under similar circumstances, as determined by the Committee from time to time.



(d) A loan may be subject to a loan initiation fee, as determined by the Committee from time to time, which fee shall be obtained from an Eligible Borrower's Retirement Savings Account at the time of such loan. The amount of the loan, reduced by such loan initiation fee, is to be transferred from the Eligible Borrower's Retirement Savings Account invested in the Investment Funds enumerated in Section 7.01, other than amounts attributable to Tax Deductible Contributions or amounts invested in the Company Stock Fund that are attributable to his Retirement Savings Matching Contributions, to a special "Loan Reserve" for such Eligible Borrower, invested solely in the loan made to the Eligible Borrower. Such amounts will be transferred from the Investment Funds in a uniform manner as determined by the Committee from time to time. Payments of principal on the loan will reduce the amount held in the Eligible Borrower's Loan Reserve. Such payments, together with the attendant interest payment, will be credited to the Eligible Borrower's Retirement Savings Account invested in the Investment Funds in accordance with the Eligible Borrower's election in effect under Sections 7.02 or 7.03 at the time of such payment. If an Eligible Borrower has no election in effect, payments will be credited to the Money Market Fund.

(e) In addition to such rules and regulations as the Committee may adopt, all loans shall comply with the following terms and conditions:

- (i) Each loan shall be evidenced by a promissory note payable to the Plan.
- (ii) Loans will be adequately secured, as determined by the Committee as of the date the loan is originated.
- (iii) Loans will be available to all Eligible Borrowers on a reasonably equivalent basis and will not be made available to Highly Compensated Employees in an amount greater than the amount made available to Members who are not Highly Compensated Employees.
- (iv) The period of repayment for any loan shall be arrived at by mutual agreement between the Committee and the Eligible Borrower, but such period shall not be less than twelve (12) months and greater than five years. In the event a loan is refinanced, the total cumulative period of repayment for the initial loan and the refinanced loan also shall not exceed five years.
- (v) Payments of principal and interest will be made by level payments by payroll deductions. In the case of an Eligible Borrower who is not employed by the Company or an Affiliated Company, or in the case of any other Eligible Borrower where at any time during the repayment period, it is not possible to repay the loan by payroll deduction, the Member and the Committee shall agree to another form of repayment. In any event, however, such payments will be in an amount sufficient to amortize the loan over the repayment period and shall be made at least quarterly.

(vi) A loan may be prepaid in full as of any date without penalty.

(vii) Only one loan may be outstanding at any given time.

(viii) Outstanding loans may be subject to an annual loan administration fee, as determined by the Committee from time to time. Loan administration fees shall be obtained from an Eligible Borrower's Retirement Savings Account on a quarterly basis, in such manner as determined by the Committee.

(ix) If a loan is outstanding when a Member terminates his employment with a Participating Company other than on account of (1) Involuntary Termination (as defined in the Retirement Income Plan for Employees of Armstrong World Industries, Inc.), (2) the sale of substantially all of the assets of a trade or business, unit or location where the Member is employed, or (3) the sale by a Participating Company of its interest in a subsidiary where the Member is employed, the Member shall be considered in default with respect to the loan unless the Member continues to be a party in interest to the Plan (as defined in

Section 3(14) of ERISA). Any other Eligible Borrower shall be considered in default on the loan if a required payment of principal or interest thereon is not paid within 60 days after it is due. If a loan is not repaid in accordance with the terms contained in the promissory note and a default occurs, the Plan may execute upon its security interest in the Eligible Borrower's Retirement Savings Account under the Plan to satisfy the debt.

Alternatively, if the Eligible Borrower has not repaid the loan as of the date benefits are to commence, the Committee may reduce the Eligible Borrower's distribution by the amount of the outstanding principal and interest on the loan. However, the Plan shall not levy against any portion of the Loan Reserve attributable to amounts held in the Member's Sheltered Account until such time as a distribution of the Sheltered Account could otherwise be made under the Plan. An Eligible Borrower must repay any loan prior to distribution of the Eligible Borrower's Retirement Savings Account.

(f) Notwithstanding anything herein to the contrary, no loan shall be made to an Eligible Borrower during a period in which the Committee is making a determination of whether a domestic relations order affecting the Eligible Borrower's Account is a qualified domestic relations order, within the meaning of Section 414(p) of the Code. Further, if the Committee is in receipt of a qualified domestic relations order with respect to any Eligible Borrower's Retirement Savings Account, it may prohibit such Eligible Borrower from obtaining a loan until the alternate payee's rights under such order are satisfied.

(g) Loan amounts shall be withdrawn from a Member's Retirement Savings Account in the following order: (i) Sheltered Contributions; (ii) Rollover Contributions; and (iii) Standard Contributions. Within each category (i) through (iii), the Investment Fund or Funds in which the Member is invested will be reduced to reflect the amount of the loan and any applicable set-

up or maintenance charges in accordance with such uniform rules as the Committee shall adopt from time to time. Payroll deductions made to repay the loan will be invested in the various Investment Funds in accordance with the Member's investment election in effect at the time of such repayment.

## Article 9. Vesting and Distributions

### 9.01 Vesting

- (a) A Member shall always have a vested and nonforfeitable interest in his Retirement Savings Account and his Exchange Contribution Account.
- (b) A Member shall have a vested and nonforfeitable interest in his Equity Account and Match Account upon his completion of five (5) Years of Service.
- (c) Notwithstanding anything in the Plan to the contrary, a Member shall have a vested and nonforfeitable interest in his Equity Account and Match Account upon (i) attaining age 65 provided he is actively employed by the Company or an Affiliated Company on that date; (ii) Retirement; (iii) death; (iv) total disability, provided that the Member is eligible to receive disability benefits under a long-term disability plan sponsored by the Affiliated Company for which he was employed, under the provisions of Article VI, Section (8) of the Retirement Income Plan for Employees of Armstrong World Industries, Inc., or under the Social Security Act; (v) a Change in Control; (vi) separation from Service from a Participating Company due to a reduction in the workforce at the office or manufacturing location at which the Member is employed which the Committee determines is a result of (1) adverse economic conditions, (2) a reorganization of the workforce or operating procedures, (3) technological change, or (4) layoff; (vii) the sale of substantially all of the assets of a trade or business, unit or location where the Member is

employed, or the sale by a Participating Company of its interest in a subsidiary where the Member is employed; or (viii) the Member's termination of employment with the Company or an Affiliated Company on account of the Member's transfer to employment with Worthington Armstrong Venture (WAVE), a Delaware general partnership.

#### 9.02 Distribution Upon Retirement or Other Termination of Employment

If a Member terminates employment for any reason other than death, he may elect (in the manner specified by the Committee) at any time following his termination to receive an "eligible rollover distribution" (as defined in Code Section 402(c) and the regulations and other guidance issued thereunder) of the nonforfeitable portion of his Account as soon as practicable following the Committee's receipt of the Member's election, in an amount determined as of the Valuation Date on which the Committee receives such election, subject to Section 9.04(b) and the following:

(a) Except as provided in Subsection (b), (c) or (d) below, the portion of the Member's Account attributable to his Retirement Savings Account that is not invested in the Company Stock Fund shall be distributed in cash, and the portion of the Member's Account attributable to his Retirement Savings Account that is invested in the Company Stock Fund and the nonforfeitable portion of the Member's Account attributable to his Stock Ownership Account shall be distributed in a single sum in either

cash or Company Stock (with cash for fractional shares), as elected by the Member. If the Member fails to elect to receive the distribution in Company Stock, such distributions shall be made in cash.

(b) If the Member does not elect to receive an eligible rollover distribution of the nonforfeitable portion of his Account by a Valuation Date (specified by the Committee) in the February following the Member's termination of employment, and his Account (including the amount of any outstanding loan plus accrued interest, if any) equals \$3,500 or less as of such Valuation Date, as soon as practicable thereafter the Committee will notify the Member of his right to elect to make an eligible rollover distribution and his right to receive all or a portion of such distribution in Company Stock in accordance with Subsection (a). If the Member notifies the Committee of his elections within forty-five (45) calendar days following the above-described Valuation Date, the Committee shall make a distribution or direct rollover in cash or Company Stock (as elected by the Member) of the nonforfeitable portion of the Member's Account as soon as practicable following the Committee's receipt of the Member's election, in an amount determined as of the Valuation Date on which the Committee receives such election. If the Member fails to notify the Committee of his elections within such forty-five (45) day period, the Committee shall determine the value of the nonforfeitable portion of the Member's Account as of the Valuation Date that coincides with or



immediately follows the end of such 45-day period, and if the Member's Account (including the amount of any outstanding loan plus accrued interest, if any) equals \$3,500 or less as of such Valuation Date, the Committee shall make a single lump sum cash distribution (less any mandatory withholding for federal income tax purposes) of the nonforfeitable portion of the Member's Account determined as of such Valuation Date.

(c) A married Member whose Account (including the amount of any outstanding loan plus accrued interest, if any) exceeds \$3,500 as of any Valuation Date following his termination of employment may elect (in the manner prescribed by the Committee) to have his Retirement Savings Account used to purchase an annuity under which payments shall commence as soon as practicable following the Member's attainment of age 65 (unless the Member requests earlier commencement) and shall be made monthly for the Member's life, with 50% of the amount payable to the Member continued after his death for the remainder of the life of the spouse to whom the Member is married on the date payments are due to commence. If such a married Member obtains the consent of his spouse (which consent shall be in writing and notarized or witnessed by a member of the Committee or its designee), he may instead elect (in the manner prescribed by the Committee) to have his Retirement Savings Account used to purchase a life annuity under which payments shall commence as soon as practicable following the Member's attainment of age 65

(unless the Member requests earlier commencement) and shall be made monthly for the Member's life.

(d) An unmarried Member whose Account (including the amount of any outstanding loan plus accrued interest, if any) exceeds \$3,500 as of any Valuation Date following his termination of employment may elect (in the manner prescribed by the Committee) to have his Retirement Savings Account used to purchase a life annuity under which payments shall commence as soon as practicable following the Member's attainment of age 65 (unless the Member requests earlier commencement) and shall be made monthly for the Member's life.

(e) A Member may revoke the election of an annuity form of benefit under Subsection (c) or (d) at any time prior to commencing the receipt of benefits. The Committee, or its designee, shall furnish to each Member who elects an annuity described in Subsection (c) or (d) above, a written explanation of the annuity, the circumstances in which it will be provided in that form, the availability of such an election, and the relative financial effect on a Member's benefits of such an election. A Member may, at any time, after receipt of the aforementioned explanation, request a further written explanation of the terms and conditions of the annuity and the financial effect upon the particular Member's benefits of making an election not to receive his benefits in such form. Within 30 days of the date of the Member's request or as soon thereafter as practicable, the Committee shall furnish to the Member a written explanation of

the effect of such an election, given in terms of dollars per payment, calculated on the basis of the current value of the Member's Retirement Savings Account determined as of the Valuation Date on which the Committee receives the Member's written election to receive an annuity form of payment.

(f) The Committee shall notify each Member, at such time and in such manner as required by Sections 402(f) and 411(a)(11) of the Code and the regulations and other guidance issued thereunder, of his right to make a "direct rollover distribution" in accordance with Section 9.06 below, and his right to receive an immediate distribution of the nonforfeitable portion of his Account. Distribution of the nonforfeitable portion of a Member's Account under the Plan may occur prior to 30 days after the Committee provides such notice, provided:

(i) the Committee informs the Member that he has a right to a period of at least 30 days after receiving the notice to consider the decision of whether to make a direct rollover distribution and whether to receive an immediate distribution; and

(ii) the Member, after receiving the notice, affirmatively elects to receive an immediate distribution.

(g) In the event an allocation of Company Stock resulting from Stock Ownership Contributions or dividends is made to a Member's Stock Ownership Account following the date on which an initial distribution is made or begins under this Section 9.02, distribution of the nonforfeitable portion of such allocation

shall be made to the Member in a single lump sum payment (in cash or Company Stock, as elected by the Member with respect to the initial distribution) as soon as practicable following the allocation of such Company Stock and/or dividends in an amount determined as of the Valuation Date coinciding with or immediately following such allocation. Further, to the extent a Member is entitled to a distribution under this Section 9.02 and there are dividends on Company Stock which have not been allocated to the Member's Stock Ownership Account and have not been utilized to pay any amounts due under an Acquisition Loan, such dividends shall be paid to the Member in cash.

(h) Notwithstanding any other provision in the Plan to the contrary, in the event a Member who terminates employment because of his Retirement has not requested a lump sum distribution of his entire Account under this Section 9.02 or the purchase of an annuity under Subsection (c) or (d), the Member shall have the right to withdraw in cash a portion of his Account and investment income thereon, less the amount of any outstanding loan, according to the order in which the following Paragraphs are presented, as the amounts described in each successive Paragraphs are exhausted:

(i) An amount equal to all or part of the Member's before-1987 Standard Contributions (i.e., after-tax contributions made by the Member), but  

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no more than the current value thereof in the event such value is less than the net amount of such Standard Contributions.

- (ii) An amount equal to all or part of the Member's after-1986 Standard Contributions and a pro rata portion of the earnings on all Standard Contributions, but no more than the current value thereof in the event such value is less than the net amount of such Standard Contributions.
- (iii) An amount equal to all or part of the Member's Tax Deductible Contributions Account.
- (iv) An amount equal to all or part of the Member's Rollover Contributions, but no more than the current value thereof in the event such value is less than the net amount of such Rollover Contributions.
- (v) An amount equal to all or part of the Member's Sheltered Contributions, but no more than the current value thereof in the event such value is less than the net amount of such Sheltered Contributions.
- (vi) An amount equal to all or part of the Member's Stock Ownership Account attributable to his Equity Allocations.
- (vii) An amount equal to all or part of the Member's Stock Ownership Account attributable to his Exchange Contributions, but no more than the current value thereof in the event such value is less than the net amount of such Exchange Contributions.
- (viii) An amount equal to all or part of the Member's Stock Ownership Account attributable to his Matching Allocations.

Solely for the calendar quarter beginning October 1, 1996, a Member who terminates employment for any reason and who has not requested a lump sum distribution of his entire Account under this Section 9.02 or the purchase of an annuity under Subsection (c) or (d) shall have the right to withdraw in cash all or any portion of his Account described in Paragraphs (i) through (v).

(i) Notwithstanding any other provision in the Plan to the contrary, in no event shall any distribution or withdrawal of a Member's Stock Ownership Account be permitted between October 1, 1996 and December 31, 1996.

#### 9.03 Distribution on Account of Death

(a) If a Member dies before the distribution of his entire Account under Section 9.02, the entire amount outstanding in his Account, determined as of the Valuation Date coinciding with or immediately following the Member's death or notification of the Member's death, if later, shall be paid to his Beneficiary in a single lump sum distribution as soon as practicable thereafter. The portion of the Member's Retirement Savings Account not invested in the Company Stock Fund shall be distributed to his Beneficiary in cash, and the portion of the Member's Retirement Savings Account invested in the Company Stock Fund and the Member's Stock Ownership Account shall be distributed in a single sum in either cash or Company Stock (with cash for fractional shares), as elected by the Beneficiary.

(b) In the event an allocation of Company Stock resulting from Stock Ownership Contributions or dividends is made to the

Member's Stock Ownership Account following the date on which a single lump sum distribution is made to the Member's Beneficiary under Section 9.03(a), distribution of such allocations shall be paid to the Member's Beneficiary in a single lump sum distribution (in cash or Company Stock, as elected by the Beneficiary with respect to the initial distribution) as soon as practicable following such allocation in an amount determined as of the Valuation Date coinciding with or immediately following the latest of the Member's death, the notification of the Member's death, or the allocation of such Company Stock or dividends. Further, to the extent a Member's Beneficiary is entitled to a distribution under this Section 9.03 and there are dividends on Company Stock which have not been allocated to the Member's Stock Ownership Account and have not been utilized to pay any amounts due under an Acquisition Loan, such dividends shall be paid to the Beneficiary in cash.

(c) Notwithstanding any other provision in the Plan to the contrary, in no event shall any distribution of a deceased Member's Stock Ownership Account be permitted under this Section 9.03 between October 1, 1996 and December 31, 1996.

#### 9.04 Latest Commencement of Payments

(a) Notwithstanding the provisions of Section 9.02 or 9.03, unless the Member otherwise elects, the vested portion of a Member's Account shall be distributed not later than the 60th day following the end of the Plan Year in which the latest of the following occurs:

- (i) the Member's 65th birthday,
- (ii) the tenth anniversary of the date on which he became a Member, or
- (iii) the date he terminates service with the Company or an Affiliated Company.

(b) Notwithstanding anything in the Plan to the contrary, distribution of any Member's Account shall commence not later than the April 1 following the close of the calendar year in which the Member attains age 70 1/2, regardless of whether his employment with the Company or an Affiliated Company is terminated as of that date. If the Member is actively employed by the Company or an Affiliated Company as of that date, the Member shall elect whether to receive the minimum amount required under Code section 401(a)(9) and the regulations issued thereunder (based on the life expectancy of such Member), or his entire Account. If the Member is no longer actively employed, he shall be entitled to elect to receive his distribution in either manner indicated in the preceding sentence or in accordance with the other provisions of this Article 9. If the Member elects to receive the minimum amount required under Code section 401(a)(9), unless otherwise elected by the Member by the time distributions are required to begin under this Subsection (b), the Member's life expectancy shall be recalculated annually. Also, any such election shall be irrevocable and shall apply to all subsequent years. Amounts required to be paid for each year shall be based on the value of the Member's Account on the last day of the



immediately preceding calendar year, adjusted to reflect any additional benefits accrued during such immediately preceding calendar year, and may be subject to an administration fee, which fee shall be obtained from the Member's Account on a monthly or annual basis. In the event an actively employed Member elects to receive his entire Account, a distribution of the total value of his Account shall be made no later than the last day of each subsequent Plan Year.

#### 9.05 Forfeitures

##### (a) Termination of Employment

If a Member terminates employment prior to the date on which he is fully vested in his Account, the non-vested portion of his Account shall be forfeited as of the close of the Plan Year in which the earlier of the following occurs: (i) the terminated Member incurs five (5) consecutive Breaks in Service, or (ii) the terminated Member receives a distribution of the vested portion of his Account. If the non-vested portion of a Member's Stock Ownership Account is forfeited, Company Stock allocated pursuant to an Acquisition Loan shall be forfeited only after other assets. The cash equivalent of any forfeited Company Stock shall be based on the fair market value of the Company Stock as of the last Valuation Date in such Plan Year of forfeiture. If interests in more than one class of Company Stock have been allocated to the Member's Stock Ownership Account, such Member must be treated as having forfeited the same portion of each such class. Any forfeited amount under this Section 9.05(a)

shall be used to pay administrative expenses under the Plan in accordance with Section 11.07.

(b) Restoration of Account Balance

If the non-vested portion of a Member's Account has been forfeited in accordance with Section 9.05(a), that amount shall be subsequently restored to his Stock Ownership Account and used to purchase shares of Company Stock, provided (i) he is reemployed by the Company or a Participating Company before he has a period of five (5) consecutive Breaks in Service, and (ii) he repays to the Plan within five (5) years of his reemployment a cash lump sum payment equal to the full amount distributed to him from the Plan on account of his termination of employment. The fair market value of Company Stock as of the date of restoration shall be used to determine the number of shares to be restored to the Member's Stock Ownership Account. Any amounts to be restored to a Member's Stock Ownership Account shall be taken first from any forfeitures which have not been used to pay administrative expenses, then from Released Leveraged Shares if the Committee determines to use Released Leveraged Shares for this purpose, and if any amounts remain to be restored, the Member's Participating Company shall make a special contribution in an amount necessary to restore such amounts. If Released Leveraged Shares are used to restore a Member's Stock Ownership Account, the fair market value of such Released Leveraged Shares as of the date of restoration shall be used to determine the number of shares to be credited to the Member's Stock Ownership Account.

#### 9.06 Direct Rollover Distributions

(a) At the written request of a Member, a surviving spouse of a Member, or a spouse or former spouse of a Member that is an alternate payee under a qualified domestic relations order as defined in Section 414(p) of the Code (referred to as the "distributee") and upon receipt of the written direction of the Committee or its designee, the Trustee shall effectuate a direct rollover distribution of the amount requested by the distributee, in accordance with Section 401(a)(31) of the Code, to an eligible retirement plan (as defined in Section 402(c)(8)(B) of the Code). Such amount may constitute all or any whole percent of any distribution from the Plan otherwise to be made to the distributee, provided that such distribution constitutes an "eligible rollover distribution" as defined in Section 402(c) of the Code and the regulations and other guidance issued thereunder. All direct rollover distributions shall be made in accordance with the following Subsections (b) through (h).

(b) A direct rollover shall only be made to one eligible retirement plan; a distributee may not elect to have a direct rollover distribution apportioned between or among more than one eligible retirement plan.

(c) Direct rollover distributions shall be made, in accordance with such forms and procedures as may be established by the Committee or its designee and to the extent any such distribution is to be made in shares of Company stock otherwise distributable under the Plan to the distributee, such shares

shall be registered in a manner necessary to effectuate a direct rollover under Section 401(a)(31) of the Code.

(d) No direct rollover distribution shall be made unless the distributee furnishes the Committee or its designee with such information as the Committee or its designee shall require and deems to be sufficient.

(e) A distributee may elect to divide an eligible rollover distribution into two components, with one portion paid as a direct rollover distribution and the remainder paid to the distributee.

(f) No direct rollover distribution may be made unless the distributee has received a written explanation of the consequences of such a distribution and such other information required by the Code at such time and in such manner as required by Sections 402(f) and 411(a)(11) of the Code and the regulations and other guidance issued thereunder, and in accordance with rules established by the Committee.

(g) No direct rollover distribution shall be permitted unless the amount of the distribution exceeds \$200.

(h) Direct rollover distributions shall be treated as all other distributions under the Plan and shall not be treated as a direct trustee-to-trustee transfer of assets and liabilities.

#### 9.07 Inability to Locate Payee

If a Member or Beneficiary cannot be located by reasonable efforts of the Committee within a reasonable period of time after the latest date such benefits are otherwise payable under the

Plan, the amount in such Member's Account shall be forfeited and used, not later than as of the last day of the Plan Year in which the forfeiture occurs to reduce future Participating Company contributions, to defray administrative expenses of the Plan, and to restore Members' Stock Ownership Accounts in accordance with Section 9.05(b). Such forfeited amount shall be restored (without earnings) if, at any time, the Member or Beneficiary who was entitled to receive such benefit when it first became payable, after furnishing proof of their identity and right to make such claim to the Committee, files a written request for such benefit with the Committee.

## **Article 10. Management of Funds**

### 10.01 Trust Funds

All contributions and all other cash, securities or other property received by the Retirement Savings Trustee from time to time and held by it shall constitute the Retirement Savings Trust Fund; all contributions and all other cash, securities or other property received by the Stock Ownership Trustee from time to time and held by it shall constitute the Stock Ownership Trust Fund. Each Trust Fund shall be held and invested upon such terms and in such manner as set forth in the Plan and its respective Trust Agreement. The Retirement Savings Trustee shall have exclusive authority and control to manage and control the assets of the Plan attributable to: (i) the profit sharing portion of the Plan, (ii) the initial investment of Exchange Contributions in a Money Market Fund pursuant to Section 7.02, and (iii) the diversification by certain Members of a portion of their Stock Ownership Accounts pursuant to Section 7.08, subject to the terms of the Plan and the Retirement Savings Trust Agreement; the Stock Ownership Trustee shall have exclusive authority and control to manage and control the assets of the Plan attributable to the employee stock ownership portion of the Plan, excluding the initial investment of Exchange Contributions in a Money Market Fund pursuant to Section 7.02 and the diversification by certain Members of a portion of their Stock Ownership Accounts pursuant to Section 7.08, subject to the terms of the Plan and the Stock Ownership Trust Agreement. All payments of benefits as provided

in this Plan shall be made solely out of, and to the extent of, the assets held in Trust, and no Participating Company shall be liable, directly or indirectly, for the payment of any benefits provided in this Plan, nor shall any Participating Company be liable for any deficiency existing at any time in the Trust.

