

ARMSTRONG WORLD INDUSTRIES INC

FORM 10-K (Annual Report)

Filed 03/16/99 for the Period Ending 12/31/98

Address	2500 COLUMBIA AVE LANCASTER, PA 17603
Telephone	7173970611
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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, 1998

OR

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

For the transition period from _____ to _____

Commission file number _____ 1-2116 _____

Armstrong World Industries, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

23-0366390

(State or other jurisdiction of incorporation or organization)

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

2500 Columbia Avenue, Lancaster, Pennsylvania

17603

(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)
7.45% Senior Quarterly Interest Bonds Due 2038	(a) Common Stock and Preferred Stock Purchase Rights only

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

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The aggregate market value of the Common Stock of registrant held by non-affiliates of the registrant based on the closing price (\$50.625 per share) on the New York Stock Exchange on February 19, 1999, was approximately \$1.7 billion. For 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 15, 1999, as having sole or shared voting power over 5% or more of the outstanding Common Stock of registrant as of December 31, 1998. As of February 19, 1999, the number of shares outstanding of registrant's Common Stock was 40,023,675. This amount includes the 2,898,100 shares of Common Stock as of December 31, 1998, 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 16, 1999, relative to the April 26, 1999, annual meeting of the shareholders of registrant (the "Company's 1999 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 designs, manufactures and sells interior furnishings, most notably floor coverings and ceiling systems. These products are sold primarily for use in the furnishing, refurbishing, repair, modernization and construction of residential, commercial and institutional buildings. The Company also manufactures various industrial and other products, including pipe insulation, gasket material and textile machine parts. On July 22, 1998, the Company acquired Triangle Pacific Corp. ("Triangle Pacific"). Triangle Pacific manufactures hardwood and other flooring and relevant products, as well as kitchen and bathroom cabinets. Effective August 31, 1998, the Company acquired 93 percent of DLW Aktiengesellschaft ("DLW"), a German company, which manufactures flooring and some office furniture in Europe. In 1998, the Company also sold its equity investment in Dal-Tile International Inc. ("Dal-Tile"), through which investment the Company participated in the ceramic tile market. Unless the context indicates otherwise, the term "Company" means Armstrong World Industries, Inc. and its consolidated subsidiaries.

Industry Segments

The Company's businesses include five reportable segments: floor coverings, building products, wood products, insulation products, and all other.

NATURE OF OPERATIONS

INDUSTRY SEGMENTS

----- For year ended 1998 -----						
(millions)	Floor coverings	Building products	Wood products	Insulation products	All other	Totals
Net sales to external customers	\$ 1,317.6	\$ 756.8	\$ 346.0	\$ 230.0	\$ 95.8	\$ 2,746.2
Intersegment sales	--	--	--	--	39.5	39.5
Equity (earnings) loss from affiliates	0.2	(14.2)	--	--	0.2	(13.8)
Segment operating income	176.5	116.6	38.6	46.3	9.1	387.1
Reorganization charges	53.5	10.1	--	0.2	1.9	65.7
Segment assets	1,476.7	550.1	1,355.5	174.6	80.7	3,637.6
Depreciation and amortization	63.6	39.2	15.3	12.1	7.2	137.4
Equity investment	2.2	39.6	--	--	--	41.8
Capital additions	93.6	42.5	12.4	11.3	5.9	165.7
----- For year ended 1997 -----						
(millions)	Floor coverings	Building products	Wood products	Insulation products	All other	Totals
Net sales to external customers	\$ 1,116.0	\$ 754.5	\$ --	\$ 228.4	\$ 99.8	\$ 2,198.7
Intersegment sales	--	--	--	--	35.8	35.8
Equity (earnings) loss from affiliates	0.2	(12.9)	--	--	42.4	29.7
Segment operating income (loss)	186.5	122.3	--	45.4	(2.6)	351.6
Segment assets	713.8	554.9	--	165.1	219.2	1,653.0
Depreciation and amortization	65.5	37.5	--	12.0	9.6	124.6
Equity investment	2.5	36.7	--	--	135.7	174.9
Capital additions	76.6	54.4	--	13.4	3.1	147.5
----- For year ended 1996 -----						
(millions)	Floor coverings	Building products	Wood products	Insulation products	All other	Totals
Net sales to external customers	\$ 1,091.8	\$ 718.4	\$ --	\$ 246.8	\$ 99.4	\$ 2,156.4
Intersegment sales	--	--	--	--	40.9	40.9
Equity (earnings) loss from affiliates	--	(9.1)	--	--	(10.0)	(19.1)
Segment operating income	195.4	103.4	--	42.4	11.6	352.8
Reorganization and restructuring charges	14.5	8.3	--	2.8	1.2	26.8
Segment assets	687.9	541.1	--	184.0	257.5	1,670.5
Depreciation and amortization	53.9	37.0	--	10.0	13.4	114.3
Equity investment	--	35.6	--	--	168.7	204.3
Capital additions	117.7	67.7	--	20.4	2.1	207.9

Segment information has been prepared in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." Segments were determined based on products and services provided by each segment. Accounting policies of the segments are the same as those described in the summary of significant accounting policies. Performance of the segments is evaluated on operating income before income taxes excluding reorganization and restructuring charges, unusual gains and losses, and interest expense. The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

The table below provides a reconciliation of segment information to total consolidated information.

(millions)	1998	1997	1996
Net sales:			
Total segment sales	\$ 2,746.2	\$ 2,198.7	\$ 2,156.4
Intersegment sales	39.5	35.8	40.9
Elimination of intersegment sales	(39.5)	(35.8)	(40.9)
Total consolidated sales	\$ 2,746.2	\$ 2,198.7	\$ 2,156.4
Operating income:			
Total segment operating income	\$ 387.1	\$ 351.6	\$ 352.8
Segment reorganization and restructuring charges	(65.7)	--	(26.8)
Corporate reorganization and restructuring charges	(8.9)	--	(19.7)
Flooring discoloration charge	--	--	(34.0)
Dal-Tile charge	--	(29.7)	--
Asbestos liability charge	(274.2)	--	--
Unallocated corporate (expense) income	1.6	0.1	(16.4)
Total consolidated operating income	\$ 39.9	\$ 322.0	\$ 255.9
Assets:			
Total assets for reportable segments	\$ 3,637.6	\$ 1,653.0	\$ 1,670.5
Assets not assigned to business segments	635.6	722.5	465.1
Total consolidated assets	\$ 4,273.2	\$ 2,375.5	\$ 2,135.6
Other significant items:			
Depreciation and amortization expense:			
Segment totals	\$ 137.4	\$ 124.6	\$ 114.3
Unallocated corporate depreciation and amortization expense	5.3	8.1	9.4
Total consolidated depreciation and amortization expense	\$ 142.7	\$ 132.7	\$ 123.7
Capital additions:			
Segment totals	\$ 165.7	\$ 147.5	\$ 207.9
Unallocated corporate capital additions	18.6	13.0	20.1
Total consolidated capital additions	\$ 184.3	\$ 160.5	\$ 228.0

Narrative Description of Business

The Company designs, manufactures and sells interior furnishings, including floor coverings, building products (primarily ceiling systems), wood flooring products, and 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 worldwide 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, linoleum, carpet and sports 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 commercial 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). Commercial

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. Commercial ceiling materials and accessories, along with acoustical wall panels, are sold by the Company to ceiling systems contractors and to resale distributors. Suspension ceiling systems products are manufactured and sold through a joint venture with Worthington Industries.

Wood Products

The Company, through Triangle Pacific, manufactures and sells hardwood flooring and other flooring and related products. The wood products segment also manufactures and distributes kitchen and bathroom cabinets. These products are used primarily in residential new construction and remodeling, with some commercial applications such as retail stores and restaurants. Flooring sales are generally made through independent wholesale flooring distributors and the cabinets are distributed through Company-operated distributors and directly to the end-user. The business of this segment is seasonal, with demand for its products generally the highest between the months of April and November.

Insulation Products

The Company manufactures insulation products for the technical insulation market. Insulation products are made in a wide variety of types and designs to satisfy various industrial and commercial applications with the majority of the products comprising closed cell flexible foams. A broad range of cladding and other related materials for the insulation contracting market are also produced. Insulation products are sold primarily throughout Europe and North America, with increasing markets in Asia and South America.

All Other

Other business units include the making of a variety of specialty products for the automotive, textile and other industries worldwide. Gasket materials are sold for new and replacement use in the automotive, farm equipment, appliance, small engine, compressor and other industries. Textile products include cots and aprons sold to equipment manufacturers and textile mills. Gasket and textile products are sold, depending on type and ultimate use, to original equipment manufacturers, contractors, wholesalers, fabricators and end users. Approximately one third of the total sales of this segment relate to three customers. Also, prior to the disposition of the Company's equity investment in Dal-Tile in 1998, ceramic tile for floors, walls and countertops, together with adhesives, installation and maintenance materials and accessories were sold through home centers, independent ceramic and floor covering wholesalers and sales service centers operated by Dal-Tile.

The principal raw materials used in the manufacture of the Company's products are synthetic resins, plasticizers, latex, linseed oil, limestone, cork, mineral fibers and fillers, clays, starches, perlite, rubber, films, pigments, inks, oak lumber and logs, veneer, acrylics, plywood, particleboard and fiberboard. 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 1998, adequate supplies of raw materials were available to all of the Company's industry segments.

Customers' orders for the Company's products are typically 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.

In addition, certain of the Company's trademarks, including Armstrong, Bruce, Hartco, Robbins, and DLW, are important to the Company's business because of their significant brand name recognition.

There is significant competition in all of 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.

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

The Company spent \$42.2 million in 1998, \$47.8 million in 1997, and \$55.2 million in 1996 on research and development activities worldwide for the continuing businesses.

GEOGRAPHIC AREAS

Net trade sales at December 31 (millions)	1998	1997	1996
Americas:			
United States	\$ 1,803.2	\$ 1,412.2	\$ 1,385.2
Canada	98.6	89.3	87.2
Other Americas	20.2	16.6	11.2
Total Americas	\$ 1,922.0	\$ 1,518.1	\$ 1,483.6
Europe:			
Germany	\$ 182.5	\$ 110.2	\$ 142.4
England	142.5	130.3	129.5
France	65.9	53.1	63.2
Netherlands	57.0	33.1	37.2
Other Europe	183.4	161.7	123.0
Total Europe	\$ 631.3	\$ 488.4	\$ 495.3
Pacific area and other foreign	\$ 192.9	\$ 192.2	\$ 177.5
Total net trade sales	\$ 2,746.2	\$ 2,198.7	\$ 2,156.4

Sales are attributed to countries based on location of customer.

Long-lived assets at December 31 (millions)	1998	1997	1996
Americas:			
United States	\$ 991.9	\$ 746.3	\$ 728.9
Canada	17.1	20.5	20.7
Other Americas	0.1	0.1	0.1
Total Americas	\$ 1,009.1	\$ 766.9	\$ 749.7
Europe:			
Germany	\$ 270.3	\$ 47.7	\$ 58.0
England	52.7	54.7	51.4
Netherlands	42.3	13.0	16.8
Belgium	34.5	--	--
France	15.9	15.1	17.6
Other Europe	36.0	32.6	25.5
Total Europe	\$ 451.7	\$ 163.1	\$ 169.3
Pacific area:			
China	\$ 34.0	\$ 34.0	\$ 34.9

Other Pacific area	7.2	8.2	10.1

Total Pacific area	\$ 41.2	\$ 42.2	\$ 45.0

Total long-lived assets	\$ 1,502.0	\$ 972.2	\$ 964.0

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.

ACQUISITIONS

On July 22, 1998, the Company completed its acquisition of Triangle Pacific Corp. ("Triangle Pacific"), a Delaware corporation. Triangle Pacific is a leading U.S. manufacturer of hardwood flooring and other flooring and related products and a substantial manufacturer of kitchen and bathroom cabinets. The acquisition, recorded under the purchase method of accounting, included the purchase of outstanding shares of common stock of Triangle Pacific at \$55.50 per share which, plus acquisition costs, resulted in a total purchase price of \$911.5 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of acquisition while the balance of \$831.1 million was recorded as goodwill and is being amortized over forty years on a straight-line basis.

Effective August 31, 1998, the Company acquired approximately 93% of the total share capital of DLW Aktiengesellschaft ("DLW"), a corporation organized under the laws of the Federal Republic of Germany. DLW is a leading flooring manufacturer in Germany. The acquisition, recorded under the purchase method of accounting, included the purchase of 93% of the total share capital of DLW which, plus acquisition costs resulted in a total purchase price of \$289.9 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on fair market value at the date of acquisition while the balance of \$117.2 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. In this purchase price allocation, \$49.6 million was allocated to the estimable net realizable value of DLW's furniture business and a carpet manufacturing business in the Netherlands, which the Company has identified as businesses held for sale.

The allocation of the purchase price to the businesses held for sale was determined as follows:

(millions)	1998
Estimated sales price	\$54.3
Less: Estimated cash outflows through disposal date	(2.2)
Allocated interest through disposal date	(2.5)
Total	\$49.6

The final sales price and cash flows pertaining to these businesses may differ from these amounts. Disposals of these businesses should occur in the first half of 1999.

The table below reflects the adjustment to the carrying value of the businesses held for sale relating to interest allocation, profits and cash flows in 1998.

(millions)	1998
Carrying value at August 31, 1998	\$49.6
Interest allocated September 1 - December 31, 1998	1.1
Effect of exchange rate change	2.8
Profits excluded from consolidated earnings	(0.4)
Cash flows funded by parent	2.8
Carrying value at December 31, 1998	\$55.9

The purchase price allocation for these acquisitions is preliminary and further refinements are likely to be made based on the completion of final valuation studies. The operating results of these acquired businesses have been included in the Consolidated Statements of Earnings from the dates of acquisition. Triangle Pacific's fiscal year ends on the Saturday closest to December 31, which was January 2, 1999. The difference in Triangle Pacific's fiscal year from that of the parent company was due to the difficulty in changing its financial reporting systems to accommodate a calendar year end. No events occurred between December 31 and January 2 at Triangle Pacific materially affecting the Company's financial position or results of operations.

The table below reflects unaudited pro forma combined results of the Company, Triangle Pacific and DLW as if the acquisitions had taken place at the beginning of fiscal 1998 and 1997:

(millions)	1998	1997
Net sales	\$3,479.8	\$3,350.0
Net earnings	(14.2)	173.2
Net earnings per diluted share	(0.36)	4.22

In management's opinion, these unaudited pro forma amounts are not necessarily indicative of what the actual combined results of operations might have been if the acquisitions had been effective at the beginning of fiscal 1997 and 1998.

REORGANIZATION AND OTHER ACTIONS

In 1998 the Company recognized charges of \$65.6 million, or \$42.6 million after tax, related to severance and enhanced retirement benefits for more than 650 positions, approximately 75% of which were salaried positions. In addition, the Company recorded an estimated loss of \$9.0 million, or \$5.9 million after tax, related to redundant flooring products machinery and equipment held for disposal. Reorganization actions include corporate and business unit staff reductions reflecting reorganization of engineering, research and development and product styling and design; realignment of support activities in connection with implementation of a new corporate logistics and financial software system; changes to production processes in the Company's Lancaster flooring plant; and elimination of redundant positions in formation of a new combined business organization for Floor Products, Corporate Retail Accounts and Installation Products. Approximately \$28.6 million is cash expenditures for severance which will occur over the next 12 months. The remainder is a noncash charge for enhanced retirement benefits.

A 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-downs of assets. These actions affected approximately 500 employees, about two-thirds of whom were in staff positions. The majority of the cash outflow occurred within the following 12 months. As of December 31, 1998, an immaterial amount remained in the 1996 reserve related to a non-cancelable operating lease.

Severance payments of \$10.4 million were made in 1998 for the elimination of 209 positions related to the 1996 and 1998 reorganization and restructuring actions.

EQUITY INVESTMENTS

Investments in affiliates were \$41.8 million at December 31, 1998, a decrease of \$133.1 million, reflecting the sale of the Company's ownership of Dal-Tile, somewhat offset by an increase in the Company's 50% interest in its WAVE joint venture with Worthington Industries.

Equity earnings from affiliates for 1998 primarily comprised income from a 50% interest in the WAVE joint venture and the Company's share of a net loss at Dal-Tile and amortization of the excess of the Company's investment in Dal-Tile over the underlying equity in net assets. Equity losses from affiliates in 1997 included \$8.4 million for the Company's share of operating losses incurred by Dal-Tile; a \$29.7 million loss for the Company's share of a charge incurred by Dal-Tile, primarily for uncollectible receivables and overstocked inventories; and \$4.3 million for the amortization of Armstrong's initial investment in Dal-Tile over the underlying equity in net assets. Equity earnings from affiliates for 1996 primarily comprised the Company's after-tax share of the net income of the Dal-Tile International Inc. business combination, amortization of the excess of the Company's investment in Dal-Tile over the underlying equity in net assets, and earnings from its 50% interest in the WAVE joint venture.

In 1995 the Company entered into a business combination with Dal-Tile whereby the Company exchanged cash and the stock of its ceramic tile operations, consisting primarily of American Olean Tile company, a wholly-owned subsidiary, for ownership of 37% of the shares of Dal-Tile. In August 1996, Dal-Tile issued new shares in a public offering decreasing the Company's ownership share from 37% to 33%. During 1997, the Company purchased additional shares of Dal-Tile stock, increasing the Company's ownership to 34%.

In 1996 Dal-Tile refinanced all of its existing debt and recorded an extraordinary loss. The Company's share of the extraordinary loss was \$8.9 million after tax or \$0.21 per diluted share.

In 1998 the Company announced its intention to dispose of its investment in Dal-Tile. In July the Company sold 10.35 million shares of Dal-Tile at \$8.50 per share before commission and fees. Since this sale reduced the Company's ownership of Dal-Tile below 20%, remaining shares were classified as available-for-sale under the terms of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." An unrealized holding gain arising from valuing the securities at market price was excluded from income and recognized as a separate component of shareholders' equity.

In October and November, the Company sold its remaining 8.02 million shares of Dal-Tile at \$8.50 per share before commission and fees. The Company recorded a total gain of \$12.8 million after tax, classified as "Other income," in the last half of 1998 on these sales.

ENVIRONMENTAL MATTERS

The Company incurred capital expenditures of approximately \$6.7 million in 1998, \$1.2 million in 1997 and \$3.0 million in 1996 for environmental compliance and control facilities and anticipates comparable annual expenditures for those purposes for the years 1999 and 2000. 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 ("CAA") and the final implementing regulations promulgated by various state agencies. Until all new CAA regulatory requirements are known, uncertainty will remain regarding future estimates of capital expenditures.

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 22 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 among the PRPs. 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 and former 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. Such recoveries, where probable, have been recorded as an asset.

Reserves of \$18.3 million at December 31, 1998, and \$9.3 million at December 31, 1997, were for potential environmental liabilities that the Company considers probable and for which a reasonable estimate of the probable 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, \$18.3 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, 1998, the Company had approximately 18,900 active employees, of whom approximately 6,800 are located outside the United States. About 50% of the Company's approximately 8,800 hourly or salaried production and maintenance employees in the United States are represented by labor unions. In February, 1999, the Company began to negotiate a new collective bargaining agreement with the United Steel Workers of America at its Lancaster, Pennsylvania, plant.

Item 2. Properties

The Company produces and markets its products and services throughout the world, owning and operating 69 manufacturing plants in 15 countries (including 5 plants acquired as part of the DLW acquisition which are currently held for sale). Forty of these facilities are located throughout the United States. The Company also has an interest through joint ventures in an additional 17 plants in 7 countries.

Floor covering products and adhesives are produced at 27 plants with principal manufacturing facilities located in Lancaster, Pennsylvania; Kankakee, Illinois; Stillwater, Oklahoma; and Bietigheim-Bissingen, and Delmenhorst, Germany. Building products are produced at 20 plants with principal facilities in Macon, Georgia; the Florida-Alabama Gulf Coast area; and Marietta, Pennsylvania. Wood products are produced at 17 plants, comprised of 13 wood flooring and 4 cabinet facilities. Principal wood products facilities include Beverly, West Virginia; Nashville and Oneida, Tennessee; and Thompsontown, Pennsylvania. Insulation products are produced at 13 plants with the principal facility located at Munster, Germany. Textile mill supplies, fiber gasket materials and specialty papers and other products for industry are manufactured at 8 plants with principal manufacturing facilities at Munster, Germany, and Fulton, New York.

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 vary periodically depending upon the product that is being manufactured, and individual facilities manufacture more than one type of product. Certain manufacturing locations also provide for the manufacture of products for more than one industry segment. In this context, the Company estimates that the production facilities in each of its industry segments were effectively utilized during 1998 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

PERSONAL INJURY LITIGATION

The Company is one of many defendants in approximately 154,000 pending claims as of December 31, 1998, alleging personal injury from exposure to asbestos.

Nearly all 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 asbestos-containing insulation products. The Company discontinued the sale of all such products in 1969. The claims also 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 large number of claims have been settled, dismissed, put on inactive lists or otherwise resolved, and the Company generally is involved in all stages of claims resolution and litigation, including individual trials, consolidated trials and appeals. Neither the rate of future filings and resolutions nor the total number of future claims can be predicted at this time with a high degree of certainty.

Attention has been given by various parties to securing a comprehensive resolution of the litigation. In 1991, the Judicial Panel for Multidistrict Litigation ordered the transfer of federal cases to the Eastern District of Pennsylvania in Philadelphia for pretrial purposes. The Company supported this transfer. Some cases are periodically released for trial, although the issue of punitive damages is retained by the transferee court. That 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. Claims in state courts have not been directly affected by the transfer, although most recent cases have been filed in state courts.

Amchem Settlement Class Action

Georgine v. Amchem ("Amchem") was a settlement class action filed in the Eastern District of Pennsylvania on January 15, 1993, that included essentially all future personal injury claims against members of the Center for Claims Resolution ("Center"), including the Company. It was designed to establish a nonlitigation system for the resolution of such claims, and offered a method for prompt compensation to claimants who were occupationally exposed to asbestos if they met certain exposure and medical criteria. Compensation amounts were derived from historical settlement data and no punitive damages were to be paid. The settlement was designed to, among other things, minimize transactional costs, including attorneys' fees, expedite compensation to claimants with qualifying claims, and relieve the courts of the burden of handling future claims.

The District Court, after exhaustive discovery and testimony, approved the settlement class action and issued a preliminary injunction that barred class members from pursuing claims against Center members in the tort system. The U.S. Court of Appeals for the Third Circuit reversed that decision, and the reversal was sustained by the U.S. Supreme Court on June 25, 1997, holding that the settlement class did not meet the requirements for class certification under Federal Rule of Civil Procedure 23. The preliminary injunction was vacated on July 21, 1997, resulting in the immediate reinstatement of enjoined cases and a loss of the bar against the filing of claims in the tort system. The Company believes that an alternative claims resolution mechanism similar to Amchem is likely to emerge.

Recent Events

During 1998, pending claims increased by 71,000 claims. This increase was higher than previously anticipated. The Company and its outside counsel believe the increase in claims filed during 1998 was partially due to acceleration of pending claims as a result of the Supreme Court's decision on Amchem and additional claims that had been filed in the tort system against other defendants (and not against Center members) while Amchem was pending.

Asbestos-Related Liability

The Company continually evaluates the nature and amount of recent claim settlements and their impact on the Company's projected asbestos resolution and defense costs. In doing so, the Company reviews, among other things, its recent and historical settlement amounts, the incidence of past claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it, the previous estimates based on the Amchem projection and its recent experience. Subject to the uncertainties, limitations and other factors referred to above and based upon its experience, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. The Company's estimation of such liability that is probable and estimable through 2004 ranges from \$424.7 million to \$813 million. The Company has concluded that no amount within that range is more likely than any other, and therefore has reflected \$424.7 million as a liability in the accompanying consolidated financial statements. This estimate includes an assumption that the number of new claims filed annually will be less than the number filed in 1998 as discussed above under "Recent Events." Of this amount, management expects to incur approximately \$80.0 million in 1999 and has reflected this amount as a current liability. The Company believes it can reasonably estimate the number and nature of future claims that may be filed during the next six years. However for claims that may be filed beyond that period, management believes that the level of uncertainty is too great to provide for reasonable estimation of the number of future claims, the nature of such claims, or the cost to resolve them. Accordingly, it is reasonably possible that the total exposure to personal injury claims may be greater than the recorded liability. The increase in recorded liability of \$274.2 million in 1998 is primarily reflective of the increases in claims filed in 1998, recent settlement experience and current expectations about future claims.

Because of the uncertainties related to the number of claims, the ultimate settlement amounts, and similar matters, it is extremely difficult to obtain reasonable estimates of the amount of the ultimate liability. The Company's evaluation of the range of probable liability is primarily based on known pending claims and an estimate of potential claims that are likely to occur and can be reasonably estimated. The estimate of likely claims to be filed in the future is subject to a greater degree of uncertainty each year into the future. As additional experience is gained regarding claims and settlements or other new information becomes available regarding the potential liability, the Company will reassess its potential liability and revise the estimates as appropriate.

Because, among other things, payment of the liability will extend over many years, management believes that the potential additional costs for claims net of any potential insurance recoveries, will not have a material after-tax effect on the financial condition of the Company or its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

CODEFENDANT BANKRUPTCIES

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

PROPERTY DAMAGE LITIGATION

The Company is also one of many defendants in eight pending claims as of December 31, 1998, brought by public and private building owners. These claims include allegations of damage to buildings caused by asbestos-containing products and generally seek compensatory and punitive damages and equitable relief, including reimbursement of expenditures, for removal and replacement of such products. Among the lawsuits that have been resolved are four class actions, which involve 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 claims. These suits and claims are not handled by the Center. Insurance coverage has been resolved and is expected to cover almost all costs of these claims.

INSURANCE COVERAGE

The Company's primary and excess insurance policies provide product hazard and nonproducts (general liability) coverages for personal injury claims, and product hazard coverage for property damage claims. Certain policies also provide coverage to ACandS, Inc., a former subsidiary of the Company. The Company and ACandS, Inc., share certain limits that both have accessed and have entered into an agreement that reserved for ACandS, Inc., a certain amount of excess insurance.