#### 10.02 Investment of Stock Ownership Contributions

The investment policy of the employee stock ownership portion of the Plan is to invest primarily in Company Stock and to that end, up to 100% of the assets in the Stock Ownership Trust Fund may be so invested, subject to the initial investment of Exchange Contributions in a Money Market Fund pursuant to

Section 7.02 and the rights of certain Members to transfer to other Investment Funds pursuant to Section 7.08. Such Company Stock shall be purchased by the Stock Ownership Trustee through an established securities market or from the Company, or any other person or entity, at a price not less than fair market value. Company Stock may be sold by the Stock Ownership Trustee through an established securities market or to the Company or to any other person or entity, at a price not less than fair market value. To the extent funds are available, the Stock Ownership Trustee may invest assets temporarily in savings accounts, certificates of deposit, U.S. Government obligations, obligations of agencies of the U.S. Government or in other types of short-term investments including commercial paper, or other investments deemed desirable for the Stock Ownership Trust Fund, or the funds may be held in cash or cash equivalents.

10.03 Member Accounts  
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(a) Retirement Savings Account  
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The Committee shall authorize the establishment of the following

subaccounts within each Member's Retirement Savings Account, to provide for the administration of the profit sharing portion of the Trust, in accordance with the provisions of this Plan:

- (i) Sheltered Account, to hold the Member's Sheltered Contributions, and earnings thereon.
- (ii) Standard Account, to hold the Member's Standard Contributions, and earnings thereon.
- (iii) Retirement Savings Matching Account, to hold any Retirement Savings Matching Contributions made on the Member's behalf under the Plan, and earnings thereon.
- (iv) Rollover Contributions Account, to hold any Rollover Contributions made by the Member, and earnings thereon.
- (v) Tax Deductible Contributions Account, to hold the Member's Tax Deductible Contributions made under the Plan, and earnings thereon.

(b) Stock Ownership Account

The Committee shall authorize the establishment of the following subaccounts within each Member's Stock Ownership Account, to provide for the administration of the employee stock ownership portion of the Trust in accordance with the provisions of this Plan:

- (i) Exchange Contribution Account.



(ii) Match Account, which shall include the Bonus Account in existence under the Stock Ownership Plan prior to October 1, 1996.

(iii) Equity Account.

Each such subaccount shall include any cash dividends received by the Trustee on shares of Company Stock held in the Members' Stock Ownership Accounts or in the Stock Ownership Suspense Account (and earnings attributable thereto), and any proceeds of the sale of Leveraged Shares. Funds in this Account may be invested only in the Stock Ownership Fund, subject to the initial investment of Exchange Contributions in a Money Market Fund pursuant to Section 7.02 and the rights of certain Members to transfer to other Investment Funds pursuant to Section 7.08.

#### 10.04 Transfer of Trust Assets

(a) The Committee may make a transfer of liabilities and corresponding assets from the Trust to trusts of other plans qualified under Code Section

401(a). The Committee may accept a transfer of liabilities and corresponding assets from the trusts of other plans qualified under Code Section 401(a). Any assets received under the provisions of this Section shall thereafter constitute part of the corpus of the Trust. All such transfers and allocations shall be made in accordance with the provisions of ERISA.

(b) Effective as of September 30, 1996, all of the assets and liabilities under the Stock Ownership Plan were transferred to this Plan and the portion of the assets and liabilities under

the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. attributable to Employees of the Company employed at its Mobile Plant and Employees who are not subject to any collective bargaining agreement was transferred to this Plan.

#### 10.05 Voting Rights for Company Stock

Each Member (or Beneficiary of a deceased Member) is, for purposes of this Section 10.05, hereby designated as a "named fiduciary" (within the meaning of ERISA) with respect to the shares of Company Stock allocated to his Retirement Savings Account, the shares of Company Stock allocated to his Stock Ownership Account and to a pro rata portion of the unallocated shares of Company Stock held in the Stock Ownership Suspense Account and shall have the right to direct the Retirement Savings Trustee and/or the Stock Ownership Trustee, as the case may be, with respect to the vote of the shares of Company Stock allocated to his Retirement Savings Account and/or his Stock Ownership Account, on each matter brought before any meeting of the stockholders of the Company. Before each such meeting of stockholders, the Company shall cause to be furnished to each Member (or Beneficiary) a copy of the proxy solicitation material, together with a form requesting confidential directions to the Retirement Savings Trustee and/or the Stock Ownership Trustee on how such shares of Company Stock allocated to such Member's (or Beneficiary's) Account shall be voted on each such matter. Upon timely receipt of such directions the appropriate

Trustee shall, on each such matter, vote as directed the number of shares (including fractional shares) of Company Stock allocated to such Member's (or Beneficiary's) Retirement Savings Account or Stock Ownership Account, and the appropriate Trustee shall have no discretion in such matter. The instructions received by the Retirement Savings Trustee and/or the Stock Ownership Trustee from Members (or Beneficiaries) shall be held by them in confidence and shall not be divulged or released to any person, including the Committee, officers or employees of the Company or an Affiliated Company. Each Trustee shall vote all Company Stock held by it, including Company Stock for which it has not received direction, as well as unallocated shares in the employee stock ownership portion of the Plan, in the same proportion as directed shares are voted determined by the votes of Members (or Beneficiaries) on all shares allocated to Members' (or Beneficiaries') Accounts, and the appropriate Trustee shall have no discretion in such matter.

#### 10.06 Tender Offer Rights with Respect to Company Stock

The provisions of this Section 10.06 shall apply in the event a tender or exchange offer, including, but not limited to, a tender offer or exchange offer within the meaning of the Securities Exchange Act of 1934, as from time to time amended and in effect (hereinafter, a "tender offer"), for Company Stock is commenced by a person or persons. In the event a tender offer for Company Stock is commenced, the Committee, promptly after receiving notice of the commencement of any such tender offer,

shall transfer certain of the Committee's record-keeping functions under the Plan to an independent record-keeper (which if one of the Trustees consents in writing, may be such Trustee). The functions so transferred shall be those necessary to preserve the confidentiality of any directions given by the Members (or Beneficiaries) in connection with the tender offer. The Retirement Savings Trustee and the Stock Ownership Trustee shall have no discretion or authority to sell, exchange or transfer any of such shares pursuant to such tender offer except to the extent, and only to the extent, as provided in this Plan and the applicable Trust Agreement. Each Member (or Beneficiary) is, for purposes of this Section 10.06, hereby designated as a "named fiduciary" (within the meaning of ERISA) with respect to the shares of Company Stock allocated to his Retirement Savings Account, the shares of Company Stock allocated to his Stock Ownership Account, and to a pro rata portion of the unallocated shares of Company Stock held in the Stock Ownership Suspense Account and shall have the right, to the extent of the number of whole shares of Company Stock allocated to his Retirement Savings Account and/or his Stock Ownership Account, to direct the Trustee in writing as to the manner in which to respond to a tender offer with respect to shares of Company Stock. The Company shall use its best efforts to timely distribute or cause to be distributed to each Member (or Beneficiary) such information as will be distributed to stockholders of the Company in connection with any such tender offer. Upon timely receipt of such instructions, the

Retirement Savings Trustee and/or the Stock Ownership Trustee shall respond as instructed with respect to such shares of Company Stock. The instructions received by the appropriate Trustee from Members (or Beneficiaries) shall be held by such Trustee in confidence and shall not be divulged or released to any person, including the Committee, officers or employees of the Company or any Affiliated Company. If the Retirement Savings Trustee and/or Stock Ownership Trustee shall not receive timely instructions from a Member (or Beneficiary) as to the manner in which to respond to such a tender offer, such Trustee shall not tender or exchange any shares of Company Stock with respect to which such Member (or Beneficiary) has the right of direction, and such Trustee shall have no discretion in such matter. Unallocated shares of Company Stock and fractional shares of Company Stock allocated to Members' (or Beneficiaries') Accounts shall be tendered or exchanged by such Trustee in the same proportion it tenders or exchanges the shares with respect to which Members (or Beneficiaries) have the right of direction, and the Retirement Savings Trustee and/or Stock Ownership Trustee shall have no discretion in such matter. In determining such proportion, the Trustee shall under all circumstances include in its calculation the direction of Members (or Beneficiaries) on all shares of Company Stock allocated to Members' (or Beneficiaries') Accounts. The independent record-keeper shall solicit confidentially from each Member (or Beneficiary) the directions described in this Section 10.06 as to whether shares

are to be tendered. The independent record-keeper, if different from one of the Trustees, shall instruct the Trustees as to the amount of shares to be tendered, in accordance with the above provisions.

**Article 11. Administration of Plan**

11.01 Appointment of Committee

(a) The Committee shall be comprised of the members of the Retirement Committee of the Retirement Income Plan for Employees of Armstrong World Industries, Inc. The Chairman and Secretary of the Retirement Income Plan's Committee shall be the Chairman and Secretary of the Committee.

(b) If no members of the Committee are in office, the Company shall be deemed the Committee.

11.02 Organization and Operation of the Committee

(a) The Committee shall endeavor to act, in carrying out its duties and responsibilities in the interest of the Members and Beneficiaries, with the care, skill, prudence and diligence under the prevailing circumstances that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and aims.

(b) The Committee shall act by a majority of its members or by unanimous approval of its members if there are two or less members in office at the time, and any action may be taken either by a vote taken in a meeting or by action taken in writing without the formality of convening a meeting. In the event of a deadlock, the Committee shall determine the method for resolving such deadlock. If there are two or more Committee members, no member shall act upon any question pertaining solely to himself, and the other member or members shall alone make any determination required by the Plan in respect thereof.

- (c) The Committee may authorize any one or more of its members, or members of a separate administrative subcommittee it may form, to execute any routine administrative document on behalf of the Committee.
- (d) The Committee may, in addition to the execution of routine administrative documents, delegate specific duties and powers to one or more of its members or to a separate administrative subcommittee it may form. Such delegation shall remain in effect until rescinded in writing by the Committee. The members or persons so designated shall be solely liable, jointly and severally, for their acts or omissions with respect to such delegated responsibilities.
- (e) The Committee shall endeavor not to engage directly or indirectly in any prohibited transaction, as set forth in ERISA.

#### 11.03 Duties and Responsibilities of the Committee

The Committee, except for such investment and other responsibilities vested in one of the Trustees, a designated investment manager or the investment committee of the Board of Directors, shall have full authority and responsibility for administering the Plan in accordance with its provisions and under applicable law. The duties and responsibilities of the Committee shall include, but shall not be limited to, the following:

- (a) To appoint such accountants, consultants, administrators, counsel, or such other persons it deems necessary



for the administration of the Plan. Members of the Committee shall not be precluded from serving the Committee in one or more of such individual capacities.

(b) To determine, in its full and exclusive discretion, all benefits and to resolve all questions arising from the administration, interpretation, and application of Plan provisions, either by general rules or by particular decisions, including determinations as to whether a claimant is eligible for benefits, the amount, form and timing of benefits, and any other matter (including any question of fact) raised by a claimant or identified by the Committee.

(c) To advise each Trustee with respect to all benefits which become payable under the Plan and to direct each Trustee as to the manner in which such benefits are to be paid.

(d) To adopt such forms and regulations it deems advisable for the administration of the Plan and the conduct of its affairs.

(e) To take such steps as it considers necessary and appropriate to remedy any inequity resulting from incorrect information received or communicated or as a consequence of administrative error.

(f) To assure that its members, each Trustee and every other person who handles funds or other property of the Plan are bonded as required by law.

(g) To settle or compromise any claims or debts arising from the operation of the Plan and to defend any claims in any legal or administrative proceeding.

All duties and responsibilities of the Committee shall be carried out in its sole discretion, and its decisions shall be final and binding upon all affected persons, except for the right any such persons shall have to appeal such decisions pursuant to Section 11.06 or through any court proceeding.

#### 11.04 Required Information

Each Participating Company and each Member and Beneficiary entitled to benefits shall furnish the Committee any information or proof requested by the Committee and required for the proper administration of the Plan. Failure on the part of any Member or Beneficiary to comply with such request shall be sufficient grounds for the delay in payment of benefits under the Plan until the requested information or proof is received.

#### 11.05 Indemnification

The Company will indemnify and save harmless the members of the Committee and any person to whom fiduciary responsibilities are delegated under this Plan against any cost or expense (including attorney's fees) or liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act, except in the case of willful misconduct.

## 11.06 Claims and Appeal Procedure

(a) Any request or claim for Plan benefits must be made in writing and shall be deemed to be filed by a Member or Beneficiary when a written request is made by the claimant or the claimant's authorized representative which is reasonably calculated to bring the claim to the attention of the Committee.

(b) The Committee shall provide notice in writing to any Member or Beneficiary where a claim for benefits under the Plan has been denied in whole or in part. Such notice shall be made within 90 days of the receipt by the Committee of the Member's or Beneficiary's claim or, if special circumstances require, and the Member or Beneficiary is so notified in writing, within 180 days of the receipt by the Committee of the Member's or Beneficiary's claim. The notice shall be written in a manner calculated to be understood by the claimant and shall:

(i) set forth the specific reasons for the denial of benefits;

(ii) contain specific references to Plan provisions relative to the denial;

(iii) describe any material and information, if any, necessary for the claim for benefits to be allowed, which had been requested, but not received by the Committee; and

(iv) advise the Member or Beneficiary that any appeal of the Committee's adverse determination must be made in writing to the Committee, within 60 days after receipt of the

initial denial notification, setting forth the facts upon which the appeal is based.

(c) If notice of the denial of a claim is not furnished within the time periods set forth above, the claim shall be deemed denied and the claimant shall be permitted to proceed to the review procedures set forth below. If the Member or Beneficiary fails to appeal the Committee's denial of benefits in writing and within 60 days after receipt by the claimant of written notification of denial of the claim (or within 60 days after a deemed denial of the claim), the Committee's determination shall become final and conclusive.

(d) If the Member or Beneficiary appeals the Committee's denial of benefits in a timely fashion, the Committee shall re-examine all issues relevant to the original denial of benefits. Any such claimant, or his duly authorized representative may review any pertinent documents, as determined by the Committee, and submit in writing any issues or comments to be addressed on appeal.

(e) The Committee shall advise the Member or Beneficiary and such individual's representative of its decision which shall be written in a manner calculated to be understood by the claimant, and include specific references to the pertinent Plan provisions on which the decision is based. Such response shall be made within 60 days of receipt of the written appeal, unless special circumstances require an extension of such 60 day period for not more than an additional 60 days. Where such extension is

necessary, the claimant shall be given written notice of the delay. If the decision on review is not furnished within the time set forth above, the claim shall be deemed denied on review.

#### 11.07 Expenses of the Plan

All reasonable expenses of the Committee and of the Plan (other than expenses of the Company which relate to settlor functions), including the expenses of the Trustees, and other reasonable expenses related to the financial administration of the Plan, shall be approved by the Committee and shall be paid out of the Trust Fund. However, the Company, with the consent of the Committee, may pay such expenses directly.

## **Article 12. General Provisions**

### **12.01 Exclusiveness of Benefits**

The Plan has been created for the exclusive benefit of the Members and their Beneficiaries. No part of the Trust shall ever revert to a Participating Company nor shall any part of such Trust ever be used other than for the exclusive benefit of the Members and their Beneficiaries, except as provided in accordance with Section 12.03(b). No Member or Beneficiary shall have any interest in or right to any part of the Trust, or any equitable right under the Trust Agreements except to the extent expressly provided in the Plan or Trust Agreements.

### **12.02 Limitation of Rights**

The establishment of this Plan shall not be considered as giving to any Member or other employee of a Participating Company the right to be retained in the employ of a Participating Company, and all Members and other employees shall remain subject to discharge to the same extent as if the Plan had never been adopted.

### **12.03 Non-Assignability**

(a) No benefit or interest under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such action shall be void for purposes of the Plan. No benefit or interest shall in any manner be subject to the debts, contracts, liabilities, engagements or torts of any person entitled to such benefit or interest, nor shall it be subject to attachment or

other legal process for or against any person, except to such extent as may be required by law or permitted by Treasury Regulation. If any payee or representative of a payee under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge any such benefit or interest, the Committee may hold or apply the benefit or interest or any part thereof to or for such person, his spouse, his children, or other dependents, or any of them in such manner and in such proportions as the Committee shall determine in its sole discretion.

(b) Notwithstanding any other provisions of the Plan to the contrary, the Committee and the Trustees shall comply with a "qualified domestic relations order" as such term is defined in Section 414(p) of the Code and the benefits otherwise payable to the Member, and to any other person than the payee entitled to benefits under the order, shall be adjusted accordingly. Benefits payable under a qualified domestic relations order may be paid prior to the "earliest retirement age" as such term is defined in Code Section 414(p). The Committee shall establish reasonable procedures for determining the qualified status of any domestic relations order and for administering distributions under any such order.

#### 12.04 Construction of Agreement

The Plan shall be construed according to the laws of the Commonwealth of Pennsylvania and all provisions hereof shall be administered according to, and its validity shall be determined

under, the laws of such Commonwealth, except where preempted by Federal law.

#### 12.05 Severability

(a) Should any provision of the Plan be deemed or held to be illegal or invalid for any reason, such invalidity shall not adversely affect any other Plan provision and in such case, the appropriate parties shall immediately adopt a new provision or regulation to take the place of the one deemed or held to be illegal or invalid.

(b) If the invalidity inhibits the proper operation of this Plan a new provision shall be adopted to take the place of the one deemed or held to be illegal or invalid.

#### 12.06 Titles and Headings

The titles and headings of the Sections and any Subsections in this instrument are for convenience of reference only. In the event of any conflict between the text of this instrument and the titles or headings, the text rather than such titles or headings shall control.

#### 12.07 Counterparts as Original

The Plan may be prepared in counterparts, each of which so prepared shall be construed as an original.

#### 12.08 Construction

The singular, where appearing in the Plan shall include the plural and the plural shall include the singular; and the masculine pronoun, where appearing in the Plan shall include the feminine and the feminine shall include the masculine.



## 12.09 Source of Benefits

All benefits under the Plan shall be provided solely from the Trust Funds, and neither the Participating Companies nor their officers, directors or stockholders shall have any liability or responsibility therefor. Neither the Participating Companies nor the Trustees shall be liable in any manner should the Trust Funds be insufficient to provide for the payment of any benefit under the Plan.

### 12.10 Top-Heavy Provisions

#### (a) General Rule

The Plan shall meet the requirements of this Section 12.10 in the

event that the Plan is or becomes a Top-Heavy Plan.

#### (b) Top-Heavy Plan

Subject to the aggregation rules set forth in Subsection (c), the Plan shall be considered a Top-Heavy Plan pursuant to Section 416(g) of the Code in any Plan Year if, as of the Determination Date, the value of the cumulative Accounts of all Key Employees exceeds sixty percent (60%) of the value of the cumulative Accounts of all of the Employees as of such Date, excluding former Key Employees, and excluding any Employee who has not performed services for the Company or any Affiliated Company during the five (5) consecutive Plan Year period ending on the Determination Date, but taking into account in computing the ratio any distributions made during the five (5) consecutive Plan Year period ending on the Determination Date. For purposes of the above ratio, the Account of a Key Employee shall be

counted only once each Plan Year, notwithstanding the fact that an individual may be considered a Key Employee for more than one reason in any Plan Year.

(c) Aggregation Rules

For purposes of determining whether the Plan is a Top-Heavy Plan and for purposes of meeting the requirements of this Section 12.10, the Plan shall be aggregated and coordinated with other qualified plans, including terminated plans, in a Required Aggregation Group and may be aggregated or coordinated with other qualified plans in a Permissive Aggregation Group. If such Required Aggregation Group is Top-Heavy, this Plan shall be considered a Top-Heavy Plan. If such Permissive Aggregation Group is not Top-Heavy, this Plan shall not be a Top-Heavy Plan.

(d) Definitions

For the purpose of determining whether the Plan is Top-Heavy, the following definitions shall be applicable:

(i) The term "Determination Date" shall mean, in the case of the first Plan Year, the last day of such Plan Year and in the case of any subsequent Plan Year, the last day of the preceding Plan Year. The value of an individual Member's Account shall be determined as of the Determination Date.

(ii) An individual shall be considered a "Key Employee" if he is an Employee or former Employee who at any time during the current Plan Year or any of the four (4) preceding Plan Years:

(1) was an officer of the Company who has annual compensation from the Company in the applicable Plan Year in excess of 50% of the dollar limitation under Section 415(b)(1)(A) of the Code; provided, however, that the number of individuals treated as Key Employees by reason of being officers hereunder shall not exceed the lesser of fifty (50) or ten percent (10%) of all Employees, and provided further, that if the number of Employees treated as officers is limited to fifty (50) hereunder, the individuals treated as Key Employees shall be those who, while officers, received the greatest annual Compensation in the applicable Plan Year and any of the four preceding Plan Years; or

(2) was one of the ten (10) Employees owning or considered as owning the largest interests in the Company who has annual Compensation from the Company in the applicable Plan Year in excess of the dollar limitation under Section 415(c)(1)(A) of the Code as increased under Section 415(d) of the Code; or

(3) was a more than five percent (5%) owner of the Company; or

(4) was a more than one percent (1%) owner of a Participating Company whose annual Compensation from the Company in the applicable Plan Year exceeded \$150,000.

For purposes of determining who is a Key Employee, ownership shall mean ownership of the outstanding stock of the Company or of the total combined voting power of all stock of the Company, taking into account the constructive ownership rules of

Section 318 of the Code, as modified by Section 416(i)(1) of the Code. For purposes of Subparagraph (1) but not for purposes of Subparagraphs (2), (3) and (4) (except for purposes of determining Compensation under (4)), the term "Company" shall include any entity aggregated with the Company pursuant to Section 414(b), (c) or (m) of the Code. For purposes of Subparagraph (2), an Employee (or former Employee) who has some ownership interest is considered to be one of the top ten (10) owners unless at least ten (10) other Employees (or former Employees) own a greater interest than such Employee (or former Employee), provided that if an Employee has the same ownership interest as another Employee, the Employee having greater annual Compensation from the Company is considered to have the larger ownership interest.

(iii) The term "Non-Key Employee" shall mean any Employee who is a Member and who is not a Key Employee.

(iv) Whenever the term "Key Employee," "former Key Employee," or "Non-Key Employee" is used herein, it includes the beneficiary or beneficiaries of such individual. If an individual is a Key Employee by reason of the foregoing sentence as well as a Key Employee in his own right, both the value of his inherited benefit and the value of his own Account will be considered his Account for purposes of determining whether the Plan is a Top-Heavy Plan.

(v) For purposes of this Section 12.10, except as otherwise specifically provided, the term "Compensation" shall be

determined in the same manner as "Compensation" for purposes of Section 6.08, increased by pre-tax amounts described in Sections 125 and 402(e)(3) of the Code under plans maintained by the Company or an Affiliated Company.

(vi) The term "Required Aggregation Group" shall mean all other qualified defined benefit and defined contribution plans maintained by the Company in which a Key Employee participates, and each other plan of the Company which enables any plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) and 410 of the Code.

(vii) The term "Permissive Aggregation Group" shall mean all other qualified defined benefit and defined contribution plans maintained by the Company that meet the requirements of Sections 401(a)(4) and 410 of the Code when considered with a Required Aggregation Group.

(e) Requirements Applicable If Plan Is Top-Heavy

In the event the Plan is determined to be Top-Heavy for any Plan Year, the following requirements shall be applicable:

(i) Minimum Allocations shall be as follows:

(1) In the case of a Non-Key Employee who is covered under this Plan but does not participate in any qualified defined benefit plan maintained by the Company, the minimum allocation of contributions plus forfeitures allocated to the account of each Non-Key Employee who has not separated from service at the end of a Plan Year in which the Plan is Top-Heavy

shall equal the lesser of three percent (3%) of Compensation for such Plan Year or the largest percentage of Compensation (including Sheltered Contributions and Exchange Contributions) provided on behalf of any Key Employee for such Plan Year. Sheltered Contributions and Exchange Contributions may not be used to satisfy this minimum allocation requirement. The minimum allocation provided hereunder may not be suspended or forfeited under Section 411(a)(3)(B) or (D) of the Code.

(2) A Non-Key Employee who is covered under this Plan and under a qualified defined benefit plan maintained by the Company shall not be entitled to the minimum allocation under this Plan but shall receive the minimum benefit provided under the terms of the qualified defined benefit plan. If a Non-Key Employee is covered under one or more qualified defined contribution plans in addition to this Plan, the minimum allocation requirements may be satisfied through contributions and forfeitures allocated to his accounts under such other plans.

(ii) For purposes of computing the defined benefit plan fraction and defined contribution plan fraction as set forth in Section 415(e)(2)(B) and (e)(3)(B) of the Code, the dollar limitations on benefits and Annual Additions applicable to a limitation year shall be multiplied by 1.0 rather than by 1.25.