The insurance carriers that provide personal injury products hazard, nonproducts or property damage coverages include the following: Reliance Insurance Company; Aetna (now Travelers) Casualty and Surety Company; Liberty Mutual Insurance Company; 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 (now part of AIG); 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 personal injury coverage, certain London companies, and certain excess carriers providing only property damage coverage are insolvent. The Company is pursuing claims against insolvents in a number of forums.

Wellington Agreement

In 1985, the Company and 52 other companies (asbestos defendants and insurers) signed the Wellington Agreement. This Agreement settled nearly all disputes concerning personal injury insurance coverage with most of the Company's carriers, provided broad coverage for both defense and indemnity and addressed both products hazard and nonproducts (general liability) coverages.

California Insurance Coverage Lawsuit

Trial court decisions in the insurance lawsuit filed by the Company in California held that the trigger of coverage for personal injury claims was continuous from exposure through death or filing of a claim, that a triggered insurance policy should respond with full indemnification up to policy limits, and 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, providing coverage during the period of installation and 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 most personal injury products hazard coverage matters with its solvent carriers through the Wellington Agreement, referred to above, or other settlements. In 1989, a settlement with a carrier having both primary and excess coverages provided for certain minimum and maximum percentages of costs for personal injury claims to be allocated to nonproducts (general liability) coverage, the percentage to be determined by negotiation or in alternative dispute resolution ("ADR").

Asbestos Claims Facility ("Facility") and Center for Claims Resolution

The Wellington Agreement established the Facility to evaluate, settle, pay and defend all personal injury claims against member companies. Resolution and defense costs were allocated by formula. The Facility subsequently dissolved, and the Center was created in October 1988 by 21 former Facility members, including the Company. Insurance carriers, while not members, are represented ex officio on the Center's governing board and have agreed annually to provide a portion of the Center's operational costs. The Center adopted many of the conceptual features of the Facility and has addressed the claims in a manner consistent with the prompt, fair resolution of meritorious claims. Resolution and defense costs are allocated by formula; adjustments over time have resulted in some increased share for the Company.

Insurance Recovery Proceedings

A substantial portion of the Company's primary and excess insurance asset is nonproducts (general liability) insurance for personal injury claims, including among others, those that involve exposure during installation of asbestos materials. The Wellington Agreement and the 1989 settlement agreement referred to above have provisions for such coverage. An ADR process under the Wellington Agreement is underway against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and, for some policies, includes defense costs in addition to limits. The carriers have raised various defenses, including waiver, laches, statutes of limitations and contractual defenses. 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 nonproducts coverage against that carrier when the Wellington Agreement was signed. The ADR process is in the trial phase of binding arbitration. The Company has entered into a settlement with a number of the carriers resolving its access to coverage.

Other proceedings against non-Wellington carriers may become necessary.

An insurance asset in the amount of \$264.8 million is recorded on the Consolidated Balance Sheet. Of this amount, approximately \$26 million represents partial settlement for previous claims which will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.35%. The total amount recorded reflects the Company's belief in the availability of insurance in this amount, based upon the Company's success in insurance recoveries, recent settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. Such insurance is either available through settlement or probable of recovery through negotiation, litigation or resolution of the ADR process which is in the trial phase of binding arbitration. Of the \$264.8 million asset, \$16.0 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in 1999.

CONCLUSIONS

The Company does not know how many claims will be filed against it in the future, or the details thereof or of pending suits not fully reviewed, or the defense and resolution costs that may ultimately result therefrom, or whether an alternative to the Amchem settlement vehicle may emerge, or the scope of its insurance coverage ultimately deemed available.

The Company continually evaluates the nature and amount of recent claim settlements and their impact on the Company's projected asbestos resolution and defense costs. In doing so, the Company reviews, among other things, its recent and historical settlement amounts, the incidence of past claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it, the previous estimates based on the Amchem projection and its recent experience. Subject to the uncertainties, limitations and other factors referred to above and based upon its experience, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. The Company's estimation of such liability that is probable and estimable through 2004 ranges from \$424.7 million to \$813 million. The Company has concluded that no amount within that range is more likely than any other, and therefore has reflected \$424.7 million as a liability in the accompanying consolidated financial statements. Of this amount, management expects to incur approximately \$80.0 million in 1999 and has reflected this amount as a current liability. The Company believes it can reasonably estimate the number and nature of future claims that may be filed during the next six years. However for claims that may be filed beyond that period, management believes that the level of uncertainty is too great to provide for reasonable estimation of the number of future claims, the nature of such claims, or the cost to resolve them. Accordingly, it is reasonably possible that the total exposure to personal injury claims may be greater than the recorded liability. The increase in recorded liability of \$274.2 million in 1998 is primarily reflective of the increases in claims filed in 1998, recent settlement experience and current expectations about future claims.

Because of the uncertainties related to asbestos litigation, it is not possible to precisely estimate the number of personal injury claims that may ultimately be filed or their cost. It is reasonably possible there will be additional claims beyond management's estimates. Management believes that the potential additional costs for such additional claims, net of any potential insurance recoveries, will not have a material after-tax effect on the financial condition of the Company or its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

An insurance asset in the amount of \$264.8 million is recorded on the Consolidated Balance Sheet and reflects the Company's belief in the availability of insurance in this amount, based upon the Company's success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies, and the opinion of outside counsel. Such insurance is either available through settlement or probable of recovery through the ADR process, negotiation or litigation.

The Company believes that a claims resolution mechanism alternative to the Amchem settlement will eventually emerge, but the liability is likely to be higher than the projection in Amchem.

Subject to the uncertainties, limitations and other factors referred to elsewhere in this note and based upon its experience, the Company believes it is probable that substantially all of the defense and resolution costs of property damage claims will be covered by insurance.

Even though uncertainties remain as to the potential number of unasserted claims and the liability resulting therefrom, and after consideration of the factors involved, including the ultimate scope of its insurance coverage, the Wellington Agreement and other settlements with insurance carriers, the results of the California insurance coverage litigation, the establishment of the Center, the likelihood that an alternative to the Amchem settlement will eventually emerge, and its experience, the Company believes the asbestos-related claims against the Company would not be material either to the financial condition of the Company or to its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in such future period.

Recent Developments

On February 26, 1999, the Company received a preliminary decision in the initial phase of the trial proceeding of the ADR which was favorable to the Company on a number of issues related to insurance coverage. The decision, while favorable, relates to the initial phase of the ADR proceeding. The Company has not yet determined the financial implications of the decision.

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 Equity and Related Stockholder

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 March 1, 1999, there were approximately 6,829 holders of record of the Company's Common Stock.

During 1998, the Company issued a total of 2,400 shares of restricted 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.

Quarterly Financial Information

(millions except for per-share data)		First	Second	Third	Fourth	Total year
1998	Dividends per share of common stock	0.44	0.48	0.48	0.48	1.88
	Price range of common stock --high	87 7/8	90	68 3/8	70 1/4	90
	Price range of common stock -- low	69 7/8	67 3/8	46 15/16	50 1/2	46 15/16
1997	Dividends per share of common stock	0.40	0.44	0.44	0.44	1.72
	Price range of common stock --high	72 1/4	75 1/4	74 9/16	75 3/8	75 3/8
	Price range of common stock -- low	64 3/4	61 1/2	64 3/8	64 1/8	61 1/2

Item 6. Selected Financial Data

ELEVEN-YEAR SUMMARY

(Dollars in millions except for per-share data) For year	1998	1997	1996	1995
Net sales	2,746.2	2,198.7	2,156.4	2,325.0
Cost of goods sold	1,838.6	1,461.7	1,459.9	1,581.1
Total selling, general and administrative expenses and goodwill amortization	532.7	385.3	413.2	457.0
Equity (earnings) loss from affiliates	(13.8)	29.7	(19.1)	(6.2)
Reorganization and restructuring charges	74.6	--	46.5	71.8
Charge for asbestos liability	274.2	--	--	--
Loss from ceramic tile business formation/(gain) from sales of woodlands	--	--	--	177.2
Operating income (loss)	39.9	322.0	255.9	44.1
Interest expense	62.2	28.0	22.6	34.0
Other expense (income), net	(1.7)	(2.2)	(6.9)	1.9
Earnings (loss) from continuing businesses before income taxes	(20.6)	296.2	240.2	8.2
Income taxes	(11.3)	111.2	75.4	(5.4)
Earnings (loss) from continuing businesses	(9.3)	185.0	164.8	13.6
As a percentage of sales	-0.3%	8.4%	7.6%	0.6%

As a percentage of average monthly assets (a)	-0.3%	9.0%	8.5%	0.7%
Earnings (loss) from continuing businesses applicable to common stock (b)	(9.3)	185.0	158.0	(0.7)
Per common share-- basic (c)	(0.23)	4.55	4.04	(0.02)
Per common share-- diluted (c)	(0.23)	4.50	3.82	(0.02)
Net earnings (loss)	(9.3)	185.0	155.9	123.3
As a percentage of sales	-0.3%	8.4%	7.2%	5.3%
Net earnings (loss) applicable to common stock (b)	(9.3)	185.0	149.1	109.0
As a percentage of average shareholders' equity	-1.2%	22.3%	19.6%	15.0%
Per common share-- basic (c)	(0.23)	4.55	3.81	2.94
Per common share-- diluted (c)	(0.23)	4.50	3.61	2.68
Dividends declared per share of common stock	1.88	1.72	1.56	1.40
Capital expenditures	184.3	160.5	228.0	182.7
Aggregate cost of acquisitions	1,175.7	4.2	--	20.7
Total depreciation and amortization	142.7	132.7	123.7	123.1
Average number of employees-- continuing businesses	13,881	10,643	10,572	13,433
Average number of common shares outstanding (millions)	39.8	40.6	39.1	37.1

Year-end position				
Working capital--continuing businesses	367.8	128.5	243.5	346.8
Net property, plant and equipment-- continuing businesses	1,502.0	972.2	964.0	878.2
Total assets	4,273.2	2,375.5	2,135.6	2,149.8
Net long-term debt	1,562.8	223.1	219.4	188.3
Total debt as a percentage of total capital (d)	73.1%	39.2%	37.2%	38.5%
Shareholders' equity	709.7	810.6	790.0	775.0
Book value per share of common stock	17.57	20.20	19.19	20.10
Number of shareholders (e)	6,868	7,137	7,424	7,084
Common shares outstanding (millions)	39.8	40.1	41.2	36.9
Market value per common share	60 5/16	74 3/4	69 1/2	62

Notes:

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

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

(c) See definition of basic and diluted earnings per share on page 31.

(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.

From 1996 to July 1998, 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.

From July 1998 to November 1998, ceramic tile operations were reported under the cost method.

Beginning in 1998, consolidated results include the Company's acquisitions of Triangle Pacific and DLW.

(Dollars in millions except for per-share data) For year	1994	1993	1992	1991	1990	1989	1988
Net sales	2,226.0	2,075.7	2,111.4	2,021.4	2,082.4	2,050.4	1,843.4
Cost of goods sold	1,483.9	1,453.7	1,536.1	1,473.7	1,469.8	1,423.2	1,287.6
Total selling, general and administrative expenses and goodwill amortization	449.2	435.6	446.6	415.1	404.0	380.7	331.3
Equity (earnings) loss from affiliates	(1.7)	(1.4)	(0.2)	--	--	--	--
Reorganization and restructuring charges	--	89.3	160.8	12.5	6.8	5.9	--
Charge for asbestos liability	--	--	--	--	--	--	--
Loss from ceramic tile business formation/(gain) from sales of woodlands	--	--	--	--	(60.4)	(9.5)	(1.9)
Operating income (loss)	294.6	98.5	(31.9)	120.1	262.2	250.1	226.4
Interest expense	28.3	38.0	41.6	45.8	37.5	40.5	25.8
Other expense (income), net	0.5	(6.1)	(7.2)	(8.5)	19.7	(5.7)	(13.1)
Earnings (loss) from continuing businesses before income taxes	265.8	66.6	(66.3)	82.8	205.0	215.3	213.7
Income taxes	78.6	17.6	(2.9)	32.7	69.5	74.6	79.4
Earnings (loss) from continuing businesses	187.2	49.0	(63.4)	50.1	135.5	140.7	134.3
As a percentage of sales	8.4%	2.4%	-3.0%	2.5%	6.5%	6.9%	7.3%
As a percentage of average monthly assets (a)	10.7%	2.8%	-3.3%	2.7%	7.5%	8.6%	10.4%
Earnings (loss) from continuing businesses applicable to common stock (b)	173.1	35.1	(77.2)	30.7	116.0	131.0	133.9
Per common share-- basic (c)	4.62	0.95	(2.08)	0.83	2.98	2.88	2.90
Per common share-- diluted (c)	4.09	0.93	(2.08)	0.83	2.73	2.75	2.88
Net earnings (loss)	210.4	63.5	(227.7)	48.2	141.0	187.6	162.7
As a percentage of sales	9.5%	3.1%	-10.8%	2.4%	6.8%	9.1%	8.8%
Net earnings (loss) applicable to common stock (b)	196.3	49.6	(241.5)	28.8	121.5	177.9	162.3
As a percentage of average shareholders' equity	31.3%	9.0%	-33.9%	3.3%	13.0%	17.9%	17.0%
Per common share-- basic (c)	5.24	1.34	(6.51)	0.78	3.12	3.92	3.51
Per common share-- diluted (c)	4.62	1.27	(6.51)	0.78	2.86	3.72	3.50
Dividends declared per share of common stock	1.26	1.20	1.20	1.19	1.135	1.045	0.975
Capital expenditures	138.4	110.3	109.8	129.7	186.5	216.9	167.8
Aggregate cost of acquisitions	--	--	4.2	--	16.1	--	355.8
Total depreciation and amortization	120.7	117.0	123.4	122.1	116.5	121.6	99.4
Average number of employees-- continuing businesses	13,784	14,796	16,045	16,438	16,926	17,167	15,016
Average number of common shares outstanding (millions)	37.5	37.2	37.1	37.1	38.9	45.4	46.2
Year-end position							
Working capital--continuing businesses	384.4	279.3	239.8	353.8	305.2	449.4	260.6
Net property, plant and equipment-- continuing businesses	966.4	937.6	967.2	1,042.8	1,032.7	944.0	930.4
Total assets	2,159.0	1,869.2	1,944.3	2,125.7	2,124.4	2,008.9	2,073.1
Net long-term debt	237.2	256.8	266.6	301.4	233.2	181.3	185.9
Total debt as a percentage of total capital (d)	41.4%	52.2%	57.2%	46.9%	45.7%	36.1%	35.9%
Shareholders' equity	735.1	569.5	569.2	885.5	899.2	976.5	1,021.8
Book value per share of common stock	18.97	14.71	14.87	23.55	24.07	23.04	21.86
Number of shareholders (e)	7,473	7,963	8,611	8,896	9,110	9,322	10,355
Common shares outstanding (millions)	37.2	37.2	37.1	37.1	37.1	42.3	46.3
Market value per common share	38 1/2	53 1/4	31 7/8	29 1/4	25	37 1/4	35

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

1998 COMPARED WITH 1997

ACQUISITIONS

On July 22, 1998, Armstrong completed its acquisition of Triangle Pacific Corp. ("Triangle Pacific"). Triangle Pacific is a leading U.S. manufacturer of hardwood flooring and other flooring and related products and a substantial manufacturer of kitchen and bathroom cabinets. The acquisition, recorded under the purchase method of accounting, included the purchase of outstanding shares of common stock of Triangle

Pacific at \$55.50 per share which, plus acquisition costs, resulted in a total purchase price of \$911.5 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on fair market value at the date of acquisition, while the balance of \$831.1 million was recorded as goodwill and is being amortized over forty years on a straight-line basis.

Effective August 31, 1998, Armstrong acquired approximately 93% of the total share capital of DLW Aktiengesellschaft ("DLW"), a leading flooring manufacturer in Germany. The acquisition, recorded under the purchase method of accounting, included the purchase of 93% of the total share capital of DLW which, plus acquisition costs, resulted in a total purchase price of \$289.9 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on fair market value at the date of acquisition, while the balance of \$117.2 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. In this purchase price allocation, \$49.6 million was allocated to the estimable net realizable value of DLW's furniture business and of a carpet manufacturing business in the Netherlands, which the Company has identified as businesses held for sale. Disposals of these businesses should occur in the first half of 1999. Earnings in these businesses, which have been excluded from the Company's operating results, were \$0.4 million in 1998. Interest costs of \$1.1 million were allocated to these businesses in 1998.

The allocation of purchase price to the assets and liabilities of Triangle Pacific and DLW was still preliminary at December 31, 1998, and further refinements are possible. The operating results of these acquired businesses have been included in the Consolidated Statements of Earnings from the dates of acquisition. Triangle Pacific results are included in Armstrong's wood products segment and DLW results are included in Armstrong's floor coverings segment.

SALE OF DAL-TILE STOCK

In 1995 the Company entered into a business combination with Dal-Tile International Inc. ("Dal-Tile") whereby the Company exchanged cash and the stock of its ceramic tile operations, consisting primarily of American Olean Tile Company, a wholly-owned subsidiary, for ownership of 37% of the shares of Dal-Tile. In August 1996, Dal-Tile issued new shares in a public offering there by decreasing the Company's ownership share from 37% to 33%. During 1997 the Company purchased additional shares of Dal-Tile stock, increasing the Company's ownership to 34%.

In 1998 the Company announced its intention to dispose of its investment in Dal-Tile. In July the Company settled its sale of 10.35 million shares of Dal-Tile at \$8.50 per share before commission and fees. In October and November, the Company sold its remaining 8.02 million shares of Dal-Tile at \$8.50 per share before commission and fees. The Company reported a gain of \$12.8 million after tax in 1998 on these sales.

FINANCING

On July 13, 1998, the Company entered into a new commercial paper program and subsequently issued \$1.0 billion of commercial paper. This commercial paper, secured by lines of credit under a bank credit facility entered into on July 17, 1998, has maturities of up to 364 days and bears interest at rates between approximately 5.0% and 5.25% at the beginning of 1999.

On July 15, 1998, Standard & Poor's ("S&P") lowered the ratings of the Company's corporate credit, senior unsecured debt and revolving credit facility to A minus from A and lowered its commercial paper rating on the Company to A-2 from A-1. On July 16, 1998, Moody's Investors Service ("Moody's") lowered the Company's corporate credit, senior unsecured debt and revolving credit facility ratings to Baa1 from A2 and lowered its commercial paper rating on the Company to P-2 from P-1. Both Moody's and S&P cited factors relating to the acquisitions of Triangle Pacific and DLW as the major reasons for their actions. It is management's opinion that the Company has sufficient financial strength to warrant any required support from lending institutions and financial markets.

On August 11, 1998, the Company completed an offering of \$200 million of 6.35% Senior Notes due 2003 and a concurrent offering of \$150 million of 6.5% Senior Notes due 2005. On October 28, 1998, the Company completed an offering of \$180 million of 7.45% Senior Quarterly Interest Bonds due 2038. The Company used the proceeds to repay outstanding commercial paper.

On October 29, 1998, the Company completed a new bank credit facility for \$900 million which comprise a \$450 million line of credit expiring in 364 days and a \$450 million line of credit expiring in five years. This facility replaced a \$1.0 billion, 364-day bank credit facility entered into on July 17, 1998.

FINANCIAL CONDITION

As shown on the Consolidated Balance Sheets on page 28, the Company had cash and cash equivalents of \$38.2 million at December 31, 1998. As a result of additional current assets added with the acquisitions of Triangle Pacific and DLW, working capital at December 31, 1998, was \$367.8 million compared with \$128.5 million recorded at the end of 1997. The ratio of current assets to current liabilities was 1.49 to 1 as of December 31, 1998, compared with 1.27 to 1 as of December 31, 1997. The increase in this ratio from December 31, 1997, primarily reflected asset and liability changes resulting from the acquisitions of Triangle Pacific and DLW.

Long-term debt, excluding the Company's guarantee of an ESOP loan, increased \$1,339.7 million in 1998 due to the public debt offerings mentioned above and classification of \$750.0 million of commercial paper supported by long-term bank credit facilities as long-term debt. At December 31, 1998, long-term debt of \$1,562.8 million, or 59.3 percent of total capital, compared with \$223.1 million, or 16.7 percent of total capital, at the end of 1997. For the periods ended December 31, 1998, and December 31, 1997, ratios of total debt (including the Company's guarantee of an ESOP loan) as a percent of total capital were 73.1 percent and 39.2 percent, respectively.

As shown on the Consolidated Statements of Cash Flows on page 29, net cash provided by operating activities for the year ended December 31, 1998, was \$252.2 million compared with \$246.6 million in 1997. The increase is explained by substantial reductions in Armstrong's pre-acquisition business units' current assets partially offset by higher payments for asbestos claim payments prior to insurance recoveries.

Net cash used for investing activities was \$1,209.7 million for the year ended December 31, 1998, compared with \$152.8 million in 1997. The increase was primarily due to expenditures for acquisitions and was partially offset by the sale of the Company's investment in Dal-Tile.

Net cash provided by financing activities was \$937.3 million for the year ended December 31, 1998, primarily due to the commercial paper issuance and the three public debt offerings mentioned above. In the prior year, net cash used for financing activities, including a net reduction in debt and the repurchase of common shares, was \$98.6 million.

Under plans approved by the Company's Board of Directors for the repurchase of 5.5 million shares of common stock, the Company had repurchased approximately 4,017,000 shares through June 30, 1998. In June 1998, the Company halted open market purchases of its common shares upon the announcement of its intent to purchase Triangle Pacific and DLW.

The Company is constantly evaluating its various business units and may from time to time dispose of, or restructure, those units. On February 2, 1999, the Company announced its intent to form a joint venture in the worldwide technical insulation business with NMC (USA)/Nomaco (Belgium) and Thermafex (Netherlands).

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ASBESTOS-RELATED LITIGATION

The Company is involved in significant asbestos-related litigation which is described more fully on pages 47-50 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, nor of pending suits not fully reviewed, nor the defense and resolution costs that may ultimately result therefrom, nor whether an alternative to the Amchem settlement vehicle may emerge, nor the scope of its insurance coverage ultimately deemed available.

The Company continually evaluates the nature and amount of recent claim settlements and their impact on the Company's projected asbestos resolution and defense costs. Subject to the uncertainties, limitations and other factors referred to above and based upon its experience, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. The Company's estimation of such liability that is probable and estimable through 2004 ranges from \$424.7 million to \$813 million. The Company has concluded that no amount within that range is more likely than any other, and therefore has recorded \$424.7 million as a liability in the accompanying consolidated financial statements. The increase of \$274.2 million in recorded liability in 1998 is primarily reflective of the increases in claims filed in 1998, recent settlement experience and current expectations about future claims.

Management estimates that the timing of the cash flows required to resolve the recorded liability will extend beyond 2004.

Because of the uncertainties related to asbestos litigation, it is not possible to estimate precisely the number or cost of personal injury claims that may ultimately be filed. The Company believes it can reasonably estimate the number and nature of future claims that may be filed during the next six years. However for claims that may be filed beyond that period, management believes that the level of uncertainty is too great to provide for reasonable estimation of the number of future claims, the nature of such claims, or the cost to resolve them. Accordingly, it is reasonably possible that the total exposure to personal injury claims may be greater than the recorded liability. Management believes that the potential additional costs for such additional claims, net of any potential insurance recoveries, will not have a material after-tax effect on the financial condition or liquidity of the Company, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

An insurance asset in the amount of \$264.8 million, recorded on the Consolidated Balance Sheet, reflects the Company's belief in the availability of insurance in this amount based upon the Company's success in insurance recoveries, settlement agreements that provide such coverage, nonproducts recoveries by other companies, the opinion of outside counsel, and a recent agreement with a number of carriers. Such insurance is either available due to settlement or probable of recovery through negotiation, litigation or resolution of an alternative dispute resolution (ADR) process which is in the trial phase of binding arbitration. Further, depending on the Company's future assessment of the conclusion of the trial phase of the ADR expected in early 1999, additional insurance assets may be available. Of the \$264.8 million asset, \$16.0 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in 1999. However, the actual amount of payments to be received in 1999 is dependent upon the actual liability incurred and the nature and result of settlement discussions. Management estimates that the timing of future cash payments for the remainder of the recorded asset may extend beyond 10 years.

The Company believes that a claims resolution mechanism alternative to the Amchem settlement will eventually emerge, but any liability is likely to be higher than the projection in Amchem.

Subject to the uncertainties, limitations and other factors previously stated and based upon its experience, the Company believes it is probable that substantially all of the defense and resolution costs of property damage claims will be covered by insurance.

Even though uncertainties remain as to the potential number of unasserted claims and the liability resulting therefrom, and after consideration of the factors involved, including the ultimate scope of its insurance coverage, the Wellington Agreement and other settlements with insurance carriers, the results of the California insurance coverage litigation, the establishment of the Center for Claims Resolution, the likelihood that an alternative to the Amchem settlement will eventually emerge, and its experience, the Company believes asbestos-related claims against the Company will not be material either to the financial condition or liquidity of the Company, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in such future period.

ACTIVITIES RELATED TO DOMCO INC.

In the fourth quarter of 1998, the Company declined to extend its cash tender offer for all of the outstanding voting stock of Domco Inc. ("Domco"), a Canadian flooring manufacturer. In June 1997, the Company commenced litigation against Sommer Allibert, S.A. ("Sommer"), the majority shareholder of Domco, alleging, among other things, that Sommer misused confidential information provided to it by the Company and that Sommer breached a confidentiality agreement with the Company in connection with earlier negotiations between the Company and Sommer. That litigation remains pending in the U.S. District Court for the Eastern District of Pennsylvania, although Sommer's counterclaim against the Company and certain of its officers and certain of the Company's claims have been dismissed. The Company intends to pursue its claim for damages, including punitive damages, from Sommer. A trial date has not been set.

The Company recognized expenses arising from activities involving Domco and Sommer totaling \$12.3 million pretax, or \$8.0 million after tax, in 1998.

CONSOLIDATED RESULTS

Net sales in 1998 of \$2.75 billion were 24.9% higher when compared with net sales of \$2.20 billion in 1997. Triangle Pacific contributed \$346.0 million of sales and DLW \$193.0 million of sales to the Company's business sales figure before acquisitions of \$2.21 billion.

Sales were affected unfavorably by economic developments in emerging markets. For the Company's business before acquisitions, sales increased less than 1% in each of floor coverings, building products and insulation products. Pacific area sales were 13.5% below 1997, although insulation products increased both domestic sales and exports from its Panyu, China, plant. In Europe, despite a cessation of sales to Russia in August by all business units, floor coverings increased sales to other customers including those in Eastern Europe. In total, emerging market turmoil reduced 1998 sales by an estimated \$14.7 million versus last year, with over three-quarters of this total from lower Russian sales.

The Company reported a net loss of \$9.3 million, or \$0.23 per share, including losses of \$1.2 million related to Triangle Pacific and \$2.8 million related to DLW as well as after-tax charges of \$178.2 million for an increase in the estimated liability for asbestos-related claims and \$48.5 million for cost savings and reorganization. These results compare to net earnings of \$185.0 million, or \$4.50 per diluted share, in 1997.

The Company's Economic Value Added (EVA) performance as measured by return on EVA capital of 13.6% in 1998 exceeded the Company's cost of capital of 11% and the return on EVA capital of 13.3% in 1997. EVA calculations exclude financial activity related to asbestos liability claims, while reorganization charges are treated as investments upon which a return must be earned.

Cost of goods sold in 1998 was 67.0% of sales, higher than cost of goods sold of 66.5% in 1997. The change reflected required purchase price accounting adjustments related to Triangle Pacific and DLW. The Company's pre-acquisition business had a cost of goods sold of 65.9% in 1998 due to manufacturing efficiencies and lower raw material costs. The cost of goods sold also benefited from several efficiency and policy savings related to the implementation of the SAP Corporate Enterprise System, including a change in vacation policy resulting in a \$5.2 million benefit in the fourth quarter.

Selling, general and administrative (SG&A) expenses in 1998 were \$522.0 million, or 19% of sales, primarily reflecting higher advertising costs. In 1997, SG&A expenses were \$383.5 million, or 17.4% of sales.

In the fourth-quarter 1998, a noncash pretax charge of \$274.2 million, or \$178.2 million after tax, was recorded for an increase in the estimated liability for asbestos-related claims. This change primarily arose from a greater-than-anticipated increase in personal injury filings since the Amchem class settlement was invalidated in 1997, the Company's assessment of future claims and recent settlements with plaintiffs' counsels. The Company also recognized cost reduction and reorganization charges of \$65.6 million, or \$42.6 million after tax. This charge encompassed severance and enhanced retirement benefits related to the termination of more than 650 positions, approximately 75% of which were salaried positions. In addition the Company recorded an estimated loss of \$9.0 million related to redundant flooring products machinery and equipment held for disposal. Reorganization actions include corporate and business unit staff reductions reflecting reorganization of engineering, research and development and product styling and design; realignment of support activities in connection with implementation of a new corporate logistics and financial software system; changes to production processes in the Company's Lancaster flooring plant; and elimination of redundant positions in formation of a new combined business organization for Floor Products, Corporate Retail Accounts and Installation Products. Approximately \$28.6 million of the pretax amount is for cash expenditures for severance which will occur over the next 12 months. The remainder is a noncash charge for enhanced retirement benefits. Management believes that anticipated savings from the reorganization should permit recovery of these charges in approximately two years. Severance payments of \$10.4 million in 1998 were made for the elimination of 209 positions related to 1996 and 1998 restructuring and reorganization actions.

Interest expense of \$62.2 million in 1998 was higher than interest expense of \$28.0 million in 1997 due to higher levels of short- and long-term debt used to finance acquisitions.

The Company's 1998 tax benefit was generated by the charge for the increase in asbestos liability, cost reduction and reorganization charges, and a tax benefit associated with the gain on the sale of the Dal-Tile shares, partially offset by the nondeductibility of goodwill in the Company's reported earnings.

FLOOR COVERINGS

Worldwide floor coverings sales in 1998 of \$1,317.6 million included sales of \$193.0 million from DLW. Excluding DLW, flooring sales grew over 2% in the Americas due to strong laminate sales that more than offset a decline to residential vinyl markets. Sales through the home center channel continued to capture significant volume with sales increases of 16.6% over 1997. In Europe and the Pacific area, sales were down 8%. Sales for installation products rose 3.8% over 1997.

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Operating income of \$176.5 million in 1998, which excluded cost reduction and reorganization charges of \$53.5 million and included a loss related to DLW of \$0.7 million, compared to \$186.5 million in 1997. Lower operating margins were due to pricing pressure in North America, an unfavorable product mix, and higher advertising expenses only partially offset by lower raw material and other costs. The cost reduction and reorganization charges of \$53.5 million relate to reductions of hourly and salaried staff in the U.S. and foreign operations and changes to production processes in the Company's Lancaster flooring plant.

OUTLOOK

Sales in 1999 are expected to increase modestly due to a better mix in the Americas in residential sheet flooring and laminates. European sales results are anticipated to be slightly lower with weaker sales in Western Europe reflecting price competition partially offset by more robust sales in Eastern Europe. A more aggressive marketing program in Asia should increase sales in that region. Operating income should improve, driven by announced cost reductions and a favorable product mix.

BUILDING PRODUCTS

Building products sales of \$756.8 million were slightly higher than the \$754.5 million in 1997, as strong sales in the U.S. commercial segments and a favorable mix were offset by weakness in emerging markets, principally Russia and the Pacific area, down 29.4% compared to 1997.

Operating income of \$116.6 million, which excluded cost reduction and reorganization charges of \$10.1 million, compared to \$122.3 million in 1997. The operating income decline reflected weaker performance by the business's metal and soft fiber joint ventures in Europe and lower volumes to emerging markets, partially offset by lower raw material and other costs. Results from the Company's WAVE grid joint venture with Worthington Industries continue to be strong, showing an 11% improvement over 1997. The cost reduction and reorganization charges of \$10.1 million relate to reductions of hourly and salaried staff in the U.S. and foreign operations.

OUTLOOK

Sales in 1999 are expected to exceed those of 1998 with the largest growth in U.S. commercial sales. Sales are anticipated to increase in Europe with the exception of Russia, and sales in Asia should continue to reflect depressed market conditions. Operating income should increase in 1999 reflecting lower manufacturing and administrative costs and improved operating income from WAVE.

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WOOD PRODUCTS

This segment contributed \$346.0 million to sales for the period from July 22, 1998, from which time Triangle Pacific's results were consolidated in the Company's financial statements. Sales for Triangle Pacific in 1998, although approximately 11% ahead of sales reported by Triangle Pacific in the comparable period in 1997, reflected competitive pricing pressures created by falling lumber prices and imported products.

Operating income from the date of consolidation of \$38.6 million included the amortization of acquisition goodwill and the costs of nonrecurring purchase price adjustments related to inventory. On a comparable basis, operating income for Triangle Pacific in 1998 was approximately 35% above operating income reported by Triangle Pacific in 1997.

OUTLOOK

Triangle Pacific anticipates sales growth through its expansion of dealer programs, continued growth of new products and improved product finishes. Lower lumber prices, increases in sales volumes and continuing production efficiencies should positively affect operating income. The integration of Triangle Pacific should result in synergies as early as 1999.

INSULATION PRODUCTS

Sales of \$230.0 million increased from \$228.4 million in 1997. Sales in Europe and the U.S. were level. Despite difficulties in the Pacific area, sales increased from last year due to strong performance from the business's Panyu, China, plant. Operating income of \$46.3 million increased from \$45.4 million in 1997, excluding cost reduction and reorganization charges of \$0.2 million, primarily due to cost cutting and SG&A expense reductions.

OUTLOOK

Price pressures in the markets for insulation products are expected to continue into 1999. However, volume growth in sales of these products should offset this negative pressure and result in a small operating income increase for this business unit.

ALL OTHER

Sales reported in this segment comprise gasket materials and textile mill supplies. Sales of \$95.8 million decreased 4% compared to 1997. The major influence on gasket products sales was the General Motors strike. Textile sales declined due to slow sales to European textile machinery manufacturers. Operating income reported in this segment comprises operating income from gasket and textile products and ceramic tile. Operating income of \$9.1 million excluding cost reduction and reorganization charges of \$1.9 million compared with a loss of \$2.6 million in 1997 reflecting the absence of losses from Dal-Tile.

OUTLOOK

Sales of gasket products are anticipated to continue to reflect weakness in the automotive sector and a downturn in the diesel market. Cost containment efforts in gasket manufacturing should offset the effect of the sales volume decline. Textile products are expected to be affected by price pressures in 1999.

GEOGRAPHIC AREAS (SEE PAGE 33)

Net sales in the Americas in 1998 were \$1.92 billion, compared to \$1.52 billion recorded in 1997. The increase in sales to customers in the United States and Canada was primarily due to the addition of Triangle Pacific sales. For the Company's pre-acquisition business, sales growth continued to be strong in the U.S. home center channel. Net sales in Europe in 1998 were \$631.3 million, compared to \$488.4 million in 1997. Additional sales from DLW were somewhat offset by lower sales to Eastern Europe, most notably Russia. Sales to Scandinavian countries have continued to grow, reflecting increased sales from the Swedish flooring and ceiling joint ventures. Sales to the Pacific area and other foreign countries of \$192.9 million were level with sales of \$192.2 million in 1997.

Long-lived assets in the Americas in 1998 were \$1.01 billion compared to \$0.77 billion in 1997. This increase reflects additional assets from the acquisition of Triangle Pacific. Long-lived assets in Europe in 1998 were \$451.7 million compared to \$163.1 million in 1997. This increase reflects additional assets from the acquisition of DLW. Long-lived assets in the Pacific area in 1998 were \$41.2 million compared to \$42.2 million in 1997.

MARKET RISK

The Company uses financial instruments, including fixed and variable rate debt, as well as swap, forward and option contracts to finance its operations and to hedge interest rate, currency and commodity exposures. Swap, forward and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes and is not a party to any leveraged instruments.

INTEREST RATE SENSITIVITY

The table below provides information about the Company's long-term debt obligations as of December 31, 1998, and December 31, 1997. The table presents principal cash flows and related weighted average interest rates by expected maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date. The information is presented in US dollar equivalents, which is the Company's reporting currency.

Expected maturity date (\$ millions)	1998	1999	2000	2001	2002	2003	After 2003	Total
As of December 31, 1998								
Liabilities								
Long-term debt:								
Fixed rate	-- \$	28.9	\$ 46.2	\$ 29.7	\$ 5.5	\$ 206.5	\$ 507.9	\$ 824.7
Avg. interest rate	--	5.19%	6.38%	5.46%	6.42%	6.36%	7.50%	6.99%
Variable rate	-- \$	4.0	\$ 5.0	\$ 302.0	\$ 0.0	\$ 450.0	\$ 10.0	\$ 771.0
Avg. interest rate	--	7.0%	7.0%	5.71%	0.00%	5.90%	4.00%	5.81%
As of December 31, 1997								
Liabilities								
Long-term debt:								
Fixed rate	\$ 13.5	\$ 21.0	\$ 22.1	\$ 7.5	\$ 0.0	\$ 153.0		\$ 217.1
Avg. interest rate	8.88%	4.79%	8.14%	9.00%	0.00%	9.13%		8.59%
Variable rate	\$ 1.0	\$ 4.0	\$ 5.0	\$ 2.0	\$ 0.0	\$ 8.5		\$ 20.5
Avg. interest rate	9.38%	8.28%	8.28%	8.28%	0.00%	3.90%		6.52%

Debt cash flows increased as of December 31, 1998, in comparison to December 31, 1997, as a result of financing entered into in 1998 (see page 16). In 1997 and 1998 the Company entered into forward-starting interest rate swaps designated as hedges of long-term bonds. In 1998 the Company terminated these interest rate swaps concurrent with the issuance of its 7.45% quarterly interest bond due 2038. The loss of \$16.3 million upon termination of the swaps will be recognized as an adjustment to interest expense over the life of the bond.

The Company had no interest rate hedging agreements in place on December 31, 1998.

EXCHANGE RATE SENSITIVITY

The Company uses foreign currency forward contracts to reduce the risk that future cash flows from transactions in foreign currencies will be affected unfavorably by changes in exchange rates.

The table below provides anticipated net foreign cash flows for goods, services and financing transactions for the following 12 months as of December 31, 1998, and December 31, 1997.

Foreign currency exposure (\$ millions)	Commercial exposure	Financing exposure	Net hedge	Net position
As of December 31, 1998				
British pound	\$ 10.3	\$(67.0)	\$ 53.2	\$ (3.5)
Canadian dollar	51.6	--	--	51.6
French franc	31.3	7.5	(7.5)	31.3
German mark	(64.6)	277.5	(267.6)	(54.7)
Italian lira	31.8	2.4	(2.4)	31.8
Spanish peseta	18.6	--	--	18.6
Australian dollar	8.5	4.3	(4.3)	8.5

Belgian franc	(22.6)	(38.1)	--	(60.7)
Dutch guilder	(9.8)	--	12.0	2.2
Swedish krona	(2.8)	2.2	(1.2)	(1.8)
Swiss franc	1.6	(5.9)	3.7	(0.6)
United States dollar*	9.7	(9.5)	--	0.2

As of December 31, 1997				

British pound	\$(24.0)	\$(17.1)	\$ 12.1	\$(29.0)
Canadian dollar	37.0	--	--	37.0
French franc	(17.0)	3.3	(3.3)	(17.0)
German mark	(48.0)	12.4	(12.4)	(48.0)
Italian lira	25.0	2.3	(2.3)	25.0
Spanish peseta	7.0	2.3	(2.3)	7.0

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

*Related to U.S. dollar exposures by foreign subsidiaries with a foreign functional currency.

Company policy allows hedges of cash flow exposures of up to one year. The table below summarizes the Company's foreign currency forward contracts and average contract rates at December 31, 1998, and December 31, 1997. Foreign currency amounts are translated at exchange rates as of December 31, 1998, and December 31, 1997.

Foreign currency contracts (\$ millions)	Sold	Forward Contracts		
		Avg. rate	Bought	Avg. rate
As of December 31, 1998				
British pound	\$ 13.8	1.68	\$67.0	1.67
French franc	7.5	5.57	--	--
German mark	329.4	1.64	61.8	1.65
Italian lira	2.4	1653	--	--
Australian dollar	4.3	0.6207	--	--
Dutch guilder	--	--	12.0	1.88
Swedish krona	1.2	8.0	--	--
Swiss franc	2.2	1.34	5.9	1.31
As of December 31, 1997				
British pound	\$ 5.0	1.68	\$17.1	1.61
Dutch guilder	2.0	2.00	--	--
French franc	3.3	5.9	--	--
German mark	12.4	1.79	--	--
Italian lira	2.3	1726	--	--
Spanish peseta	2.3	151.5	--	--

Foreign currency hedges are contracts that have no embedded options or other terms that involve a higher level of complexity or risk.

COMMODITY PRICE SENSITIVITY

The table below provides information about the Company's natural gas swap contracts that are sensitive to changes in commodity prices. Notional amounts are in millions of Btu's (MMBtu) and weighted average contract prices. All contracts mature in or before December 2000.

On Balance Sheet Commodity Related Derivatives	1998	1999	2000	Total
As of December 31, 1998				
Swap contracts (long):				
Contract amounts (MMBtu)	--	2,350,000	250,000	2,600,000
Weighted average price (\$/MMBtu)	--	\$ 2.15	\$ 2.41	\$ 2.17
As of December 31, 1997				
Swap contracts (long):				
Contract amounts (MMBtu)	600,000	100,000	--	700,000
Weighted average price (\$/MMBtu)	\$ 2.26	\$ 2.43	--	\$ 2.29

YEAR 2000 ACTIVITIES

The Company increased its investment in computer software in 1997 and 1998 with projects to develop and implement a new corporate logistics system and a new financial and human resource system. These new systems are year-2000 compliant. In addition, a Year 2000 Project, expected to be completed in 1999, is converting the remainder of the Company's software and hardware information technology and noninformation technology systems to minimize any exposure to year-2000 compliance failures. Parallel workstreams or "tracks" have been established by the Company to complete the work required to repair or replace noncompliant systems and monitor the degree of year-2000 compliance by Armstrong's business partners. The workstreams encompass (a) local projects to repair all internally developed and supported applications; (b) infrastructure projects to repair or replace all infrastructure components (e.g., mainframe and client server computer systems, networks, phone switches and personal computers); and (c) remote projects to repair or replace all remote systems: plant supported systems and applications, PLC's and other factory systems.

The Year 2000 Project includes several phases: an inventory phase to identify all software and hardware components potentially affected; an assessment phase to determine if identified components are compliant; a planning phase to establish plans to bring components into compliance; an execution phase to carry out needed actions determined during the planning phase; a testing phase to verify compliance; and a completion phase to bring the revised component into production. For the local and infrastructure tracks, the project is currently in the testing and completion phases. For the remote track, the project is at various phases depending upon the location.

Total costs of the Year 2000 Project worldwide are estimated to be \$19.1 million through 1999. Actual costs through December 1998 were \$9.4 million. Management believes internally generated funds and existing sources of liquidity are sufficient to meet expected funding requirements for this project.

The Company is in the process of assessing, through letters of inquiry, the year-2000 compliance of customers and suppliers. Responses to these letters are being evaluated for compliance, the need for follow-up actions, or contingency plans. Until completion of this process, the Company cannot assess the potential impact, if any, that year-2000 noncompliance by customers and suppliers may have on the Company. Management currently believes the most reasonably-likely worst case scenario would be that a small number of suppliers, who are not critical to the operation of the Company's business, will be unable to supply materials for a short time after January 1, 2000. Moreover, management is creating contingency plans to prepare for any reasonably-likely worst case scenarios, including manual operations, selection of alternative suppliers, early purchase of inventory and additional software repair.

NEW ACCOUNTING PRONOUNCEMENTS

In September 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement established accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after September 15, 1999. The adoption of this standard is not expected to materially impact the Company's consolidated results, financial condition or long-term liquidity.

In April 1998, the American Institute of Certified Public Accountants (AICPA), issued Statement of Position 98-5, Reporting on the Costs of Start-Up Activities. This statement is effective for fiscal years beginning after December 15, 1998. The adoption of this statement is not expected to materially impact the Company's consolidated results, financial condition or long-term liquidity.

1997 COMPARED WITH 1996

FINANCIAL CONDITION

As shown on the Consolidated Statements of Cash Flows (see page 29), the Company had cash and cash equivalents of \$57.9 million at December 31, 1997. Cash provided by operating activities, supplemented by increases in short-term debt; proceeds from the sale of land, facilities and other assets; and cash proceeds from exercised stock options covered normal working capital requirements; purchases of property, plant and equipment; payment of cash dividends; repurchase of shares; and acquisitions and investments in joint ventures and computer software.

Cash provided by operating activities for the year ended December 31, 1997, was \$246.6 million compared with \$220.9 million in 1996. The increase was primarily due to higher earnings before noncash charges and lower restructuring payments year-to-year, partially offset by a shortfall between currently available insurance and amounts necessary to pay asbestos-related claims. Working capital was \$128.5 million as of December 31, 1997, \$115.0 million lower than the \$243.5 million at year-end 1996. The ratio of current assets to current liabilities was 1.27 to 1 as of December 31, 1997, compared with 1.76 to 1 as of December 31, 1996. The ratio decreased from December 31, 1996, primarily due to accrued expenses for projected short-term asbestos-related liability payments and higher levels of short-term debt used to finance higher levels of receivables and inventories, refinancing of long-term debt and other general corporate purposes.

Net cash used for investing activities was \$152.8 million for the year ended December 31, 1997, down from \$239.8 million in 1996. This reduction was primarily due to lower purchases of property, plant and equipment and higher proceeds from the sale of land, facilities and other assets which were partially offset by additional acquisitions and investments in joint ventures, and higher investment in computer software.

Net cash used for financing activities was \$98.6 million for the year ended December 31, 1997, as cash provided by higher levels of short-term debt was offset by cash used for payment of dividends and reduction of long-term debt. In 1996, net cash used for financing activities was \$171.8 million as cash was used to reduce debt and redeem outstanding preferred stock in addition to the payment of dividends and repurchases of stock.

Under the 1994 and 1996 board-approved 5,500,000 common share repurchase plans, the Company repurchased approximately 3,661,000 shares through December 31, 1997, including 1,281,000 shares repurchased in 1997.

Long-term debt, excluding the Company's guarantee of the ESOP loan, increased slightly in 1997. At December 31, 1997, long-term debt of \$223.1 million, or 16.7% of total capital, compared with \$219.4 million, or 17.4% of total capital, at the end of 1996. The 1997 and 1996 year-end ratios of total debt (including the Company's financing of the ESOP loan) as a percent of total capital were 39.2% and 37.2%, respectively.

CONSOLIDATED RESULTS

Net sales in 1997 of \$2.20 billion were 2.0% higher when compared with net sales of \$2.16 billion in 1996. Removing the currency translation impact of the stronger U.S. dollar, sales would have increased 3.6%. Added sales from the Swedish flooring and soft-fiber ceilings joint ventures, along with sales growth in laminate flooring and the worldwide commercial and U.S. home center businesses, offset sales declines in the U.S. residential sheet flooring business.

Net earnings of \$185.0 million, or \$4.50 per diluted share compared with \$155.9 million, or \$3.61 per diluted share, in 1996. The increase was primarily related to the positive impact of manufacturing productivity improvements and some lower raw material costs in 1997 and to the negative impact of the 1996 charges for restructuring, floor discoloration product issues and the Company's share of the extraordinary loss of Dal-Tile International Inc., in which the Company had a 33% equity interest. Adversely affecting 1997 earnings were ceramic tile losses of \$42.4 million, or \$38.6 million after tax, including \$8.4 million, or \$6.1 million after tax, for the Company's 34.4% share of operating losses incurred by Dal-Tile; an additional \$29.7 million before- and after-tax loss for the Company's share of the charge incurred by Dal-Tile, primarily for uncollectible receivables and overstocked inventories; and \$4.3 million, or \$2.8 million after tax, for the amortization of Armstrong's initial investment in Dal-Tile over the underlying equity in net assets of the business combination. Net earnings in 1996 included after-tax charges of \$29.6 million for restructuring, or \$0.70 per diluted share; \$22.0 million for costs associated with the discoloration of a limited portion of flooring products, or \$0.53 per diluted share; and \$8.9 million, or \$0.21 per diluted share, for the Company's share of an extraordinary loss from Dal-Tile.

The EVA performance as measured by return on EVA capital of 13.3% in 1997 exceeded the Company's 11% cost of capital by 2.3 percentage points. In 1996, the return on EVA capital was 14.8% and exceeded the Company's 12% cost of capital by 2.8 percentage points. In 1997, the Company's cost of capital was reduced to 11%, partially due to lower interest rates and stock price volatility.

Cost of goods sold in 1997 was 66.5% of sales, lower than the 67.7% in 1996 which included charges associated with a floor discoloration issue. Cost of goods sold was positively affected by continued productivity improvements and some lower raw material costs which offset some promotional pricing actions and a less favorable product mix.

SG&A expenses in 1997 were \$383.5 million, or 17.4% of sales, which includes the currency translation impact of the stronger U.S. dollar and some lower advertising and administrative costs when compared with 1996. In 1996, SG&A expenses were \$410.5 million, or 19.0% of sales, and included a \$14.0 million nonrecurring charge for floor discoloration.

During 1996, the Company learned that discoloration had occurred in a limited portion of its residential sheet flooring product lines. After correcting the manufacturing process to eliminate any further occurrence of this problem, the Company recorded charges of \$34.0 million before tax, or \$22.0 million after tax (\$0.53 per diluted share), for associated inventory and claims costs.

In 1996, the Company incurred restructuring charges of \$46.5 million, or \$29.6 million after tax (\$0.70 per diluted share), related primarily to reorganization of staff and plant positions, consolidation of the installation products businesses, restructuring of production processes and write-down of assets. Severance payments charged against restructuring reserves were \$17.2 million in 1997 relating to the elimination of 394 positions of which 247 terminations occurred since the beginning of 1997. As of December 31, 1997, an immaterial amount remained in the reserves for restructuring actions.

Interest expense in 1997 of \$28.0 million was higher than 1996's interest expense of \$22.6 million. The primary reason for the increase was higher levels of short-term debt used to finance a variety of general corporate purposes.

The Company's 1997 effective tax rate was 37.5%, negatively impacted by 3.4 percentage points from the recording of the Company's equity share of the 1997 loss from Dal-Tile. The 1996 rate of 31.4% was positively affected by 1.7 percentage points from recording the Company's equity share of the 1996 income from Dal-Tile.

INDUSTRY SEGMENT RESULTS (see pages 32 and 33)

FLOOR COVERINGS

Worldwide floor coverings sales of \$1.12 billion increased 2.2% from \$1.09 billion in 1996 which included a \$14.1 million reduction for product returns for the potential discoloration of a limited portion of its product lines. The 1997 increase came primarily from the addition of sales from the laminate and Swedish joint venture product lines and higher sales in the U.S. commercial and home center channels. U.S. residential sheet flooring sales declined and were adversely affected by a general weakness in high-end professionally installed flooring, some shift toward alternative flooring products and consolidation of the wholesaler distribution channel.

Operating income of \$186.5 million in 1997 compared to 1996's \$195.4 million, excluding 1996 charges of \$34.0 million associated with the discoloration issue and \$14.5 million for restructuring primarily related to the consolidation in the installation products business unit and other reorganizations in the floor products operations staff. Sales increases and productivity gains were more than offset by the negative impact of promotional pricing, a shift in product mix to more mid-priced residential sheet flooring and other lower margin products in the U.S. and start-up costs related to acquisitions and new product lines. Capital expenditures for property, plant and equipment in the floor coverings segment of \$76.6 million in 1997 were directed toward improving manufacturing processes. Capital expenditures in 1996 were \$117.7 million and were

primarily related to the rollout of the Quest display and merchandising system and toward improved manufacturing process effectiveness.