(iii) The Member's nonforfeitable right to a percentage of his Account shall be determined in accordance with the following table:

Years of Service	Nonforfeitable Percentage
2	20
3	40
4	60
5	80
6 or more	100

Notwithstanding the foregoing, in no event will a Member's nonforfeitable right to a percentage of his Account be less than his nonforfeitable right determined prior to the Plan's becoming a Top-Heavy Plan.

Article 13. Amendment, Merger And Termination

13.01 Amendment

The Company, by written resolution of the Board of Directors, reserves the right at any time and from time to time to modify or amend, in whole or in part, any or all of the provisions of the Plan, provided that:

- (a) no modification or amendment shall be made that makes it possible for any portion of the assets of the Trust to revert to or become the property of any Participating Company, and
- (b) no modification or amendment shall have any retroactive effect so as to cause any reduction in the Member's Account as of the date of such amendment or shall deprive any Member or Beneficiary of any benefit accrued hereunder.

The Board of Directors may by written resolution delegate such authority to amend the Plan to any person or persons, and such delegate shall amend the Plan by means by written resolution. Notwithstanding the foregoing, any modification or amendment of the Plan may be made, retroactively if necessary, which the Board of Directors or its delegate deems necessary or proper to bring the Plan into conformity with any law or governmental regulation relating to plans or trusts of this character, including the qualification of any trust or other fund created under the Plan as exempt from income taxes under the Code.



### 13.02 Termination, Sale of Assets or Sale of Subsidiary

While the Plan and Trust are intended to be permanent, they may be terminated at any time at the discretion of the Board of Directors or its delegate by written resolution, solely as to all or any one Participating Company. Written notification of such action shall be given to each Participating Company and the Trustees setting forth the date of termination and such date of termination shall be deemed a Valuation Date. Thereafter, no further contributions shall be made to any Trust Fund by a Participating Company involved in the termination.

Upon the complete or partial termination of the Plan, or upon the complete discontinuance of all contributions by all Participating Companies, the rights of all affected Members in their Accounts shall be fully vested. Any unallocated Leveraged Shares shall be sold to the Company or on the open market. The proceeds of such sale shall be used to satisfy any outstanding Acquisition Loan and the balance of any funds remaining shall be allocated to each Member's Account based on the proportion that the balance of each such Member's Account bears to the total of the balances of all Accounts. Upon termination, a Member's Account shall not be distributed until such time as otherwise provided under Article 9 hereof. Upon the sale of substantially all of the assets of a Participating Company in a trade or business or the sale by a Participating Company of its interest in a subsidiary, a Member who is employed by such Participating Company shall be considered to have separated from service for

purposes of determining a Member's entitlement to a distribution pursuant to the provisions of Section 9.02, to the extent permitted under Sections 401(k)(10) and 409(d) of the Code. Upon such event, the Members may no longer actively participate in the Plan.

### 13.03 Merger of Plans

Upon the merger or consolidation of this Plan with any other plan or the transfer of assets or liabilities from the Trust to another trust, all Members shall be entitled to a benefit at least equal to the benefit they would have been entitled to receive had the Plan been terminated in accordance with

Section 13.02 immediately prior to such merger, consolidation or transfer of assets or liabilities.

### 13.04 Additional Participating Companies, Locations, or Divisions

Any domestic subsidiary which is now or becomes an Affiliated Company shall become a Participating Company upon appropriate action by the board of directors of such subsidiary necessary to adopt the Plan with respect to its employees. In order for a domestic subsidiary to become a Participating Company the Board or the Executive Committee thereof must consent to such action. The Board or the Executive Committee thereof also may approve the inclusion of employees of any newly established or acquired location or division as Employees eligible for membership under the Plan. The Committee shall determine to what extent, if any, credit for eligibility and vesting purposes shall

be granted for previous service with the subsidiary, location or division, but subject to the continued qualification of the Trust for the Plan as tax-exempt under the Code.

**SCHEDULE A**

**EQUITY ALLOCATION SCHEDULE**

**ALLOCATION YEAR**

Age	1996		1997		1998		1999		2000		2001		2002		2003		2004
	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	
21	7.8	7.8	8.0	8.0	8.2	8.2	8.5	8.5	8.8	8.8	9.2	9.2	9.6	9.6	10.0	10.0	
22	7.8	7.8	8.0	8.0	8.3	8.3	8.5	8.5	8.8	8.8	9.2	9.2	9.6	9.6	10.1	10.1	
23	7.9	7.9	8.1	8.1	8.3	8.3	8.6	8.6	8.9	8.9	9.3	9.3	9.7	9.7	10.2	10.2	
24	7.9	7.9	8.1	8.1	8.4	8.4	8.6	8.6	9.0	9.0	9.3	9.3	9.8	9.8	10.2	10.2	
25	8.0	8.0	8.2	8.2	8.4	8.4	8.7	8.7	9.0	9.0	9.4	9.4	9.8	9.8	10.3	10.3	
26	8.0	8.0	8.2	8.2	8.5	8.5	8.8	8.8	9.1	9.1	9.5	9.5	9.9	9.9	10.4	10.4	
27	8.1	8.1	8.3	8.3	8.5	8.5	8.8	8.8	9.1	9.1	9.5	9.5	10.0	10.0	10.4	10.4	
28	8.2	8.2	8.3	8.3	8.6	8.6	8.9	8.9	9.2	9.2	9.6	9.6	10.0	10.0	10.5	10.5	
29	8.2	8.2	8.4	8.4	8.6	8.6	8.9	8.9	9.3	9.3	9.7	9.7	10.1	10.1	10.6	10.6	
30	8.3	8.3	8.5	8.5	8.7	8.7	9.0	9.0	9.3	9.3	9.7	9.7	10.2	10.2	10.7	10.7	
31	8.3	8.3	8.5	8.5	8.8	8.8	9.0	9.0	9.4	9.4	9.8	9.8	10.2	10.2	10.7	10.7	
32	8.5	8.5	8.7	8.7	8.9	8.9	9.2	9.2	9.6	9.6	9.9	9.9	10.4	10.4	10.9	10.9	
33	8.5	8.5	8.7	8.7	9.0	9.0	9.3	9.3	9.6	9.6	10.0	10.0	10.5	10.5	11.0	11.0	
34	8.6	8.6	8.8	8.8	9.0	9.0	9.3	9.3	9.7	9.7	10.1	10.1	10.5	10.5	11.0	11.0	
35	8.6	8.6	8.8	8.8	9.1	9.1	9.4	9.4	9.7	9.7	10.1	10.1	10.6	10.6	11.1	11.1	
36	8.7	8.7	8.9	8.9	9.1	9.1	9.4	9.4	9.8	9.8	10.2	10.2	10.7	10.7	11.2	11.2	
37	8.7	8.7	8.9	8.9	9.2	9.2	9.5	9.5	9.9	9.9	10.3	10.3	10.7	10.7	11.3	11.3	
38	8.8	8.8	9.0	9.0	9.3	9.3	9.6	9.6	9.9	9.9	10.3	10.3	10.8	10.8	11.3	11.3	
39	8.9	8.9	9.1	9.1	9.3	9.3	9.6	9.6	10.0	10.0	10.4	10.4	10.9	10.9	11.4	11.4	
40	8.9	8.9	9.1	9.1	9.4	9.4	9.7	9.7	10.1	10.1	10.5	10.5	11.0	11.0	11.5	11.5	
41	9.0	9.0	9.2	9.2	9.4	9.4	9.8	9.8	10.1	10.1	10.6	10.6	11.0	11.0	11.6	11.6	
42	9.0	9.0	9.2	9.2	9.5	9.5	9.8	9.8	10.2	10.2	10.6	10.6	11.1	11.1	11.6	11.6	
43	9.1	9.1	9.3	9.3	9.6	9.6	9.9	9.9	10.3	10.3	10.7	10.7	11.2	11.2	11.7	11.7	
44	9.1	9.1	9.4	9.4	9.6	9.6	10.0	10.0	10.3	10.3	10.8	10.8	11.3	11.3	11.8	11.8	
45	9.3	9.3	9.5	9.5	9.8	9.8	10.1	10.1	10.5	10.5	10.9	10.9	11.4	11.4	12.0	12.0	
46	9.4	9.4	9.6	9.6	9.9	9.9	10.2	10.2	10.6	10.6	11.0	11.0	11.5	11.5	12.1	12.1	
47	9.4	9.4	9.6	9.6	9.9	9.9	10.3	10.3	10.6	10.6	11.1	11.1	11.6	11.6	12.1	12.1	
48	10.8	10.8	11.1	11.1	11.4	11.4	11.8	11.8	12.2	12.2	12.7	12.7	13.3	13.3	12.3	12.3	
49	11.6	11.6	11.9	11.9	12.2	12.2	12.6	12.6	13.1	13.1	13.7	13.7	13.4	13.4	12.4	12.4	
50	12.5	12.5	12.8	12.8	13.1	13.1	13.6	13.6	14.1	14.1	13.8	13.8	13.5	13.5	12.5	12.5	
51	13.4	13.4	13.7	13.7	14.1	14.1	14.6	14.6	14.2	14.2	13.9	13.9	13.6	13.6	12.6	12.6	
52	14.4	14.4	14.8	14.8	15.2	15.2	14.7	14.7	14.3	14.3	14.0	14.0	13.7	13.7	12.7	12.7	
53	15.6	15.6	16.0	16.0	15.4	15.4	14.9	14.9	14.5	14.5	14.2	14.2	13.9	13.9	12.9	12.9	
54	16.8	16.8	16.1	16.1	15.5	15.5	15.0	15.0	14.6	14.6	14.3	14.3	14.0	14.0	13.0	13.0	
55	17.0	17.0	16.3	16.3	15.7	15.7	15.2	15.2	14.8	14.8	14.5	14.5	14.2	14.2	13.2	13.2	
56	17.1	17.1	16.4	16.4	15.8	15.8	15.3	15.3	14.9	14.9	14.6	14.6	14.3	14.3	13.3	13.3	
57	17.3	17.3	16.6	16.6	16.0	16.0	15.5	15.5	15.1	15.1	14.8	14.8	14.5	14.5	13.5	13.5	
58	17.4	17.4	16.7	16.7	16.1	16.1	15.6	15.6	15.2	15.2	14.9	14.9	14.6	14.6	13.6	13.6	
59	17.6	17.6	16.9	16.9	16.3	16.3	15.8	15.8	15.4	15.4	15.1	15.1	14.8	14.8	13.8	13.8	
60	17.8	17.8	17.1	17.1	16.5	16.5	16.0	16.0	15.6	15.6	15.3	15.3	15.0	15.0	14.0	14.0	
61+	18.0	18.0	17.3	17.3	16.7	16.7	16.2	16.2	15.8	15.8	15.5	15.5	15.2	15.2	14.2	14.2	

**SCHEDULE B**

**EQUITY ALLOCATION SCHEDULE FOR HOURLY EMPLOYEES AT THE MOBILE PLANT**

**ALLOCATION YEAR**

Age	1996		1997		1998		1999		2000		2001		2002		2003		2004
	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	
21	17.7	17.7	7.8	7.8	8.0	8.0	8.2	8.2	8.5	8.5	8.8	8.8	9.2	9.2	9.6	9.6	
22	17.8	17.8	7.8	7.8	8.0	8.0	8.3	8.3	8.5	8.5	8.8	8.8	9.2	9.2	9.6	9.6	
23	18.0	18.0	7.9	7.9	8.1	8.1	8.3	8.3	8.6	8.6	8.9	8.9	9.3	9.3	9.7	9.7	
24	18.0	18.0	7.9	7.9	8.1	8.1	8.4	8.4	8.6	8.6	9.0	9.0	9.3	9.3	9.8	9.8	
25	18.2	18.2	8.0	8.0	8.2	8.2	8.4	8.4	8.7	8.7	9.0	9.0	9.4	9.4	9.8	9.8	
26	18.3	18.3	8.0	8.0	8.2	8.2	8.5	8.5	8.8	8.8	9.1	9.1	9.5	9.5	9.9	9.9	
27	18.4	18.4	8.1	8.1	8.3	8.3	8.5	8.5	8.8	8.8	9.1	9.1	9.5	9.5	10.0	10.0	
28	18.5	18.5	8.2	8.2	8.3	8.3	8.6	8.6	8.9	8.9	9.2	9.2	9.6	9.6	10.0	10.0	
29	18.7	18.7	8.2	8.2	8.4	8.4	8.6	8.6	8.9	8.9	9.3	9.3	9.7	9.7	10.1	10.1	
30	18.8	18.8	8.3	8.3	8.5	8.5	8.7	8.7	9.0	9.0	9.3	9.3	9.7	9.7	10.2	10.2	
31	18.9	18.9	8.3	8.3	8.5	8.5	8.8	8.8	9.0	9.0	9.4	9.4	9.8	9.8	10.2	10.2	
32	19.2	19.2	8.5	8.5	8.7	8.7	8.9	8.9	9.2	9.2	9.6	9.6	9.9	9.9	10.4	10.4	
33	19.4	19.4	8.5	8.5	8.7	8.7	9.0	9.0	9.3	9.3	9.6	9.6	10.0	10.0	10.5	10.5	
34	19.4	19.4	8.6	8.6	8.8	8.8	9.0	9.0	9.3	9.3	9.7	9.7	10.1	10.1	10.5	10.5	
35	19.6	19.6	8.6	8.6	8.8	8.8	9.1	9.1	9.4	9.4	9.7	9.7	10.1	10.1	10.6	10.6	
36	19.7	19.7	8.7	8.7	8.9	8.9	9.1	9.1	9.4	9.4	9.8	9.8	10.2	10.2	10.7	10.7	
37	19.9	19.9	8.7	8.7	8.9	8.9	9.2	9.2	9.5	9.5	9.9	9.9	10.3	10.3	10.7	10.7	
38	19.9	19.9	8.8	8.8	9.0	9.0	9.3	9.3	9.6	9.6	9.9	9.9	10.3	10.3	10.8	10.8	
39	20.1	20.1	8.9	8.9	9.1	9.1	9.3	9.3	9.6	9.6	10.0	10.0	10.4	10.4	10.9	10.9	
40	20.3	20.3	8.9	8.9	9.1	9.1	9.4	9.4	9.7	9.7	10.1	10.1	10.5	10.5	11.0	11.0	
41	20.4	20.4	9.0	9.0	9.2	9.2	9.4	9.4	9.8	9.8	10.1	10.1	10.6	10.6	11.0	11.0	
42	20.5	20.5	9.0	9.0	9.2	9.2	9.5	9.5	9.8	9.8	10.2	10.2	10.6	10.6	11.1	11.1	
43	20.6	20.6	9.1	9.1	9.3	9.3	9.6	9.6	9.9	9.9	10.3	10.3	10.7	10.7	11.2	11.2	
44	20.8	20.8	9.1	9.1	9.4	9.4	9.6	9.6	10.0	10.0	10.3	10.3	10.8	10.8	11.3	11.3	
45	21.1	21.1	9.3	9.3	9.5	9.5	9.8	9.8	10.1	10.1	10.5	10.5	10.9	10.9	11.4	11.4	
46	21.3	21.3	9.4	9.4	9.6	9.6	9.9	9.9	10.2	10.2	10.6	10.6	11.0	11.0	11.5	11.5	
47	21.4	21.4	9.4	9.4	9.6	9.6	9.9	9.9	10.3	10.3	10.6	10.6	11.1	11.1	11.6	11.6	
48	22.9	22.9	10.8	10.8	11.1	11.1	11.4	11.4	11.8	11.8	12.2	12.2	12.7	12.7	13.3	13.3	
49	23.8	23.8	11.6	11.6	11.9	11.9	12.2	12.2	12.6	12.6	13.1	13.1	13.7	13.7	13.4	13.4	
50	24.8	24.8	12.5	12.5	12.8	12.8	13.1	13.1	13.6	13.6	14.1	14.1	13.8	13.8	13.5	13.5	
51	25.8	25.8	13.4	13.4	13.7	13.7	14.1	14.1	14.6	14.6	14.2	14.2	13.9	13.9	13.6	13.6	
52	26.9	26.9	14.4	14.4	14.8	14.8	15.2	15.2	14.7	14.7	14.3	14.3	14.0	14.0	13.7	13.7	
53	28.2	28.2	15.6	15.6	16.0	16.0	15.4	15.4	14.9	14.9	14.5	14.5	14.2	14.2	13.9	13.9	
54	29.5	29.5	16.8	16.8	16.1	16.1	15.5	15.5	15.0	15.0	14.6	14.6	14.3	14.3	14.0	14.0	
55	31.1	31.1	17.0	17.0	16.3	16.3	15.7	15.7	15.2	15.2	14.8	14.8	14.5	14.5	14.2	14.2	
56	31.3	31.3	17.1	17.1	16.4	16.4	15.8	15.8	15.3	15.3	14.9	14.9	14.6	14.6	14.3	14.3	
57	31.7	31.7	17.3	17.3	16.6	16.6	16.0	16.0	15.5	15.5	15.1	15.1	14.8	14.8	14.5	14.5	
58	31.9	31.9	17.4	17.4	16.7	16.7	16.1	16.1	15.6	15.6	15.2	15.2	14.9	14.9	14.6	14.6	
59	32.3	32.3	17.6	17.6	16.9	16.9	16.3	16.3	15.8	15.8	15.4	15.4	15.1	15.1	14.8	14.8	
60	32.7	32.7	17.8	17.8	17.1	17.1	16.5	16.5	16.0	16.0	15.6	15.6	15.3	15.3	15.0	15.0	
61+	33.1	33.1	18.0	18.0	17.3	17.3	16.7	16.7	16.2	16.2	15.8	15.8	15.5	15.5	15.2	15.2	

**PRODUCER AGREEMENT**

**CONCERNING**

**CENTER FOR CLAIMS RESOLUTION**

September 28, 1988

**Exhibit No. 10(i)(b)**

**PRODUCER AGREEMENT CONCERNING CENTER FOR CLAIMS RESOLUTION**

This Agreement, dated September 23, 1988, to provide for the administration, defense, payment and disposition of asbestos-related claims (hereinbelow referred to as the "Agreement") is made between and among the Participating Producers, as defined hereinbelow.

**WITNESSETH:**

WHEREAS, a substantial number of asbestos-related claims are pending, and continue to be filed or asserted, against Participating Producers, requiring appropriate defense and disposition;

WHEREAS, Participating Producers deem it beneficial to have an organization that will administer and handle asbestos-related claims on behalf of more than one Producer, that will provide claims-related analysis and reporting and that will administer the insurance-coverage provisions of the Agreement Concerning Asbestos-Related Claims dated June 19, 1985 (hereinafter referred to as the "Wellington Agreement"); and

WHEREAS, although upon the dissolution of the Asbestos Claims Facility certain aspects of the relationship between the Producer and Insurer signatories to the Wellington Agreement will

continue to be governed thereunder, the relationship among Producer signatories will not be so governed, and there no longer will be a waiver of certain cross and counter claims among Producers; and

WHEREAS, Participating Producers believe it is important to establish an organization that will, on behalf of all Participating Producers, resolve meritorious asbestos-related claims in a fair and expeditious manner and, where necessary, defend asbestos-related claims efficiently and economically; and

WHEREAS, Participating Producers desire to establish an organization that will, at least for all Participating Producers, provide claims-related analysis and reporting and administer the insurance-coverage provisions of the Wellington Agreement; and

WHEREAS, Participating Producers desire to enter into a constructive relationship with one another and to resolve any cross or counter claims that they may have against each other;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the Participating Producers hereby agree as follows:

I. DEFINITIONS As used in the Agreement and Attachment A hereto, the following terms shall have the following meanings:



1. Allocated Expenses -- means all fees and expenses incurred for services performed outside the Center that can be directly attributed to the defense and disposition of a particular asbestos-related claim.
2. Asbestos-Related Claims -- means any claims or lawsuits against any Participating Producers or the Center, or against any Supporting Insurer based solely on the conduct of any Participating Producers, by whomever brought and in whatever procedural posture such claims or lawsuits may arise, seeking monetary relief (whether or not such relief is the only relief sought) for bodily injury, sickness, disease or death, alleged to have been caused in whole or in part by any asbestos or asbestos-containing product; provided, that asbestos-related claims shall not include claims for damage to or destruction of property or statutory claims for compensation by an employee against an employer.
3. Center -- means the Center for Claims Resolution, established under the Agreement.
4. Insurer Agreement -- means the Insurer Agreement Concerning Center for Claims Resolution dated September 23, 1988.
5. Insurers -- means persons that are or were engaged in the business of providing liability insurance to Producers.
6. Liability Payments -- means the sums paid in settlement of, or in satisfaction of a judgment on, any asbestos-

related claims, exclusive of allocated and unallocated expenses for such claims.

7. Participating Producers -- means Producers that have become signatories to the Agreement.

8. Persons -- means natural persons and organizations of any kind.

9. Producers -- means persons that are or were engaged in the mining, manufacturing, production, processing, fabrication, distribution, installation, sale or use of asbestos or asbestos-containing products or that may have a liability with respect to asbestos-related claims.

10. Supporting Insurers -- means Insurers that have become signatories to the Insurer Agreement.

11. Unallocated Expenses -- means the overhead, operating and administrative expenses (other than allocated expenses) of the Center incurred in administering, defending and disposing of asbestos-related claims, providing claims-related analysis and reporting and administering the insurance-coverage provisions of the Wellington Agreement; provided, that unallocated expenses shall not include any expenses, debts or other obligations of the Asbestos Claims Facility, whatever previously or hereinafter incurred by it.

## II. ESTABLISHMENT OF CENTER

1. Participating Producers shall establish a non-profit organization to be known as the Center for Claims Resolution. The Center shall administer and arrange for the evaluation, settlement, payment or defense of all asbestos- related claims in accordance with the provisions of the Agreement and Attachment A hereto, applicable law and professional standards; shall provide claims- related analysis and reporting; and shall administer the insurance coverage provisions of the Wellington Agreement.
2. The Center shall not be a continuation of or a successor to the Asbestos Claims Facility. The Center shall be established, funded and operated independently of the Asbestos Claims Facility, and shall not assume or otherwise be responsible for any of the Asbestos Claims Facility's debts, liabilities or obligations.
3. The Center shall be governed by a Board of Directors whose members shall number at least five (5) and whose manner of election, powers and duties shall be as set forth in the Center's by-laws. The Board of Directors shall appoint as non-voting ex officio directors one representative selected by Supporting Insurers, who shall serve during the period that Supporting Insurers are paying unallocated expenses of the Center, and one representative selected by an affirmative majority of Participating Producers. The Board of Directors shall have no

power to modify any provisions of the Agreement or Attachment A hereto.

4. The Center shall not sell, lease, exchange, mortgage, pledge, or otherwise dispose of all or substantially all of its property or assets and shall not dissolve or wind up its affairs except upon the affirmative vote of two-thirds of its Participating Producer members with two-thirds interest.

### III. MEMBERSHIP IN CENTER

1. Each Participating Producer shall become a member of the Center upon becoming a signatory to the Agreement, and shall have all of the rights and duties of a member, as set forth in the Agreement, Attachment A hereto and the Center's by-laws.

2. The membership of any Participating Producer in the Center may be terminated only in the following manner:

a) the Participating Producer may terminate its membership effective at any time after October 3, 1989, by: i) providing written notice to the Center at least 60 days prior to the effective date of termination; and ii) obtaining a determination from the Board of Directors of the Center, which may not be unreasonably withheld, that such Participating Producer has paid or made adequate provision for the payment of any amounts due from it under the Agreement or Attachment A hereto; or

b) the membership of any Participating Producer shall terminate upon the filing by such Participating Producer for bankruptcy protection or other protection against creditors under any state or federal law; or

c) the Board of Directors of the Center may terminate or suspend the membership of any Participating Producer that: i) is involuntarily placed in bankruptcy under any state or federal law or that has been determined by a court to be insolvent; or ii) the Board of Directors determines, by an affirmative vote of three-fifths of the directors then in office, has materially breached the Agreement or Attachment A hereto, including but not limited to a failure to pay to the Center in a timely manner any amounts due to or incurred by the Center on such Participating Producer's behalf; provided, that termination of membership by the Board of Directors for breach of the Agreement or Attachment A hereto shall not be effective until 30 days after written notice of the Board's determination is provided to the Participating Producer, to afford such Producer an opportunity to cure the breach in question and avoid membership termination.

3. Upon termination of membership and thereafter, a Participating Producer shall have none of the rights or obligations of a member of the Center, as set forth in the Agreement, Attachment A hereto and the Center's by-laws.

However, notwithstanding termination of membership, a Participating Producer shall continue to have and to honor all of the obligations incurred by it hereunder or on its behalf as a member prior to the effective date of its membership termination, including any retroactive adjustments of its percentage shares of liability payments and allocated expenses made pursuant to Attachment A hereto.