BUILDING PRODUCTS

Net sales of \$754.5 million in the building products segment increased 5% from 1996. Sales growth was experienced in all geographic areas. In the Americas, strength came from the U.S. commercial market segment and Latin America. In Europe, added sales from the new Swedish soft-fiber ceilings joint venture and Eastern Europe contributed to the impact of sluggish Western European economies and continued lower selling prices. Sales grew in the Pacific area (less than 10% of the segment's business); however, the economic slowdown in Southeast Asia in the latter part of 1997 increased price competitiveness in this region.

Operating income of \$122.3 million increased from \$103.4 million in 1996, which excluded \$8.3 million in restructuring charges. The major factors in the 1997 improvement were higher sales volume and increased productivity, reduced raw material prices and lower startup costs in China than in 1996. In addition, solid increases in profits were realized from the WAVE grid joint venture. Negative factors somewhat reducing the improvement were competitive pricing actions in the U.S. home center channel and in Western Europe. In Eastern Europe and Russia, increased sales were concentrated in lower margin products. Capital expenditures for property, plant and equipment were \$54.4 million compared with \$67.7 million in 1996.

INSULATION PRODUCTS

Sales of \$228.4 million decreased from \$246.8 million in 1996. Sales declines from competitive market pressure in Europe were offset by increases in North America and the Pacific area. Operating income of \$45.4 million increased from \$42.4 million in 1996 excluding \$2.8 million of restructuring charges, primarily due to productivity gains in all geographic areas.

ALL OTHER

Sales reported in this segment comprise sales of gasket materials and textile mill supplies. Sales of \$99.8 million increased from \$99.4 million reported in 1996.

Operating income reported in this segment comprises operating income from gasket materials, textile products and ceramic tile. An operating loss of \$2.6 million compared to an operating income of \$11.6 million in 1996 excluding \$1.2 million of restructuring charges. The 1997 loss included \$8.4 million for the Company's share of operating losses incurred by Dal-Tile International Inc., in which the Company had a 34.4% equity interest and \$4.3 million for the amortization of the Company's initial investment in Dal-Tile over the underlying equity in net assets of the business combination. The 1997 loss excluded a \$29.7 million after-tax loss from the Company's share of a charge incurred by Dal-Tile, primarily for uncollectible receivables and overstocked inventories. In 1996, ceramic tile reported income of \$9.9 million. Profits increased in gasket products due to the introduction of new products into European markets and an improved cost profile. The textile products business recorded a profit in 1997 compared with a loss in 1996. Capital expenditures for property, plant and equipment were \$3.1 million compared with \$2.1 million in 1996.

GEOGRAPHIC AREAS (see page 33)

Net sales in the Americas in 1997 were \$1.52 billion, compared to \$1.48 billion recorded in 1996. Sales growth was strongest in the U.S. home center channel serviced through the Corporate Retail Accounts distribution unit. Additional growth in the Americas reflected the increase in sales to Mexico and South America. Net sales in Europe in 1997 were \$488.4 million, compared to \$495.3 million in 1996. Growth from product alliances, such as Swedish flooring and ceilings joint ventures, and sales to Central and Eastern Europe, especially Russia were offset by lower sales to Western Europe, which reflected competitive pricing and weakness in market economies in this area. Sales to the Pacific area and other foreign countries of \$192.2 million grew from sales of \$177.5 million in 1996. This increase primarily reflected growth in sales of insulation and building products which benefited from manufacturing facilities in China.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

(See pages 20 to 22 under Item 7 above.)

Item 8. Financial Statements and Supplementary Data

ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES

Index to Financial Statements and Schedule

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

Consolidated Financial Statements

Consolidated Statements of Earnings for the Years Ended December 31, 1998, 1997, and 1996	27
Consolidated Balance Sheets as of December 31, 1998 and 1997	28
Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997, and 1996	29

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 1998, 1997, and 1996	30
Notes to Consolidated Financial Statements	31-50
Financial Statement Schedule	
Schedule II - Valuation and Qualifying Reserves	60

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

Computation for Basic Earnings per Share	Exhibit 11(a)
Computation for Diluted Earnings per Share	Exhibit 11(b)

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (millions except for per-share data)		First	Second	Third	Fourth	Total year
1998	Net sales	\$ 543.1	\$ 555.6	\$ 821.6	\$ 825.9	\$2,746.2
	Gross profit	180.4	193.8	271.9	261.5	907.6
	Net earnings (loss)	46.5	56.1	61.5	(173.4)	(9.3)
	Per share of common stock:					
	Basic: Net earnings (loss)	1.17	1.41	1.55	(4.36)	(0.23)
	Diluted: Net earnings (loss)	1.15	1.38	1.53	(4.36)	(0.23)
	Dividends per share of common stock	0.44	0.48	0.48	0.48	1.88
	Price range of common stock --high	87 7/8	90	68 3/8	70 1/4	90
	Price range of common stock -- low	69 7/8	67 3/8	46 15/16	50 1/2	46 15/16
1997	Net sales	\$ 518.3	\$ 577.4	\$ 575.6	\$ 527.4	\$2,198.7
	Gross profit	171.3	199.2	195.6	170.9	737.0
	Net earnings	45.5	58.9	33.8	46.8	185.0
	Per share of common stock:					
	Basic: Net earnings	1.11	1.45	0.83	1.16	4.55
	Diluted: Net earnings	1.10	1.43	0.82	1.15	4.50
	Dividends per share of common stock	0.40	0.44	0.44	0.44	1.72
	Price range of common stock --high	72 1/4	75 1/4	74 9/16	75 3/8	75 3/8
	Price range of common stock -- low	64 3/4	61 1/2	64 3/8	64 1/8	61 1/2

Note: The sum of the quarterly earnings per-share data does not equal the total year amounts due to changes in the average shares outstanding and, for diluted data, the exclusion of the antidilutive effect in certain quarters. The increase in sales and net earnings from the second to the third quarter in 1998 reflects the Triangle Pacific and DLW acquisitions.

FOURTH QUARTER 1998 COMPARED WITH FOURTH QUARTER 1997

Net sales of \$825.9 million increased 56.6% from sales of \$527.4 million in the fourth quarter of 1997. Triangle Pacific contributed \$178.7 million of sales and DLW \$129.1 million of sales to the Company's pre-acquisition business sales figure of \$518.1 million. A decline in sales in the Company's pre-acquisition businesses came from floor coverings, as solid performance from North American residential sheet and laminates was offset by slower sales to emerging markets and competitive price pressures in Western Europe. Sales declined in building products as weak economic conditions in emerging markets offset strong activity in U.S. commercial markets. Sales of insulation products increased, led by strong sales in China.

The operating loss of \$254.0 million compared to an operating income of \$72.2 million in the fourth quarter of 1997. Triangle Pacific contributed \$21.3 million of operating income while DLW lost \$0.9 million. A \$274.2 million noncash pretax charge was recorded in the fourth quarter for an increase in the estimated liability for asbestos-related claims. An additional pretax charge of \$74.6 million related primarily to reorganization of corporate and business unit staff positions reflecting reorganization of engineering, research and development and product styling and design; realignment of support activities in connection with implementation of a new software system; changes to production processes in the Company's Lancaster flooring plant; and elimination of redundant positions in formation of a new combined business organization for Floor Products, Corporate Retail Accounts and Installation Products. Also negatively impacting fourth quarter results when compared with fourth quarter 1997 were higher goodwill amortization charges related to acquisitions of Triangle Pacific and DLW. These expenses were partially offset from an improvement of \$8.7 million in equity earnings from affiliates as the Company's remaining investment in Dal-Tile, which produced a loss from affiliates of \$8.4 million in the fourth quarter of 1997, was sold in the fourth quarter of 1998. The sale of 8.02 million shares of Dal-Tile created a pretax gain of \$6.3 million.

For the fourth quarter, the cost of goods sold was 68.3% of sales compared to 67.6% in 1997. Required purchase price accounting adjustments to inventories at Triangle Pacific and DLW increased the cost of goods sold by \$5.6 million, without which gross margin percentage would have been 0.6 percentage points better. The Company's base business cost of goods sold was 67.7%, or 0.1 points lower than 1997, as price erosion and mix in floor coverings offset favorable manufacturing efficiencies and lower raw material costs. The cost of goods sold also benefited from several efficiency and policy savings related to the implementation of the SAP Corporate Enterprise System, including a change in vacation policy resulting in a \$5.2 million benefit in the fourth quarter.

The Company's effective tax rate in the fourth quarter of 1998 was (36.6)% compared to an effective tax rate of 31.3% in the fourth quarter of 1997. The difference in the tax rates is primarily due to the recognition of a tax benefit associated with the gain on the sale of the Dal-Tile shares somewhat offset by the nondeductibility of goodwill in the Company's reported earnings.

The net loss was \$173.4 million or \$4.36 per diluted share compared to net earnings of \$46.8 million or \$1.15 per diluted share in fourth quarter 1997. Increased interest expense in addition to the asbestos liability and cost reduction and reorganization charges were the primary reasons for the decline.

CONSOLIDATED STATEMENTS OF EARNINGS

Millions except for per-share data	Years ended December 31		
	1998	1997	1996
Net sales	\$ 2,746.2	\$ 2,198.7	\$ 2,156.4
Cost of goods sold	1,838.6	1,461.7	1,459.9
Gross profit	907.6	737.0	696.5
Selling, general and administrative expenses	522.0	383.5	410.5
Equity (earnings) loss from affiliates, net	(13.8)	29.7	(19.1)
Reorganization and restructuring charges	74.6	--	46.5
Charge for asbestos liability	274.2	--	--
Goodwill amortization	10.7	1.8	2.7
Operating income	39.9	322.0	255.9
Interest expense	62.2	28.0	22.6
Other income, net	(1.7)	(2.2)	(6.9)
Earnings (loss) before income taxes and extraordinary loss	(20.6)	296.2	240.2
Income tax (benefit) expense	(11.3)	111.2	75.4
Earnings (loss) before extraordinary loss	(9.3)	185.0	164.8
Extraordinary loss (less income taxes of \$0.7)	--	--	(8.9)
Net earnings (loss)	\$ (9.3)	\$ 185.0	\$ 155.9
Dividends paid on Series A convertible preferred stock	--	--	8.8
Tax benefit on dividends paid on unallocated preferred shares	--	--	2.0
Net earnings (loss) applicable to common stock	\$ (9.3)	\$ 185.0	\$ 149.1
Per share of common stock (see note on page 46):			
Basic:			
Earnings (loss) before extraordinary loss	\$ (0.23)	\$ 4.55	\$ 4.04
Extraordinary loss	--	--	(0.23)
Net earnings (loss)	\$ (0.23)	\$ 4.55	\$ 3.81
Diluted:			
Earnings (loss) before extraordinary loss	\$ (0.23)	\$ 4.50	\$ 3.82
Extraordinary loss	--	--	(0.21)
Net earnings (loss)	\$ (0.23)	\$ 4.50	\$ 3.61

The Notes to Consolidated Financial Statements, pages 31-50, are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Millions except for numbers of shares and per-share data	As of December 31	1998	1997
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 38.2	\$ 57.9
Accounts and notes receivable (less allowance for discounts and losses: 1998--\$49.8; 1997--\$37.5)		440.4	252.6
Inventories		465.1	220.1
Income tax benefits		52.5	25.9
Net assets of businesses held for sale		55.9	--
Other current assets		69.0	43.5
Total current assets		1,121.1	600.0
Property, plant and equipment (less accumulated depreciation and amortization: 1998--\$1,121.9; 1997--\$1,004.3)			
		1,502.0	972.2
Insurance for asbestos-related liabilities		248.8	291.6
Investment in affiliates		41.8	174.9
Goodwill, net		965.4	27.7
Other intangibles, net		63.2	32.6
Other noncurrent assets		330.9	276.5
Total assets		\$4,273.2	\$2,375.5
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term debt		\$ 149.9	\$ 84.1
Current installments of long-term debt		32.9	14.5
Accounts payable and accrued expenses		544.8	339.9
Income taxes		25.7	33.0
Total current liabilities		753.3	471.5
Long-term debt, less current installments			
		1,562.8	223.1
Employee Stock Ownership Plan (ESOP) loan guarantee		178.6	201.8
Deferred income taxes		107.6	53.7
Postretirement and postemployment benefit liabilities		249.0	248.0
Pension benefit liabilities		235.5	73.8
Asbestos-related long-term liabilities		344.8	179.7
Other long-term liabilities		115.8	98.3
Minority interest in subsidiaries		16.1	15.0
Total noncurrent liabilities		2,810.2	1,093.4
Shareholders' equity:			
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		173.0	169.5
Reduction for ESOP loan guarantee		(199.1)	(207.7)
Retained earnings		1,257.0	1,339.6
Accumulated other comprehensive income (loss)		(25.4)	(16.2)
		1,257.4	1,337.1
Less common stock in treasury, at cost:			
1998--11,856,721 shares; 1997--11,759,510 shares		547.7	526.5
Total shareholders' equity		709.7	810.6
Total liabilities and shareholders' equity		\$4,273.2	\$2,375.5

The Notes to Consolidated Financial Statements, pages 31-50, are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Years ended December 31	1998	1997	1996
Cash flows from operating activities:				
Net earnings (loss)		\$ (9.3)	\$ 185.0	\$ 155.9
Adjustments to reconcile net earnings (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization		142.7	132.7	123.7
Deferred income taxes		(27.9)	24.2	11.2
Equity change in affiliates		(4.8)	37.2	(18.2)
Gain on sale of investment in affiliates		(12.8)	--	--
Reorganization and restructuring charges		74.6	--	46.5
Severance and reorganization payments		(11.2)	(18.6)	(37.4)
Payments for asbestos-related claims, net of recoveries		(74.4)	(41.4)	--
Charge for asbestos liability		274.2	--	--
Extraordinary loss		--	--	8.9
Changes in operating assets and liabilities net of effects of discontinued businesses, reorganizations and dispositions:				
(Increase) decrease in receivables		3.5	(40.8)	3.6
(Increase) decrease in inventories		44.4	(12.8)	(11.5)
(Increase) decrease in other current assets		(28.2)	10.5	(22.8)
(Increase) in other noncurrent assets		(112.0)	(69.0)	(57.4)
Increase (decrease) in accounts payable and accrued expenses		(19.4)	16.6	(3.2)
Increase (decrease) in income taxes payable		(2.7)	11.5	2.5
Increase in other long-term liabilities		26.0	23.2	15.2
Other, net		(10.5)	(11.7)	3.9
Net cash provided by operating activities		252.2	246.6	220.9
Cash flows from investing activities:				
Purchases of property, plant and equipment		(159.7)	(141.7)	(220.7)
Investment in computer software		(24.6)	(18.8)	(7.3)
Proceeds from sale of land, facilities and discontinued businesses		2.7	24.3	3.6
Acquisitions, net of cash acquired		(1,175.7)	(4.2)	--
Investment in affiliates		147.6	(12.4)	(15.4)
Net cash used for investing activities		(1,209.7)	(152.8)	(239.8)
Cash flows from financing activities:				
Increase (decrease) in short-term debt		24.2	69.3	(7.1)
Issuance of long-term debt		1,293.9	7.2	40.8
Reduction of long-term debt		(278.6)	(17.0)	(40.0)
Cash dividends paid		(75.3)	(70.0)	(70.1)
Purchase of common stock for the treasury, net		(31.8)	(89.2)	(81.5)
Preferred stock redemption		--	--	(21.4)
Proceeds from exercised stock options		7.9	7.9	6.2
Other, net		(3.0)	(6.8)	1.3
Net cash provided by (used for) financing activities		937.3	(98.6)	(171.8)
Effect of exchange rate changes on cash and cash equivalents		0.5	(2.7)	(0.8)
Net decrease in cash and cash equivalents		\$ (19.7)	\$ (7.5)	\$ (191.5)
Cash and cash equivalents at beginning of year		\$ 57.9	\$ 65.4	\$ 256.9
Cash and cash equivalents at end of year		\$ 38.2	\$ 57.9	\$ 65.4

The Notes to Consolidated Financial Statements, pages 31-50, are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Millions except for per-share data	Years ended December 31	1998	1997	1996
SERIES A CONVERTIBLE PREFERRED STOCK:				
Balance at beginning of year		\$ --	\$ --	\$ 258.9
Conversion of preferred stock to common		--	--	(241.5)
Shares retired		--	--	(17.4)
Balance at end of year		\$ --	\$ --	\$ --
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		\$ 169.5	\$ 169.5	\$ 49.3
Gain in investment in affiliates		--	--	14.5
Conversion of preferred stock to common		--	--	102.4
Stock issuances and other		3.5	--	3.3
Balance at end of year		\$ 173.0	\$ 169.5	\$ 169.5
REDUCTION FOR ESOP LOAN GUARANTEE:				
Balance at beginning of year		\$ (207.7)	\$ (217.4)	\$ (225.1)
Principal paid		23.2	19.6	13.4
Loans to ESOP		(10.1)	(5.5)	(4.2)
Accrued compensation		(4.5)	(4.4)	(1.5)
Balance at end of year		\$ (199.1)	\$ (207.7)	\$ (217.4)
RETAINED EARNINGS:				
Balance at beginning of year		\$1,339.6	\$1,222.6	\$1,133.8
Net earnings (loss) for year		(9.3)	185.0	155.9
Tax benefit on dividends paid on unallocated common shares		2.0	2.0	1.0
Tax benefit on dividends paid on unallocated preferred shares		--	--	2.0
Total		\$1,332.3	\$1,409.6	\$1,292.7
Less dividends:				
Preferred stock		\$ --	\$ --	\$ 8.9
Common stock (per share):				
\$1.88 in 1998; \$1.72 in 1997; \$1.56 in 1996		75.3	70.0	61.2
Total dividends		\$ 75.3	\$ 70.0	\$ 70.1
Balance at end of year		\$1,257.0	\$1,339.6	\$1,222.6
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):				
Balance at beginning of year		\$ (16.2)	\$ 9.9	\$ 18.0
Foreign currency translation adjustments and hedging activities		(7.0)	(19.1)	(0.7)
Minimum pension liability adjustments		(2.2)	(7.0)	(7.4)
Total other comprehensive income (loss)		(9.2)	(26.1)	(8.1)
Balance at end of year		\$ (25.4)	\$ (16.2)	\$ 9.9
COMPREHENSIVE INCOME (LOSS)		\$(18.5)	\$ 158.9	\$ 147.8
LESS TREASURY STOCK AT COST:				
Balance at beginning of year		\$ 526.5	\$ 446.5	\$ 511.8
Stock purchases		31.8	89.2	81.5
Conversion of preferred stock to common		--	--	(139.1)
Stock issuance activity, net		(10.6)	(9.2)	(7.7)
Balance at end of year		\$ 547.7	\$ 526.5	\$ 446.5
Total shareholders' equity		\$ 709.7	\$ 810.6	\$ 790.0

The Notes to Consolidated Financial Statements, pages 31-50, are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Basic earnings per share are computed by dividing the earnings available to common shareholders by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share reflect the potential dilution of securities that could share in earnings.

Advertising Costs. The Company recognizes advertising expenses 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 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 an ESOP is 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 the lower of cost or an amount generally approximating market value.

Inventories. Inventories are valued at the lower of cost or market. Approximately 38% of 1998'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 as follows: buildings, 30 years; machinery and equipment, 3 to 15 years. Accelerated depreciation is generally used for tax purposes. Impairment losses are recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. When assets are disposed of or retired, their costs and related depreciation are removed from the books, and any resulting gains or losses normally 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. Capitalized interest was \$5.8 million in 1998, \$1.8 million in 1997 and \$2.9 million in 1996.

Goodwill and Other Intangibles. Goodwill and other intangibles are amortized on a straight-line basis. Goodwill is amortized over periods up to 40 years while other intangibles are amortized over periods up to 7 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 and other intangibles has not been impaired.

Financial Instruments. The Company uses financial instruments to diversify or offset the effect of currency, interest rate and commodity price variability.

The Company may enter into foreign currency forward contracts to offset the effect of exchange rate changes on cash flow exposures denominated in foreign currencies. Such exposures include firm commitments with third parties and intercompany financial transactions.

Realized gains and losses on contracts are recognized in the Consolidated Statements of Earnings. Unrealized gains and losses on foreign currency 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. Unrealized gains and losses on foreign currency contracts used to hedge intercompany transactions having the character of long-term investments are included in other comprehensive income.

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, when terminated, are recognized as adjustments to interest rate expense over the life of associated debt.

The Company continuously monitors developments in the capital markets and only enters into currency and swap transactions with established counterparties having investment-grade ratings. Exposure to individual counterparties is controlled, and thus the Company considers the risk of

counterparty default to be negligible.

**NATURE OF OPERATIONS
INDUSTRY SEGMENTS**

For year ended 1998						
(millions)	Floor coverings	Building products	Wood products	Insulation products	All other	Totals
Net sales to external customers	\$1,317.6	\$ 756.8	\$ 346.0	\$ 230.0	\$ 95.8	\$2,746.2
Intersegment sales	--	--	--	--	39.5	39.5
Equity (earnings) loss from affiliates	0.2	(14.2)	--	--	0.2	(13.8)
Segment operating income	176.5	116.6	38.6	46.3	9.1	387.1
Reorganization charges	53.5	10.1	--	0.2	1.9	65.7
Segment assets	1,476.7	550.1	1,355.5	174.6	80.7	3,637.6
Depreciation and amortization	63.6	39.2	15.3	12.1	7.2	137.4
Equity investment	2.2	39.6	--	--	--	41.8
Capital additions	93.6	42.5	12.4	11.3	5.9	165.7
For year ended 1997						
(millions)	Floor coverings	Building products	Wood products	Insulation products	All other	Totals
Net sales to external customers	\$1,116.0	\$ 754.5	\$ --	\$ 228.4	\$ 99.8	\$2,198.7
Intersegment sales	--	--	--	--	35.8	35.8
Equity (earnings) loss from affiliates	0.2	(12.9)	--	--	42.4	29.7
Segment operating income (loss)	186.5	122.3	--	45.4	(2.6)	351.6
Segment assets	713.8	554.9	--	165.1	219.2	1,653.0
Depreciation and amortization	65.5	37.5	--	12.0	9.6	124.6
Equity investment	2.5	36.7	--	--	135.7	174.9
Capital additions	76.6	54.4	--	13.4	3.1	147.5
For year ended 1996						
(millions)	Floor coverings	Building products	Wood products	Insulation products	All other	Totals
Net sales to external customers	\$1,091.8	\$ 718.4	\$ --	\$ 246.8	\$ 99.4	\$2,156.4
Intersegment sales	--	--	--	--	40.9	40.9
Equity (earnings) loss from affiliates	--	(9.1)	--	--	(10.0)	(19.1)
Segment operating income	195.4	103.4	--	42.4	11.6	352.8
Reorganization and restructuring charges	14.5	8.3	--	2.8	1.2	26.8
Segment assets	687.9	541.1	--	184.0	257.5	1,670.5
Depreciation and amortization	53.9	37.0	--	10.0	13.4	114.3
Equity investment	--	35.6	--	--	168.7	204.3
Capital additions	117.7	67.7	--	20.4	2.1	207.9

Segment information has been prepared in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." Segments were determined based on products and services provided by each segment. Accounting policies of the segments are the same as those described in the summary of significant accounting policies. Performance of the segments is evaluated on operating income before income taxes excluding reorganization and restructuring charges, unusual gains and losses, and interest expense. The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

The floor coverings segment includes resilient flooring, adhesives, installation and maintenance materials and accessories sold to commercial and residential segments through wholesalers, retailers and contractors. To reduce interchannel conflict, distinctive resilient flooring products have been introduced to allow exclusive product offerings by our customers. Raw materials, especially plasticizers and resins, are a significant cost of resilient flooring products. The Company has no influence on the worldwide market prices of these materials and thus is subject to cost changes.

The building products segment includes commercial and residential ceiling systems. Grid products, manufactured through the Company's WAVE joint venture with Worthington Industries, have become an important part of this business worldwide. Earnings from this joint venture are included in this segment's operating income and in "Equity Earnings from Affiliates" (see "Equity Investments" note on page 35). The major sales activity in this segment is commercial ceiling systems sold to resale distributors and contractors 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, a plant in Shanghai manufactures ceilings for the Pacific area.

The wood products segment is composed of Triangle Pacific Corp., a wholly owned subsidiary, a leading manufacturer of consumer wood products including hardwood flooring and cabinets. Products in this segment are used primarily in residential new construction and remodeling and commercial applications such as retail stores and restaurants. Approximately 40% of sales are from new construction which is more cyclical than remodeling activity. Triangle Pacific is the largest manufacturer in the world of hardwood flooring under the brand names of Bruce, Hartco, Robbins, Premier and Traffic Zone. Cabinet manufacturing is a highly fragmented industry with significant price competition. The cabinet market is dependent on new home construction and remodeling activity.

The insulation products segment includes flexible pipe insulation used in construction and in original equipment manufacturing. 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.

"All other" includes business units making a variety of specialty products for the building, automotive, textile and other industries worldwide. Gasket materials are sold for new and replacement use in automotive, construction and farm equipment, appliance, small engine and compressor industries. Automotive and diesel build rates are the most sensitive market drivers for these products. From 1996 to 1998, the Company owned an equity interest in Dal-Tile International Inc. ("Dal-Tile"), whose ceramic tile products are sold through home centers, Dal-Tile sales service centers and independent distributors. In 1998 the Company sold its interest in Dal-Tile. Other products in the "all other" category are textile mill supplies, including cots and aprons sold to equipment manufacturers and textile mills.

The table below provides a reconciliation of segment information to total consolidated information.