#### IV. SUBMISSION AND WITHDRAWAL OF CLAIMS

1. By becoming a signatory to the Agreement and a member of the Center, each Participating Producer hereby designates the Center as its sole agent to administer and arrange on its behalf for the evaluation, settlement, payment or defense of all asbestos-related claims against such Participating Producer. As sole agent, the Center shall have exclusive authority and discretion to administer, evaluate, settle, pay or defend all asbestos-related claims, including the right to delegate to any person, upon consent of the Participating Producer in question, such authority and discretion with respect to designated asbestos-related claims against such Participating Producer.

2. The Center shall serve as the sole agent of each Participating Producer with respect to all asbestos-related claims so long as such Participating Producer is a member of the Center. Termination of membership of a Participating Producer

pursuant to Paragraph 2 of Section III hereinabove shall serve immediately as a withdrawal by such Participating Producer of the designation of the Center as its sole agent made pursuant to Paragraph 1 of this Section, and shall terminate immediately the Center's right, authority and obligation to act on behalf of such Participating Producer with respect to any and all asbestos-related claims, whenever made or filed, but this shall not prevent reasonable access by such Participating Producer to its claims files.

#### V. COOPERATION WITH CENTER

Each Participating Producer shall comply with the terms and conditions of the Agreement and Attachment A hereto and shall cooperate with and assist the Center in the furtherance of such terms and conditions and of its purposes. Each Participating Producer shall respond fully and in a timely manner to reasonable requests by the Center for information and shall assist in the securing and giving of evidence concerning asbestos-related claims. The Center shall use its best efforts to maintain the confidentiality of confidential or proprietary information submitted by Participating Producers and Supporting Insurers.

#### VI. ALLOCATION OF LIABILITIES AND EXPENSES

Liability payments and allocated expenses shall be apportioned to each Participating Producer from the date such Producer becomes a signatory to the Agreement and a member of the Center. Such apportionment shall establish the responsibility of each Participating Producer for a percentage share of liability payments and a percentage share of allocated expenses attributable to each claim handled by the Center as sole agent for such Participating Producer under Section IV hereinabove. Each Subscribing Producer's percentage shares of liability payments and allocated expenses shall be established as provided in Attachment A hereto, and shall be subject to modification only in the manner and to the extent set forth therein. To the extent that a Participating Producer's percentage shares of liability payments and allocated expenses attributable to a particular asbestos-related claim are not paid in a timely manner by one or more of its Insurers, whether pursuant to the Wellington Agreement or any other agreement, such Participating Producer shall pay in a timely manner the percentages of liability payments and allocated expenses in question.

#### VII. PAYMENT OF UNALLOCATED EXPENSES

Each Participating Producer shall pay, respectively, the percentage share attributed to it pursuant to Attachment A hereto of any unallocated expenses incurred by the Center during its



first fiscal year of operation not otherwise paid by Supporting Insurers pursuant to the Insurer Agreement. The manner and timing of such payments shall be as determined by the Center. The amounts and timing of unallocated-expense payments, if any, by Participating Producers concerning the Center's second and subsequent years of operations shall be as mutually agreed upon by the signatories hereto.

#### VIII. CENTER CLAIMS HANDLING

1. The Center shall administer, evaluate, settle, pay or defend all asbestos-related claims in a fair, cost-effective and expeditious manner. The Center shall handle each asbestos-related claim on behalf of all Participating Producer members, and shall not settle an asbestos-related claim on behalf of fewer than all Participating Producer members. The Center shall settle each asbestos-related claim so as to extinguish claims for all damages, including punitive damages, and, in the settlement of asbestos-related claims, the Center shall not pay punitive damages to claimants.
2. The Center shall hire an adequate number of competent and experienced claims and legal staff and shall retain the services of competent and experienced legal counsel to defend asbestos-related claims. The Center shall retain such counsel, including punitive counsel, as are necessary and appropriate to

defend the interests of Participating Producer members. The Center may utilize counsel-sharing arrangements on behalf of its members with Producers not signatories hereto.

3. Actions against third parties may be undertaken by the Center on behalf of its members, but the Agreement shall neither require nor preclude such actions.

4. The Center shall require valid evidence to support each claim against Participating Producer members, and shall require credible medical evidence in each case prior to making payment to a claimant. Center personnel shall be responsible for obtaining such evidence from each claimant and verifying it.

5. A claimant shall be paid solely for asbestos-related injury. However, the Center may provide certain claimants whose claims have not matured with an opportunity to resubmit a claim to the Center should additional medical evidence become available. The Center may enter into agreements to suspend the running of statutes of limitations with respect to claims timely presented and shall adopt uniform, streamlined, expeditious procedures, including voluntary nonjudicial means of resolving disputed claims.

6. The Center shall not make payments pursuant to a pre-determined schedule of benefits, but detailed claims guidelines shall be used to evaluate and settle asbestos-related claims. The Center shall make payments and settle claims only on behalf of

Participating Producer members and shall be entitled to credit for settlements made and judgments paid by Participating Producer members prior to membership in the Center.

7. The Center shall operate according to annual liability, defense and operational programs to be established by the Board of Directors. The Center shall be subject to annual financial and quality control audits by persons selected by the Board of Directors.

#### IX. CENTER ADMINISTRATIVE SERVICES

1. In addition to the functions to be performed by the Center pursuant to Section VIII hereinabove, the Center shall perform for Participating Producers, and for Supporting Insurers that are paying unallocated expenses incurred by the Center, certain administrative services, including claims analysis and reporting and insurance allocation and billing.

2. In furtherance of its administrative function the Center shall, among other things, administer all Center receipts and disbursements; develop, maintain and keep current an accurate claims database; produce claims-related analyses, comparisons and reports; clearly communicate Center claims-handling analyses and results on a periodic basis; administer and implement the provisions of Attachment A hereto, including the provision of timely evaluation, analyses and monitoring of the manner in which

liability payments and allocated expenses are apportioned thereunder; administer and implement the insurance-coverage provisions of the Wellington Agreement in full conformity with that agreement and also in an accurate, consistent and timely manner, including the provision of periodic billings and supporting information; administer other insurance-coverage arrangements of Participating Producers; and administer for Participating Producers any counsel-sharing arrangements with producers not signatories hereto.

3. The Center shall perform its administrative function in a timely, accurate and cost-effective manner, and may retain the services of experienced and competent third parties and consultants to do so.

4. The Center may enter into arrangements to provide certain administrative services to persons that are not signatories hereto in exchange for appropriate compensation and upon terms satisfactory to the Center, but the Center shall not be required to enter into such arrangements.

#### X. THIRD-PARTY RIGHTS

The Agreement is intended to confer rights and benefits only upon Participating Producers, Supporting Insurers that are paying unallocated expenses incurred by the Center and the Center, and is not intended to confer any rights or benefits upon

any other persons. No person other than the Center, a signatory hereto or a Supporting Insurer that is paying unallocated expenses incurred by the Center shall have any legally enforceable rights under the Agreement. All rights of action for any breach of this Agreement by any signatory hereto are hereby reserved to the Center, Participating Producers and to Supporting Insurers that are paying unallocated expenses incurred by the Center.

#### XI. EFFECTIVE DATE

The effective date of this Agreement with respect to each signatory hereto shall be the date upon which such person executed the Agreement in the manner set forth in Section IV hereinbelow or September 30, 1988, whichever is later.

#### XII. ADDITIONAL SIGNATORIES

1. A Producer may become a signatory to the Agreement subsequent to September 30, 1988, only upon application to the Board of Directors of the Center and approval by an affirmative vote of four-fifths (4/5) of the voting directors then in office.
2. In determining whether a Producer may become a signatory hereto, the Board of Directors shall determine whether the best interests of the Center and of the other signatories would be served thereby, in order to assure that the compromises

herein and commitments of resources hereunder are duly respected, that such Producer derives no unfair advantage with respect to the other signatories and that none of the other signatories suffers any unfair disadvantage by reason of said Producer's failure to become a signatory to the Agreement prior to September 30, 1988.

3. Pursuant to the foregoing, the Board of Directors shall determine the terms upon which a Producer may become a signatory to the Agreement subsequent to September 30, 1988, including the percentage shares of liability payments, allocated expenses and unallocated expenses that are to be attributed to such Producer. In so doing, the Board of Directors shall consider all relevant factors, including: (i) what the shares would have been had the Producer become a signatory to the Agreement prior to September 30, 1988; (ii) the degree of risk of additional liability or expense that the Producer would bring to the Center; (iii) the impact of such Producer's participation on the percentage shares of other Participating Producers; and (iv) the appropriateness of a minimum share.

### XIII. MODIFICATION AND TERM

1. The Agreement, including Attachment A hereto, is the entire agreement between and among the Participating Producers for the administration, defense, payment and disposition of

asbestos-related claims. All antecedent or contemporaneous extrinsic representations, warranties or collateral provisions concerning the negotiation and preparation of the Agreement or Attachment A hereto are intended to be discharged and nullified. In any dispute involving the Agreement or Attachment A hereto, no person shall introduce evidence of or seek to compel testimony concerning any oral or written communication made prior to September 30, 1988, with respect to the negotiation and preparation of the Agreement or Attachment A hereto. Nothing in this Paragraph applies to the Insurer Agreement, the Wellington Agreement, the Agreement Concerning Asbestos Claims Facility dated June 15, 1988, or the Agreement Concerning the Insurance Defense Program between certain Supporting Insurers and GAF Corporation and Keene Corporation.

2. Nothing in the Agreement shall have the effect of relieving any Supporting Insurer or Participating Producer of any obligation under the Wellington Agreement that survives dissolution or termination of the Asbestos Claims Facility, including insurance-related obligations; provided, that as to Supporting Insurers, the Insurance Defense Program provided for in Section XII and

Appendix E to the Wellington Agreement ("IDP") and all rights thereunder with respect to allocated expenses incurred after October 3, 1988, shall terminate as of that date.

3. Any modifications to the Agreement or Attachment A hereto may be made only by mutual agreement of all Participating Producers and in writing.
4. The Agreement and Attachment A hereto shall have perpetual existence, notwithstanding the failure or invalidation of any particular provision.

#### XIV. WAIVERS, ADR AND CHOICE OF LAW

1. So long as it is a member of the Center each Participating Producer shall forego all claims for contribution or indemnity (other than for contribution or indemnity assumed under written agreement) against all other Participating Producers that are members of the Center.
2. Each Participating Producer waives, as to the Center and all other Participating Producers, any claims for conflict of interest that may arise from the representation of it or the Center in connection with the handling or defense of asbestos-related claims hereunder during the period of such Participating Producer's membership in the Center by i) any Center liaison counsel, ii) joint or special counsel or iii) employees of the Center or of any Participating Producer.



3. All disputes concerning the validity, interpretation and application of the Agreement or any provision thereof, and all disputes concerning issues within the scope of the Agreement shall be resolved through alternative dispute resolution (ADR) in the manner set forth in Appendix C to the Wellington Agreement; provided, that the Center for Public Resources, rather than the Asbestos Claims Facility, shall be requested to administer any alternative dispute resolution and the parties thereto shall share, on an equal basis and pending final resolution, any of the fees or expenses of the Center for Public Resources. All such disputes shall be determined in accordance with applicable common law of the states of the United States.

#### XV. SIGNATURE

The Agreement may be executed in any number of counter-parts and by different signatories hereto in separate counter-parts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Each Participating Producer shall send one executed counterpart of the Agreement to a depository to be established and maintained by the Center.

IN WITNESS WHEREOF, the person named below has caused this Agreement to be

signed by its authorized representative on this 28 day of September ,  
1988. -----

Name: Armstrong World Industries, Inc.  
-----

By: /s/ Larry A. Pulkrabek  
-----

Title: Vice President,  
Secretary and General Counsel  
-----

Signed, sealed and delivered this 28th day of September , 1988, in the presence of

/s/ A. Earl Mays ,  
-----  
*Witness to the signature of the above-named  
person.*

## ATTACHMENT A

### Apportionment of Center Payments and Expenses

All Liability Payments, Allocated Expenses, and Unallocated Expenses shall be apportioned among Participating Producers based on the individual Participating Producer shares established as provided in this Section (the "Participating Producer Shares").

#### A. Initial Producer Shares

The Participating Producer Shares for Participating Producers as of September 30, 1988, shall be as provided in this Section A until changed pursuant to the provisions of Section B. Participating Producer Shares for Producers becoming Participating Producers subsequent to September 30, 1988, shall be as determined pursuant to Section XII of the Agreement.

#### 1. Liability Payment Shares

Any Liability Payment shall be apportioned among the Participating Producers based on individual Participating Producer Shares established as provided herein (the "Liability Payment Shares").

a. Period I Claims. For any Asbestos-Related Claims filed or brought on or before September 30, 1983 (the "Period I Claims"), the Liability Payment Share for each Participating Producer will be the liability share (determined pursuant to

Appendix A-1 of the Agreement Concerning Asbestos-Related Claims dated May 29, 1985) that each Participating Producer had in the Asbestos Claims Facility as of September 1, 1987, adjusted upward pro rata to reflect the absence of the liability shares of those Producers who were members of the Asbestos Claims Facility but are not members of the Center as of September 30, 1988.

b. Period II & III Claims. For any Asbestos-Related Claims filed or brought during the period October 1, 1983, through June 19, 1986 (the "Period II & III Claims"), the Liability Payment Share for each Participating Producer will be computed as provided in this paragraph A.1.b. For Participating Producers that became members of the Asbestos Claims Facility pursuant to Section H of Appendix A-1 of the Agreement Concerning Asbestos-Related Claims dated May 29, 1985 (the "New Entrants"), their Liability Payment Shares will be their respective liability shares as negotiated pursuant to that Section H, with appropriate adjustments to reflect the absence of the liability shares for Period II & III Claims of those Producers who were members of the Asbestos Claims Facility but are not members of the Center as of September 30, 1988. For all other Participating Producers, the Liability Payment Share for each Participating Producer will be computed as follows:

(i) All such claims will be placed in one of twelve occupational categories (the "Twelve Occupational Categories")

using the Guidelines for Occupational Categories attached hereto as Exhibit 1. These Twelve Occupational Categories will then be grouped into four occupational groupings (the "Four Occupational Groupings") as shown below.

Twelve ----- Occupational Categories -----	Four ---- Occupational Groupings -----
Shipyard	Shipyard
Insulator	Insulator
Construction Plasterer/Spray Sheetmetal	Construction
Bystander/Secondary Exposure Friction Maintenance/Repair/Cleaner Manufacturing Other Plantworker Railroad	All Other

A determination will then be made for each Participating Producer of the number of Period II & III Claims in each of the Twelve Occupational Categories in which that Participating Producer is named as a defendant or third-party defendant or is otherwise designated in the claim as responsible for the injury (the "Claims Named for Each Participating Producer for Each Occupational Category").

(ii) All Asbestos-Related Claims closed by each Participating Producer prior to becoming a member of the Asbestos

Claims Facility will then be placed in one of the Twelve Occupational Categories using the Guidelines for Occupational Categories attached hereto as Exhibit 1. The total number of such claims in each Occupational Category for each Participating Producer will then be divided into the total amount of liability payments (including punitive damages, if any) made by that Participating Producer with respect to those claims to derive the "Average Cost Per Closed Claim" for each Participating Producer for each such Occupational Category.

(iii) For each Participating Producer, the Claims Named for each Occupational Category for that Participating Producer will then be multiplied by the Average Cost Per Closed Claim for that Occupational Category for that Participating Producer to derive that Participating Producer's Claims Named Times Average Cost for each Occupational Category.

(iv) Each Participating Producer's Claims Named Times Average Cost for the Twelve Occupational Categories will then be converted into separate occupational shares for each of the Four Occupational Groupings (the "Occupational Shares"). These shares will be used to apportion the Liability Payments with respect to Period II & III Claims falling within the corresponding Occupational Groupings.

(I) Where the Occupational Category is also an Occupational Grouping (as is the case for the "Shipyard" and

"Insulator" Occupational Categories), each Participating Producer's Claims Named Times Average Cost for the Occupational Category will be divided by the aggregate of all Participating Producers' Claims Named Times average Cost for that Occupational Category (including a factor for the New Entrants) to produce the Occupational Share for that Occupational Grouping. For any Participating Producer that would otherwise have an Occupational Share for any Occupational Grouping of less than one one-hundredth of one percent (0.01%), the Occupational Share for that Occupational Grouping for that Participating Producer will be one one-hundredth of one percent (0.01%).

(II) Where the Occupational Grouping is made up of several Occupational Categories (as is the case for the "Construction" and "All Other" Occupational Groupings), each Participating Producer's Claims Named Times Average Cost for each of the Occupational Categories making up the Occupational Grouping will be added together and divided by the aggregate of all Participating Producers' Claims Named Times Average Cost for those Occupational Categories (including a factor for the New Entrants) to produce the Occupational Share for that Occupational Grouping. For any Participating Producer that would otherwise have an Occupational Share for any Occupational Grouping of less than one one-hundredth of one percent (0.01%), the Occupational

Share for that Occupational Grouping for that Participating Producer will be one one-hundredth of one percent (0.01%).

c. Period IV Claims. For any Asbestos-Related Claims filed or brought after June 19, 1986 (the "Period IV Claims"), the Liability Payment Share for each Participating Producer will be computed in the same manner as for Period II & III Claims except using Asbestos-Related Claims filed or brought during the period June 20, 1986, through June 30, 1988, rather than Period II & III Claims. These shares will be used to apportion the Liability Payments made by the Center with respect to Period IV Claims. Notwithstanding the foregoing, separate Interim Sharing Arrangements as described below will be adopted pursuant to paragraph B.5.b for Period IV Claims categorized as "Rubber" and "Steel" claims (as defined pursuant to the Guidelines for Occupational Categories attached hereto as Exhibit 1).

(i) Under the Interim Sharing Arrangement for Rubber claims, any Liability Payments with respect to those claims will be shared per capita among those Participating Producers named as a defendant, third-party defendant, or otherwise designated in the claim as responsible for the injury in more than four percent (4%) of those claims.

(ii) Under the Interim Sharing Arrangement for Steel claims, any Liability Payments made with respect to those claims will be shared among those Participating Producers named as a



defendant, third-party defendant, or otherwise designated in the claim as responsible for the injury in more than four percent (4%) of those claims, with each such Participating Producer assigned to one of three tiers as shown on the chart below based on the percentage of those claims in which it is so named or designated, and with each Participating Producer on a given tier having the same Liability Payment Shares for those claims. The Liability Payment Share for the Participating Producers on a given tier will be determined by taking the number of Participating Producers on that tier, multiplying that number by the Weighting Factor for that tier, determining what percentage that product is of the aggregate of the products of the number of Participating Producers on each tier multiplied by the Weighting Factor for each tier, and sharing the resulting percentage equally among the Participating Producers on that tier. An example follows, assuming the number of Participating Producers on each tier shown below, which was the number based on data through September 30, 1987.

Tier	# Producers On Tier	Range of % Named	Weighting Factor	Share Per Producer
1	7	More than 50%	3	10.00%
2	3	Over 20% but 50% or less	2	6.67%
3	3	Over 4% but 20% or less	1	3.33%

d. Application. The Liability Payment Shares computed pursuant to paragraphs 1.a, 1.b, and 1.c of this Section A for Period I Claims, Period II & III Claims, and Period IV Claims, respectively, shall be applied to apportion the Liability Payments with respect to those claims regardless of when those payments shall be made or when those claims shall be disposed of.

Notwithstanding the foregoing, however, if a Participating Producer shall have closed any claim prior to becoming a member of the Asbestos Claims Facility, the Center shall not apportion to that Participating Producer (and that Participating Producer shall not be obliged to pay) any portion of any Liability Payments with respect to that claim. The amount of any such payments that would otherwise have been apportioned to that Participating Producer shall be apportioned among the remaining Participating Producers in proportion to the Liability Payment Shares of those Participating Producers applicable to that claim.

e. Definitions. For purposes of the Agreement and this Attachment A, "closed claims" with respect to a Participating Producer are Asbestos-Related Claims in which that Participating Producer was named as a defendant, third-party defendant, or was otherwise designated in the claim as responsible for the injury, and of which that Participating Producer has disposed on its own behalf, whether by judgment, settlement, dismissal, or otherwise, prior to joining the Asbestos Claims Facility. "Closed claims" with respect to the Center are Asbestos-Related Claims in which at least one Participating Producer was named as a defendant, third-party defendant, or was otherwise designated in the claim as responsible for the injury and had not closed that claim as of becoming a signatory of the Agreement, but of which the Center has subsequently disposed (whether by judgment, settlement, dismissal, or otherwise). "Open claims" or "pending claims" are Asbestos-Related Claims that are not "closed" so far as the Producer or entity in question is concerned.

## 2. Allocated Expense Shares

Any Allocated Expense shall be apportioned among the Participating Producers based on individual Participating Producer Shares established as provided herein (the "Allocated Expense Shares").

a. Derivation. The Allocated Expense Share for each Participating Producer will be a single share applicable to any

Allocated Expense, computed by determining for that Participating Producer a partial Allocated Expense Share for Period I Claims, Period II & III Claims, and Period IV Claims, respectively, and by taking the weighted average of those Partial Allocated Expense Shares weighted by the total number of claims the Center has in each of those periods that were open as to the Asbestos Claim Facility as of June 30, 1988. The Partial Allocated Expense Shares for each Participating Producer will be computed as follows:

(i) For Period I Claims, the Partial Allocated Expense Share for each Participating Producer will be the allocated expense share (determined pursuant to Appendix A-1 of the Agreement Concerning Asbestos-Related Claims dated May 29, 1985) that each Participating Producer had in the Asbestos Claims Facility as of September 1, 1987, adjusted upward pro rata to reflect the absence of the allocated expense shares of those producers who were members of the Asbestos Claims Facility but are not members of the Center as of September 30, 1988.

(ii) For Period II & III Claims, the Partial Allocated Expense Share for each Participating Producer will be computed as provided in this paragraph

A.2.a(ii). For New Entrants, their Partial Allocated Expense Share will be their respective allocated expense shares as negotiated pursuant to Section H of Appendix A-1 of the Agreement Concerning Asbestos-

Related Claims dated May 29, 1985, with appropriate adjustments to reflect the absence of the allocated expense shares for Period II & III Claims of those Producers who were members of the Asbestos Claims Facility but are not members of the Center as of September 30, 1988. For all other Participating Producers, the partial Allocated Expense Share for each Participating Producer will be computed by taking the number of Period II & III Claims in which that Participating Producer is named as a defendant, a third-party defendant, or is otherwise designated in the claim as responsible for the injury, and dividing it by the aggregate of the number of such claims for all Participating Producers (including a factor the New Entrants).

(iii) For Period IV Claims, the Partial Allocated Expense Share for each Participating Producer will be computed in the same manner as for Period II & III Claims except using Asbestos-Related Claims filed or brought during the period June 20, 1986, through June 30, 1988, rather than Period II & III Claims.

b. Application. The Allocated Expense Shares computed pursuant to paragraph 2.a of this Section A shall be applied to apportion the Allocated Expenses regardless of when those expenses are incurred.

### 3. Unallocated Expense Shares

Any Unallocated Expense for which the Center does not receive reimbursement from any Supporting Insurer of any Participating Producer shall be apportioned among the Participating Producers based on individual Participating Producer Shares established as provided herein (the "Unallocated Expense Shares"). Each Participating Producer will be assigned to one of four tiers based on where its Partial Allocated Expense Share for Period IV Claims falls with respect to the ranges listed in the chart below. Notwithstanding the foregoing, Participating Producers otherwise on the top tier will be placed on the second tier if more than fifty percent (50%) of the insurance coverage currently being billed by the Center to Supporting Insurers of that Participating Producer (and other Insurers of that Participating Producers that are nonetheless paying on the same basis as the Supporting Insurers) is primary insurance. The aggregate Period IV Partial Allocated Expense Shares for all Participating Producers on a given tier will then be divided equally among all Participating Producers on that tier to give the Unallocated Expense Share for each Participating Producer on that tier. The Unallocated Expense Shares as thus established shall be applied to apportion the Unallocated Expenses incurred while those shares are in effect. An example follows, assuming the number of Participating Producers on each

tier shown below, which was the number based on data through September 30, 1987.