(millions)	1998	1997	1996
Net sales:			
Total segment sales	\$2,746.2	\$2,198.7	\$2,156.4
Intersegment sales	39.5	35.8	40.9
Elimination of intersegment sales	(39.5)	(35.8)	(40.9)
Total consolidated sales	\$2,746.2	\$2,198.7	\$2,156.4
Operating income:			
Total segment operating income	\$ 387.1	\$ 351.6	\$ 352.8
Segment reorganization and restructuring charges	(65.7)	--	(26.8)
Corporate reorganization and restructuring charges	(8.9)	--	(19.7)
Flooring discoloration charge	--	--	(34.0)
Dal-Tile charge	--	(29.7)	--
Asbestos liability charge	(274.2)	--	--
Unallocated corporate (expense) income	1.6	0.1	(16.4)
Total consolidated operating income	\$ 39.9	\$ 322.0	\$ 255.9
Assets:			
Total assets for reportable segments	\$3,637.6	\$1,653.0	\$1,670.5
Assets not assigned to business segments	635.6	722.5	465.1
Total consolidated assets	\$4,273.2	\$2,375.5	\$2,135.6
Other significant items:			
Depreciation and amortization expense:			
Segment totals	\$ 137.4	\$ 124.6	\$ 114.3
Unallocated corporate depreciation and amortization expense	5.3	8.1	9.4
Total consolidated depreciation and amortization expense	\$ 142.7	\$ 132.7	\$ 123.7
Capital additions:			
Segment totals	\$ 165.7	\$ 147.5	\$ 207.9
Unallocated corporate capital additions	18.6	13.0	20.1
Total consolidated capital additions	\$ 184.3	\$ 160.5	\$ 228.0

GEOGRAPHIC AREAS

Net trade sales at December 31 (millions)	1998	1997	1996
Americas:			
United States	\$1,803.2	\$1,412.2	\$1,385.2
Canada	98.6	89.3	87.2
Other Americas	20.2	16.6	11.2
Total Americas	\$1,922.0	\$1,518.1	\$1,483.6
Europe:			
Germany	\$ 182.5	\$ 110.2	\$ 142.4
England	142.5	130.3	129.5
France	65.9	53.1	63.2
Netherlands	57.0	33.1	37.2
Other Europe	183.4	161.7	123.0
Total Europe	\$ 631.3	\$ 488.4	\$ 495.3
Pacific area and other foreign	\$ 192.9	\$ 192.2	\$ 177.5
Total net trade sales	\$2,746.2	\$2,198.7	\$2,156.4

Sales are attributed to countries based on location of customer.

Long-lived assets at December 31 (millions)	1998	1997	1996
Americas:			
United States	\$ 991.9	\$ 746.3	\$ 728.9
Canada	17.1	20.5	20.7

Other Americas	0.1	0.1	0.1
Total Americas	\$1,009.1	\$ 766.9	\$ 749.7
Europe:			
Germany	\$ 270.3	\$ 47.7	\$ 58.0
England	52.7	54.7	51.4
Netherlands	42.3	13.0	16.8
Belgium	34.5	--	--
France	15.9	15.1	17.6
Other Europe	36.0	32.6	25.5
Total Europe	\$ 451.7	\$ 163.1	\$ 169.3
Pacific area:			
China	\$ 34.0	\$ 34.0	\$ 34.9
Other Pacific area	7.2	8.2	10.1
Total Pacific area	\$ 41.2	\$ 42.2	\$ 45.0
Total long-lived assets	\$1,502.0	\$ 972.2	\$ 964.0

ACQUISITIONS

On July 22, 1998, the Company completed its acquisition of Triangle Pacific Corp. ("Triangle Pacific"), a Delaware corporation. Triangle Pacific is a leading U.S. manufacturer of hardwood flooring and other flooring and related products and a substantial manufacturer of kitchen and bathroom cabinets. The acquisition, recorded under the purchase method of accounting, included the purchase of outstanding shares of common stock of Triangle Pacific at \$55.50 per share which, plus acquisition costs, resulted in a total purchase price of \$911.5 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of acquisition while the balance of \$831.1 million was recorded as goodwill and is being amortized over forty years on a straight-line basis.

Effective August 31, 1998, the Company acquired approximately 93% of the total share capital of DLW Aktiengesellschaft ("DLW"), a corporation organized under the laws of the Federal Republic of Germany. DLW is a leading flooring manufacturer in Germany. The acquisition, recorded under the purchase method of accounting, included the purchase of 93% of the total share capital of DLW which, plus acquisition costs, resulted in a total purchase price of \$289.9 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on the estimated fair market value at the date of acquisition while the balance of \$117.2 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. In this purchase price allocation, \$49.6 million was allocated to the estimable net realizable value of DLW's furniture business and a carpet manufacturing business in the Netherlands, which the Company has identified as businesses held for sale.

The allocation of the purchase price to the businesses held for sale was determined as follows:

(millions)	1998
Estimated sales price	\$54.3
Less: Estimated cash outflows through disposal date	(2.2)
Allocated interest through disposal date	(2.5)
Total	\$49.6

The final sales price and cash flows pertaining to these businesses may differ from these amounts. Disposals of these businesses should occur in the first half of 1999.

The table below reflects the adjustment to the carrying value of the businesses held for sale relating to interest allocation, profits and cash flows in 1998.

(millions)	1998
Carrying value at August 31, 1998	\$49.6
Interest allocated September 1-December 31, 1998	1.1
Effect of exchange rate change	2.8
Profits excluded from consolidated earnings	(0.4)
Cash flows funded by parent	2.8
Carrying value at December 31, 1998	\$55.9

The purchase price allocation for these acquisitions is preliminary and further refinements are likely to be made based on the completion of final valuation studies. The operating results of these acquired businesses have been included in the Consolidated Statements of Earnings from the dates of acquisition. Triangle Pacific's fiscal year ends on the Saturday closest to December 31, which was January 2, 1999. The difference in Triangle Pacific's fiscal year from that of the parent company was due to the difficulty in changing its financial reporting systems to accommodate a calendar year end. No events occurred between December 31 and January 2 at Triangle Pacific materially affecting the Company's financial position or results of operations.

The table below reflects unaudited pro forma combined results of the Company, Triangle Pacific and DLW as if the acquisitions had taken place at the beginning of fiscal 1998 and 1997:

(millions)	1998	1997
Net sales	\$3,479.8	\$3,350.0
Net earnings	(14.2)	173.2
Net earnings per diluted share	(0.36)	4.22

In management's opinion, these unaudited pro forma amounts are not necessarily indicative of what the actual combined results of operations might have been if the acquisitions had been effective at the beginning of fiscal 1997 and 1998.

REORGANIZATION AND OTHER ACTIONS

In 1998 the Company recognized charges of \$65.6 million, or \$42.6 million after tax, related to severance and enhanced retirement benefits for more than 650 positions, approximately 75% of which were salaried positions. In addition, the Company recorded an estimated loss of \$9.0 million, or \$5.9 million after tax, related to redundant flooring products machinery and equipment held for disposal. Reorganization actions include corporate and business unit staff reductions reflecting reorganization of engineering, research and development and product styling and design; realignment of support activities in connection with implementation of a new corporate logistics and financial software system; changes to production processes in the Company's Lancaster flooring plant; and elimination of redundant positions in formation of a new combined business organization for Floor Products, Corporate Retail Accounts and Installation Products. Approximately \$28.6 million is cash expenditures for severance which will occur over the next 12 months. The remainder is a noncash charge for enhanced retirement benefits.

A 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-downs of assets. These actions affected approximately 500 employees, about two-thirds of whom were in staff positions. The majority of the cash outflow occurred within the following 12 months. As of December 31, 1998, an immaterial amount remained in the 1996 reserve related to a non-cancelable operating lease.

Severance payments of \$10.4 million were made in 1998 for the elimination of 209 positions related to the 1996 and 1998 reorganization and restructuring actions.

EQUITY INVESTMENTS

Investments in affiliates were \$41.8 million at December 31, 1998, a decrease of \$133.1 million, reflecting the sale of the Company's ownership of Dal-Tile, somewhat offset by an increase in the Company's 50% interest in its WAVE joint venture with Worthington Industries.

Equity earnings from affiliates for 1998 primarily comprised income from a 50% interest in the WAVE joint venture and the Company's share of a net loss at Dal-Tile and amortization of the excess of the Company's investment in Dal-Tile over the underlying equity in net assets. Equity losses from affiliates in 1997 included \$8.4 million for the Company's share of operating losses incurred by Dal-Tile; a \$29.7 million loss for the Company's share of a charge incurred by Dal-Tile, primarily for uncollectible receivables and overstocked inventories; and \$4.3 million for the amortization of Armstrong's initial investment in Dal-Tile over the underlying equity in net assets. Equity earnings from affiliates for 1996 primarily comprised the Company's after-tax share of the net income of the Dal-Tile International Inc. business combination, amortization of the excess of the Company's investment in Dal-Tile over the underlying equity in net assets, and earnings from its 50% interest in the WAVE joint venture.

In 1995 the Company entered into a business combination with Dal-Tile whereby the Company exchanged cash and the stock of its ceramic tile operations, consisting primarily of American Olean Tile Company, a wholly-owned subsidiary, for ownership of 37% of the shares of Dal-Tile. In August 1996, Dal-Tile issued new shares in a public offering decreasing the Company's ownership share from 37% to 33%. During 1997, the Company purchased additional shares of Dal-Tile stock, increasing the Company's ownership to 34%.

In 1996 Dal-Tile refinanced all of its existing debt and recorded an extraordinary loss. The Company's share of the extraordinary loss was \$8.9 million after tax or \$0.21 per diluted share.

In 1998 the Company announced its intention to dispose of its investment in Dal-Tile. In July the Company sold 10.35 million shares of Dal-Tile at \$8.50 per share before commission and fees. Since this sale reduced the Company's ownership of Dal-Tile below 20%, remaining shares were classified as available-for-sale under the terms of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." An unrealized holding gain arising from valuing the securities at market price was excluded from income and recognized as a separate component of shareholders' equity.

In October and November, the Company sold its remaining 8.02 million shares of Dal-Tile at \$8.50 per share before commission and fees. The Company recorded a total gain of \$12.8 million after tax, classified as "Other income," in the last half of 1998 on these sales.

RECEIVABLES

Accounts and notes receivable (millions)	1998	1997
Customers' receivables	\$462.9	\$255.2
Customers' notes	15.5	15.1
Miscellaneous receivables	11.8	19.8
	490.2	290.1
Less allowance for discounts and losses	49.8	37.5
Net	\$440.4	\$252.6

Generally, the Company sells its products to select, preapproved customers whose businesses are directly affected by changes in economic and market conditions. The Company considers these factors and the financial condition of each customer when establishing its allowance for losses from doubtful accounts.

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

INVENTORIES

Approximately 38% of the Company's total inventory in 1998 and 57% in 1997 were 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 \$50.5 million at the end of 1998 and \$60.3 million at year-end 1997.

Inventories (millions)	1998	1997
Finished goods	\$251.2	\$149.4
Goods in process	51.5	19.9
Raw materials and supplies	162.4	50.8
Total	\$465.1	\$220.1

PROPERTY, PLANT AND EQUIPMENT

(millions)	1998	1997
Land	\$ 111.5	\$ 20.4
Buildings	549.8	395.4
Machinery and equipment	1,759.5	1,450.5
Construction in progress	203.1	110.2
	2,623.9	1,976.5
Less accumulated depreciation and amortization	1,121.9	1,004.3
Net	\$1,502.0	\$ 972.2

GOODWILL AND OTHER INTANGIBLES

(millions)	1998	1997
Goodwill	\$ 993.4	\$ 44.0
Less accumulated amortization	28.0	16.3
Total goodwill	\$ 965.4	\$ 27.7
Other intangibles	\$ 78.7	\$ 55.2
Less accumulated amortization	15.5	22.6
Total other intangibles	\$ 63.2	\$ 32.6

Goodwill and other intangibles increased by \$968.3 million, reflecting goodwill related to Triangle Pacific and DLW, higher spending levels in computer software systems and acquired intangibles from acquisitions. Unamortized computer software costs included in other intangibles were \$56.0 million at December 31, 1998, and \$24.8 million at December 31, 1997.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(millions)	1998	1997
Payables, trade and other	\$235.2	\$174.0
Asbestos-related claims, current portion	80.0	72.0
Employment costs	82.5	47.7
Reorganization and severance payments	30.6	12.2
Other	116.5	34.0
Total	\$544.8	\$339.9

DEBT

(millions)	1998	Average year-end interest rate	1997	Average year-end interest rate
Short-term debt:				
Commercial paper	\$ 104.1	6.20%	\$ 60.8	6.33%
Foreign banks	45.8	5.29%	23.3	6.23%
Total short-term debt	\$ 149.9	5.92%	\$ 84.1	6.30%
Long-term debt:				
Bank loans due 1999-2006	\$ 91.9	4.96%	\$ 25.0	4.74%
Medium-term notes				
8.95-9% due 2000-2001	25.6	8.96%	39.1	8.94%
6.35% Senior notes due 2003	199.8	6.35%	--	--
6.5% Senior notes due 2005	149.7	6.50%	--	--
9 3/4% debentures due 2008	125.0	9.75%	125.0	9.75%
7.45% Senior quarterly interest bonds due 2038	180.0	7.45%	--	--
Industrial development bonds	31.2	4.67%	19.5	5.10%
Commercial paper, noncurrent	750.0	6.20%	--	--
Capital lease obligations	13.3	7.25%	--	--
Other	29.2	7.28%	29.0	7.76%
Total long-term debt	\$1,595.7	6.64%	\$ 237.6	8.46%
Less current installments	32.9	5.54%	14.5	8.91%
Net long-term debt	\$1,562.8	6.66%	\$ 223.1	8.43%

Scheduled amortization of long-term debt (millions)

2000	\$ 51.2	2003	\$656.5
2001	331.7	2004	16.3
2002	5.5		

On August 11, 1998, the Company completed an offering of \$200 million of 6.35% Senior Notes due 2003 and a concurrent offering of \$150 million of 6.5% Senior Notes due 2005. On October 28, 1998, the Company completed an offering of \$180 million of 7.45% Senior Quarterly Interest Bonds due 2038. The Company used the proceeds from the issuance of the securities to repay outstanding commercial paper.

The 7.45% Senior Quarterly Interest Bonds are callable in five years and have no sinking-fund requirements.

The Company's 9 3/4% debentures, senior notes and medium-term notes are not redeemable until maturity and have no sinking-fund requirements.

The industrial development bonds mature in 2004, 2009 and 2024.

Other debt includes an \$18.6 million zero-coupon note due in 2013 that had a carrying value of \$2.8 million at December 31, 1998, and an effective interest rate of 13.4%.

The Company has three unused credit agreements: a \$450 million credit agreement expiring in 364 days; a \$450 million line of credit expiring in 2003; and a revolving line of credit of \$300 million, expiring in 2001. In addition, the Company's foreign subsidiaries have approximately \$258.9 million of unused short-term lines of credit available from banks. The credit lines are subject to immaterial annual commitment fees. The Company intends to refinance a portion of its outstanding commercial paper balance on a long-term basis. Such intent is supported by the \$450 million line of credit expiring in 2003 and the \$300 million revolving line of credit expiring in 2001. Accordingly, long-term debt includes \$750 million of commercial paper reclassified from short-term debt.

In 1997 and 1998 the Company entered into forward-starting interest rate swaps designated as hedges of long-term bonds. In 1998 the Company terminated these interest rate swaps concurrent with the issuance of its 7.45% quarterly interest bond due 2038. The loss of \$16.3 million upon termination of the swaps will be recognized as an adjustment to interest expense over the life of the bond.

FINANCIAL INSTRUMENTS

The Company does not hold or issue financial instruments for trading purposes. The estimated fair value of the Company's financial instruments are as follows:

(In millions at December 31)	1998 Carrying amount	Estimated fair value	1997 Carrying amount	Estimated fair value
Assets:				
Cash and cash equivalents	\$ 38.2	\$ 38.2	\$ 57.9	\$ 57.9
Receivables	440.4	440.4	252.6	252.6
Liabilities:				
Accounts payable and accrued expenses	\$ 544.8	\$ 544.8	\$ 339.9	\$ 339.9
Short-term and long-term debt	1,745.6	1,756.0	321.7	356.6
Other long-term liabilities	115.8	115.8	98.3	98.3
Off-balance sheet financial instruments:				
Foreign currency contract obligations	\$ --	\$ 6.4	\$ --	\$ 0.3
Letters of credit/financial guarantees	--	244.6	--	186.1
Lines of credit	--	1,458.9	--	409.6
Natural gas contracts	--	(0.5)	--	(0.1)

Fair values were determined as follows:

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, short-term debt and current installments of long-term debt approximate fair value because of the short-term maturity of these instruments.

The fair value estimates of long-term debt were based upon quotes from major financial institutions taking into consideration current rates offered to the Company for debt of the same remaining maturities.

Other long-term liabilities consist primarily of deferred compensation payments, for which cost approximates fair value.

Foreign currency contract obligations are estimated by obtaining quotes from brokers.

Letters of credit, financial guarantees and lines of credit amounts are based on the estimated cost to settle the obligations.

Natural gas contract amounts are based on estimated cost to settle the contracts.

INCOME TAXES

Income taxes payable (millions)	1998	1997

Payable -- current	\$25.3	\$32.2
Deferred -- current	0.4	0.8

Total	\$25.7	\$33.0

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for net operating losses and capital loss carryforwards. Of the \$61.1 million in capital loss carryforwards at December 31, 1998, \$15.0 million will expire in 1999, \$37.7 million will expire in 2001 and \$8.4 million will expire in 2003. Of the \$21.3 million in foreign net operating losses, \$3.3 million will expire in 2003 and the remaining \$18.0 million will be carried forward indefinitely. Valuation allowances increased \$0.2 million in 1998.

Deferred income taxes (millions)	1998	1997
Postretirement and postemployment benefits	\$ (87.7)	\$ (87.0)
Reorganization payments	(24.2)	(7.4)
Asbestos-related liabilities	(150.3)	(82.1)
Net operating losses	(8.2)	(9.0)
Capital loss carryforward	(21.3)	(20.4)
Other	(97.9)	(66.0)
Total deferred tax assets	\$ (389.6)	\$ (271.9)
Valuation allowance	29.5	29.3
Net deferred tax assets	\$ (360.1)	\$ (242.6)
Accumulated depreciation	\$ 224.8	\$ 102.4
Pension costs	51.3	48.3
Insurance for asbestos-related liabilities	92.7	94.4
Other	55.7	30.5
Total deferred income tax liabilities	\$ 424.5	\$ 275.6
Net deferred income tax liabilities	\$ 64.4	\$ 33.0
Deferred tax asset -- current	(43.2)	(20.7)
Deferred income tax liability -- long term	\$ 107.6	\$ 53.7

Details of taxes (millions)	1998	1997	1996
Earnings (loss) before income taxes:			
Domestic	\$ (57.1)	\$ 236.4	\$ 176.5
Foreign	63.5	92.9	87.6
Eliminations	(27.0)	(33.1)	(23.9)
Total	\$ (20.6)	\$ 296.2	\$ 240.2
Income tax provision (benefit):			
Current:			
Federal	\$ 11.2	\$ 46.8	\$ 36.2
Foreign	21.7	35.7	33.4
State	1.3	1.5	1.4
Total current	34.2	84.0	71.0
Deferred:			
Federal	(48.2)	30.9	4.9
Foreign	2.3	(3.7)	(0.5)
State	0.4	--	--
Total deferred	(45.5)	27.2	4.4
Total income taxes	\$ (11.3)	\$ 111.2	\$ 75.4

At December 31, 1998, unremitted earnings of subsidiaries outside the United States were \$155.6 million (at December 31, 1998, balance sheet exchange rates) for 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 \$5.4 million. The Company's intention, however, is to reinvest unremitted earnings permanently or to repatriate them only when it is tax effective to do so.

Reconciliation to U.S. statutory tax rate (millions)	1998	1997	1996
Tax expense (benefit) at statutory rate	\$ (7.2)	\$ 103.7	\$ 84.1
State income taxes, net of federal benefit	1.7	1.0	0.9
(Benefit) on ESOP dividend	(1.2)	(0.9)	(1.5)
Tax (benefit) on foreign and foreign-source income	0.6	1.1	6.2
Utilization of excess foreign tax credit	--	(2.9)	(6.5)
Equity in (earnings) loss of affiliates	(6.2)	9.9	(4.2)
Insurance programs	(1.0)	(0.8)	(1.2)
Goodwill	3.3	--	--
Other items	(1.3)	0.1	(2.4)
Tax (benefit) expense at effective rate	\$ (11.3)	\$ 111.2	\$ 75.4

Other taxes (millions)	1998	1997	1996
Payroll taxes	\$ 65.0	\$ 50.7	\$ 51.5
Property, franchise and capital stock taxes	\$ 20.0	\$ 16.6	\$ 14.7

Other long-term liabilities (millions)	1998	1997
Deferred compensation	\$ 38.1	\$ 32.8
Other	77.7	65.5
Total other long-term liabilities	\$ 115.8	\$ 98.3

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.

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, 1998, the ESOP had allocated to participants a total of 1,966,000 shares and retired 953,000 shares.

The ESOP currently covers parent company nonunion employees and some union employees.

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 Sheets.

Details of ESOP debt service payments (millions)	1998	1997	1996
Preferred dividends paid	\$ --	\$ --	\$ 8.9
Common stock dividends paid	9.0	8.5	4.0
Employee contributions	9.8	9.7	5.3
Company contributions	11.4	14.7	11.0
Company loans to ESOP	10.1	5.5	4.2
Debt service payments made by ESOP trustee	\$ 40.3	\$ 38.4	\$ 33.4

The Company recorded costs for the ESOP, utilizing the 80% of the shares allocated method, of \$6.9 million in 1998, \$10.4 million in 1997

and \$9.4 million in 1996. These costs were partially offset by savings realized from previous changes to Company-sponsored health care benefits and elimination of the contribution-matching feature in the Company-sponsored voluntary retirement savings plan.

The trustee borrowed \$10.1 million from the Company in 1998, \$5.5 million in 1997, and \$4.2 million in 1996. These loans were made to ensure that the financial arrangements provided to employees remain consistent with the original intent of the ESOP.

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)	1998	1997	1996
Option shares at beginning of year	2,161.3	2,161.4	1,841.6
Options granted	914.8	286.8	728.7
Option shares exercised	(253.3)	(265.5)	(376.7)
Stock appreciation rights exercised	(3.1)	(4.7)	(10.8)
Options cancelled	(36.0)	(16.7)	(21.4)
Option shares at end of year	2,783.7	2,161.3	2,161.4
Option shares exercisable at end of year	1,372.0	1,262.1	1,185.8
Shares available for grant	789.7	1,585.5	1,914.6
Weighted average price per share:			
Options outstanding	\$ 60.41	\$ 54.01	\$ 50.06
Options exercisable	52.38	46.88	41.11
Options granted	70.43	69.63	60.30
Option shares exercised	41.68	39.10	36.27

The table below summarizes information about stock options outstanding at December 31, 1998.

Stock options outstanding as of 12/31/98					
Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at 12/31/98	Weighted- average remaining contractual life	Weighted- average exercise price	Number exercisable at 12/31/98	Weighted- average exercise price
\$29-55	713,468	4.9	\$43.31	698,168	\$43.09
55-60	625,042	7.3	59.52	461,662	59.76
60-68	565,540	8.1	63.90	125,112	63.45
68-72	238,437	8.2	69.90	69,073	69.91
72-86	641,230	9.1	73.71	17,973	79.23
	2,783,717			1,371,988	

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, but 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 a peer group of 12 companies. At the end of performance periods, common stock awarded will carry additional restriction periods (generally three or four years), during which time the shares will be held in custody by the Company until the expiration or termination of restrictions. Compensation expense will be charged to earnings over the performance period. Within performance periods at the end of 1998 were 6,600 performance restricted shares outstanding, with 777 accumulated dividend equivalent shares. No restricted common stock awards were earned based on the performance period ending December 31, 1998. Within restriction periods at the end of 1998 were 182,425 shares of restricted common stock outstanding based on performance periods ending prior to 1998.

Restricted stock awards can be used for the purposes of recruitment, special recognition and retention of key employees. Awards for 36,750 shares of restricted stock were granted (excluding performance based awards discussed above) during 1998. At the end of 1998, there were 157,334 restricted shares of common stock outstanding.

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 would have been reduced to the following pro forma amounts.

(millions)	1998	1997	1996
Net earnings (loss):			
As reported	\$ (9.3)	\$ 185.0	\$ 155.9
Pro forma	(16.1)	180.7	150.7
Basic earnings (loss) per share:			
As reported	(0.23)	4.55	3.81
Pro forma	(0.40)	4.45	3.68
Diluted earnings (loss) per share:			
As reported	(0.23)	4.50	3.61
Pro forma	(0.40)	4.39	3.49

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model with the assumptions for 1998, 1997 and 1996 presented in the table below. The weighted-average fair value of stock options granted in 1998 was \$17.34.

	1998	1997	1996
Risk-free interest rates	5.14%	6.21%	6.17%
Dividend yield	3.03%	2.46%	2.32%
Expected lives	5 years	5 years	5 years
Volatility	28%	19%	21%

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.

EMPLOYEE COMPENSATION

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

Employee compensation cost summary (millions)	1998	1997	1996
Wages and salaries	\$ 590.4	\$ 494.7	\$ 509.7
Payroll taxes	65.0	50.7	51.5
Pension credits	(38.1)	(22.2)	(16.1)
Insurance and other benefit costs	60.0	51.9	50.7
Stock-based compensation	5.0	9.6	5.8
Total	\$ 682.3	\$ 584.7	\$ 601.6
Average number of employees	13,881	10,643	10,572

PENSION AND OTHER BENEFIT PROGRAMS

The Company and a number of its subsidiaries have pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide.

The Company also has defined-contribution pension plans for eligible employees. Costs for these plans were \$6.9 million in 1998, \$10.4 million in 1997, and \$9.9 million in 1996. The Company also has an Employee Stock Ownership Plan, as described on page 39. Benefits from the pension plan, which cover substantially all employees and include the employees of Triangle Pacific, acquired on July 22, 1998, are based on an employee's compensation and years of service. Pension plans are funded by the Company. Postretirement benefits are funded by the Company on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions. The Company announced in 1989 and 1990 a 15-year phaseout of its 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.

The FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," in February 1998. In accordance with this standard, pension costs for the U.S. include those related to the pension plan and the retirement benefit equity plan, a nonqualified pension plan. The new standard does not change the measurement or recognition of costs for pension or other postretirement plans. It

standardizes disclosures and eliminates those that are no longer useful. The following tables, in accordance with the new standard, summarize the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and postretirement benefit plans. The plan assets are primarily listed as stocks and bonds. Included in these assets were 1,426,751 shares of Armstrong common stock at year-end 1997 and 1998.

U.S. defined-benefit plans (millions)	Pension Benefits		Retiree Health and Life Insurance Benefits	
	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation as of January 1	\$1,078.1	\$1,001.3	\$ 262.7	\$ 247.1
Service cost	17.5	16.4	3.3	3.3
Interest cost	72.6	72.6	17.2	17.6
Plan participants' contributions	--	--	2.3	2.1
Acquisition	15.1	--	--	--
Effect of special termination benefits	38.1	7.8	--	--
Actuarial loss (gain)	15.5	51.8	(1.0)	14.1
Benefits paid	(73.4)	(71.8)	(22.0)	(21.5)
Benefit obligation as of December 31	\$1,163.5	\$1,078.1	\$ 262.5	\$ 262.7
Change in plan assets:				
Fair value of plan assets as of January 1	\$1,754.4	\$1,501.9	\$ --	\$ --
Actual return on plan assets	180.3	322.6	--	--
Acquisition	11.4	--	--	--
Employer contribution	2.2	1.7	19.7	19.4
Plan participants' contributions	--	--	2.3	2.1
Benefits paid	(73.4)	(71.8)	(22.0)	(21.5)
Fair value of plan assets as of December 31	\$1,874.9	\$1,754.4	\$ 0.0	\$ 0.0
Funded status	\$ 711.4	\$ 676.3	\$ (262.5)	\$ (262.7)
Unrecognized net actuarial loss (gain)	(597.4)	(586.2)	48.8	50.9
Unrecognized transition asset	(20.7)	(26.9)	--	--
Unrecognized prior service cost (benefit)	82.2	92.2	(6.0)	(6.8)
Net amount recognized	\$ 175.5	\$ 155.4	\$ (219.7)	\$ (218.6)

The funded status of U.S. defined-benefit plans was determined using the assumptions presented in the table below.

U.S. defined-benefit plans	Pension Benefits		Retiree Health and Life Insurance Benefits	
	1998	1997	1998	1997
Weighted-average assumption as of December 31:				
Discount rate	6.75%	7.00%	6.75%	7.00%
Expected return on plan assets	8.75%	8.75%	n/a	n/a
Rate of compensation increase	3.75%	4.00%	3.75%	4.00%

Amounts recognized in the Consolidated Balance Sheets consist of:

(millions)	Pension Benefits		Retiree Health and Life Insurance Benefits	
	1998	1997	1998	1997
Prepaid benefit costs	\$ 187.8	\$ 164.2	\$ --	\$ --
Accrued benefit liability	(40.2)	(23.2)	(219.7)	(218.6)
Intangible asset	2.3	2.6	--	--
Other comprehensive income	25.6	11.8	--	--
Net amount recognized	\$ 175.5	\$ 155.4	\$ (219.7)	\$ (218.6)
U.S. Pension plans with benefit obligations in excess of assets (millions)				
			Pension Benefits	
			1998	1997
Retirement benefit equity plan				
Projected benefit obligation, December 31			\$48.4	\$30.1
Accrued benefit obligation, December 31			40.2	23.2
Fair value of plan assets, December 31			--	--

The components of pension credit are as follows:

U.S. defined-benefit plans (millions)	Pension Benefits		
	1998	1997	1996
Service cost of benefits earned during the year	\$ 17.5	\$ 16.4	\$ 17.6
Interest cost on projected benefit obligation	72.6	72.6	67.4
Expected return on plan assets	(136.2)	(122.8)	(113.8)
Amortization of transition asset	(6.2)	(6.2)	(6.2)
Amortization of prior service cost	10.0	10.0	10.0
Recognized net actuarial gain	(18.4)	(13.6)	(12.0)
Net periodic pension credit	\$ (60.7)	\$ (43.6)	\$ (37.0)

Costs for other funded and unfunded pension plans were \$4.0 million in 1998, \$2.8 million in 1997 and \$2.5 million in 1996.

The components of postretirement benefit costs are as follows:

U.S. defined-benefit plans (millions)	Retiree Health and Life Insurance Benefits		
	1998	1997	1996
Service cost of benefits earned during the year	\$ 3.3	\$ 3.3	\$ 3.7
Interest cost on accumulated postretirement benefit obligation	17.2	17.6	17.0
Amortization of prior service benefit	(0.9)	(0.9)	(0.9)
Recognized net actuarial loss	1.3	1.2	1.4
Net periodic postretirement benefit cost	\$ 20.9	\$ 21.2	\$ 21.2

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998. The rate was assumed to decrease 1% per year to an ultimate rate of 6% by the year 2000.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

U.S. retiree health and life insurance benefit plans (millions)	One percentage point	
	Increase	Decrease
Effect on total of service and interest cost components	\$ 2.2	\$ (1.8)
Effect on postretirement benefit obligation	\$22.8	\$(19.3)

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. These plans include those of DLW, acquired on August 31, 1998. The following tables summarize the balance sheet impact as well as the benefit obligations, assets, funded status and rate assumptions associated with pension benefits.

Non-U.S. defined-benefit plans (millions)	Pension Benefits	
	1998	1997
Change in benefit obligation:		
Benefit obligation as of January 1	\$ 127.4	\$ 125.5
Service cost	6.3	5.7
Interest cost	12.3	8.8
Plan participants' contributions	1.4	1.1
Plan amendments	--	0.5
Acquisition	164.6	--
Effect of settlements	(0.5)	(1.3)
Effect of special termination benefits	0.5	--
Foreign currency translation adjustment	12.8	(9.2)
Actuarial loss	10.2	2.2
Benefits paid	(9.8)	(5.9)
Benefit obligation as of December 31	\$ 325.2	\$ 127.4
Change in plan assets:		
Fair value of plan assets as of January 1	\$ 95.5	\$ 84.5
Actual return on plan assets	16.7	15.4
Acquisition	35.1	--
Employer contribution	6.3	2.5
Plan participants' contribution	1.4	1.1
Foreign currency translation adjustment	1.9	(2.1)
Benefits paid	(9.8)	(5.9)
Fair value of plan assets as of December 31	\$ 147.1	\$ 95.5
Funded status	\$(178.1)	\$ (31.9)
Unrecognized net actuarial gain	(21.1)	(21.8)
Unrecognized transition obligation	1.6	1.4
Unrecognized prior service cost	4.9	5.3
Net amount recognized	\$(192.7)	\$ (47.0)

Amounts recognized in the Consolidated Balance Sheets consist of:

(millions)	Pension Benefits	
	1998	1997
Prepaid benefit cost	\$ 2.2	\$ 3.2
Accrued benefit liability	(195.3)	(50.6)
Intangible asset	0.2	0.2
Other comprehensive income	0.2	0.2
Net amount recognized	\$(192.7)	\$ (47.0)

Non-U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits	
	1998	1997
Projected benefit obligation, December 31	\$192.5	\$46.8
Accrued benefit obligation, December 31	186.3	45.1
Fair value of plan assets, December 31	0.6	--

The components of pension cost are as follows:

Non-U.S. defined-benefit plans (millions)	Pension Benefits		
	1998	1997	1996
Service cost of benefits earned during the year	\$ 6.3	\$ 5.7	\$ 5.3
Interest cost on projected benefit obligation	12.3	8.8	8.6
Expected return on plan assets	(7.4)	(6.8)	(5.9)
Amortization of transition obligation	0.3	0.3	0.7
Amortization of prior service cost (benefit)	0.4	0.4	(0.1)
Recognized net actuarial gain	(0.2)	(0.2)	(0.1)
Net periodic pension cost	\$ 11.7	\$ 8.2	\$ 8.5

The funded status of non-U.S. defined-benefit plans was determined using the assumptions presented in the table below.

Non-U.S. defined-benefit plans	Pension Benefits	
	1998	1997
Weighted-average assumption as of December 31:		
Discount rate	6.25%	7.00%
Expected return on plan assets	6.25%	8.00%
Rate of compensation increase	3.50%	4.75%

SHAREHOLDERS' EQUITY

Treasury share changes for 1998, 1997 and 1996 are as follows:

Years ended December 31 (thousands)	1998	1997	1996
Common shares			
Balance at beginning of year	11,759.5	10,714.6	15,014.1
Stock purchases(1)	389.5	1,299.2	1,357.6
Stock issuance activity, net(2)	(292.3)	(254.3)	(5,657.1)
Balance at end of year	11,856.7	11,759.5	10,714.6

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 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 4,017,000 shares through December 31, 1998, with a total cash outlay of \$248.1 million, including 355,000 repurchased in 1998.

In June 1998, the Company halted purchases of its common shares under the common share repurchase program in connection with its announcement to purchase Triangle Pacific and DLW.

The balance of each component of other comprehensive income as of December 31, 1998, and December 31, 1997, is presented in the table below.

(millions)	1998	1997
Foreign currency translation adjustments and hedging activities	\$ 8.7	\$ 1.7
Minimum pension liability adjustments	16.7	14.5
Total	\$25.4	\$16.2

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

(millions)	Before-Tax Amount	Tax Benefit	After-Tax Amount
Foreign currency translation adjustments and hedging activities	\$ 7.0	\$ 0.0	\$ 7.0
Minimum pension liability adjustments	13.8	11.6	2.2
Total	\$20.8	\$11.6	\$ 9.2

Other comprehensive income reclassification adjustments (millions)		1998	1997
Unrealized holding gains arising during period		\$ 12.8	\$ --
Less:			
Reclassification adjustment for gains included in net income		(12.8)	--
Net unrealized gains on securities		\$ 0.0	\$ --

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.

SUPPLEMENTAL FINANCIAL INFORMATION

Selected operating expenses (millions)	1998	1997	1996
Maintenance and repair costs	\$ 112.3	\$ 107.3	\$ 105.3
Research and development costs	42.2	47.8	55.2
Advertising costs	41.2	19.3	25.5
Other expense (income), net (millions)	1998	1997	1996
Interest and dividend income	\$ (3.3)	\$ (4.9)	\$ (6.5)
Foreign exchange, net loss	0.5	0.5	1.2
Dal-Tile gain	(12.8)	--	--
Domco litigation expense	12.3	--	--
Deferred compensation	1.0	0.5	--
Discontinued businesses	0.3	0.8	(2.8)
Minority interest	(0.9)	0.6	0.3
Other	1.2	0.3	0.9
Total	\$ (1.7)	\$ (2.2)	\$ (6.9)

SUPPLEMENTAL CASH FLOW INFORMATION

(millions)	1998	1997	1996
Interest paid	\$ 48.6	\$ 23.5	\$ 20.7
Income taxes paid	\$ 35.3	\$ 54.5	\$ 65.5
Acquisitions:			
Fair value of assets acquired	\$1,031.9	\$ 32.6	\$ --
Cost in excess of net assets acquired	948.3	--	--
Less:			
Liabilities assumed	804.5	28.4	--
Cash paid, net of cash acquired	\$1,175.7	\$ 4.2	\$ --

LEASES

The Company rents certain real estate and equipment. Several leases include options for renewal or purchase and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. Rental expense was \$26.1 million in 1998, \$15.5 million in 1997, and \$13.1 million in 1996.

Triangle Pacific leases a plant and related equipment in Beverly, West Virginia. The lease agreement contains a purchase option of \$1 until 2018. As a result, the present value of the remaining future minimum lease payments is recorded as a capitalized lease asset and related capitalized lease obligation. Assets under this capital lease as included in the Consolidated Balance Sheets are as follows:

(millions)	1998	1997
Land	\$ 3.8	\$ --
Building	4.5	--
Machinery and equipment	21.5	--

Total assets	\$29.8	\$ --
Less accumulated amortization	4.8	--
Net assets	\$25.0	\$ --

Future minimum payments at December 31, 1998, by year and in the aggregate, under the Triangle Pacific lease and other operating leases having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments (millions)	Capital leases	Operating leases
1999	\$ 2.0	\$ 9.7
2000	4.2	8.0
2001	0.8	4.6
2002	0.8	3.1
2003	2.2	2.2
Thereafter	3.3	13.8
Total	\$13.3	\$41.4

EARNINGS PER SHARE

The table below provides a reconciliation of the numerators and denominators of the basic and diluted per share calculations for earnings (loss) from continuing businesses.

Millions except for per-share data	Earnings (Loss)	Shares	Per-Share Amount
For the year ended 1998			
Basic Earnings (Loss) per Share			
Earnings (loss) from continuing businesses	\$ (9.3)	39.8	\$(0.23)
Diluted Earnings (Loss) per Share			
Dilutive options		0.6	
Earnings (loss) available for common shareholders	\$ (9.3)	40.4	\$(0.23)/1/
For the year ended 1997			
Basic Earnings per Share			
Earnings from continuing businesses	\$185.0	40.6	\$ 4.55
Diluted Earnings per Share			
Dilutive options		0.4	
Earnings available for common shareholders	\$185.0	41.0	\$ 4.50
For the year ended 1996			
Earnings from continuing businesses	\$164.8		
Less: preferred stock dividends	8.8		
Plus: tax benefit on dividends paid on unallocated preferred shares	2.0		
Basic Earnings per Share			
Earnings available for common shareholders	\$158.0	39.1	\$ 4.04
Earnings from continuing businesses			
Less: increased contribution to the ESOP assuming conversion of preferred shares to common	3.2		
Less: net reduction in tax benefits assuming conversion of the ESOP preferred shares to common shareholders	0.6		
Diluted Earnings per Share			
Dilutive options		0.4	
Common shares issuable under the ESOP		2.6	
Earnings available for common shareholders	\$161.0	42.1	\$ 3.82

Note 1: Diluted earnings (loss) per share from continuing businesses for 1998 was antidilutive.

In 1996 the employee stock ownership plan (ESOP) and retirement savings plan were merged resulting in the conversion of convertible preferred shares into common stock. Basic earnings per share for "Earnings from continuing businesses" in 1996 is 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 ESOP shares from the conversion date forward. Diluted earnings per share for 1996 include the shares of common stock outstanding, the dilutive effect of stock options and the adjustments to common shares and earnings required to portray the convertible

preferred ESOP shares on an "if-converted" basis prior to conversion.

ENVIRONMENTAL MATTERS

The Company incurred capital expenditures of approximately \$6.7 million in 1998, \$1.2 million in 1997 and \$3.0 million in 1996 for environmental compliance and control facilities and anticipates comparable annual expenditures for those purposes for the years 1999 and 2000. 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 ("CAA") and the final implementing regulations promulgated by various state agencies. Until all new CAA regulatory requirements are known, uncertainty will remain regarding future estimates of capital expenditures.

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 22 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 among the PRPs. 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 and former 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. Such recoveries, where probable, have been recorded as an asset.

Reserves of \$18.3 million at December 31, 1998, and \$9.3 million at December 31, 1997, were for potential environmental liabilities that the Company considers probable and for which a reasonable estimate of the probable 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, \$18.3 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.

LITIGATION AND RELATED MATTERS

ASBESTOS-RELATED LITIGATION

PERSONAL INJURY LITIGATION

The Company is one of many defendants in approximately 154,000 pending claims as of December 31, 1998, alleging personal injury from exposure to asbestos.

Nearly all 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 asbestos-containing insulation products. The Company discontinued the sale of all such products in 1969. The claims also 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 large number of claims have been settled, dismissed, put on inactive lists or otherwise resolved, and the Company generally is involved in all stages of claims resolution and litigation, including individual trials, consolidated trials and appeals. Neither the rate of future filings and resolutions nor the total number of future claims can be predicted at this time with a high degree of certainty.

Attention has been given by various parties to securing a comprehensive resolution of the litigation. In 1991, the Judicial Panel for Multidistrict Litigation ordered the transfer of federal cases to the Eastern District of Pennsylvania in Philadelphia for pretrial purposes. The Company supported this transfer. Some cases are periodically released for trial, although the issue of punitive damages is retained by the transferee court. That 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. Claims in state courts have not been directly affected by the transfer, although most recent cases have been filed in state courts.

Amchem Settlement Class Action

Georgine v. Amchem ("Amchem") was a settlement class action filed in the Eastern District of Pennsylvania on January 15, 1993, that included essentially all future personal injury claims against members of the Center for Claims Resolution ("Center"), including the Company. It was designed to establish a nonlitigation system for the resolution of such claims, and offered a method for prompt compensation to claimants who were occupationally exposed to asbestos if they met certain exposure and medical criteria. Compensation amounts were derived from historical settlement data and no punitive damages were to be paid. The settlement was designed to, among other things, minimize transactional costs, including attorneys' fees, expedite compensation to claimants with qualifying claims, and relieve the courts of the burden of handling future claims.

The District Court, after exhaustive discovery and testimony, approved the settlement class action and issued a preliminary injunction that barred class members from pursuing claims against Center members in the tort system. The U.S. Court of Appeals for the Third Circuit reversed that decision, and the reversal was sustained by the U.S. Supreme Court on June 25, 1997, holding that the settlement class did not meet the requirements for class certification under Federal Rule of Civil Procedure 23. The preliminary injunction was vacated on July 21, 1997, resulting in the immediate reinstatement of enjoined cases and a loss of the bar against the filing of claims in the tort system. The Company believes that an alternative claims resolution mechanism similar to Amchem is likely to emerge.

Recent Events

During 1998, pending claims increased by 71,000 claims. This increase was higher than previously anticipated. The Company and its outside counsel believe the increase in claims filed during 1998 was partially due to acceleration of pending claims as a result of the Supreme Court's decision on Amchem and additional claims that had been filed in the tort system against other defendants (and not against Center members) while Amchem was pending.

Asbestos-Related Liability

The Company continually evaluates the nature and amount of recent claim settlements and their impact on the Company's projected asbestos resolution and defense costs. In doing so, the Company reviews, among other things, its recent and historical settlement amounts, the incidence of past claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it, the previous estimates based on the Amchem projection and its recent experience. Subject to the uncertainties, limitations and other factors referred to above and based upon its experience, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. The Company's estimation of such liability that is probable and estimable through 2004 ranges from \$424.7 million to \$813 million. The Company has concluded that no amount within that range is more likely than any other, and therefore has reflected \$424.7 million as a liability in the accompanying consolidated financial statements. This estimate includes an assumption that the number of new claims filed annually will be less than the number filed in 1998 as discussed above under "Recent Events." Of this amount, management expects to incur approximately \$80.0 million in 1999 and has reflected this amount as a current liability. The Company believes it can reasonably estimate the number and nature of future claims that may be filed during the next six years. However for claims that may be filed beyond that period, management believes that the level of uncertainty is too great to provide for reasonable estimation of the number of future claims, the nature of such claims, or the cost to resolve them. Accordingly, it is reasonably possible that the total exposure to personal injury claims may be greater than the recorded liability. The increase in recorded liability of \$274.2 million in 1998 is primarily reflective of the increases in claims filed in 1998, recent settlement experience and current expectations about future claims.

Because of the uncertainties related to the number of claims, the ultimate settlement amounts, and similar matters, it is extremely difficult to obtain reasonable estimates of the amount of the ultimate liability. The Company's evaluation of the range of probable liability is primarily based on known pending claims and an estimate of potential claims that are likely to occur and can be reasonably estimated. The estimate of likely claims to be filed in the future is subject to a greater degree of uncertainty each year into the future. As additional experience is gained regarding claims and settlements or other new information becomes available regarding the potential liability, the Company will reassess its potential liability and revise the estimates as appropriate.

Because, among other things, payment of the liability will extend over many years, management believes that the potential additional costs for claims net of any potential insurance recoveries, will not have a material after-tax effect on the financial condition of the Company or its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

CODEFENDANT BANKRUPTCIES

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

PROPERTY DAMAGE LITIGATION

The Company is also one of many defendants in eight pending claims as of December 31, 1998, brought by public and private building owners. These claims include allegations of damage to buildings caused by asbestos-containing products and generally seek compensatory and punitive damages and equitable relief, including reimbursement of expenditures, for removal and replacement of such products. Among the lawsuits that have been resolved are four class actions, which involve 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 claims. These suits and claims are not handled by the Center. Insurance coverage has been resolved and is expected to cover almost all costs of these claims.

INSURANCE COVERAGE

The Company's primary and excess insurance policies provide product hazard and nonproducts (general liability) coverages for personal injury claims, and product hazard coverage for property damage claims. Certain policies also provide coverage to ACandS, Inc., a former subsidiary of the Company. The Company and ACandS, Inc., share certain limits that both have accessed and have entered into an agreement that reserved for ACandS, Inc., a certain amount of excess insurance.

The insurance carriers that provide personal injury products hazard, nonproducts or property damage coverages include the following: Reliance Insurance Company; Aetna (now Travelers) Casualty and Surety Company; Liberty Mutual Insurance Company; 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 (now part of AIG); 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 personal injury coverage, certain London companies, and certain excess carriers providing only property damage coverage are insolvent. The Company is pursuing claims against insolvents in a number of forums.

Wellington Agreement

In 1985, the Company and 52 other companies (asbestos defendants and insurers) signed the Wellington Agreement. This Agreement settled nearly all disputes concerning personal injury insurance coverage with most of the Company's carriers, provided broad coverage for both defense and indemnity and addressed both products hazard and nonproducts (general liability) coverages.

California Insurance Coverage Lawsuit

Trial court decisions in the insurance lawsuit filed by the Company in California held that the trigger of coverage for personal injury claims was continuous from exposure through death or filing of a claim, that a triggered insurance policy should respond with full indemnification up to policy limits, and 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, providing coverage during the period of installation and 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 most personal injury products hazard coverage matters with its solvent carriers through the Wellington Agreement, referred to above, or other settlements. In 1989, a settlement with a carrier having both primary and excess coverages provided for certain minimum and maximum percentages of costs for personal injury claims to be allocated to nonproducts (general liability) coverage, the percentage to be determined by negotiation or in alternative dispute resolution ("ADR").

Asbestos Claims Facility ("Facility") and Center for Claims Resolution

The Wellington Agreement established the Facility to evaluate, settle, pay and defend all personal injury claims against member companies. Resolution and defense costs were allocated by formula. The Facility subsequently dissolved, and the Center was created in October 1988 by 21 former Facility members, including the Company. Insurance carriers, while not members, are represented ex officio on the Center's governing board and have agreed annually to provide a portion of the Center's operational costs. The Center adopted many of the conceptual features of the Facility and has addressed the claims in a manner consistent with the prompt, fair resolution of meritorious claims. Resolution and defense costs are allocated by formula; adjustments over time have resulted in some increased share for the Company.

Insurance Recovery Proceedings

A substantial portion of the Company's primary and excess insurance asset is nonproducts (general liability) insurance for personal injury claims, including among others, those that involve exposure during installation of asbestos materials. The Wellington Agreement and the 1989 settlement agreement referred to above have provisions for such coverage. An ADR process under the Wellington Agreement is underway against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and, for some policies, includes defense costs in addition to limits. The carriers have raised various defenses, including waiver, laches, statutes of limitations and contractual defenses. 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 nonproducts coverage against

that carrier when the Wellington Agreement was signed. The ADR process is in the trial phase of binding arbitration. The Company has entered into a settlement with a number of the carriers resolving its access to coverage.

Other proceedings against non-Wellington carriers may become necessary.

An insurance asset in the amount of \$264.8 million is recorded on the Consolidated Balance Sheet. Of this amount, approximately \$26 million represents partial settlement for previous claims which will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.35%. The total amount recorded reflects the Company's belief in the availability of insurance in this amount, based upon the Company's success in insurance recoveries, recent settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. Such insurance is either available through settlement or probable of recovery through negotiation, litigation or resolution of the ADR process which is in the trial phase of binding arbitration. Of the \$264.8 million asset, \$16.0 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in 1999.

CONCLUSIONS

The Company does not know how many claims will be filed against it in the future, or the details thereof or of pending suits not fully reviewed, or the defense and resolution costs that may ultimately result therefrom, or whether an alternative to the Amchem settlement vehicle may emerge, or the scope of its insurance coverage ultimately deemed available.

The Company continually evaluates the nature and amount of recent claim settlements and their impact on the Company's projected asbestos resolution and defense costs. In doing so, the Company reviews, among other things, its recent and historical settlement amounts, the incidence of past claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it, the previous estimates based on the Amchem projection and its recent experience. Subject to the uncertainties, limitations and other factors referred to above and based upon its experience, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. The Company's estimation of such liability that is probable and estimable through 2004 ranges from \$424.7 million to \$813 million. The Company has concluded that no amount within that range is more likely than any other, and therefore has reflected \$424.7 million as a liability in the accompanying consolidated financial statements. Of this amount, management expects to incur approximately \$80.0 million in 1999 and has reflected this amount as a current liability. The Company believes it can reasonably estimate the number and nature of future claims that may be filed during the next six years. However for claims that may be filed beyond that period, management believes that the level of uncertainty is too great to provide for reasonable estimation of the number of future claims, the nature of such claims, or the cost to resolve them. Accordingly, it is reasonably possible that the total exposure to personal injury claims may be greater than the recorded liability. The increase in recorded liability of \$274.2 million in 1998 is primarily reflective of the increases in claims filed in 1998, recent settlement experience and current expectations about future claims.

Because of the uncertainties related to asbestos litigation, it is not possible to precisely estimate the number of personal injury claims that may ultimately be filed or their cost. It is reasonably possible there will be additional claims beyond management's estimates. Management believes that the potential additional costs for such additional claims, net of any potential insurance recoveries, will not have a material after-tax effect on the financial condition of the Company or its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in a future period.

An insurance asset in the amount of \$264.8 million is recorded on the Consolidated Balance Sheet and reflects the Company's belief in the availability of insurance in this amount, based upon the Company's success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies, and the opinion of outside counsel. Such insurance is either available through settlement or probable of recovery through the ADR process, negotiation or litigation.

The Company believes that a claims resolution mechanism alternative to the Amchem settlement will eventually emerge, but the liability is likely to be higher than the projection in Amchem.

Subject to the uncertainties, limitations and other factors referred to elsewhere in this note and based upon its experience, the Company believes it is probable that substantially all of the defense and resolution costs of property damage claims will be covered by insurance.

Even though uncertainties remain as to the potential number of unasserted claims and the liability resulting therefrom, and after consideration of the factors involved, including the ultimate scope of its insurance coverage, the Wellington Agreement and other settlements with insurance carriers, the results of the California insurance coverage litigation, the establishment of the Center, the likelihood that an alternative to the Amchem settlement will eventually emerge, and its experience, the Company believes the asbestos-related claims against the Company would not be material either to the financial condition of the Company or to its liquidity, although the net after-tax effect of any future liabilities recorded in excess of insurance assets could be material to earnings in such future period.