Tier -----	# Producers On Tier -----	Share Range Of Tier -----	Share Per Producer -----
1	6	More than 4%	11.97%
2	8	Over 1% but 4% or less	2.97%
3	8	Over 0.4% but 1% or less	0.53%
4	3	Less than or equal to 0.4%	0.06% or \$10,000 per year whichever is greater

#### 4. Documentation on Initial Shares

The data submitted to the Center by Participating Producers generally has been reviewed for accuracy, consistency, reasonableness, and completeness. Each Participating Producer, however, is responsible for the accuracy and integrity of the data it has submitted. No reduction in any Participating Producer's Liability Payment Share, Allocated Expense Share, or



Unallocated Expense Share shall be made in response to any error or incompleteness in that data that may come to light more than thirty (30) days after the effective date of the Agreement. Any error or incompleteness that would result in an increase in any such share shall promptly be given effect by the Center, after consultation with the Special Counsel (appointed pursuant to paragraph B.3 below), through an appropriate adjustment to the appropriate Participating Producer Share, with the same presumption of retroactive affect as contained in paragraph B.5.c(i) below. There shall be deposited with both the Center and the Special Counsel a complete list of Liability Payment Shares, Allocated Expense Shares, and Unallocated Expense Shares for all Participating Producers computed in accordance with this Section A using data through June 30, 1988. Accompanying this list shall be a computer tape containing on a claim-by- claim and aggregated basis all data required for and actually used in the computation of those shares.

B. Future Adjustment of Participating Producer Shares

1. Shares Subject to Adjustment

The Unallocated Expense Shares, the Allocated Expense Shares, and those Liability Payment Shares applicable to Period IV Claims may be adjusted in the future but only in accordance with the following provisions. Those Liability payment Shares

applicable to Period I Claims and Period II & III Claims shall not be adjusted.

## 2. Participating Producer Approval

Any adjustments pursuant to paragraph B.5 below must be approved by an affirmative vote of the Participating Producers after consideration of the recommendation of the Special Counsel (established pursuant to paragraph B.3 below) and applying the standards set out in this Section B. Any such adjustments shall not become effective before sixty (60) days after such affirmative vote. The affirmative vote must include Participating Producers representing:

a. At least fifty percent (50%) of the combined dollar contributions by all Participating Producers to the Center for all purposes during the preceding calendar year (including contributions made by Participating Producers directly or on their behalf by their respective Supporting Insurers); and

b. At least forty percent (40%) of the total number of Participating Producers.

## 3. Special Counsel

The Board of Directors of the Center shall retain the services of an independent Special Counsel to assist the Center and its Participating Producers in connection with any future adjustment in the Unallocated Expense Shares, the Allocated Expense Shares, and those Liability Payment Shares subject to

adjustment pursuant to paragraph B.1 above, and in connection with such other matters as the Board shall deem appropriate. The Special Counsel shall serve at the pleasure of the Board and shall be compensated by the Center as determined by the Board.

a. Adjustment Proposals. All proposals for adjusting the shares of any Participating Producer pursuant to paragraph B.5 below shall be submitted to the Special Counsel for its review prior to any consideration of the proposal by the Participating Producers. The Special Counsel shall provide a recommendation with respect to any such proposal prior to its consideration by the Participating Producers. In addition, the Special Counsel may develop its own proposals with respect to adjusting the shares of any Participating Producer pursuant to paragraph B.5. Such proposals shall be promptly considered by the Participating Producers pursuant to paragraph B.2 above and shall not require prior consideration or approval by the Board.

b. Data Collection. To assist in this work, the Center shall maintain information with respect to claims reported to Participating Producers, Liaison Counsel, or the Center in which a Participating Producer is named as a defendant, a third-party defendant, or is otherwise designated in the claim as responsible for the injury. This information shall include, without limitation, the following items:

(i) The Filing Date of the claim.

(ii) The Occupational Category of the claim based on the occupation or status of the person whose exposure to asbestos gave rise to the claim (hereinafter "Primary Claimant"), as determined by the Center using the Guidelines for Occupational Categories attached hereto as Exhibit 1.

(iii) The Disease Category of the claim based on the asbestos- related disease from which the Primary claimant is suffering as determined by the Center.

(iv) The Dates of Exposure of the Primary Claimant to asbestos (to the extent available and deemed appropriate).

(v) The Circumstances of such Exposure, to the extent available and deemed appropriate (such as, for workplace exposure, the duties and responsibilities of the Primary Claimant, the job site, the identity of the Primary Claimant's employer, and the degree of exposure to asbestos or asbestos- containing products).

(vi) Each Producer that is named as a defendant, third-party defendant, or is otherwise designated in the claim as responsible for the injury.

(vii) Plaintiff's counsel.

(viii) The Disposition Date (i.e. the date the claim was disposed of by the Center, whether by dismissal, settlement, judgment, or other).

(ix) The Type of Disposition (i.e. dismissal, settlement, judgment, or other).

(x) Producers Held Liable.

(xi) The Amount Paid or Owed by the Center as Liability Payments.

(xii) Such other information as may be designated by the Center or Special Counsel.

c. Reports. The Center shall provide monthly reports to the Special Counsel (at a time and in a form to be agreed upon) displaying on an aggregated basis the information specified in paragraph B.3.b with respect to:

(i) new claims reported to Participating Producers, Liaison Counsel, or the Center during the preceding month;

(ii) claims disposed of by the Center during the preceding month;

(iii) all claims reported to Participating Producers, Liaison Counsel, or the Center during Period IV as of the end of the preceding month; and

(iv) all claims pending in the Center by period (i.e., Period I

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Claims, Period II & III Claims, and Period IV Claims) as of the end of the preceding month.

d. Outside Assistance. The Special Counsel shall be given access by the Center to the information from which the reports described in paragraph B.3.c are derived (including all

information described in paragraph B.3.b. above) and to such other information as the Special Counsel shall deem necessary in order for it to perform its responsibilities under this Attachment A (all such information hereinafter referred to as the "Share Information"). The Center will perform studies and analyses of the Share Information as directed by the Special Counsel. The Special Counsel may, with the concurrence of the Board of Directors of the Center, retain an outside auditor to conduct an independent audit of the Share Information, or retain an outside consultant to perform studies and analyses of the Share Information.

#### 4. Identification of Adjustments

The Center and the Special Counsel shall monitor the reports and information obtained pursuant to paragraph B.3 above to identify any factors or trends that tend to suggest that the Participating Producer Shares subject to adjustment pursuant to paragraph B.1 may not fairly reflect the relative responsibility of Participating Producers for Liability Payments, Allocated Expenses, or Unallocated Expenses with respect to all or an identifiable category of claims. These factors or trends may include, without limitation, the following:

- a. A dramatic increase in the number of claims involving one of the existing Twelve Occupational Categories (such as, for

example, a dramatic increase in the number of cases within the "Friction" category) or a new occupational category.

b. A dramatic increase in the number of claims involving a particular occupation or status presently subsumed within one of the existing Occupational Categories (such as, for example, a dramatic increase in the number of chemical plant cases within the "Insulator" category).

c. A dramatic increase in the number of cases of a particular type within a particular state (especially if few cases of this type have previously been filed in that state or if there is little available data on the disposition of this type of case in that state).

d. A dramatic increase in the number of cases at a specific location or place (such as, for workplace exposure, a particular job site).

e. A dramatic increase in the number of cases involving a particular Disease Category (such as, for example, a dramatic increase in the "Pleural Disease" category).

f. A dramatic increase in the number of cases involving a particular disease subsumed by the Center within an existing Disease Categories (such as, for example, a dramatic increase in the number of cases involving a particular form of cancer currently classified by the Center within the "Other Cancer" category).

g. Disposition or other data indicating for a particular category of claims (whether based on occupation or status, location, disease, or some other basis) that a particular Participating Producer is not liable for those claims or that the relative responsibility among Participating Producers is significantly different from what is indicated by the Participating Producer Shares.

h. Such other factors and trends as may be identified by the Center or the Special Counsel.

5. Adjustments Subject to Participating Producer Approval

a. General. Adjustments may be made to reflect these factors and trends in the Participating Producer Shares of any Participating Producer subject to adjustment pursuant to paragraph B.1. These adjustments may include, but are not limited to, the segregation of significant and identifiable categories of Period IV Claims into "Special Claim Categories" (as described in paragraphs B.5.b and c below), the recalculation of Period IV Liability Payment Shares (as described in paragraph B.5.d below), and the subdivision of Period IV Claims by time and the application of different Participating Producer Shares for claims in each subdivision. These adjustments may also include revision of the Guidelines for Occupational Categories at Exhibit 1. All adjustments pursuant to this paragraph B.5 must be



approved by the Participating Producers pursuant to paragraph B.2 above.

b. Interim Sharing Arrangements for Special Claim Categories. Where a Special Claim Category is deemed appropriate, an "Interim Sharing Arrangement" shall be proposed for apportioning among Participating Producers any Liability Payments made by the Center with respect to claims falling within this Special Claim Category.

(i) In developing the Interim Sharing Arrangement, the following factors may be considered: (i) the relative frequency with which Participating Producers are named as defendants, third-party defendants, or are otherwise designated in the claims as responsible for the injury; (ii) any disposition data with respect to those claims; (iii) information concerning the particular products, locations, occupations, or employers involved; and (iv) such other information as the Center or the Special Counsel shall deem relevant.

(ii) The establishment of a Special Claim Category and of an Interim Sharing Arrangement for that category must be approved by the Participating Producers pursuant to paragraph B.2. above. Once approved, the Interim Sharing Arrangement shall be used to apportion all Liability Payments thereafter made with respect to claims falling within that Special Claim Category (subject, however, to the provisions of paragraph B.5.c below).

(iii) The Allocated Expenses paid in connection with cases falling within the Special Claim Category and subject to an Interim Sharing Arrangement shall be treated no differently than the Allocated Expenses paid in connection with any other claim.

c. Permanent Sharing Arrangement for Special Claim Categories. The Center shall monitor, in conjunction with Liaison Counsel and the Special Counsel, (i) relevant pretrial discovery taken in connection with claims falling within a Special Claim Category subject to an Interim Sharing Arrangement, (ii) relevant pretrial motions made in connection with such claims, (iii) disposition data with respect to such claims, and (iv) such other data as the Center or the Special Counsel shall deem relevant.

(i) Once it is concluded that the foregoing data is sufficient to permit it, a "Permanent Sharing Arrangement" will be proposed for apportioning among Participating Producers any Liability Payments or Allocated Expenses with respect to those claims. Such a Permanent Sharing Arrangement must be approved by the Participating Producers pursuant to paragraph B.2 above. Once so approved, all Liability Payments made and all Allocated Expenses incurred thereafter with respect to claims falling within that Special Claim Category shall be apportioned among Participating Producers pursuant thereto, subject to any subsequent change in the Permanent Sharing Arrangement approved

by the Participating Producers pursuant to paragraph B.2 above. In addition, it is presumed that the Permanent Sharing Arrangement shall be given retroactive effect to apportion all Liability Payments made and all Allocated Expenses incurred with respect to claims falling within that Special Claim Category from the date that Special Claim Category was first established, subject to the right of the Participating Producers to make the application of such Permanent Sharing Arrangement prospective only to Liability Payments made and/or Allocated Expenses incurred after the approval of the Permanent Sharing Arrangement if the benefit in terms of Participating Producer equity from retroactivity is deemed to be di minimis when compared to the administrative costs of doing so and other factors.

(ii) In the event that a Permanent Sharing Arrangement proposed for a Special Claim Category is rejected by the Participating Producers, all Liability Payments made by the Center with respect to claims subject to that category shall continue to be apportioned among Participating Producers pursuant to the Interim Sharing Arrangement for that category (and all allocated expenses incurred in connection with such claims shall continue to be apportioned as provided in paragraph B.5.b.(iii) above) unless and until either a Permanent Sharing Arrangement is subsequently approved by the Participating Producers for that category or the Participating Producers vote to disestablish the

Special Claim Category. Any such disestablishment shall require approval of the Participating Producers pursuant to paragraph B.2.

d. Differences in Naming Data. In the event that future claims reported to Participating Producers, Liaison Counsel, or the Center in any of the Four Occupational Groupings evidence significant differences from the claims in that grouping previously filed or brought during Period IV (excluding claims subject to Special Claim Categories) with respect to the relative frequency with which Participating Producers are named as defendants, third-party defendants, or are otherwise designated in the claim as responsible for the injury, the Center, in conjunction with the Special Counsel, shall initiate such studies and analyses as shall be deemed appropriate. The purpose of these studies shall be to determine whether these differences reflect actual differences in the relative liability or responsibility of Participating Producers for these claims. If the Special Counsel shall deem this to be the case, then, with the approval of Participating Producers pursuant to paragraph B.2, the Liability Payment Shares for Period IV Claims in that Occupational Grouping (excluding claims subject to Special Claim Categories) shall be recalculated incorporating these new claims. This recalculation shall be performed under the supervision of the Special Counsel, and the recalculated shares shall be applied

to apportion all Liability Payments thereafter made by the Center with respect to Period IV Claims falling within that Occupational Grouping (excluding claims subject to Special Claim Categories). A recalculation of Allocated Expense Shares shall not be made under this paragraph.

#### 6. Adjustments Not Subject to Participating Producer Approval

Within twenty (20) days after the end of a calendar quarter (hereinafter referred to as the "Completed Quarter"), the Partial Allocated Expense Shares for Period IV Claims shall automatically be recalculated pursuant to paragraph A.2 above by incorporating all Period IV Claims not previously reflected in those shares that have been reported to Participating Producers, Liaison Counsel, or the Center (excluding claims subject to a Permanent Sharing Arrangement). Thereafter the weighted average of the Partial Allocated Expense Shares shall be recomputed (pursuant to paragraph A.2), using the total number of open claims the Center had in the corresponding periods as of the end of the Completed Quarter, to compute new Allocated Expense Shares for all Participating Producers. The Allocated Expense Shares thus recalculated shall be used by the Center to apportion all Allocated Expenses incurred by the Center during the calendar quarter immediately following the Completed Quarter (excluding claims subject to a Permanent Sharing Arrangement). In addition,

the Unallocated Expense Shares shall also automatically be recalculated pursuant to paragraph A.3 above using the recalculated Partial Allocated Expense Shares for Period IV claims. The Unallocated Expense Shares thus recalculated shall be used by the Center to apportion all Unallocated Expenses incurred during the calendar quarter immediately following the Completed Quarter.

#### C. Punitive Damages

Punitive damage judgments shall not be apportioned among the Participating Producers according to the Allocation Expense Shares provided herein, but shall be borne by the Participating Producer against which the judgment was rendered and its Insurers.

#### D. Separate Counsel

Any Participating Producer retaining counsel to represent it separately from the Center (whether in connection with a punitive damage claim, a matter as to which it has an interest that is not shared by the other Participating Producers, or for some other reason) shall be entitled to have the cost of such separate counsel in any calendar year reimbursed by the Center as Allocated Expense (thereafter to be apportioned among all Participating Producers including the Participating Producer retaining such counsel based on the applicable Allocated Expense Shares) up to a limit to be established by the Board of Directors

for each calendar year. All other such Allocated Expense shall be billed directly to the responsible Insurer or Insurers for the Participating Producer or, in the absence of such Insurers, to the Participating Producer itself.

#### E. Alternative Dispute Resolution

Any Participating Producer that believes that application of any future adjustment in any Liability Payment Share, any Allocated Expense Share, or any Unallocated Expense Share pursuant to Section B above is inequitable as applied to its particular situation, or that the calculation of any particular share pursuant to such future adjustment has been performed inaccurately or incorrectly, may cause the matter to be presented to the Participating Producers pursuant to paragraph B.2 above and, failing receipt of satisfactory action, may take the matter to alternative dispute resolution within the Center. Such Participating Producer shall bear the burden of proof.

#### F. New Entrants and Withdrawals

Any Producer that is not a signatory to the Agreement as of September 30, 1988, may become a signatory as provided in Section XII of the Agreement. The Special Counsel shall provide such support and recommendations as the Board may request with respect to any request from any Producer to become a signatory to the Agreement, including the Liability Payment Shares, Allocated Expense Shares, and the Unallocated Expense Shares to be borne by that

Producer. In the event the Producer becomes a signatory, the corresponding shares of the other Participating Producers shall be reduced pro rata to make room for the shares of the new Participating Producer. In the event that a Participating Producer shall withdraw from membership in the Center pursuant to

Section IV of the Agreement or have its membership terminated pursuant to Paragraph 3 of Section III, the corresponding shares of the other Participating Producers shall be increased pro rata to pick up the shares of the withdrawing or terminating Participating Producer.



## Exhibit 1

### **CENTER FOR CLAIMS RESOLUTION** **GUIDELINES FOR OCCUPATIONAL CATEGORIES**

<u>Occupational Category</u>	<u>Description</u>	<u>Occupational Examples</u>
Shipyards	All claimants (including insulators) who worked in a shipyard or on board any vessel. Also includes military personnel and seamen.	Shipyards workers, shipfitter, shipwright, ship repair, ship maintenance, ship burner, marine machinist, ship scaler, rigger, shoreman, stevedore, sandblaster, military personnel, seamen, painter, welder.
Insulators	Includes all insulators, boiler workers, pipefitters, pipe covers and other related occupations (excludes insulators working in shipyards and railroads). In addition to the above, all claimants working in power plants, refineries and chemical factories are included in this category.	Insulator, insulation mechanic, installer, lagger, ripper, boiler maker, boiler repair attendant, boiler installer, boiler tender, boiler inspector, boiler cleaner, pipefitter, pipe coverer, pipelagger, steamfitter, furnace mechanics, H & AC, refinery worker, chemical worker, power plant operator, worker.
Sheetmetal	Includes sheetmetal workers.	Sheetmetal worker, sheetmetal mechanic, metal assem.
Plasterer/Spray	Individuals specifically identified with spray or as plasterers.	Plasterer, asbestos prayer, spray gun operator.
Friction	Includes auto repair, auto mechanic and anyone else with brakes exposure.	Friction, brakeliner, brake mechanic.
Maintenance/Repair/Cleaner	Individuals working in maintenance or repair, as well as those associated with schools, hospitals or municipalities.	School maintenance, repairman, custodian, building superintendent, cleaner, janitor, tank cleaner, equipment cleaner.
Bystander/Secondary Exposure	Claimants who alleges other exposure and who would not otherwise be exposed through their normal course of employment.	Secondary exposure, family, wife, exposed washing clothes, clerk, nurse, technician, estimator, storekeeper, inspector.
Other	Includes individuals who cannot be classified elsewhere.	Equipment operator, forklift operator, crane operator, fireman, guard, foreman, packer, shipper, finisher, joiner, trade combination of occupations, electronics, truck driver, bus driver, government employee.

### **Special Categories**

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**Exhibit No. 10(iii)(c)**

**DIRECTORS' RETIREMENT INCOME PLAN OF  
ARMSTRONG WORLD INDUSTRIES, INC.**

This Plan has been authorized by the Board of Directors of Armstrong World Industries, Inc. to be applicable effective on and after April 22, 1983 to pay retirement benefits to certain directors of the Company.

All benefits payable under this Plan shall be paid out of the general assets of the Company.

Article 1. Definitions

1.01 "Board of Directors" shall mean the Board of Directors of the Company.

1.02 "Committee" shall mean the Pension Committee of the Board of Directors.

1.03 "Company" shall mean Armstrong World Industries, Inc. or any successor by merger, purchase or otherwise.

1.04 "Compensation" shall mean the amount of annual retainer paid to non-employee directors as determined by the Company.

1.05 "Effective Date" shall mean April 22, 1983.

1.06 "Member" shall mean any director other than an employee member of the Board of Directors on or after the effective date of the Plan; provided, however, that no director shall be a Member if (i) the director's service on the Board of Directors commences on or after January 1, 1996, or (ii) the director was a Member prior to January 1, 1996, but has elected pursuant to Section 2.02 to discontinue participation in the Plan.

1.07 "Plan" shall mean the Directors' Retirement Income Plan of Armstrong World Industries, Inc., as described herein or as hereafter amended.

Article 2. Eligibility for Benefits

2.01 A Member must have at least six years service as a Non-Employee Member of the Board of Directors to be eligible for benefits upon attaining age 65.

2.02 Notwithstanding the provisions of Section 2.01 above, effective January 1, 1996, Members may make an irrevocable election to discontinue their participation in the Plan and waive their right to any benefit accrued under the Plan. If a Member makes this election, such Member shall be eligible to receive certain additional benefits under the Armstrong Deferred Compensation Plan, including a share award grant to replace the value of the accrued Plan benefit the director elects to forfeit under this Plan.

Article 3. Payment of Benefits

3.01 Benefits shall be payable upon the later of the first day of the month following attainment of age 65 or termination of service on the Board of Directors, either monthly in an amount equal to 1/12 of the Compensation in effect at the date of retirement or, at the discretion of the Member, quarterly in the amount of 1/4 of the Compensation in effect at the date of retirement, with the amount of such benefits subject to adjustment pursuant to Section 3.02.

3.02 Notwithstanding Section 3.01, a Member who terminates service on the Board of Directors prior to attaining age 65 may elect, in accordance with rules established by the Committee, to have benefits commence in any month following the Member's attainment of age 60 and prior to the Member's attainment of age 65, provided such election is made at least twelve months prior to the date of actual benefit commencement, except as provided in the last sentence of this Section 3.02. In the event of such early commencement, the Member's age 65 benefit shall be reduced by multiplying such benefit by one of the following factors:

- (i) 0.68, if benefits commence on or after reaching age 60 and before age 61;
- (ii) 0.73, if benefits commence on or after reaching age 61 and before age 62;
- (iii) 0.79, if benefits commence on or after reaching age 62 and before age 63;
- (iv) 0.85, if benefits commence on or after reaching age 63 and before age 64; and
- (v) 0.92, if benefits commence on or after reaching age 64 and before age 65.

Notwithstanding the first sentence of this Section 3.02, in the event a Member's election to have benefits commence prior to attainment of age 65 is not made at least twelve months prior to the date of actual benefit commencement, the Member's otherwise applicable age 65 benefit, as reduced pursuant to one of the above described factors, shall be further reduced by six percent.

3.03 Benefit payments shall continue until the earlier of the completion of a benefit payment period equal to the length of the Member's service on the Board of Directors, or the Member's death, provided however that a Director who was eligible to receive benefits for his or her lifetime and had completed six years of service on the Board of Directors, on the date immediately prior to the effective date of these amendments, shall continue to be eligible to receive such benefits.

3.04 If a Member who has left the Board of Directors is re-elected:

- (a) Any benefit being paid under this Plan will cease as of the date of re-election.
- (b) Benefit payment period upon again leaving the Board will be the sum of all periods of Board service less any period during which benefits were paid.

#### Article 4. Administration

4.01 The administration of the Plan, the exclusive power to interpret it, and the responsibility for carrying out its provisions are vested in the Committee.

4.02 The determination of the individual Members' eligibility for payments and the amount of payments shall be the responsibility of the Committee.

#### Article 5. General Provisions

5.01 In the event that the Committee shall find that a Member entitled to benefits hereunder is unable to care for his affairs because of illness or accident, the Committee may direct that any benefit payment due him, unless claim shall have been made therefor by a duly appointed legal representative, be paid to his spouse, a child, a parent or other blood relative, or to a person with whom he resides, and any such payment so made shall be a complete discharge of the liabilities of the Plan therefor.

5.02 The Company shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

5.03 Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to do shall be void, nor shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of the Member. In the event that the Committee shall find that any Member entitled to benefits hereunder has become bankrupt or has made any such attempt with respect to any such benefit, such benefit shall cease and terminate, and in that event the Board shall hold or apply the same to or for the benefit of such Member entitled to benefits.

5.04 (a) In the event that a Member shall at any time be convicted of a crime involving dishonesty or fraud on the part of such member in his relationship with the Company, all benefits which would otherwise be payable to him under the Plan shall be forfeited. Notwithstanding the foregoing, if the Company's Board of Directors or a duly constituted committee thereof, in its discretion, shall determine that the Member had no reasonable cause to believe his conduct was unlawful, then the Board of Directors may determine that such benefits shall not be forfeited.

(b) In the event that a Member becomes associated in any capacity with a business which competes with the Company, benefit payments under the Plan shall cease. Notwithstanding the foregoing, benefits shall not cease where the Member (1) owns publicly traded shares of stock of a corporation which competes with the Company, or (2)(a) acts as a consultant for, (b) has an investment in, or (c) is a Board Member of a business where (i) after the Member notifies the Company in writing in advance of his potential involvement under (2)(a), (b) or (c), the Company's Board of Directors or a duly constituted Committee thereof determines that the Member will not be in violation of the Company's Conflicts of Interest policy.