Independent auditors' report

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

We have audited the consolidated financial statements of Armstrong World Industries, Inc., and subsidiaries as listed in the accompanying index on page

25. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index on page 25. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong World Industries, Inc., and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Philadelphia, PA
February 2, 1999

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

Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The information appearing in the tabulation in the section captioned "Election of Directors" on pages 2-5 of the Company's 1999 Proxy Statement is incorporated by reference herein.

Executive Officers of the Registrant

George A. Lorch* -- Age 57; Chairman of the Board since April 25, 1994; and President (Chief Executive Officer) since September 7, 1993; Executive Vice President, 1988-1993.

Marc R. Olivie -- Age 45; 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 50, President, Worldwide Floor Products Operations since February 1, 1997; President Floor Products Operations International February 1, 1996;-February 1, 1997; President American Olean Tile Company, Inc. March 1, 1992-December 29, 1995.

Ulrich J. Weimer -- Age 54; 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-June 1, 1995.

Douglas L. Boles -- Age 41; 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.

Deborah K. Owen -- Age 47; Senior Vice President, Secretary and General Counsel since January 1, 1998; Attorney, Law Offices of Deborah K. Owen, Columbia, MD, September 1996-September 1997; Partner, Arent Fox Kintner Plotkin & Kahn, PLLC, Washington, DC, August 1994-August 1996; Commissioner, Federal Trade Commission, Washington, DC, October 1989-August 1994.

Frank A. Riddick, III -- Age 42; 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.

Edward R. Case -- Age 52; Vice President and Controller since April 27, 1998; Vice President and Treasurer, May 8, 1996-April 26, 1998; 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.

E. Follin Smith -- Age 39; Vice President and Treasurer since August 1998; and the following positions with General Motors Corporation (automobile manufacturer): Chief Financial Officer, Delphi Chassis Systems, April 1997-July 1998; Assistant Treasurer, October 1994-April 1997; Vice President, Finance, General Motors Acceptance Corporation, May 1994-September 1994; Treasurer, General Motors of Canada Limited, June 1992-April 1994.

Dr. Bernd F. Pelz -- Age 55; President DLW Aktiengesellschaft since September 1998; Member of the Executive Board, DLW Aktiengesellschaft since April 1990, and its Chairman since October 1991.

Floyd F. Sherman -- Age 59; President, Wood Flooring and Cabinet Operations since July 24, 1998; and the following positions with Triangle Pacific Corp.:
Chairman of the Board and Chief Executive Officer since July 1992; President 1981-November 1994.

All information presented above is current as of March 1, 1999. The term of office for each Executive Officer in his or her 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, Riddick, Sherman, Pelz and Ms. Owen and Smith.

(*Member of the Executive Committee of the Board of Directors as of March 1, 1998.

Section 16(a) Beneficial Ownership Reporting Compliance

The information appearing in the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" on page 9 of the Company's 1999 Proxy Statement is incorporated by reference herein.

Item 11. Executive Compensation

The information appearing in the sections captioned "Directors' Compensation" on pages 6-7 and "Executive Officers' Compensation," (other than the information contained under the subcaption "Performance Graph") and "Retirement Income Plan Benefits," on pages 12-17 of the Company's 1999 Proxy Statement is incorporated by reference herein.

Mr. Sherman, President, Wood Flooring and Cabinet Operations, one of the named executives in the Summary Compensation Table on page 12 of the Company's 1999 Proxy Statement, has entered into a change of control agreement with the Company. The change of control agreement is similar to the change of control agreements which are described under the caption Change in Control Agreements on page 13 of the Company's 1999 Proxy Statement, except that Mr. Sherman does not participate in the Company's defined benefit retirement plan or its split-dollar life insurance plan and his benefits under his agreement have been modified accordingly. This agreement was entered into after the Company's 1999 Proxy Statement went to print.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Stock Ownership of Certain Beneficial Owners" on pages 17-18 and "Directors' and Executive Officers' Stock Ownership" on pages 8-9 of the Company's 1999 Proxy Statement is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

The information appearing under the biography of H. Jesse Arnelle appearing on page 3 of the Company's 1999 Proxy Statement is incorporated by reference herein.

PART IV

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

The financial statements and schedule filed as a part of this Annual Report on Form 10-K are listed in the "Index to Financial Statements and Schedules" on page 25.

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

Exhibits

- No. 3(a) Registrant's By-laws, as amended effective March 9, 1998, are incorporated by reference herein from registrant's 1997 Annual Report on Form 10-K wherein they appear as Exhibit 3(a).
- No. 3(b) Registrant's restated Articles of Incorporation, as amended, are incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b).
- No. 4(a) Registrant's Rights Agreement effective as of March 21, 1996, between the registrant and Chemical Mellon Shareholder Services, L.L.C., as Rights Agent, relating to the registrant's Preferred Stock Purchase Rights is incorporated by reference herein from registrant's registration statement on Form 8-A/A dated March 15, 1996, wherein it appeared as Exhibit 4.
- No. 4(b) Registrant's Retirement Savings and Stock Ownership Plan as amended and restated effective October 1, 1996, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K where it appeared as Exhibit 4(b). *
- No. 4(c) 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 appeared as Exhibit 4(c).
- No. 4(d) Registrant's Supplemental Indenture dated as of October 19, 1990, between the registrant and The First National Bank of Chicago, as Trustee, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appeared as Exhibit 4(d).
- No. 4(e) Copy of registrant's Credit Agreement (364-day) dated as of October 29, 1998, among the registrant, The Chase Manhattan Bank as administrative agent, and listed banks.
- No. 4(f) Copy of registrant's Credit Agreement (5-year) dated as of October 29, 1998, among the registrant, The Chase Manhattan Bank as administrative agent, and listed banks.
- No. 4(g) Registrant's Indenture, dated as of August 6, 1996, between the Registrant and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated herein by reference from registrant's registration statement on Form S-3/A dated August 14, 1996.
- No. 4(h) Copy of portions of the registrant's Board of Directors' Pricing Committee's resolution establishing the terms and conditions of the issuance of \$200,000,000 of 6.35% Senior Notes Due 2003 and \$150,000,000 of 6 1/2% Senior Notes Due 2005.

- No. 4(i) Copy of portions of the registrant's Board of Directors' Pricing Committee's resolution establishing the terms and conditions of the issuance of \$180,000,000 7.45% Senior Quarterly Interest Bonds Due 2038.
- No. 10(i)(a) Registrant's Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the "Wellington Agreement") among the registrant and other companies is incorporated by reference herein from registrant's 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(a).
- No. 10(i)(b) Producer Agreement concerning Center for Claims Resolution dated September 23, 1988, among the registrant and other companies as amended is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b).
- No. 10(i)(c) Credit Agreement between the registrant, certain banks listed therein, and Morgan Guaranty Trust Company of New York, as Agent, dated as of February 7, 1995, providing for a \$200,000,000 credit facility, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(c).
- No. 10(i)(d) Copy of registrant's Amendment No. 1 to Credit Agreement included herein as Exhibit 10(i)(c).
- No. 10(i)(e) Agreement and Plan of Merger dated as of June 12, 1998, among the registrant, Triangle Pacific Corp., and Sapling Acquisition, Inc., is incorporated by reference herein from registrant's Form 8-K filed on June 15, 1998, wherein it appeared as Exhibit 10.1.
- 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 appeared as Exhibit 10(iii)(a). *
- No. 10(iii)(b) Copy of agreement between DLW and Dr. Bernd F. Pelz, as amended.*
- No. 10(iii)(c) Registrant's Directors' Retirement Income Plan, as amended, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c). *
- No. 10(iii)(d) Copy of registrant's Management Achievement Plan for Key Executives, as amended December 14, 1998. *
- No. 10(iii)(e) Copy of registrant's Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended April 27, 1998. *
- No.10(iii)(f) Copy of registrant's Deferred Compensation Plan, as amended September 21, 1998. *
- 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 appeared as Exhibit 10(iii)(g). *

- No. 10(iii)(h) Registrant's Restricted Stock Plan For Nonemployee Directors, as amended, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(h). *
- No. 10(iii)(i) Copy of registrant's Severance Pay Plan for Salaried Employees, as amended April 27, 1998. *
- No. 10(iii)(j) Copy of registrant's 1993 Long-Term Stock Incentive Plan as amended. *
- 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 September 30, 1997, wherein it appeared as Exhibit 10, provided that a revised schedule, identifying the officers that are a party to that agreement, is filed herewith. *
- No. 10(iii)(l) Form of Indemnification Agreement between the registrant and each of the registrant's Nonemployee Directors, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(l). *
- No. 10(iii)(m) Copy of registrant's Bonus Replacement Retirement Plan, dated as of January 1, 1998. *
- No. 11(a) Computation for basic earnings per share.
- No. 11(b) Computation for diluted earnings per share.
- 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

* Compensatory Plan

b. The following reports on Form 8-K were filed during the last quarter of 1998:

1. On October 21, 1998, the registrant filed a current report on Form 8-K announcing its third quarter 1998 results.
2. On November 2, 1998, the registrant filed a current report on Form 8-K announcing that it had completed an underwritten public offering under its existing shelf registration statement (File No. 333-6333) of \$180 million aggregate principal amount of 7.45% Senior Quarterly Interest Bonds due 2038.
3. On November 19, 1998, the registrant filed a current report on Form 8-K announcing its expectation to take a charge in the fourth quarter of 1998 of approximately \$78 million primarily to reflect a work force reduction.

This 10-K contains certain "forward looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995). Among other things, they pertain to 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 Amchem settlement will be negotiated); anticipated efficiencies relating to acquisitions; 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 from anticipated future results: (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 costs increases; or (3) if the factors on which the Company's conclusions are based do not conform to 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 15, 1999

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)
Edward R. Case	Vice President and Controller (Principal Accounting Officer)
H. Jesse Arnelle	Director
Van C. Campbell	Director
Donald C. Clark	Director
Judith R. Haberkorn	Director
John A. Krol	Director
David M. LeVan	Director
James E. Marley	Director
David W. Raisbeck	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 15, 1999

SCHEDULE II

Valuation and Qualifying Reserves of Accounts Receivable

For Years Ended December 31

(amounts in millions)

Provision for Losses -----	1998 ----	1997 ----	1996 ----
Balance at Beginning of Year	\$ 12.8	\$ 10.9	\$ 8.7
Additions Charged to Earnings	7.2	7.3	5.4
Deductions	11.4	5.4	3.2
Balances acquired via acquisitions	12.0	--	--
Balance at End of Year	\$ 20.6	\$ 12.8	\$ 10.9

Provision for Discounts -----			
Balance at Beginning of Year	\$ 24.7	\$ 24.0	\$ 20.3
Additions Charged to Earnings	93.3	76.7	74.5
Deductions	88.8	76.0	70.8
Balance at End of Year	\$ 29.2	\$ 24.7	\$ 24.0

Total Provision for Discounts and Losses -----			
Balance at Beginning of Year	\$ 37.5	\$ 34.9	\$ 29.0
Additions Charged to Earnings	100.5	84.0	79.9
Deductions	100.2	81.4	74.0
Balances acquired via acquisitions	12.0	--	--
Balance at End of Year	\$ 49.8	\$ 37.5	\$ 34.9

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

Exhibits

- No. 3(a) Registrant's By-laws, as amended effective March 9, 1998, are incorporated by reference herein from registrant's 1997 Annual Report on Form 10-K wherein they appear as Exhibit 3(a).
- No. 3(b) Registrant's restated Articles of Incorporation, as amended, are incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b).
- No. 4(a) Registrant's Rights Agreement effective as of March 21, 1996, between the registrant and Chemical Mellon Shareholder Services, L.L.C., as Rights Agent, relating to the registrant's Preferred Stock Purchase Rights is incorporated by reference herein from registrant's registration statement on Form 8-A/A dated March 15, 1996, wherein it appeared as Exhibit 4.
- No. 4(b) Registrant's Retirement Savings and Stock Ownership Plan as amended and restated effective October 1, 1996, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K where it appeared as Exhibit 4(b). *
- No. 4(c) 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 appeared as Exhibit 4(c).
- No. 4(d) Registrant's Supplemental Indenture dated as of October 19, 1990, between the registrant and The First National Bank of Chicago, as Trustee, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appeared as Exhibit 4(d).
- No. 4(e) Copy of registrant's Credit Agreement (364-day) dated as of October 29, 1998, among the registrant, The Chase Manhattan Bank as administrative agent, and listed banks.
- No. 4(f) Copy of registrant's Credit Agreement (5-year) dated as of October 29, 1998, among the registrant, The Chase Manhattan Bank as administrative agent, and listed banks.
- No. 4(g) Registrant's Indenture, dated as of August 6, 1996, between the Registrant and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated herein by reference from registrant's registration statement on Form S-3/A dated August 14, 1996.
- No. 4(h) Copy of portions of the registrant's Board of Directors' Pricing Committee's resolution establishing the terms and conditions of the issuance of \$200,000,000 of 6.35% Senior Notes Due 2003 and \$150,000,000 of 6 1/2% Senior Notes Due 2005.

- No. 4(i) Copy of portions of the registrant's Board of Directors' Pricing Committee's resolution establishing the terms and conditions of the issuance of \$180,000,000 7.45% Senior Quarterly Interest Bonds Due 2038.
- No. 10(i)(a) Registrant's Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the "Wellington Agreement") among the registrant and other companies is incorporated by reference herein from registrant's 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(a).
- No. 10(i)(b) Producer Agreement concerning Center for Claims Resolution dated September 23, 1988, among the registrant and other companies as amended is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b).
- No. 10(i)(c) Credit Agreement between the registrant, certain banks listed therein, and Morgan Guaranty Trust Company of New York, as Agent, dated as of February 7, 1995, providing for a \$200,000,000 credit facility, is incorporated by reference herein from registrant's 1994 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(c).
- No. 10(i)(d) Copy of registrant's Amendment No. 1 to Credit Agreement included herein as Exhibit 10(i)(c).
- No. 10(i)(e) Agreement and Plan of Merger dated as of June 12, 1998, among the registrant, Triangle Pacific Corp., and Sapling Acquisition, Inc., is incorporated by reference herein from registrant's Form 8-K filed on June 15, 1998, wherein it appeared as Exhibit 10.1.
- 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 appeared as Exhibit 10(iii)(a). *
- No. 10(iii)(b) Copy of agreement between DLW and Dr. Bernd F. Pelz, as amended.*
- No. 10(iii)(c) Registrant's Directors' Retirement Income Plan, as amended, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c). *
- No. 10(iii)(d) Copy of registrant's Management Achievement Plan for Key Executives, as amended December 14, 1998. *
- No. 10(iii)(e) Copy of registrant's Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended April 27, 1998. *
- No.10(iii)(f) Copy of registrant's Deferred Compensation Plan, as amended September 21, 1998. *
- 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 appeared as Exhibit 10(iii)(g). *

- No. 10(iii)(h) Registrant's Restricted Stock Plan For Nonemployee Directors, as amended, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(h). *
- No. 10(iii)(i) Copy of registrant's Severance Pay Plan for Salaried Employees, as amended April 27, 1998. *
- No. 10(iii)(j) Copy of registrant's 1993 Long-Term Stock Incentive Plan as amended. *
- 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 September 30, 1997, wherein it appeared as Exhibit 10, provided that a revised schedule, identifying the officers that are a party to that agreement, is filed herewith. *
- No. 10(iii)(l) Form of Indemnification Agreement between the registrant and each of the registrant's Nonemployee Directors, is incorporated by reference herein from registrant's 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(l). *
- No. 10(iii)(m) Copy of registrant's Bonus Replacement Retirement Plan, dated as of January 1, 1998. *
- No. 11(a) Computation for basic earnings per share.
- No. 11(b) Computation for diluted earnings per share.
- 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

* Compensatory Plan

CONFORMED COPY

\$450,000,000

CREDIT AGREEMENT
(364-Day)

dated as of

October 29, 1998

among

Armstrong World Industries, Inc.,

The Banks Listed Herein

and

The Chase Manhattan Bank,
as Administrative Agent

Bank of America National Trust and Savings Association Documentation Agent

Wachovia Bank, National Association and Deutsche Bank AG New York Branch Co-Documentation Agents

J.P. Morgan Securities Inc. Syndication Agent

Chase Securities Inc. Lead Arranger and Book Manager

[6700-757]

Credit Agreement dated as of October 29, 1998 among Armstrong World Industries, Inc., the Banks listed on the signature pages hereof and The Chase Manhattan Bank, as Administrative Agent.

The parties hereto agree as follows:

ARTICLE 1

Definitions

Section 1.01. Definitions. The following terms, as used herein, have the following meanings:

"ADJUSTED LONDON INTERBANK OFFERED RATE" has the meaning set forth in Section 2.05(c).

"ADMINISTRATIVE AGENT" means The Chase Manhattan Bank in its capacity as administrative agent for the Banks hereunder, and its successors in such capacity.

"ADMINISTRATIVE QUESTIONNAIRE" means, with respect to each Bank, an administrative questionnaire in the form prepared by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Bank.

"AGENT" means any of the Administrative Agent, either Documentation Agent, Co-Documentation Agent or the Syndication Agent, and "Agents" means any two or more of the foregoing.

"ALTERNATE CURRENCY" means, at any time, any Foreign Currency that is, at the time any Commitment is extended or any Loan is made in such Foreign Currency, freely tradeable and exchangeable into dollars in the London interbank market.

"APPLICABLE LENDING OFFICE" means, with respect to any Bank, (i) in the case of its Base Rate Loans, its Domestic Lending Office and (ii) in the case of its Eurocurrency Loans, its Eurocurrency Lending Office.

"APPLICABLE PERCENTAGE" means, with respect to any Bank, the percentage of the total Commitments represented by such Bank's Commitment.

"ASSIGNEE" has the meaning set forth in Section 9.06(c).

"BANK" means (i) each Person listed on the Commitment Schedule, (ii) each Assignee which becomes a Bank pursuant to Section 9.06 and (iii) their respective successors.

"BASE RATE" means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day.

"BASE RATE LOAN" means a Loan to be made by a Bank as a Base Rate Loan in accordance with the applicable Notice of Borrowing or pursuant to Article 8.

"BENEFIT ARRANGEMENT" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"BORROWER" means Armstrong World Industries, Inc., a Pennsylvania corporation, and its successors.

"BORROWER'S 1997 FORM 10-K" means the Borrower's annual report on Form 10-K for 1997, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

"BORROWER'S LATEST FORM 10-Q" means the Borrower's quarterly report on Form 10-Q for the quarter ended June 30, 1998, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

"BORROWING" has the meaning set forth in Section 1.03.

"BORROWING MINIMUM" means (a) in the case of a Borrowing denominated in Dollars, \$5,000,000 and (b) in the case of a Borrowing denominated in any Foreign Currency, the smallest amount of such Foreign Currency that (i) is an integral multiple of 5,000,000 units (or in the case of Sterling, 2,500,000 units) of such currency and (ii) has a U.S. Dollar Equivalent in excess of \$5,000,000.

"BORROWING MULTIPLE" means (a) in the case of a Borrowing denominated in Dollars, \$1,000,000 and (b) in the case of any Borrowing denominated in Foreign Currency 1,000,000 units (or, in the case of Sterling, 500,000 units) of such currency.

"CALCULATION DATE" means the last Eurocurrency Business Day of each calendar month, or if a Default shall have occurred and be continuing, more frequently at the option of the Administrative Agent or the Required Banks.

"CO-DOCUMENTATION AGENTS" means Deutsche Bank AG New York Branch and Wachovia Bank in their capacity as co-documentation agents in respect of this Agreement.

"COMMITMENT" means, with respect to each Bank listed in the Commitment Schedule, the amount set forth opposite the name of such Bank in the Commitment Schedule, and with respect to any Bank which becomes a party to this Agreement pursuant to Section 9.06(c), the amount of the Commitment thereby assumed by such Bank, in each case as such amount may from time to time be reduced pursuant to Sections 2.07, 2.08 and 9.06(c) or increased pursuant to Sections 2.13 and 9.06(c).

"COMMITMENT SCHEDULE" means the Schedule attached hereto identified as such.

"CONSOLIDATED NET WORTH" means at any date the consolidated stockholders' equity of the Borrower and its Consolidated Subsidiaries determined as of such date; provided, that for purposes of determining compliance with Section 5.07, up to \$100,000,000 in special charges subsequent to the date hereof related to litigation shall be disregarded.

"CONSOLIDATED SUBSIDIARY" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Borrower in its consolidated financial statements if such statements were prepared as of such date.

"DEBT" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the

deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles, (v) all non-contingent obligations (and, for purposes of Section 5.08 and the definitions of Material Debt and Material Financial Obligations, all contingent obligations) of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, (vi) all Debt secured by a Lien on any asset of such Person, whether or not such Debt is otherwise an obligation of such Person, and (vii) all Debt of others Guaranteed by such Person.

"DEFAULT" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"DERIVATIVE OBLIGATIONS" of any Person means all obligations of such Person in respect of any rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of the foregoing transactions) or any combination of the foregoing transactions.

"DESIGNATED CURRENCY" means Pounds Sterling, Swedish Kronor, Canadian Dollars, French Francs, German Marks, Swiss Francs, Spanish Peseta, Italian Lire, Australian Dollars, Japanese Yen and Euros (after their adoption by participating members of the European Union) and any other Alternate Currency that shall be designated by the Borrower in a notice delivered to the Administrative Agent and approved by the Administrative Agent and all the Banks as a Designated Currency.

"DOCUMENTATION AGENT" means Bank of America National Trust and Savings Association in its capacity as documentation agent in respect of this Agreement.

"DOLLARS" or "\$" means such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

"DOMESTIC BUSINESS DAY" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

"DOMESTIC LENDING OFFICE" means, as to each Bank, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Bank may hereafter designate as its Domestic Lending Office by notice to the Borrower and the Administrative Agent.

"EFFECTIVE DATE" means the date this Agreement becomes effective in accordance with Section 3.01.

"ENVIRONMENTAL LAWS" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to the environment, the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution,

use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the clean-up or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"ERISA GROUP" means the Borrower, any Subsidiary and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any Subsidiary, are treated as a single employer under Section 414 of the Internal Revenue Code.

"EUROCURRENCY BORROWING" means a Borrowing comprised of Eurocurrency Loans.

"EUROCURRENCY BUSINESS DAY" means any Domestic Business Day on which commercial banks are open for international business (including dealings in dollar and other Designated Currency deposits) in London.

"EUROCURRENCY LENDING OFFICE" means, as to each Bank, its office, branch or affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Eurocurrency Lending Office) or such other office, branch or affiliate of such Bank as it may hereafter designate as its Eurocurrency Lending Office by notice to the Borrower and the Administrative Agent.

"EUROCURRENCY LOAN" means a Loan to be made by a Bank as a Eurocurrency Loan in accordance with the applicable Notice of Borrowing.

"EUROCURRENCY MARGIN" has the meaning set forth in Section 2.05(b).

"EUROCURRENCY RESERVE PERCENTAGE" has the meaning set forth in Section 2.05(c).

"EVENT OF DEFAULT" has the meaning set forth in Section 6.01.

"EXCHANGE RATE" shall mean, on any day, with respect to any Foreign Currency, the rate at which such Foreign Currency may be exchanged into U.S. Dollars at 11:00 a.m., New York City Time, on such day as set forth on the Reuters World Currency Page for such currency. In the event that such rate cannot be determined pursuant to the preceding sentence, the Exchange Rate shall be the arithmetic average of the spot rates of exchange of the Administrative Agent in the market where its foreign currency exchange operations in respect of such currency are then being conducted, at 11:00 a.m. New York City Time on such date for the purchase of U.S. Dollars with the applicable currency for delivery two Eurocurrency Business Days later; provided that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may use any reasonable method it deems appropriate to determine such rate, and such determination shall be conclusive absent manifest error.

"EXISTING CREDIT AGREEMENT" means the Credit Agreement dated as of July 17, 1998, among the Borrower, the financial institutions from time to time party thereto and Morgan Guaranty Trust Company of New York, as administrative agent.

"FEDERAL FUNDS RATE" means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on

the Domestic Business Day next succeeding such day, provided that (i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to The Chase Manhattan Bank on such day on such transactions as determined by the Administrative Agent.

"FINANCIAL OFFICER" means the chief financial officer, principal accounting officer, treasurer or controller of any corporation.

"FOREIGN CURRENCY" means a currency other than Dollars.

"GOVERNMENTAL AUTHORITY" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"GUARANTEE" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt of any other Person, provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"HAZARDOUS SUBSTANCE" means any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

"INDEMNITEE" has the meaning set forth in Section 9.03(b).

"INSULATION BUSINESS" means the Borrower's insulation products operations.

"INTEREST PERIOD" means: (a) with respect to each Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable Notice of Borrowing; provided that:

(i) any Interest Period which would otherwise end on a day which is not a Eurocurrency Business Day shall, subject to clause (iii) below, be extended to the next succeeding Eurocurrency Business Day unless such Eurocurrency Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Eurocurrency Business Day;

(ii) any Interest Period which begins on the last Eurocurrency Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Eurocurrency Business Day of a calendar month; and

(iii) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date.

(b) with respect to each Base Rate Borrowing, the period commencing on the date of such Borrowing or on the last day of the immediately preceding Interest Period applicable to such Borrowing, as the case may be, and ending on the earliest of:

(i) the next succeeding March 31, June 30, September 30 or December 31;

(ii) the Termination Date; and

(iii) the date such Borrowing is prepaid in accordance with Section 2.09 or required to be paid in accordance with Section 2.08.

"INTERNAL REVENUE CODE" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"LIEN" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset. For the purposes of this Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"LOAN" means a Base Rate Loan or a Eurocurrency Loan and "LOANS" means Base Rate Loans or Eurocurrency Loans or any combination of the foregoing.

"LONDON INTERBANK OFFERED RATE" has the meaning set forth in Section 2.05(c).

"MARGIN STOCK" has the meaning specified in Regulation U.