5.05 The Plan shall be constructed, regulated and administered under the laws of the Commonwealth of Pennsylvania.

5.06 The masculine pronoun shall mean the feminine wherever appropriate.

5.07 The Board of Directors may amend or discontinue the Plan at any time, provided however that if the Plan is amended in such a way that would reduce the amount of benefit payment (except as may be required pursuant to any plan arising from insolvency or bankruptcy proceedings) or discontinued, that benefits to Members who have retired under the Plan shall continue to be paid in the amount and manner (as provided under Article 3 hereof) as they were being paid at the time of amendment or discontinuance of the Plan.

As amended 1/1/96

**MANAGEMENT ACHIEVEMENT PLAN**

**PLAN TEXT**

**ADOPTED BY BOARD OF DIRECTORS**

**NOVEMBER 28, 1983**

**AS AMENDED FEBRUARY 25, 1985**

**AS AMENDED FEBRUARY 23, 1987**

**AS AMENDED NOVEMBER 30, 1987**

**AS AMENDED NOVEMBER 28, 1988**

**AS AMENDED FEBRUARY 25, 1991**

**AS AMENDED NOVEMBER 25, 1991**

**AS AMENDED NOVEMBER 30, 1992**

**AS AMENDED SEPTEMBER 27, 1993**

**AS AMENDED NOVEMBER 24, 1993**

**AS AMENDED FEBRUARY 22, 1994**

**AS AMENDED NOVEMBER 21, 1994**

**AS AMENDED DECEMBER 17, 1995**

**AS AMENDED FEBRUARY 25, 1996**

**AS AMENDED DECEMBER 16, 1996**

**ARMSTRONG WORLD INDUSTRIES, INC.**

**MANAGEMENT ACHIEVEMENT PLAN FOR KEY EXECUTIVES**

**(PLAN TEXT)**

1. Purpose

The Armstrong World Industries, Inc. (the "Company") Management Achievement Plan (the "Plan") is designed to promote the financial success of the Company by recognizing the significant contributions individual employees can make to the achievement of Company goals. Its objectives are to motivate key Company and subsidiary employees to produce outstanding results by providing the opportunity to earn financial rewards in relation to the attainment of corporate and business unit goals.

The Plan is based on the concept that the Company establishes for each participant at the beginning of the year a target incentive award based on the achievement of specific corporate and business unit goals. When the year is over, the results actually achieved will be evaluated against these goals to determine the amount, if any, of additional compensation earned by individuals participating in the Plan.

2. Administration

The Plan shall be administered by the Management Development and Compensation Committee (the "Committee") of the Board of Directors with the advice and counsel of the Chief Executive Officer of the Company. Designated subsidiary companies may adopt this Plan.

3. Eligibility

The intent of the Plan is to extend participation only to those key employees whose duties and responsibilities give them the opportunity to make a continuing material and substantial impact on the achievement of organization goals. The Chief Executive Officer will annually determine the non-officer participants and recommend officer participants to the Committee.



#### 4. Incentive Awards

- A) At the beginning of each year, the Chief Executive Officer shall present to the Committee criteria for evaluating performance against corporate and business unit goals for the purposes of determining the incentive awards which shall be paid for the year.
- B) At the same time, the Chief Executive Officer shall recommend to the Committee a target award expressed as a percentage of salary for each participant.
- C) As soon as practical following the close of each year, the Chief Executive Officer shall evaluate the levels of corporate and business unit achievement and recommend to the Committee the incentive amount earned by the participants.
- D) Absent specific Board authorization to the contrary, no awards under the corporate achievement segment of the Plan shall be authorized as to any year in which the consolidated Company results fail to achieve a minimum return on stockholders' equity of 8.5%.

5. Time of Payment Awards under this Plan shall be paid as soon as practicable after the yearly financial results have been determined.

#### 6. Miscellaneous Provisions

A) Condition of Award - Plan participants who terminate employment for reasons other than retirement, disability, death or involuntary termination not for cause prior to the completion of the Plan year are not entitled to receive any awards under this Plan. Plan participants who retire, become disabled, die or are involuntarily terminated for reasons other than cause or are reassigned to a noneligible position on or after the last workday of March may be eligible for awards on a prorated basis.

B) No Assignment or Transfer - Awards are payable only to the participant, except in the case of death or legal incapacity at the time of payment, award may be paid to his heirs, estate or legal guardian. No awards under the Plan or any rights or interests

therein shall be assignable or transferable by a participant.

C) No Rights to Awards - No employee or other person shall have any claim or right to be granted an award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or any of its subsidiaries.

D) Withholding Taxes - The Company shall have the right to deduct from all awards hereunder paid all taxes required by law to be withheld with respect to such awards.

E) Funding of Plan - The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any award under the Plan.

7. Effective Date of the Plan The effective date of the Plan shall be November 28, 1983.

**Exhibit No. 10(iii)(e)**

**RETIREMENT BENEFIT EQUITY PLAN  
OF  
ARMSTRONG WORLD INDUSTRIES, INC.**

This Retirement Benefit Equity Plan has been authorized by the Board of Directors of Armstrong World Industries, Inc. to be applicable effective on and after January 1, 1976 to pay supplemental retirement benefits to certain employees of the Company who have qualified or may qualify for benefits under the Retirement Income Plan for Employees of Armstrong World Industries, Inc.

All benefits payable under this Plan shall be paid out of the general assets of the Company, or from a trust, if any, established by the Company for the purpose of paying benefits under the Plan, the assets of which shall remain subject to the claims of judgment creditors of the Company in accordance with the provisions of any such trust.

**Article 1. Definitions**

1.01 "Board of Directors" shall mean the Board of Directors of the Company.

1.02 "Committee" shall mean the Retirement Committee as provided for in Article 4.

1.03 "Company" shall mean Armstrong World Industries, Inc. or any successor by merger, purchase or otherwise, with respect to its employees. The term Company shall also mean any other company participating in the Retirement Income Plan with respect to its employees if such Company adopts this Plan.

1.04 "Compensation" shall mean "compensation" as determined under the Retirement Income Plan without regard to limitations under Section 401(a)(17) of the Internal Revenue Code plus amounts deferred under the Armstrong Deferred Compensation Plan, if any.

1.05 "Effective Date" shall mean January 1, 1976.

1.06 "Member" shall mean any person included in the membership of the Plan as provided in Article 2.

1.07 "Plan" shall mean the Retirement Benefit Equity Plan of Armstrong World Industries, Inc. as described herein or as hereafter amended.

1.08 "Retirement Income Plan" shall mean the Retirement Income Plan for Employees of Armstrong World Industries, Inc.

**Article 2. Membership**

2.01 Every person who was a member of the Plan as in effect on December 31, 1982 shall remain a Member of the Plan on or after January 1, 1983.

2.02 Every other employee of the Company shall become a Member of the Plan on the first day of the calendar year in which:

(a) his benefit calculated under the Retirement Income Plan exceeds the allowed benefit under Section 415 of the Internal Revenue Code,

(b) his compensation exceeds the maximum allowed under Section 401(a)(17) of the Internal Revenue Code,

(c) he has compensation deferred under the terms of the Armstrong Deferred Compensation Plan, or

(d) he is a key executive designated by the Board of Directors, or its delegate, to receive credit for employment prior to his Company employment for purposes of calculating his Retirement Income Plan benefit, as provided under Section 3.01(a)(iii) of this Plan.

2.03 Membership under the Plan shall terminate if a Member's employment with the Company terminates unless at that time the Member is entitled to retirement income payments pursuant to the Retirement Income Plan.

### Article 3. Amount and Payment of Supplemental Benefits

3.01 The supplemental benefits under this Plan shall be payable by the Company only with respect to a Member who has retired, died or otherwise terminated his employment with the Company and is entitled to benefits under the Retirement Income Plan; provided, however, that the benefit under Section 3.01(a)(iii) hereof shall not be payable (and the offset under Section 3.01(c) hereof shall not be applied) with respect to a Member described in Section 2.02 (d) unless following his date of hire with the Company the Member remains employed by the Company for a period of at least 5 full years. Any such supplemental benefits shall be payable from the general assets of the Company or from a trust, if any, established by the Company for the purpose of paying benefits under the Plan, the assets of which shall remain subject to the claims of judgment creditors of the Company in accordance with the provisions of any such trust. The supplemental benefits under this Plan shall be payable under the same terms and conditions, including the same time, and to the same person as the benefits payable to or on account of a Member under the Retirement Income Plan.

The amount of any supplemental benefits payable to or on account of a Member pursuant to this Plan shall be equal to (a) minus (b) minus (c), where:

(a) is the benefit calculated under the provisions of the Retirement Income Plan, but:

(i) disregarding any reduction in the amount of benefits under the Retirement Income Plan attributable to any provision therein incorporating limitations imposed by Section 415 of the Internal Revenue Code or Section 401(a)(17) of the Internal Revenue Code;

(ii) disregarding any reduction due to compensation deferred under the Armstrong Deferred Compensation Plan;

(iii) including, for purposes of calculating Total Service under the Retirement Income Plan, years of employment for a Member described in Section 2.02(d) which precede his Company employment to the extent so designated by the Board of Directors, or its delegate, at the time such individual is designated as eligible for membership in the Plan;

(b) is the actual amount of benefits payable to or on account of the Member as calculated under the Retirement Income Plan; and

(c) is the value of the benefit (excluding the portion of such benefit attributable to employee contributions) which is payable, which has been paid or which will become payable to a Member described in Section 2.02(d) from a qualified defined benefit plan to the extent such plan takes into account the period of employment described in Section 3.01(a)(iii). In the event the Member has received, is receiving, or is scheduled to receive benefits from another such plan in any form other than a single life annuity or at a time other than when benefits commence under this Plan, the benefit to be taken into account under this paragraph (c) shall be determined by the Company based on actuarial assumptions and factors reasonably utilized under the Retirement Income Plan as of the date of

determination, or to the extent such factors or assumptions do not contemplate a particular situation which arises under this Plan, based upon the factors applied by the Pension Benefit Guaranty Corporation for purposes of determining the present value of benefit upon termination of a plan with insufficient assets.

3.02 If a Member described in Section 2.02(d) is involuntarily terminated after completing one year of service but prior to becoming vested in the Retirement Income Plan and is eligible for severance pay benefits under the Severance Pay Plan for Salaried Employees of Armstrong World Industries, Inc., the Employment Protection Plan for Salaried Employees of Armstrong World Industries, Inc., or any individual severance agreement, a supplemental benefit will be paid under this Plan. The benefit will be calculated using the guaranteed pension schedule for Salaried Employees of Armstrong World Industries, Inc., from the Retirement Income Plan multiplied by the total years of service credited for employment prior to his Company employment, as determined in Section 2.02(d), and his years of Company employment. This benefit is payable at age 62 or the Member's termination date, whichever is later, as a single life annuity.

3.03 If a Member is restored to employment with the Company after having retired, any monthly payments under the Plan shall be discontinued and, upon subsequent retirement or termination of employment with the Company, the Member's benefits under the Plan shall be recomputed in accordance with Section 3.01 and shall again become payable to such Member in accordance with the provisions of the Plan.

#### Article 4. Administration

4.01 The administration of the Plan and the responsibility for carrying out its provisions are vested in a Retirement Committee which shall be composed of the members of the Retirement Committee provided for under Article X of the Retirement Income Plan. The provisions of Article X of the Retirement Income Plan concerning powers of the Committee shall apply under this Plan. The Retirement Committee shall have the full and exclusive discretion and authority to interpret the Plan and to determine all benefits and to resolve all questions arising from the administration, interpretation, and application of Plan provisions, either by general rules or by particular decisions, including determinations as to whether a claimant is eligible for benefits, the amount, form and timing of benefits, and any other matter (including any question of fact) raised by a claimant or identified by the Retirement Committee. All decisions of the Committee shall be conclusive and binding upon all affected persons. The expenses of the Committee shall be paid directly by the Company.

#### Article 5. General Provisions

5.01 The establishment of the Plan shall not be construed as conferring any legal rights upon any person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any employee and to treat him without regard to the effect which such treatment might have upon him as a Member of the Plan. No legal or beneficial interest in any of the Company's assets is intended to be conferred by the terms of the Plan.

5.02 In the event that the Committee shall find that a Member or other person entitled to benefits hereunder is unable to care for his affairs because of illness or accident, the Committee may direct that any benefit payment due him, unless claim shall have been made therefor by a duly appointed legal representative, be paid to his spouse, a child, a parent or other blood relative, or to a person with whom he resides, and any such payment so made shall be a complete discharge of the liabilities of the Company and the Plan therefor.

5.03 The Company shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

5.04 Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to do shall be void, nor shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of the Member. In the event that the Committee shall find that any Member or other person entitled to benefits hereunder has become bankrupt or has made any such attempt with respect to any such benefit, such benefit shall cease and terminate, and in that event the Board shall hold or apply the same to or for the benefit of such Member or other person entitled to benefits.

- 5.05 (a) In the event that a Member shall at any time be convicted of a crime involving dishonesty or fraud on the part of such Member in his relationship with the Company, all benefits which would otherwise be payable to him under the Plan shall be forfeited. Notwithstanding the foregoing, if the Company's Board of Directors or a duly constituted Committee thereof, in its discretion, shall determine that the Member had no reasonable cause to believe his conduct was unlawful, then the Board of Directors may determine that such benefits shall not be forfeited.
- (b) In the event that a Member becomes associated in any capacity with a business which competes with the Company, all future benefit payments under the Plan shall cease and be forfeited. Notwithstanding the foregoing, benefits shall not cease or be forfeited merely because the Member (1) owns publicly traded shares of stock of a corporation which competes with the Company, or (2)(a) acts as a consultant for, (b) has an investment in, or (c) is a Board member of a business where (i) after the Member notifies the Company in writing in advance of his potential involvement under (2)(a), (b) or (c), the Company's Board of Directors or a duly constituted Committee thereof determines that the Member will not be in violation of the Company's Conflicts of Interest policy, or (3) becomes associated with a business which competes with the Company within two years following a "change in control" and is eligible for benefits under the Employment Protection Plan for Salaried Employees.
- (c) A "change in control" shall occur if and when (i) any person acquires "beneficial ownership" of more than 28% of the then outstanding "voting stock" of the Company and within five years thereafter, "disinterested directors" no longer constitute at least a majority of the entire Board of Directors or (ii) there shall occur a "business combination" with an "interested shareholder." For the purpose of this Section, the terms "person," "beneficial ownership," "voting stock," "disinterested directors," "business combination," and "interested shareholder" shall have the meaning given to them in Article 7 of the Company's Articles of Incorporation as in effect on May 1, 1985.

5.06 The Plan shall be constructed, regulated and administered under the laws of the Commonwealth of Pennsylvania.

5.07 The masculine pronoun shall mean the feminine wherever appropriate.

5.08 The Board of Directors may, through written resolutions adopted by the Board of Directors, amend or discontinue the Plan at any time; provided, however, that if the Plan is amended to discontinue or reduce the amount of supplemental benefit payments (except as may be required pursuant to any plan arising from insolvency or bankruptcy proceedings) (1) Members who have retired under the Plan shall continue to be paid in the amount and manner (as provided under Article 3 hereof) as they were being paid at the time of amendment or discontinuance of the Plan, and (2) future retirees under the Plan for whom supplemental benefits have been pre-funded in a trust prior to any such discontinuance or reduction in benefits shall notwithstanding the amendment be entitled upon retirement to receive such pre-funded supplemental benefits, subject, however, to any amendment or discontinuation of such pre-funded benefits made under a written employment agreement entered into between the Executive Committee and the future retiree.

In addition, the Board of Directors may by written resolution delegate to the Executive Committee of the Board of Directors this authority to amend the Plan. The Executive Committee shall amend the Plan by means of written resolution in accordance with the authorization of the Board of Directors, provided, however, that any such amendment by the Executive Committee also may be made through the terms of a written employment agreement entered into between a Member and the Executive Committee.

- 5.09 (a) Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Committee which shall respond in writing as soon as practicable.
- (b) If the claim or request is denied, the written notice of denial shall state:
- (i) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.
  - (ii) A description of any additional material or information required and an explanation of why it is necessary.
  - (iii) An explanation of the Plan's claim review procedure.
- (c) Any person whose claim or request is denied or who has not received a response within thirty (30) days may request review by notice given in writing to the Committee. The claim or request shall be reviewed by the Committee who may, but shall not be required to, grant the claimant a hearing. On review, the claimant may have representation, examine pertinent documents, and submit issues and comments in writing.
- (d) The decision on review shall normally be made within sixty (60) days. If an extension of time is required for a hearing or other special circumstances, the claimant shall be notified and the time limit shall be one hundred twenty (120) days. The decision shall be in writing and shall state the reasons and the relevant Plan provisions. All decisions on review shall be final and bind all parties concerned.

**\*AMENDED THROUGH MARCH 29, 1996**

**Exhibit No. 10(iii)(h)**

**RESTRICTED STOCK PLAN FOR NON-EMPLOYEE DIRECTORS**

Section 1. Purpose

The purpose of the Plan is to enable the Company to promote the long- term, continuing success of the Company by providing a portion of the com- pensation for nonemployee directors in shares of Common Stock pursuant to the terms of the Plan in order to attract and retain persons of outstanding com- petence to serve on its Board of Directors; to provide competitive remuneration for such services; and to directly link a portion of the nonemployee director's long-term compensation to enhancement of stock value as a further incentive to promote a shareholder value perspective throughout the Company.

Section 2. Administration

The Plan shall be administered by the Board Affairs and Governance Committee (the "Committee") of the Board. The Committee shall have responsi- bility to interpret conclusively provisions of the Plan and to decide all questions of fact arising in its application. Determinations made with respect to any individual Participant shall be made without participation by that Participant in such determination.

Section 3. Participants

Participation in the Plan is limited to persons who serve on the Board at any time while the Plan is in effect and who are not then currently "employees" of the Company (or its subsidiaries) within the meaning of the Employee Retirement Income Security Act of 1974, as amended. It is intended that all nonemployee Board members will be Participants in the Plan.

Section 4. Shares Subject to Plan

There is hereby reserved for the purpose of the Plan 100,000 shares of Common Stock which may be either authorized and unissued shares or treasury shares. The number of shares reserved pursuant to this Section 4 shall be subject to adjustment as provided in Section 7.2 of the Plan. In the event any shares issued pursuant to a restricted stock Award under the Plan are forfeited for any reason, such shares shall again be available for issuance pursuant to other restricted stock Awards under the Plan.

Section 5. Awards

Upon the effective date of the Plan, each Participant in the Plan shall receive an Award of 200 restricted shares of the Common Stock. Furthermore, upon the initial election of a director to the Board, whether at an annual election or to fill a vacancy, an award consisting of 200 restricted shares of the Common Stock shall be made to such director. Additional Awards of restricted shares of Common Stock will be made to each Participant in the Plan, who continues on the Board, each year effective as of July 1st of such year in the following amounts:

Years	Amount
-----	-----
1995-1996	200
1997-1998	300
1999-2000	400
2001 and thereafter	500



## Section 6. Terms of the Awards

### 6.1 Registration

Each Award of restricted shares of Common Stock under the Plan shall be immediately registered on the transfer ledgers of the Company in the name of the Participant who receives the Award, subject to the other terms and conditions set forth in this Section 6.

### 6.2 Dividends

Each Participant shall have the right to receive all dividends and other distributions made with respect to restricted shares of Common Stock registered in his or her name, unless and until such shares are forfeited pursuant to the provisions of the Plan.

### 6.3 Voting Rights

Each Participant shall have the right to vote or execute proxies with respect to restricted shares of Common Stock registered in his or her name, unless and until such shares are forfeited pursuant to the provisions of the Plan.

### 6.4 Possession, Issuance and Delivery

Possession of the certificate representing restricted shares of Common Stock shall be retained by the Treasurer of the Company for the benefit of each Participant, but subject to the terms and conditions of the Plan, until the provisions of the Plan relating to removal of the restrictions have been satisfied as to particular restricted shares of Common Stock. Thereupon, the Treasurer of the Company shall promptly deliver the certificates for such shares to the Participant. Notwithstanding any other provision of the Plan, the issuance or delivery of any shares of Common Stock may be postponed for such period as may be required to comply with any applicable requirements of any national securities exchange or any requirements under any other law or regulation applicable to the issuance or delivery of such shares. The Company shall not be obligated to issue or deliver any such shares if the issuance or delivery thereof shall constitute a violation of any provision of any law or of any regulation of any governmental authority or any national securities exchange.

### 6.5 Transfer Restrictions

The shares of Common Stock awarded pursuant to the Plan may not be sold, assigned, pledged or otherwise transferred or encumbered by the Participant, unless and until the provisions of the Plan relating to removal of restrictions have been satisfied. Thereafter, a Participant may transfer or encumber such shares of Common Stock free from any restrictions under the Plan.

### 6.6 Removal of Restrictions

All of the shares of Common Stock issued pursuant to the Plan shall become free of the restrictions imposed by this Section 6 and shall become nonforfeitable upon the earliest to occur of the following:

- (a) the Participant's death or Disability while serving as a member of the Board;
- (b) failure of the Participant to be reelected to the Board after being duly nominated;
- (c) retirement from the Board after six years of Board service; or

(d) removal from the Board or failure to be duly nominated for reelection to the Board, in either event, following a Change in Control of the Company.

In the event of any other termination of Board service by a Participant, except in the case of removal from the Board or failure to be duly nominated for reelection to the Board, a portion of the shares of Common Stock issued pursuant to the Plan shall thereupon become free of the restrictions imposed by this

Section 6 and shall thereupon become nonforfeitable in accordance with the following schedule:

Full Years of Service ----- From Date of Initial Award ----- To Participant Under the Plan -----	Portion Freed of Restrictions -----
1	33%
2	66%
3	100%

For the purposes of this Section 6.6, the term "failure to be duly nominated for reelection to the Board" shall not include a failure to be nominated that results from a notification to the Company of the Participant's intention not to stand for reelection to the Board.

### 6.7 Forfeiture

Any termination from the Board of a Participant shall result in forfeiture of any restricted shares of Common Stock from which the restrictions have not been or are not thereby removed pursuant to Section 6.6. All forfeited shares of Common Stock shall revert to the Treasury of the Company.

## Section 7. General Provisions

### 7.1 Definitions

The capitalized terms as used in the Plan shall have the meaning set forth in this Section 7.1.

(a) Award - Each grant of shares to each Participant.

(b) Board - The Board of Directors of the Company.

(c) Change in Control - If, within the previous five years, any "person" acquired "beneficial ownership" of 28% or more of the then outstanding "voting stock" of the Company or there has been a "business combination" with an "interested shareholder" that has not been approved by a majority of "disinterested directors." For the purpose of this subsection, the terms "person," "beneficial ownership," "voting stock," "disinterested director," "business combination," and "interested shareholder" shall have the meaning given to them in Article 7 of the Company's Articles of Incorporation as in effect on May 1, 1985.

(d) Common Stock - Common Stock of the Company of the par value of \$1.00 per share.

(e) Company - Armstrong World Industries, Inc.

(f) Disability - A medically determinable physical or mental impairment which renders a Participant substantially unable to function as a member of the Board.

(g) Participant - Each director of the Board as described in Section 3 of the Plan.

(h) Plan - The Restricted Stock Plan for Nonemployee Directors.

(i) Retirement - Termination of status as a director pursuant to a written declaration by the director delivered to the Chairman of the Board; provided, that if such declaration is made (i) by a director who has not yet reached age 62 and

(ii) in the year in which the director's term is scheduled to expire, it must be received by the Chairman of the Board prior to the Board's receipt of the Committee's recommendations regarding persons to be nominated (or renominated) for election as a director at the next annual meeting of shareholders.

#### 7.2 Adjustment in Number of Shares

The number of shares of Common Stock specified in Section 4 to be reserved for the purposes of the Plan, and the number of shares of Common Stock specified in Section 5 to be included in the Awards to Participants, and the class of shares subject to the Plan shall be adjusted by the Board at such time and in such manner as the Board, in its discretion, may determine to be appropriate to give effect to any subdivision or combination of the outstanding shares of Common Stock into a greater or lesser number of shares, stock dividend, reclassification of shares, reorganization, merger, consolidation, exchange of shares, change in par value, or other change in the capitalization.

#### 7.3 Amendment and Discontinuance

The Company reserves the right to amend, modify, suspend or terminate the Plan at any time by action of the Board, provided that such action shall not adversely affect any Participant's rights under the provisions of the Plan with respect to Awards which were made prior to such action, and further provided that any change in the definition of Participant under the Plan or in the number of shares available for grant under the Plan will be subject to the approval of the shareholders of the Company.

#### 7.4 Effective Date and Duration

The Plan shall become effective June 25, 1990, subject to the subsequent approval of the shareholders of the Company. The Plan shall remain in effect until the earlier of the grant of all shares of Common Stock reserved for Awards under the Plan or the discontinuance of the Plan under Section 7.3.

As amended 12/16/96

**Exhibit No. 10(iii)(I)**

**INDEMNIFICATION AGREEMENT**

This Agreement is made effective as of the \_\_\_ day of \_\_\_\_\_, 19\_\_\_, by and between Armstrong World Industries, Inc., a Pennsylvania corporation (the "Corporation") and XXXXXXXXXXXXXXXXXXXX (the "Indemnitee"), a director of the Corporation.

WHEREAS, it is essential that the Corporation retain and attract as directors and officers the most capable persons available; and

WHEREAS, Indemnitee is a member of the Board of Directors of the Corporation and in that capacity is performing a valuable service for the Corporation; and

WHEREAS, the Corporation has purchased and maintained policies of Directors and Officers Liability Insurance ("D & O Insurance") covering certain liabilities which may be incurred by its directors and officers in their performance of services for the Corporation; and

WHEREAS, developments with respect to the terms, renewal, and availability of D & O Insurance have raised questions concerning the continued adequacy and reliability of the protection available to corporate directors and officers; and

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

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to enhance Indemnitee's

continued service to the Corporation in an effective manner, the increasing difficulty in obtaining satisfactory D & O Insurance coverage, and Indemnitee's reliance on the Bylaws, and in part to provide Indemnitee with specific contractual assurance that the protection promised by the Bylaws will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Bylaws or any change in the composition of the Corporation's Board of Directors or acquisition transaction relating to the Corporation), the Corporation wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of indemnitee under the Corporation's D & O Insurance policies.

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

1. Indemnity of Indemnitee.

(a) The Corporation shall hold harmless and indemnify the Indemnitee against any and all reasonable expenses, including attorneys' fees, and any and all liability and loss, including judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement, incurred or paid by Indemnitee in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter "a proceeding") and whether or not by or in the right of the Corporation or otherwise, to which the Indemnitee is, was or at any time becomes a party, or is threatened to be made a party or is involved (as a witness or otherwise) by reason of the fact that Indemnitee is or was a

director or officer of the Corporation or is or was serving at the request of the Corporation as director, officer, trustee or representative of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity, or in any other capacity while serving, as a director, officer, trustee or representative, unless the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness; provided, however, that the Corporation shall indemnify the Indemnitee in connection with a proceeding (or part thereof) initiated by the Indemnitee (other than a proceeding to enforce the Indemnitee's rights to indemnification under this Agreement or otherwise) prior to a Change of Control, as defined in Section 2(d), only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(b) Subject to the foregoing limitation concerning certain proceedings initiated by the Indemnitee prior to a Change of Control, the Corporation shall pay the expenses (including attorneys' fees) incurred by Indemnitee in connection with any proceeding in advance of the final disposition thereof promptly after receipt by the Corporation of a request therefor stating in reasonable detail the expenses incurred or to be incurred.

(c) If a claim under paragraph (a) or (b) of this section is not paid in full by the Corporation within forty-five (45) days after a written claim has been received by the Corporation, the Indemnitee may, at any time thereafter, bring suit against the Corporation to recover the unpaid amount of

the claim. The burden of proving that indemnification or advances are not appropriate shall be on the Corporation. The Indemnitee shall also be entitled to be paid the expenses of prosecuting such claim to the extent he or she is successful in whole or in part on the merits or otherwise in establishing his or her right to indemnification or to the advancement of expenses. The Corporation shall pay such fees and expenses in advance of the final disposition of such action on the terms and conditions set forth in Section 1(b).

2. Maintenance of Insurance and Funding.

(a) The Corporation represents that as of \_\_\_\_\_, 19\_\_, it had in force and effect the following policies of D & O Insurance (the "Insurance Policies"):

Insurer -----	Amount* -----
------------------	------------------

\*Deductible zero where Company not permitted/required to indemnify; otherwise \$2 million.

Subject only to the provisions of Section 2(b) hereof, the Corporation agrees that, so long as Indemnitee shall continue to serve as an officer or director of the Corporation (or shall continue at the request of the Corporation to serve as a director, officer, trustee or representative of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan) and thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or

investigative, by reason of the fact that Indemnitee was a director or officer of the Corporation (or served in any of said other capacities), the Corporation shall purchase and maintain in effect for the benefit of Indemnitee one or more valid, binding and enforceable policy or policies of D & 0 Insurance providing coverage at least comparable to that provided pursuant to the Insurance Policies.

(b) The Corporation shall not be required to maintain said policy or policies of D & 0 Insurance in effect if, in the reasonable business judgment of the then directors of the Corporation (i) the premium cost for such insurance is substantially disproportionate to the amount of coverage, (ii) the coverage provided by such insurance is so limited by exclusions that there is insufficient benefit from such insurance or (iii) said insurance is not otherwise reasonably available; provided however, that in the event the then directors make such a judgment, the Corporation shall purchase and maintain in force a policy or policies of D & 0 Insurance in the amount and with such coverage as the then directors determine to be reasonably available. Notwithstanding the general provisions of this Section 2(b), following a Change of Control, any decision not to maintain any policy or policies of D & 0 Insurance or to reduce the amount or coverage under any such policy or policies shall be effective only if there are "disinterested directors" (as defined in Section 2(d) hereof) and shall require the concurrence of a majority of the "disinterested directors."

(c) If and to the extent the Corporation, acting under Section 2(b), does not purchase and maintain in effect the policy or policies of D & 0



Insurance described in Section 2(a), the Corporation shall indemnify and hold harmless the Indemnitee to the full extent of the coverage which would otherwise have been provided by such policies. The rights of the Indemnitee hereunder shall be in addition to all other rights of Indemnitee under the remaining provisions of this Agreement.

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

The terms of the Trust shall provide that upon a Change of Control (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the Trust shall advance, within two business days of a request by the Indemnitee, any and all expenses, including attorneys' fees, to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Trustee under Section 5 of this Agreement), (iii) the Trust shall continue to be funded by the Corporation in accordance with the funding obligation set forth above, (iv) the Trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (v) all unexpended funds in such Trust shall revert to the Corporation upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be a bank or trust company or other individual or entity chosen by the Indemnitee and acceptable and approved of by the Corporation.

(e) For the purposes of this Agreement:

(i) a "Change of Control" shall occur if and when (A) any person acquires "beneficial ownership" of more than 28% of the then outstanding "voting stock" of the Company and within five years thereafter, "disinterested directors" no longer constitute at least a majority of the entire Board of Directors or (B) there shall occur a "business combination"

with an "interested shareholder" not approved by a majority of the "disinterested directors".

(ii) a "Potential Change of Control" shall occur if (A) the Corporation enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in Control; (B) any person publicly announces a tender offer or comparable action which if consummated would constitute a Change of Control; (C) any person (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation acting in such capacity or a corporation owned, directly or indirectly, by the shareholders of the Corporation in substantially the same proportions as their ownership of stock of the Corporation), who is or becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 10% or more of the combined voting stock increases his beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (D) the Board adopts a resolution to the effect that, for the purposes of this Agreement, a Potential Change of Control has occurred.

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

For purposes of this subsection, the terms "person," "beneficial ownership," "voting stock," "disinterested director," "business combination," and "interested shareholder" shall have the meaning given to them in Article 7 of the Company's Articles of Incorporation as in effect on May 1, 1985.

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

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

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

(b) Except as otherwise provided below, the Corporation may assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee. After the Corporation notifies the Indemnitee of its election to so assume the defense, the Corporation will not be liable to the Indemnitee under this Agreement for any legal or other expenses subsequently incurred by the Indemnitee in connection with the defense, other than reasonable costs of investigation, including an investigation in connection with determining whether there exists a conflict of interest of the type described in (ii) of this paragraph, or as otherwise provided in this paragraph. The Indemnitee shall have the right to employ his or her counsel in such action, suit or proceeding but the fees and expenses of such counsel incurred after the Corporation notifies the Indemnitee of its assumption of the defense shall be at the expense of the Indemnitee unless (i) the Corporation authorizes the Indemnitee's employment of counsel which, following a "Change of Control", shall be effective if authorized by a majority of the "disinterested directors" (which terms are defined in

Section 2(d)), although less than a quorum or majority of a quorum of the directors then in office; (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and the Indemnitee in the conduct of the defense or (iii) the Corporation shall not have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Corporation. The Corporation shall not

be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Corporation or as to which the Indemnitee shall have made the conclusion described in (ii) of this paragraph.

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

5. Undertaking to Repay Expenses. In the event it shall ultimately be determined that the Indemnitee is not entitled to be indemnified for the expenses paid by the Corporation pursuant to Section 1(b) hereof or otherwise or was not entitled to be fully indemnified, the Indemnitee shall repay to the Corporation such amount of the expenses or the appropriate portion thereof, so paid or advanced.

6. Notice. Any notice to the Corporation shall be directed to Armstrong World Industries, Inc., Liberty and Charlotte Streets, Lancaster, Pennsylvania 17603 Attention: Secretary (or such other address as the Corporation shall designate in writing to the Indemnitee).

7. Enforcement. In the event the Indemnitee is required to bring any

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

#### 8. Severability.

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

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

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

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

The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled

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

10. Miscellaneous:

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

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

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



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

**ARMSTRONG WORLD INDUSTRIES, INC.**

By

Title: Chairman and CEO

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**Indemnitee**

**ATTACHMENT TO EXHIBIT**

The Company has entered into Indemnification Agreements substantially similar to the attached Form of Indemnification Agreement with each of the following nonemployee directors of the Company:

H. Jesse Arnelle  
Van C. Campbell  
Donald C. Clark  
James E. Marley  
J. Phillip Samper

Jerre L. Stead

**Exhibit No. 21**

**EXHIBIT NO.21**  
(as of January 1997)

Domestic Subsidiaries - -----	Jurisdiction of Incorporation -----
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 (India) Inc.	Nevada
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 Company (Shanghai)Ltd.	China
Armstrong Building Products G.m.b.H.	Germany
Armstrong Building Products S.A.	France
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 Industrial Specialties G.m.b.H.	Germany
Armstrong Industrial Specialties International, SARL	France
Armstrong Industrial Specialties Ltd.	England
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 G.m.b.H.	Germany

Armstrong Insulation Products S.A.	Spain
Armstrong Insulation Products S.A.	France
Armstrong Insulation Products Sp. zo.o.	Poland
Armstrong Insulation Rus.	Russia
Armstrong (Japan) K.K.	Japan
Armstrong Metal Ceilings Ltd.	England
Armstrong-Nyles Pty. Ltd.	Australia
Armstrong (Singapore) Pte. Ltd.	Singapore
Armstrong Textile Products G.m.b.H.	Germany
Armstrong (U.K.) Investments	England
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 do Brasil Ltda.	Brazil
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 Pty. Ltd.	Australia
Armstrong World Industries (Thailand) Ltd.	Thailand
Inarco Limited (40%-owned affiliate)	India
ISA Co., Ltd. (25%-owned affiliate)	Japan
Liberty Commercial Services Ltd.	Bermuda
Worthington Armstrong Metal Products Co. (Shanghai) Ltd. (owned by WAVE)	People's Republic of China
Worthington Armstrong Venture Europe S.A. (owned by WAVE)	France

**Exhibit No. 23**

**Consent of Independent Auditors**

The Board of Directors  
Armstrong World Industries, Inc.:

We consent to incorporation by reference in Registration Statement Nos. 33-38837 and 333-6333 on Form S-3 and the Registration Statement Nos. 2-50942, 2-77936, 2-91890, 33-18996, 33-60070, 33-18998, and 33-29768 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 14, 1997, relating to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 1996 and 1995 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, 1996, which report is included herein.

**KPMG Peat Marwick LLP**

Philadelphia, Pennsylvania  
March 24, 1997

**Exhibit No. 24**

**POWER OF ATTORNEY**

Re: 1996 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, 1996, 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, 1997**

(Exhibit No. 24)

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, 1997, and the power by E. Allen Deaver appoints George A. Lorch only as his agent:

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
Donald C. Clark	Director
E. Allen Deaver	Director
James E. Marley	Director
J. Phillip Samper	Director
Jerre L. Stead	Director

(Exhibit No. 24)

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 24th day of February, 1997, 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 1996 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 1996 annual report on Form 10-K by George A. Lorch, Frank A. Riddick, III, and Bruce A. Leech, Jr., personally or by their respective attorneys-in-fact, as principal executive officer, principal financial officer, and principal accounting officer, respectively, of the Company, is hereby authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 21 day of March, 1997.

*/s/ L. A. Pulkrabek*  
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*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, 1996, and is qualified in its entirety by reference to such financial statements.

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD END	DEC 31 1996
CASH	65
SECURITIES	0
RECEIVABLES	252
ALLOWANCES	35
INVENTORY	206
CURRENT ASSETS	565
PP&E	1,939
DEPRECIATION	975
TOTAL ASSETS	2,136
CURRENT LIABILITIES	321
BONDS	219
PREFERRED MANDATORY	214
PREFERRED	0
COMMON	0
OTHER SE	576
TOTAL LIABILITY AND EQUITY	2,136
SALES	2,156
TOTAL REVENUES	2,156
CGS	1,460
TOTAL COSTS	1,460
OTHER EXPENSES	387
LOSS PROVISION	46
INTEREST EXPENSE	23
INCOME PRETAX	240
INCOME TAX	75
INCOME CONTINUING	165
DISCONTINUED	0
EXTRAORDINARY	(9)
CHANGES	0
NET INCOME	156
EPS PRIMARY	3.76
EPS DILUTED	3.60

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, 1996

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

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4

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September 30, 1996 and 1995

Item 2. Statements of Changes in Plan Equity

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5-7

- (a) Year ended September 30, 1996  
(b) Year ended September 30, 1995  
(c) Year ended September 30, 1994

Notes to Financial Statements

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8-11

Item 3. Independent Auditors' Report

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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, 1997

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, 1996 and 1995

1996

	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)	\$4,883,660 -----	\$8,578,636 -----	\$416,000 -----	\$43,406,405 -----	\$9,386,415 -----	\$1,436,335 -----
Total assets	\$4,883,660 -----	\$8,578,636 -----	\$416,000 -----	\$43,406,405 -----	\$9,386,415 -----	\$1,436,335 -----
Plan equity	\$4,883,660 =====	\$8,578,636 =====	\$416,000 =====	\$43,406,405 =====	\$9,386,415 =====	\$1,436,335 =====

	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)	\$699,182 -----	\$105,627 -----	\$709,448 -----	\$1,906,340 -----	\$71,528,048 -----
Total assets	\$699,182 -----	\$105,627 -----	\$709,448 -----	\$1,906,340 -----	\$71,528,048 -----
Plan equity	\$699,182 =====	\$105,627 =====	\$709,448 =====	\$1,906,340 =====	\$71,528,048 =====

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)	\$5,767,464 -----	\$11,315,817 -----	\$540,741 -----	\$52,340,946 -----	\$10,507,047 -----	\$657,654 -----
Total assets	\$5,767,464 -----	\$11,315,817 -----	\$540,741 -----	\$52,340,946 -----	\$10,507,047 -----	\$657,654 -----
Plan equity	\$5,767,464 =====	\$11,315,817 =====	\$540,741 =====	\$52,340,946 =====	\$10,507,047 =====	\$657,654 =====

	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)	\$850,760 -----	\$103,847 -----	\$733,731 -----	\$2,381,480 -----	\$85,199,487 -----
Total assets	\$850,760 -----	\$103,847 -----	\$733,731 -----	\$2,381,480 -----	\$85,199,487 -----
Plan equity	\$850,760 =====	\$103,847 =====	\$733,731 =====	\$2,381,480 =====	\$85,199,487 =====

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, 1996, 1995 and 1994

	1996					
	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.
Plan equity at October 1, 1995	\$5,767,464	\$11,315,817	\$540,741	\$52,340,946	\$10,507,047	\$657,654
Increases in plan equity:						
Contributions	391,706	1,366,042	121,611	4,511,659	651,984	174,556
Dividends	175,391	2,450,944	31,527	--	284,330	156,848
Interest	11,647	27,737	2,993	3,439,151	27,919	4,912
Realized gain on investments (note 3)	1,054,113	509,001	--	--	1,338,682	53,313
Loan activity, net	(43,609)	(114,351)	(24,188)	(54,773)	40,571	3,277
	1,589,248	4,239,373	131,943	7,896,037	2,343,486	392,906
Decreases in plan equity:						
Unrealized appreciation (depreciation) of investments	(105,009)	(2,583,323)	--	--	(69,393)	(6,112)
Benefits paid (note 4)	(746,345)	(847,736)	(114,511)	(4,314,524)	(681,467)	(47,221)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(1,847,282)	(3,236,368)	(120,751)	(11,735,341)	(2,512,660)	(433,448)
Interfund transfers, net	225,584	(309,127)	(21,422)	(780,713)	(200,598)	872,556
	(2,473,052)	(6,976,554)	(256,684)	(16,830,578)	(3,464,118)	385,775
Plan equity at September 30, 1996	\$4,883,660	\$8,578,636	\$416,000	\$43,406,405	\$9,386,415	\$1,436,335

	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
	Plan equity at October 1, 1995	\$850,760	\$103,847	\$733,731	\$2,381,480
Increases in plan equity:					
Contributions	91,334	12,725	123,321	--	7,444,938
Dividends	33,031	5,802	11,678	--	3,149,551
Interest	2,722	112	1,989	--	3,519,182
Realized gain on investments (note 3)	33,020	934	50,214	--	3,039,277
Loan activity, net	427	(717)	(2,282)	195,645	-
	160,534	18,856	184,920	195,645	17,152,948
Decreases in plan equity:					
Unrealized appreciation (depreciation) of investments	27,374	688	44,495	--	(2,691,280)
Benefits paid (note 4)	(96,915)	(21,390)	(35,812)	--	(6,905,921)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(342,700)	(10,568)	(317,283)	(670,785)	(21,227,186)
Interfund transfers, net	100,129	14,194	99,397	--	-
	(312,112)	(17,076)	(209,203)	(670,785)	(30,824,387)
Plan equity at September 30, 1996	\$699,182	\$105,627	\$709,448	\$1,906,340	\$71,528,048

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**

	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	\$4,339,507	\$8,048,324	\$388,854	\$46,899,355	\$7,897,890	\$451,130
Increases in plan equity:						
Contributions	397,587	1,247,900	127,916	4,594,075	672,227	95,414
Dividends	129,522	40,507	31,863	--	253,220	16,793
Interest	8,584	21,711	2,991	3,359,315	22,584	2,443
Realized gain (loss) on investments (note 3)	106,949	301,571	--	--	215,259	31,229
Unrealized appreciation of investments	1,056,790	2,752,180	--	--	2,087,260	132,867
Loan activity, net	(70,980)	(114,131)	(16,042)	(296,146)	(1,984)	2,818
	-----	-----	-----	-----	-----	-----
	1,628,452	4,249,738	146,728	7,657,244	3,248,566	281,564
	-----	-----	-----	-----	-----	-----
Decreases in plan equity:						
Benefits paid (note 4)	(231,803)	(365,203)	(25,866)	(3,342,132)	(302,964)	(7,317)
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(9,970)	(34,962)	(1,150)	(43,507)	(6,126)	(3,480)
Interfund transfers, net	41,278	(582,080)	32,175	1,169,986	(330,319)	(64,243)
	-----	-----	-----	-----	-----	-----
	(200,495)	(982,245)	5,159	(2,215,653)	(639,409)	(75,040)
	-----	-----	-----	-----	-----	-----
Plan equity at September 30, 1995	\$5,767,464	\$11,315,817	\$540,741	\$52,340,946	\$10,507,047	\$657,654
	=====	=====	=====	=====	=====	=====
	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total	
Plan equity at October 1, 1994	\$665,191	\$79,890	\$813,150	\$1,899,989	\$71,483,280	
	-----	-----	-----	-----	-----	
Increases in plan equity:						
Contributions	119,337	20,887	150,368	--	7,425,711	
Dividends	25,002	3,593	22,899	--	523,399	
Interest	3,230	701	2,771	--	3,424,330	
Realized gain (loss) on investments (note 3)	(6,672)	(215)	(17,965)	--	630,156	
Unrealized appreciation of investments	52,303	6,409	62,284	--	6,150,093	
Loan activity, net	(7,583)	(5)	3,381	500,672	-	
	-----	-----	-----	-----	-----	
	185,617	31,370	223,738	500,672	18,153,689	
	-----	-----	-----	-----	-----	
Decreases in plan equity:						
Benefits paid (note 4)	(20,156)	--	(23,665)	--	(4,319,106)	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	--	--	--	(19,181)	(118,376)	
Interfund transfers, net	20,108	(7,413)	(279,492)	--	-	
	-----	-----	-----	-----	-----	
	(48)	(7,413)	(303,157)	(19,181)	(4,437,482)	
	-----	-----	-----	-----	-----	
Plan equity at September 30, 1995	\$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	"OTC" Portfolio Fd.
Plan equity at October 1, 1993	\$4,608,160	\$6,627,445	\$346,871	\$43,948,437	\$7,788,330	\$134,271
Increases in plan equity:						
Contributions	383,985	1,144,906	99,580	4,053,152	675,730	87,560
Dividends	165,531	706,720	16,055	--	222,608	11,999
Interest	7,280	18,246	3,130	3,314,709	15,090	1,412
Realized gain (loss) on investments (note 3)	179,572	41,311	--	--	438,241	(3,025)
Loan activity, net	(60,846)	(77,982)	(11,591)	(124,939)	(62,210)	(4,979)
	675,522	1,833,201	107,174	7,242,922	1,289,459	92,967
Decreases in plan equity:						
Unrealized appreciation of investments	(194,915)	(851,126)	--	--	(90,070)	(11,375)
Benefits paid (note 4)	(361,954)	(206,174)	(23,618)	(3,156,290)	(294,971)	(1,171)
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)	236,438
	(944,175)	(412,322)	(65,191)	(4,292,004)	(1,179,899)	223,892
Plan equity at September 30, 1994	\$4,339,507	\$8,048,324	\$388,854	\$46,899,355	\$7,897,890	\$451,130

	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
Plan equity at October 1, 1993	\$190	\$ --	\$97	\$1,539,245	\$64,993,046
Increases in plan equity:					
Contributions	73,860	13,085	104,853	--	6,636,711
Dividends	32,291	3,137	14,234	--	1,172,575
Interest	1,530	363	1,727	--	3,363,487
Realized gain (loss) on investments (note 3)	(5,237)	(593)	(4,889)	--	645,380
Loan activity, net	(26,984)	(13,265)	(8,847)	391,643	-
	75,460	2,727	107,078	391,643	11,818,153
Decreases in plan equity:					
Unrealized appreciation of investments	(30,988)	(2,941)	(16,454)	--	(1,197,869)
Benefits paid (note 4)	(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	625,306	80,104	745,363	--	-
	589,541	77,163	705,975	(30,899)	(5,327,919)
Plan equity at September 30, 1994	\$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.**

**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 comprised of guaranteed interest rate contracts which are fully benefit responsive; and therefore are reflected at contract value plus credited interest in the financial statements. 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.

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, 1996, there were 331 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, 1996, there were 665 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, 1996, there were 91 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, 1996, the interest rates ranged between 5.35% and 8.26%. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. At September 30, 1996, there were 1,929 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, 1996, there were 1,155 active participants in this investment fund. Common stock shares held by the fund at September 30, 1996 and 1995 were 150,484 and 189,316, 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, 1996, there were 126 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, 1996, there were 76 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, 1996, there were 18 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, 1996, there were 101 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, 1996, there were 441 loans outstanding.

The following table presents the cost and fair values of the investments in securities of the Master Trust at September 30, 1996 and 1995:

Investment	September 30, 1996		September 30, 1995	
	Cost	Fair Value	Cost	Fair Value
Commingled equity	\$ 3,063,966	\$ 4,883,660	\$ 3,842,761	\$ 5,767,464
Specialized equity	7,982,614	8,578,636	8,136,472	11,315,817
Money market	416,000	416,000	540,741	540,741
Fixed income	43,406,405	43,406,405	52,340,946	52,340,946
Armstrong stock	5,888,851	9,386,415	6,940,090	10,507,047
OTC portfolio	1,322,611	1,436,335	537,818	657,654
Asset manager	650,493	699,182	829,445	850,760
Asset manager income	101,471	105,627	100,379	103,847
Asset manager growth	619,123	709,448	687,901	733,731
Loan portfolio	1,906,340	1,906,340	2,381,480	2,381,480
	\$65,357,874	\$71,528,048	\$76,338,033	\$85,199,487

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 1996, 1995, and 1994 are presented below:

1996	Aggregate	Aggregate	Realized
	Proceeds	Cost	Gain (Loss)
Commingled equity	\$ 2,844,308	\$ 1,790,195	\$1,054,113
Specialized equity	8,058,491	7,549,490	509,001
Armstrong stock	3,660,766	2,322,084	1,338,682
OTC portfolio	1,393,457	1,340,144	53,313
Asset manager	514,737	481,717	33,020
Asset manager income	54,345	53,411	934
Asset manager growth	453,629	403,415	50,214
	\$16,979,733	\$13,940,456	\$3,039,277
	=====	=====	=====
1995			
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
	=====	=====	=====

**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES  
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

1994 ----	Aggregate ----- Proceeds	Aggregate ----- Cost	Realized ----- Gain (Loss)
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
	=====	=====	=====

**(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, 1996 and 1995 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1996. 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, 1996 and 1995 and the changes in its plan equity for each of the years in the three-year period ended September 30, 1996, 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 28, 1997

**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 28, 1997, 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, 1996 and 1995 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1996, which report is included herein.

**KPMG PEAT MARWICK LLP**

Philadelphia, Pennsylvania

March 24, 1997

**Exhibit No. 99(b)**

**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, 1996

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)



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**September 30, 1996 and 1995**

**Item 2. Statements of Changes in Plan Equity 5-7**

- (a) Year ended September 30, 1996
- (b) Year ended September 30, 1995
- (c) Year ended September 30, 1994

**Notes to Financial Statements 8-12**

**Item 3. Independent Auditors' Report 13**

**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, 1997*

*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, 1996 and 1995

1996

	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)	\$ 34,640,234	\$ 55,239,099	\$ 3,050,434	\$126,067,031	\$ 13,508,146	\$ 6,856,784
Total assets	\$ 34,640,234	\$ 55,239,099	\$ 3,050,434	\$126,067,031	\$ 13,508,146	\$ 6,856,784
Plan equity	\$ 34,640,234	\$ 55,239,099	\$ 3,050,434	\$126,067,031	\$ 13,508,146	\$ 6,856,784
	=====	=====	=====	=====	=====	=====

	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)	\$ 4,441,622	\$ 2,013,481	\$ 6,417,103	\$ 3,307,686	\$255,541,620
Total assets	\$ 4,441,622	\$ 2,013,481	\$ 6,417,103	\$ 3,307,686	\$255,541,620
Plan equity	\$ 4,441,622	\$ 2,013,481	\$ 6,417,103	\$ 3,307,686	\$255,541,620
	=====	=====	=====	=====	=====

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)	\$ 26,008,895	\$ 53,822,126	\$ 2,863,787	\$119,173,404	\$ 9,957,012	\$ 3,998,454
Total assets	\$ 26,008,895	\$ 53,822,126	\$ 2,863,787	\$119,173,404	\$ 9,957,012	\$ 3,998,454
Plan equity	\$ 26,008,895	\$ 53,822,126	\$ 2,863,787	\$119,173,404	\$ 9,957,012	\$ 3,998,454
	=====	=====	=====	=====	=====	=====

1995

	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)	\$ 4,171,934	\$ 1,465,384	\$ 5,380,158	\$ 3,408,962	\$230,250,116
Total assets	\$ 4,171,934	\$ 1,465,384	\$ 5,380,158	\$ 3,408,962	\$230,250,116
Plan equity	\$ 4,171,934	\$ 1,465,384	\$ 5,380,158	\$ 3,408,962	\$230,250,116
	=====	=====	=====	=====	=====

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, 1996, 1995 and 1994

1996

	Commingled Equity Fund	Specialized Equity Fund	Money Market Fund	Fixed Income Fund	Armstrong Stock Fund	"OTC" Portfolio Fd.
Plan equity at October 1, 1995	\$26,008,895	\$53,822,126	\$2,863,787	\$119,173,404	\$9,957,012	\$3,998,454
Increases in plan equity:						
Contributions	1,304,166	3,271,882	3,249,141	3,759,748	263,346	592,828
Dividends	824,216	10,899,654	150,409	--	274,227	676,518
Interest	30,962	73,870	5,326	7,376,774	9,598	9,354
Realized gain on investments (note 3)	1,356,135	1,682,172	--	--	598,743	173,665
Transfers (to) from other employee benefit plans (note 2)	917,764	(486,370)	(2,722,959)	5,740,701	2,510,969	54,286
Loan activity, net	(127,242)	9,945	(51,300)	199,025	30,537	30,924
	4,306,001	15,451,153	630,617	17,076,248	3,687,420	1,537,575
Decreases in plan equity:						
Unrealized appreciation (depreciation) of investments	3,201,122	(10,982,140)	--	--	733,682	49,322
Benefits paid (note 4)	(1,417,320)	(2,135,340)	(305,283)	(7,011,691)	(569,160)	(178,186)
Interfund transfers, net	2,541,536	(916,700)	(138,687)	(3,170,930)	(300,808)	1,449,619
	4,325,338	(14,034,180)	(443,970)	(10,182,621)	(136,286)	1,320,755
Plan equity at September 30, 1996	\$34,640,234	\$55,239,099	\$3,050,434	\$126,067,031	\$13,508,146	\$6,856,784

	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total
Plan equity at October 1, 1995	\$4,171,934	\$1,465,384	\$5,380,158	\$3,408,962	\$230,250,116
Increases in plan equity:					
Contributions	294,053	69,892	517,010	--	13,322,066
Dividends	149,553	92,269	77,215	--	13,144,061
Interest	6,424	3,161	8,596	--	7,524,065
Realized gain on investments (note 3)	84,274	17,013	141,202	--	4,053,204
Transfers (to) from other employee benefit plans (note 2)	41,971	256,953	(272,357)	(21,076)	6,019,882
Loan activity, net	(4,895)	11,757	(18,551)	(80,200)	--
	571,380	451,045	453,115	(101,276)	44,063,278
Decreases in plan equity:					
Unrealized appreciation (depreciation) of investments	188,800	11,409	457,253	--	(6,340,552)
Benefits paid (note 4)	(464,192)	(170,707)	(179,343)	--	(12,431,222)
Interfund transfers, net	(26,300)	256,350	305,920	--	--
	(301,692)	97,052	583,830	--	(18,771,774)
Plan equity at September 30, 1996	\$4,441,622	\$2,013,481	\$6,417,103	\$3,307,686	\$255,541,620

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 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	\$20,074,514	\$40,885,939	\$2,364,783	\$108,691,987	\$7,203,780	\$2,199,833
Increases in plan equity:						
Contributions	1,190,525	3,475,590	215,540	4,790,964	295,226	375,257
Dividends	587,101	199,906	138,766	--	245,705	96,677
Interest	33,291	67,892	8,112	7,591,186	12,946	6,544
Realized gain (loss) on investments (note 3)	662,728	1,499,516	--	--	217,271	98,150
Unrealized appreciation of investments	4,621,828	13,524,954	--	--	2,038,938	795,420
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(9,748)	158,001	6,943	58,530	25,829	41,124
Loan activity, net	(222,751)	(15,988)	(10,923)	40,829	31,056	36,106
	6,862,974	18,909,871	358,438	12,481,509	2,866,971	1,449,278
Decreases in plan equity:						
Benefits paid (note 4)	(1,149,156)	(1,965,434)	(121,127)	(5,546,200)	(207,166)	(323,260)
Interfund transfers, net	220,563	(4,008,250)	261,693	3,546,108	93,427	672,603
	(928,593)	(5,973,684)	140,566	(2,000,092)	(113,739)	349,343
Plan equity at September 30, 1995	\$26,008,895	\$53,822,126	\$2,863,787	\$119,173,404	\$9,957,012	\$3,998,454
	=====	=====	=====	=====	=====	=====
	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total	
Plan equity at October 1, 1994	\$3,488,114	\$1,766,979	\$4,767,677	\$3,159,183	\$194,602,789	
Increases in plan equity:						
Contributions	358,667	101,319	722,517	--	11,525,605	
Dividends	135,937	66,120	131,133	--	1,601,345	
Interest	6,061	1,980	10,696	--	7,738,708	
Realized gain (loss) on investments (note 3)	(41,279)	(21,983)	(21,443)	--	2,392,960	
Unrealized appreciation of investments	282,885	120,617	400,690	--	21,785,332	
Transfers (to) from other employee benefit plans of Armstrong World Industries, Inc.	(3,017)	--	--	44,668	322,330	
Loan activity, net	(29,030)	(41,574)	7,164	205,111	-	
	710,224	226,479	1,250,757	249,779	45,366,280	
Decreases in plan equity:						
Benefits paid (note 4)	(100,933)	(140,007)	(165,670)	--	(9,718,953)	
Interfund transfers, net	74,529	(388,067)	(472,606)	--	-	
	(26,404)	(528,074)	(638,276)	-	(9,718,953)	
Plan equity at September 30, 1995	\$4,171,934	\$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.
Plan equity at October 1, 1993	\$21,907,057	\$38,103,999	\$2,664,691	\$110,188,428	\$7,121,870	\$1,601,565
Increases in plan equity:						
Contributions	1,090,512	3,079,493	152,506	3,385,978	200,709	233,587
Dividends	765,667	3,849,084	81,375	--	201,625	101,625
Interest	41,595	76,371	12,314	7,807,669	5,530	6,767
Realized gain (loss) on investments (note 3)	874,833	464,049	--	--	247,166	(17,970)
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
	-----	-----	-----	-----	-----	-----
	2,751,739	7,648,153	267,405	11,308,689	682,103	381,279
	-----	-----	-----	-----	-----	-----
Decreases in plan equity:						
Unrealized appreciation (depreciation) of investments	(931,592)	(4,829,281)	--	--	52,533	(86,928)
Benefits paid (note 4)	(644,466)	(1,497,530)	(108,573)	(5,927,743)	(189,656)	(60,685)
Interfund transfers, net	(3,008,224)	1,460,598	(458,740)	(6,877,387)	(463,070)	364,602
	-----	-----	-----	-----	-----	-----
	(4,584,282)	(4,866,213)	(567,313)	(12,805,130)	(600,193)	216,989
	-----	-----	-----	-----	-----	-----
Plan equity at September 30, 1994	\$20,074,514	\$40,885,939	\$2,364,783	\$108,691,987	\$7,203,780	\$2,199,833
	=====	=====	=====	=====	=====	=====
	Asset Manager Fund	Asset Mgr. Income Fund	Asset Mgr. Growth Fund	Loan Portfolio Fund	Total	
Plan equity at October 1, 1993	\$297,227	\$85,542	\$94,578	\$3,512,435	\$185,577,392	
	-----	-----	-----	-----	-----	
Increases in plan equity:						
Contributions	266,340	90,079	536,559	--	9,035,763	
Dividends	153,211	89,541	111,463	--	5,353,591	
Interest	6,495	3,131	10,971	--	7,970,843	
Realized gain (loss) on investments (note 3)	(10,039)	(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	4,329	(68,420)	47,948	(345,107)	-	
	-----	-----	-----	-----	-----	
	420,336	90,807	692,588	(353,252)	23,889,847	
	-----	-----	-----	-----	-----	
Decreases in plan equity:						
Unrealized appreciation (depreciation) of investments	(162,610)	(68,890)	(82,171)	--	(6,108,939)	
Benefits paid (note 4)	(189,598)	(61,703)	(75,557)	--	(8,755,511)	
Interfund transfers, net	3,122,759	1,721,223	4,138,239	--	-	
	-----	-----	-----	-----	-----	
	2,770,551	1,590,630	3,980,511	-	(14,864,450)	
	-----	-----	-----	-----	-----	
Plan equity at September 30, 1994	\$3,488,114	\$1,766,979	\$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.**

**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 comprised of guaranteed interest rate contracts which are fully benefit responsive, and therefore are reflected at contract value plus credited interest in the financial statements. 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.

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)**

Plan participants did 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 required Interco to establish a savings plan for Thomasville employees comparable to those it maintains for its other employees. Interco's successor plan became effective as of April 1, 1996. The salaried Thomasville participants of the Plan were allowed to make contributions to the Plan through March 31, 1996, at which time they were given the option to transfer their account balances to the Interco plan. The following table presents the transfers made by investment type:

Commingled equity	\$1,694,425
Specialized equity	4,219,230
Money market	2,944,518
Fixed income	6,658,481
OTC portfolio	455,336
Asset manager	308,114
Asset manager income	136,902
Asset manager growth	601,858
	-----
	\$17,018,864
	=====

**(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, 1996, there were 1,505 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, 1996, there were 2,235 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, 1996, there were 393 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, 1996, the interest rates ranged between 5.35% and 8.26%. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. At September 30, 1996, there were 3,517 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, 1996, there were 2,327 active participants in this investment fund. Common stock shares held by the fund at September 30, 1996 and 1995 were 216,563 and 179,406, 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, 1996, there were 575 active participants in this investment fund.



**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES  
OF ARMSTRONG WORLD INDUSTRIES, INC.**

**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, 1996, there were 340 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, 1996, there were 114 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, 1996, there were 496 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, 1996, there were 658 loans outstanding.

The following table presents the cost and fair values of the investments in securities of the Master Trust at September 30, 1996 and 1995:

Investment	September 30, 1996		September 30, 1995	
	Cost	Fair Value	Cost	Fair Value
Commingled equity	\$22,619,668	\$34,640,234	\$17,189,451	\$26,008,895
Specialized equity	49,375,796	55,239,099	36,976,683	53,822,126
Money market	3,050,434	3,050,434	2,863,787	2,863,787
Fixed income	126,067,031	126,067,031	119,173,404	119,173,404
Armstrong stock	9,504,386	13,508,146	6,686,934	9,957,012
OTC portfolio	6,118,457	6,856,784	3,309,449	3,998,454
Asset manager	4,132,342	4,441,622	4,051,454	4,171,934
Asset manager income	1,949,750	2,013,481	1,413,062	1,465,384
Asset manager growth	5,640,506	6,417,103	5,060,814	5,380,158
Loan portfolio	3,307,686	3,307,686	3,408,962	3,408,962
	\$231,766,056	\$255,541,620	\$200,134,000	\$230,250,116

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 1996, 1995, and 1994 are presented below:

1996	Aggregate Proceeds	Aggregate Cost	Realized Gain (Loss)
Commingled equity	\$2,623,858	\$1,267,723	\$1,356,135
Specialized equity	7,504,239	5,822,067	1,682,172
Armstrong stock	1,651,243	1,052,500	598,743
OTC portfolio	1,498,007	1,324,342	173,665
Asset manager	1,784,344	1,700,070	84,274
Asset manager income	819,155	802,142	17,013
Asset manager growth	1,598,514	1,457,312	141,202
	\$17,479,360	\$13,426,156	\$4,053,204

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES  
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Notes to Financial Statements, (Continued)

1995 ----	Aggregate Proceeds -----	Aggregate Cost ----	Realized 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)
	-----	-----	-----
	\$16,321,037	\$13,928,077	\$2,392,960
	=====	=====	=====
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)
	-----	-----	-----
	\$11,630,919	\$10,111,877	\$1,519,042
	=====	=====	=====

(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.

**RETIREMENT SAVINGS PLAN FOR SALARIED EMPLOYEES  
OF ARMSTRONG WORLD INDUSTRIES, INC.  
Notes to Financial Statements, (Continued)**

(7) Subsequent Event On May 29, 1996, the Company's Board of Directors approved the restructuring of the Plan and the merger of the Plan with the Armstrong World Industries, Inc. Employee Stock Ownership Plan. The merged plan was named the Retirement Savings and Stock Ownership Plan and had an effective date of October 1, 1996.

## **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, 1996 and 1995 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1996. 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, 1996 and 1995 and the changes in its plan equity for each of the years in the three-year period ended September 30, 1996, 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 28, 1997

**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 28, 1997, relating to the statements of net assets of the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc. as of September 30, 1996 and 1995 and the related statements of changes in plan equity for each of the years in the three-year period ended September 30, 1996, which report is included herein.

**KPMG PEAT MARWICK LLP**

Philadelphia, Pennsylvania

March 24, 1997

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, 1996

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, 1996 and 1995	4
Item 2. Statements of Changes in Net Assets Available ----- for Plan Benefits ----- Years ended September 30, 1996, 1995, and 1994	5
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**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.

**ARMSTRONG WORLD INDUSTRIES, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN  
("SHARE IN SUCCESS PLAN")**

*March 25, 1997*

*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, 1996 and 1995

	1996		
	Allocated	Unallocated	Total
<b>Assets</b>			
Investment in Armstrong World Industries, Inc. (note 3)			
Preferred Stock	\$ --	\$ --	\$ --
Common Stock	94,796,070	220,658,132	315,454,202
Cash and short-term investments	664,665	2,191,796	2,856,461
Employee contributions receivable	--	330,392	330,392
Employer contributions receivable	--	3,405,019	3,405,019
Dividends receivable	--	--	--
Interest receivable	2,709	991	3,700
	-----	-----	-----
Total assets	95,463,444	226,586,331	322,049,774
	-----	-----	-----
<b>Liabilities</b>			
Guaranteed ESOP notes (note 7)	--	228,382,403	228,382,403
Accrued interest	--	5,775,128	5,775,128
	-----	-----	-----
Total liabilities	--	234,157,531	234,157,531
	-----	-----	-----
Net assets available for plan benefits	\$ 95,463,444	\$ (7,571,201)	\$ 87,892,243
	=====	=====	=====
1995			
	Allocated	Unallocated	Total
<b>Assets</b>			
Investment in Armstrong World Industries, Inc. (note 3)			
Preferred Stock	\$ 85,204,819	\$ 215,716,530	\$ 300,921,349
Common Stock	--	--	--
Cash and short-term investments	75,583	1,039,001	1,114,584
Employee contributions receivable	--	463,981	463,981
Employer contributions receivable	--	2,125,167	2,125,167
Dividends receivable	1,553,813	3,933,872	5,487,685
Interest receivable	107	1,479	1,586
	-----	-----	-----
Total assets	86,834,322	223,280,030	310,114,352
	-----	-----	-----
<b>Liabilities</b>			
Guaranteed ESOP notes (note 7)	--	240,405,403	240,405,403
Accrued interest	--	6,068,624	6,068,624
	-----	-----	-----
Total liabilities	--	246,474,027	246,474,027
	-----	-----	-----
Net assets available for plan benefits	\$ 86,834,322	\$ (23,193,997)	\$ 63,640,325
	=====	=====	=====

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, 1996, 1995 and 1994

	1996			1995		
	Allocated	Unallocated	Total	Allocated	Unallocated	Total
<b>Increases:</b>						
Employee contributions (note 1)	\$ --	\$5,033,300	\$5,033,300	\$ --	\$6,744,735	\$6,744,735
Employer contributions	--	10,071,540	10,071,540	--	5,670,971	5,670,971
Dividends (note 3)	4,133,471	10,638,900	14,772,371	4,879,273	13,984,817	18,864,090
Interest income	13,910	74,056	87,966	2,149	55,411	57,560
Realized gain (note 5)	1,401,739	--	1,401,739	202,717	--	202,717
Unrealized appreciation (note 3)	10,448,393	24,321,094	34,769,487	11,897,970	30,122,579	42,020,549
Allocation of preferred stock of Armstrong World Industries, Inc.	14,288,974	--	14,288,974	11,239,017	--	11,239,017
	30,286,487	50,138,890	80,425,377	28,221,126	56,578,513	84,799,639
<b>Decreases:</b>						
Interest expense	--	(20,227,120)	(20,227,120)	--	(21,135,170)	(21,135,170)
Benefits paid (note 4)	(21,657,365)	--	(21,657,365)	(2,907,999)	--	(2,907,999)
Allocation of preferred stock of Armstrong World Industries, Inc.	--	(14,288,974)	(14,288,974)	--	(11,239,017)	(11,239,017)
	(21,657,365)	(34,516,094)	(56,173,459)	(2,907,999)	(32,374,187)	(35,282,186)
Net increase (decrease)	8,629,122	15,622,796	24,251,918	25,313,127	24,204,326	49,517,453
<b>Net assets available for plan benefits:</b>						
Beginning of year	86,834,322	(23,193,997)	63,640,325	61,521,195	(47,398,323)	14,122,872
End of year	\$95,463,444	(\$7,571,201)	\$87,892,243	\$86,834,322	(\$23,193,997)	\$63,640,325

ARMSTRONG WORLD INDUSTRIES, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN

Statements of Changes in Net Assets Available for Plan Benefits  
Years Ended September 30, 1996, 1995 and 1994

	1994		
	Allocated	Unallocated	Total
<b>Increases:</b>			
Employee contributions (note 1)	\$ --	\$6,158,036	\$6,158,036
Employer contributions	--	4,533,805	4,533,805
Dividends (note 3)	3,942,264	15,108,800	19,051,064
Interest income	--	29,957	29,957
Realized gain (note 5)	156,242	--	156,242
Unrealized appreciation (note 3)	--	--	--
Allocation of preferred stock of Armstrong World Industries, Inc.	11,377,004	--	11,377,004
	15,475,510	25,830,598	41,306,108
<b>Decreases:</b>			
Interest expense	--	(21,807,401)	(21,807,401)
Benefits paid (note 4)	(2,508,168)	--	(2,508,168)
Allocation of preferred stock of Armstrong World Industries, Inc.	--	(11,377,004)	(11,377,004)
	(2,508,168)	(33,184,405)	(35,692,573)
Net increase (decrease)	12,967,342	(7,353,807)	5,613,535
<b>Net assets available for plan benefits:</b>			
Beginning of year	48,553,853	(40,044,516)	8,509,337
End of year	\$61,521,195	(\$47,398,323)	\$14,122,872

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.

**2. Plan Redesign**

On May 29, 1996, the Employee Stock Ownership Plan Committee of the Company's Board of Directors approved the restructuring of the Plan and the merger of the Plan into the Retirement Savings Plan for Salaried Employees of Armstrong World Industries, Inc. The merged plan was named the Retirement Savings and Stock Ownership Plan and had an effective date of October 1, 1996.

**ARMSTRONG WORLD INDUSTRIES, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN**

**Notes to Financial Statements, (Continued)**

3. 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.

As part of the restructuring of the Plan as discussed in note 2, the Company preferred stock held by the trust was converted into shares of Company common stock on a one-for-one basis. The date of the conversion, which involved 5,057,382 shares of preferred stock, was July 31, 1996, when the quoted market price per share of the common stock was \$55.50. At September 30, 1996, the investment in Company common stock represents 5,057,382 shares, valued at a quoted market price per share of \$62.375. 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. Each share of preferred stock was convertible into one share of Company common stock. A dividend of \$3.462 per share per annum was payable semi-annually on the preferred stock held in the trust. The preferred stock was 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.

4. 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, 1996, 1995 and 1994, distributions were made to participants of \$21,657,365 representing 364,624 shares, \$2,907,999 representing 57,756 shares, and \$2,508,168 representing 49,609 shares, respectively.

**ARMSTRONG WORLD INDUSTRIES, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN**

**Notes to Financial Statements, (Continued)**

**5. Realized Gain**

During the years ended September 30, 1996, 1995 and 1994, the number of shares of preferred stock redeemed at prices per share in excess of \$47.75 totaled 359,427, 30,660 and 21,012, respectively. The amount of redemption proceeds in excess of the minimum conversion value totaled \$1,401,739 in 1996, \$202,717 in 1995, and \$156,242 in 1994.

**6. 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.

**7. 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 (\$108,339,403 and \$120,362,403 at September 30, 1996 and 1995, respectively) and 8.92% on the Series B Guaranteed Serial ESOP Notes due 2001-2004 (\$120,043,000 at September 30, 1996 and 1995). The scheduled amortization of the notes for the next five fiscal years is as follows: 1997 - \$14,801,000; 1998 - \$17,908,000; 1999 - \$21,392,000; 2000 - \$25,277,000; 2001 - \$28,961,404.

**8. 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.

**9. 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, 1996 and 1995 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, 1996. 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, 1996 and 1995 and the changes in its net assets available for plan benefits for each of the years in the three-year period ended September 30, 1996, in conformity with generally accepted accounting principles.

**KPMG PEAT MARWICK LLP**

Philadelphia, Pennsylvania  
February 28, 1997

**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 28, 1997, 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, 1996 and 1995 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, 1996, which report is included herein.

**KPMG PEAT MARWICK LLP**

Philadelphia, Pennsylvania

March 24, 1997

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**End of Filing**

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