"MATERIAL DEBT" means Debt of the Borrower (other than the Loans) and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal or face amount exceeding \$20,000,000.

"MATERIAL FINANCIAL OBLIGATIONS" means a principal or face amount of Debt and/or payment obligations in respect of Derivative Obligations of the Borrower and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, exceeding in the aggregate \$20,000,000.

"MATERIAL PLAN" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000.

"MULTIEMPLOYER PLAN" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"MULTI-YEAR AGREEMENT" means the \$450,000,000 Credit Agreement (five- year) dated as of October 29, 1998 among the Borrower, the banks party thereto and The Chase Manhattan Bank as administrative agent.

"NOTICE OF BORROWING" has the meaning set forth in Section 2.02.

"PARENT" means, with respect to any Bank, any Person controlling such Bank.

"PARTICIPANT" has the meaning set forth in Section 9.06(b).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"PERSON" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"PLAN" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"POUNDS STERLING" or "(Pounds)" refers to lawful money of the United Kingdom.

"PRICING SCHEDULE" means the Schedule attached hereto identified as such.

"PRIME RATE" means the rate of interest publicly announced by The Chase Manhattan Bank in New York City from time to time as its Prime Rate.

"REGULATION U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"REQUIRED BANKS" means at any time Banks having at least 51% of the aggregate amount of the Commitments or, if the Commitments shall have been terminated, holding at least 51% of the aggregate unpaid principal amount of the Loans (with Foreign Currency amounts being converted into U.S. Dollar amounts for this purpose at the Exchange Rate for the applicable currency at such time).

"REVOLVING CREDIT PERIOD" means the period from and including the Effective Date to but excluding the Termination Date.

"SENIOR EXECUTIVE OFFICER" means the Chairman of the Board, President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer or the Senior Vice President, Secretary and General Counsel of the Borrower.

"SIGNIFICANT SUBSIDIARY" means any Subsidiary which satisfies the criteria set forth in subparagraph (b) of the definition of "Significant Subsidiary" in Rule 1-02 of Regulation S-X of the Securities and Exchange Commission, as in effect on the date hereof.

"SUBSIDIARY" means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person; unless otherwise specified "Subsidiary" means a subsidiary of the Borrower.

"SYNDICATION AGENT" means J.P. Morgan Securities Inc., in its capacity as syndication agent in respect of this Agreement.

"TERMINATION DATE" means October 28, 1999, or, if such day is not a Eurocurrency Business Day, the next preceding Eurocurrency Business Day, as such date may be extended pursuant to Section 2.07.

"UNFUNDED LIABILITIES" means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"UNITED STATES" means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

"U.S. DOLLAR EQUIVALENT" means (a) as to any amount denominated in Dollars, the amount thereof, and (b) as to any amount denominated in a Foreign Currency, the equivalent thereof in Dollars determined by the Administrative Agent pursuant to Section 1.04 using the Exchange Rate with respect to such currency at the time in effect.

Section 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Banks; provided that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article 5 to eliminate the effect of any change in generally accepted accounting principles on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Banks wish to amend Article 5 for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of generally accepted accounting principles in effect immediately before the relevant change in generally accepted accounting principles became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Banks.

Section 1.03. Types of Borrowings. The term "BORROWING" denotes the aggregation of Loans of one or more Banks to be made to the Borrower pursuant to Article 2 on a single date and for a single Interest Period. Borrowings are classified for purposes of this Agreement by reference to the pricing of Loans comprising such Borrowing (e.g., a "Eurocurrency Borrowing" is a Borrowing comprised of Eurocurrency Loans).

Section 1.04. Exchange Rates. (a) Not later than 1:00 p.m., New York City Time, on each Calculation Date, the Administrative Agent shall (i) determine the Exchange Rate as of such Calculation Date for each Designated Currency and (ii) give notice thereof to the Banks and the Borrower. The Exchange Rate so determined for each Designated Currency shall become effective on the first Eurocurrency Business Day of the calendar month immediately following the relevant Calculation Date (a "RESET DATE"), shall remain effective until the next succeeding Reset Date and shall for all purposes of this Agreement (except in connection with Section 8.02, Section 9.11 or any other provision expressly requiring the use of a current Exchange Rate) be the Exchange Rate employed in converting any amounts between U.S. Dollars and each Designated Currency.

(b) No later than 5:00 p.m., New York City Time, on each Reset Date and each date on which a Borrowing shall occur, the Administrative Agent shall
(i) determine the U.S.

Dollar Equivalent of the aggregate principal amount of Loans then outstanding (after giving effect to any Loans made, issued, repaid or canceled on such date) and (ii) notify the Banks and the Borrowers of such amount.

ARTICLE 2

The Credits

Section 2.01. Commitments To Lend. (a) During the Revolving Credit Period each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make loans in U.S. Dollars and/or one or more Designated Currencies (at the option of the Borrower) to the Borrower pursuant to this

Section from time to time in amounts such that (i) the U.S. Dollar Equivalent of the aggregate principal amount of Loans by such Bank at any one time outstanding shall not exceed the amount of its Commitment and (ii) the aggregate U.S. Dollar Equivalent of the outstanding Loans of all the Banks denominated in Foreign Currencies shall not exceed \$450,000,000. Each Borrowing under this Section shall be in an aggregate principal amount that is a multiple of the Borrowing Multiple and at least equal to the Borrowing Minimum (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Banks ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section, repay, or to the extent permitted by Section 2.09, prepay Loans and reborrow at any time during the Revolving Credit Period under this Section.

(b) Subject to Sections 8.01 and 8.02 (i) each Borrowing denominated in U.S. Dollars shall be comprised entirely of Base Rate Loans or Eurocurrency Loans as the Borrower may request pursuant to Section 2.02 and (ii) each Borrowing denominated in a Designated Currency shall be comprised entirely of Eurocurrency Loans.

Section 2.02. Procedure for Borrowing. (a) The Borrower shall give the Administrative Agent notice (a "NOTICE OF BORROWING") not later than 10:30

a.m. New York City Time on (x) the date of each Base Rate Borrowing, (y) the third Eurocurrency Business Day before each Eurocurrency Borrowing denominated in Dollars and (z) the fourth Eurocurrency Business Day before each Eurocurrency Borrowing denominated in a Designated Currency, specifying:

(i) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Base Rate Borrowing or a Eurocurrency Business Day in the case of a Eurocurrency Borrowing,

(ii) the aggregate amount of such Borrowing,

(iii) the currency of such Borrowing, if applicable;

(iv) in the case of a Borrowing denominated in U.S. Dollars, whether the Loans comprising such Borrowing are to be Base Rate Loans or Eurocurrency Loans, and

(v) in the case of a Borrowing in a Designated Currency, the location from which payment of the principal and interest on such Borrowing will be made, which shall comply with the requirements of Section 2.10;

(vi) the number and location of the account to which funds are to be disbursed; and

- (vii) in the case of a Eurocurrency Borrowing, the duration of the Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.
- (b) If no election as to the type of a U.S. Dollar Borrowing is specified in any such notice, then the requested Borrowing shall be a Base Rate Borrowing. If no election as to the currency of a Borrowing is specified in any such notice, then the requested Borrowing shall be denominated in U.S. Dollars. If no Interest Period with respect to any Eurocurrency Borrowing is specified in any such notice then the Borrower shall be deemed to have selected an Interest Period of one month's duration.
- (c) Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.
- (d) Not later than 12:00 noon New York City Time on the date of each Borrowing, each Bank shall (except as provided in subsection (e) of this Section) make available its share of such Borrowing in immediately available funds as may then be customary for the settlement of transactions in the relevant currency, to such account as the Administrative Agent shall specify. Unless the Administrative Agent determines that any applicable condition specified in Article 3 has not been satisfied, the Administrative Agent shall promptly transfer the amounts so received to the account designated by the Borrower in the applicable Notice of Borrowing.
- (e) If any Bank makes a new Loan hereunder on a day on which the Borrower is to repay all or any part of an outstanding Loan from such Bank, such Bank shall apply the proceeds of its new Loan to make such repayment and only an amount equal to the difference (if any) between the amount being borrowed and the amount being repaid shall be made available by such Bank to the Administrative Agent as provided in subsection (d), or remitted by the Borrower to the Administrative Agent as provided in Section 2.10, as the case may be.
- (f) Unless the Administrative Agent shall have received notice from a Bank prior to the time of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's share of such Borrowing, the Administrative Agent may assume that such Bank has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsections (d) and (e) of this Section and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Administrative Agent, such Bank and, if such Bank fails to do so within three Domestic Business Days of demand therefor, the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.05 and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan included in such Borrowing for purposes of this Agreement.

Section 2.03. Evidence of Debt. (a) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder.

(b) The Administrative Agent shall maintain accounts in which it shall record (i) the amount and currency of each Loan made hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the accounts of the Banks and each Bank's share thereof.

(c) The entries made in the accounts maintained pursuant to paragraph

(a) or (b) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Bank or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(d) Any Bank may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Bank a promissory note payable to the order of such Bank (or, if requested by such Bank, to such Bank and its registered assigns) in a form approved by the Borrower and the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.06) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.04. Maturity of Loans. Each Loan included in any Borrowing shall mature, and the principal amount thereof shall be due and payable, on the last day of the Interest Period applicable to such Borrowing.

Section 2.05. Interest Rates. (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day. Such interest shall be payable for each Interest Period on the last day thereof. Any overdue principal or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(b) Each Eurocurrency Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Eurocurrency Margin for such day plus the Adjusted London Interbank Offered Rate applicable to such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

"EUROCURRENCY MARGIN" means a rate per annum determined in accordance with the Pricing Schedule.

The "ADJUSTED LONDON INTERBANK OFFERED RATE" applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (i) the applicable London Interbank Offered Rate by (ii) 1.00 minus the Eurocurrency Reserve Percentage.

"LONDON INTERBANK OFFERED RATE" shall mean, with respect to any Eurocurrency Borrowing, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m. (London time) on the date which is two Quotation Days prior to the beginning of the relevant Interest Period (as specified in the applicable Notice of Borrowing) by reference to the British Bankers' Association Interest Settlement Rates for deposits in the

currency of such Borrowing (as reflected on the applicable Telerate screen), for a period equal to such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, the "LONDON INTERBANK OFFERED RATE" shall be the interest rate per annum determined by the Administrative Agent to be the average of the rates per annum at which deposits in the currency of such Borrowing offered for such relevant Interest Period to major banks in the London interbank market in London, England, by the Administrative Agent at approximately 11:00 a.m. (London time) on the date which is two Eurocurrency Business Days prior to the beginning of such Interest Period.

"QUOTATION DAY" shall mean, with respect to any currency, each day on which rate quotations in such currency are available through the British Bankers' Association.

"EUROCURRENCY RESERVE PERCENTAGE" means, with respect to any currency, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve, liquid asset or similar percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by any Governmental Authority of the jurisdiction of such currency to which banks in such jurisdiction are subject for any category of deposits or liabilities customarily used to fund loans in such currency or by reference to which interest rates applicable to Loans in such currency are determined. Eurocurrency Loans shall be deemed to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Bank under Regulation D or any other applicable law, rule or regulation. The Eurocurrency Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

(d) Any overdue principal of or interest on any Eurocurrency Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the higher of (i) the sum of 2% plus the Eurocurrency Margin for such day plus the Adjusted London Interbank Offered Rate applicable to the Interest Period for such Loan and (ii) the sum of 2% plus the Eurocurrency Margin for such day plus the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (x) the average (rounded to the nearest 1/16 of 1%) of the respective rates per annum at which one day (or, if such amount due remains unpaid more than three Eurocurrency Business Days, then for such other period of time not longer than six months as the Administrative Agent may select) deposits in the currency of such Loan in an amount approximately equal to such Loan are offered to the Administrative Agent in the London interbank market for the applicable period determined as provided above by (y) 1.00 minus the Eurocurrency Reserve Percentage (or, if the circumstances described in Section 8.01 shall exist, (i) in the case of a Loan denominated in Dollars, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day) and (ii) in the case of a Loan denominated in Foreign Currency, at a rate per annum equal to the sum of 2% plus the Eurocurrency Margin plus the rate determined by the Administrative Agent from time to time to represent the cost of overnight or short-term funds in the applicable currency.

(e) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the Banks of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.06. Facility Fees. (a) The Borrower shall pay to the Administrative Agent for the account of the Banks ratably a facility fee at the Facility Fee Rate (determined daily in accordance with the Pricing Schedule). Such facility fee shall accrue (i) from and including the date of this Agreement to but excluding the Termination Date (or earlier date of termination of the Commitments in their entirety), on the daily aggregate amount of the

Commitments (whether used or unused) and (ii) from and including the Termination Date or such earlier date of termination to but excluding the date the Loans shall be repaid in their entirety, on the daily aggregate outstanding principal amount of the Loans. Accrued fees under this Section shall be payable quarterly on the last day of each March, June, September and December and upon the date of termination of the Commitments in their entirety (and, if later, the date the Loans shall be repaid in their entirety).

(b) On the date of this Agreement, the Borrower shall pay to the Administrative Agent for the account of each Bank an upfront fee in the amount heretofore mutually agreed.

Section 2.07. Optional Termination or Reduction of Commitments; Extension of Commitments. (a) During the Revolving Credit Period, the Borrower may, upon at least three Domestic Business Days' notice to the Administrative Agent, (i) terminate the Commitments at any time, if no Loans are outstanding at such time or (ii) ratably reduce from time to time by an aggregate amount of \$25,000,000 or any larger multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate U.S. Dollar Equivalent of the outstanding principal amount of the Loans.

(b) The Borrower may, by notice to the Administrative Agent in a form approved by the Administrative Agent (which shall promptly deliver a copy to each of the Banks) not less than 45 days and not more than 60 days prior to the Termination Date at any time in effect (the "EXISTING TERMINATION DATE"), request that the Banks extend the Termination Date for an additional 364 days from the Existing Termination Date. Each Bank shall, by notice to the Borrower and the Administrative Agent given not more than 40 and not fewer than 29 days prior to the Existing Termination Date, advise the Borrower whether or not such Bank agrees to such extension (and any Bank that does not advise the Borrower on or before the later of such days shall be deemed to have advised the Borrower that it will not agree to such extension).

The Borrower shall have the right, on or before the Existing Termination Date, to require any Bank which shall have advised or been deemed to advise the Borrower that it will not agree to an extension of the Termination Date (each a "NON-EXTENDING BANK") to transfer without recourse (in accordance with and subject to the restrictions contained in Section 9.06) all its interests, rights and obligations under this Agreement to one or more other banks or other financial institutions (any such bank or other financial institution being called a "SUBSTITUTE BANK"), which may include any Bank; provided that (i) such Substitute Bank, if not already a Bank hereunder, shall have been approved by the Administrative Agent (which approval shall not be unreasonably withheld) and shall execute all such documentation as the Administrative Agent shall specify to evidence its status as a Bank hereunder, (ii) such assignment shall become effective as of the Existing Termination Date and (iii) the Borrower or such Substitute Bank shall pay to such Non-Extending Bank in immediately available funds on the effective date of such assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder.

If (and only if) Banks (including Substitute Banks) holding Commitments that represent at least 60% of the Total Commitment on the 45th day prior to the Existing Termination Date shall have agreed, on or before the Existing Termination Date, to extend the Existing Termination Date (the "CONTINUING BANKS"), then the Termination Date shall be extended to the date 364 days after the Existing Termination Date (provided, that if such date is not a Eurocurrency Business Day, then the Termination Date shall be extended to the next

preceding Eurocurrency Business Day). The decision to agree or withhold agreement to any extension of the Termination Date hereunder shall be at the sole discretion of each Bank. The Commitment of each Non-Extending Bank (after giving effect to each transfer and assignment pursuant to this paragraph (b)) shall terminate, and all Loans of such Non-Extending Bank shall become due and payable, together with all interest accrued thereon and all other amounts owed to such Bank hereunder, on the Existing Termination Date.

Notwithstanding the foregoing, no extension of the Termination Date shall be effective with respect to any Bank unless, on and as of the Existing Termination Date, the conditions set forth in paragraphs (b) and (c) of Section 3.02 shall be satisfied and the Administrative Agent shall have received a certificate to that effect, dated the Existing Termination Date and executed by a Senior Executive Officer of the Borrower.

Section 2.08. Mandatory Termination and Reduction of Commitments. The Commitments shall terminate on the Termination Date, and any Loans then outstanding (together with accrued interest thereon) shall be due and payable on such date.

Section 2.09. Optional Payments. (a) Subject in the case of any Eurocurrency Borrowing to Section 2.11, the Borrower may, upon at least one Domestic Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing, or upon at least three Eurocurrency Business Days' notice to the Administrative Agent, prepay any Eurocurrency Borrowing, in each case in whole at any time, or from time to time in part in amounts that are multiples of the Borrowing Multiple and at least equal to the Borrowing Minimum by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Banks included in such Borrowing.

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share (if any) of such prepayment and such notice shall not thereafter be revocable by the Borrower.

Section 2.10. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loans and of fees hereunder, without setoff, counterclaim or other deduction, not later than 12:00 Noon New York City Time on the date when due, in U.S. Dollars or the applicable Designated Currency, as the case may be, in immediately available funds to such account as the Administrative Agent shall specify. All payments due under this Agreement other than the payments of the principal of and interest on Loans denominated in Foreign Currencies shall be made in U.S. Dollars. The Administrative Agent will promptly distribute to each Bank its ratable share of each such payment received by the Administrative Agent for the account of the Banks. Whenever any payment of principal of, or interest on, Base Rate Loans or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Eurocurrency Loans shall be due on a day which is not a Eurocurrency Business Day, the date for payment thereof shall be extended to the next succeeding Eurocurrency Business Day unless such Eurocurrency Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Eurocurrency Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the Borrower shall not have so made such payment, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.11. Funding Losses. If (i) the Borrower makes any payment of principal with respect to any Eurocurrency Loan (pursuant to Article 2, 6, or 8 or otherwise), (ii) any Non-Increasing Bank receives a payment of principal pursuant to Section 2.13(b) or (iii) any Non-Extending Bank receives a payment of principal pursuant to Section 2.07(b) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.05(d), or if the Borrower fails to borrow or prepay any Eurocurrency Loan after notice has been given to any Bank in accordance with Section 2.02(c) or 2.09(b), the Borrower shall reimburse each Bank within 15 days after demand for any resulting loss or reasonable expense incurred by it (or by an existing Participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin, for the period after any such payment or failure to borrow or prepay, provided that such Bank shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.12. Computation of Interest and Fees. Interest based on the Prime Rate hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). Interest based on the Federal Funds Rate or the Adjusted London Interbank Offered Rate shall be computed on the basis of a year of 360 days, and paid for the actual number of days elapsed (including the first day but excluding the last day). Fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.13. Increase in Commitments. (a) The Borrower may, by written notice to the Administrative Agent (which shall promptly deliver a copy to each of the Banks), request that the total Commitments be increased by an amount not less than \$25,000,000 for any such increase and not greater than \$250,000,000 minus the aggregate amount of prior or simultaneous increases of the Commitments under this Agreement and the Multi-Year Agreement. Such notice shall set forth the amount of the requested increase in the total Commitments and the date on which such increase is requested to become effective (which shall be not less than 45 days or more than 60 days after the date of such notice), and shall offer each Bank the opportunity to increase its Commitment by its Applicable Percentage of the proposed increased amount. Each Bank shall, by notice to the Borrower and the Administrative Agent given not more than 20 days after the date of the Borrower's notice, either agree to increase its Commitment by all or a portion of the offered amount (each Bank so agreeing being an "INCREASING BANK") or decline to increase its Commitment (and any Bank that does not deliver such a notice within such period of 20 days shall be deemed to have declined to increase its Commitment) (each Bank so declining or deemed to have declined being a "NON-INCREASING BANK"). In the event that, on the 20th day after the Borrower shall have

delivered a notice pursuant to the first sentence of this paragraph, the Banks shall have agreed pursuant to the preceding sentence to increase their Commitments by an aggregate amount less than the increase in the total Commitments requested by the Borrower, the Borrower may arrange for one or more banks or other financial institutions (any such bank or other financial institution referred to in this paragraph (a) being called an "AUGMENTING BANK"), which may include any Bank, to extend Commitments or increase its existing Commitments in an aggregate amount equal to the unsubscribed amount; provided that each Augmenting Bank, if not already a Bank hereunder, shall be subject to the approval of the Administrative Agent (which approval shall not be unreasonably withheld) and each Augmenting Bank shall execute all such documentation as the Administrative Agent shall specify to evidence its Commitment and its status as a Bank hereunder. Increases and new Commitments created pursuant to this paragraph (a) shall become effective on the date specified in the notice delivered by the Borrower pursuant to the first sentence of this paragraph. Notwithstanding the foregoing, no increase in the total Commitments (or in the Commitment of any Bank) shall become effective under this paragraph unless, (i) on the date of such increase, the conditions set forth in paragraphs (b) and (c) of Section 3.02 shall be satisfied and the Administrative Agent shall have received a certificate to that effect dated such date and executed by a Financial Officer of the Borrower, and (ii) the Administrative Agent shall have received (with sufficient copies for each of the Banks) documents consistent with those delivered under clauses (b) and (c) of Section 3.01 as to the corporate power and authority of the Borrower to borrow hereunder and as to the enforceability of this Agreement after giving effect to such increase.

(b) On the effective date (the "INCREASE EFFECTIVE DATE") of any increase in the total Commitments pursuant to paragraph (a) above (the "COMMITMENT INCREASE"), (i) the aggregate principal amount of the Loans outstanding (the "INITIAL LOANS") immediately prior to giving effect to the Commitment Increase on the Increase Effective Date shall be deemed to be paid, (ii) each Increasing Bank and each Augmenting Bank that shall have been a Bank prior to the Commitment Increase shall pay to the Administrative Agent in same day funds an amount equal to the difference between (A) the product of (1) such Bank's Applicable Percentage (calculated after giving effect to the Commitment Increase) multiplied by (2) the amount of the Subsequent Borrowings (as hereinafter defined) and (B) the product of (1) such Bank's Applicable Percentage (calculated without giving effect to the Commitment Increase) multiplied by (2) the amount of the Initial Loans, (iii) each Augmenting Bank that shall not have been a Bank prior to the Commitment Increase shall pay to Administrative Agent in same day funds an amount equal to the product of (1) such Augmenting Bank's Applicable Percentage (calculated after giving effect to the Commitment Increase) multiplied by (2) the amount of the Subsequent Borrowings, (iv) after the Administrative Agent receives the funds specified in clauses (ii) and (iii) above, the Administrative Agent shall pay to each Non-Increasing Bank the portion of such funds that is equal to the difference between (A) the product of (1) such Non-Increasing Bank's Applicable Percentage (calculated without giving effect to the Commitment Increase) multiplied by (2) the amount of the Initial Loans, and (B) the product of (1) such Non-Increasing Bank's Applicable Percentage (calculated after giving effect to the Commitment Increase) multiplied by (2) the amount of the Subsequent Borrowings (v) after the effectiveness of the Commitment Increase, the Borrower shall be deemed to have made new Borrowings (the "SUBSEQUENT BORROWINGS") in an aggregate principal amount equal to the aggregate principal amount of the Initial Loans in the currency or currencies, and of the types and for the Interest Periods specified in a Notice of Borrowing delivered to the Administrative Agent in accordance with Section 2.02, (vi) each Non-Increasing Bank, each Increasing Bank and each Augmenting Bank shall be deemed to hold its Applicable Percentage of each Subsequent Borrowing (calculated after giving effect to the Commitment Increase) and

(vii) the Borrower shall pay each Increasing Bank and each Non-Increasing Bank any and all accrued but unpaid interest on the Initial Loans.

ARTICLE 3

Conditions

Section 3.01. Effectiveness. This Agreement shall become effective on the date that each of the following conditions shall have been satisfied (or waived in accordance with Section 9.05):

- (a) receipt by the Administrative Agent of counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex or other written confirmation from such party of execution of a counterpart hereof by such party);
- (b) receipt by the Administrative Agent of an opinion of David D. Wilson, Assistant Secretary and Associate General Counsel of the Borrower, substantially in the form of Exhibit A hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;
- (c) receipt by the Administrative Agent of all documents the Administrative Agent may reasonably request relating to the existence of the Borrower, the corporate authority for and the validity of this Agreement, and any other matters relevant hereto, all in form and substance satisfactory to the Administrative Agent; and
- (d) receipt by the Administrative Agent of a certificate of a Financial Officer of the Borrower certifying as to (i) the termination of the Existing Credit Agreement, and (ii) the payment in full of all obligations of the Borrower outstanding under the Existing Credit Agreement.

The Administrative Agent shall promptly notify the Borrower and the Banks of the Effective Date, and such notice shall be conclusive and binding on all parties hereto.

Section 3.02. Borrowings. The obligation of any Bank to make a Loan on the occasion of any Borrowing is subject to the satisfaction of the following conditions:

- (a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.02;
- (b) the fact that, immediately before and after such Borrowing, no Default shall have occurred and be continuing; and
- (c) the fact that the representations and warranties of the Borrower contained in this Agreement (except (i) the representation and warranty set forth in Section 4.04(c) and (ii) the representations and warranties set forth in Sections 4.05 and 4.06 as to any matter which has theretofore been disclosed in writing by the Borrower to the Banks or in reports filed with the Securities and Exchange Commission, copies of which reports have been delivered to the Banks) shall be true on and as of the date of such Borrowing.

Each Borrowing hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE 4

Representations and Warranties

Section 4.01. Corporate Existence and Power. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of Pennsylvania, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Section 4.02. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by the Borrower of this Agreement is within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or by-laws of the Borrower or of any material agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its Subsidiaries or result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

Section 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of the Borrower, enforceable in accordance with its terms and each note, when executed and delivered in accordance with this Agreement, will constitute a valid and binding obligation of the Borrower, in each case enforceable in accordance with its terms.

Section 4.04. Financial Information. (a) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 1997 and the related consolidated statements of earnings and cash flows for the fiscal year then ended, reported on by independent public accountants and set forth in the Borrower's 1997 Form 10-K, a copy of which has been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 1998 and the related unaudited consolidated statements of earnings and cash flows for the six months then ended, set forth in the Borrower's latest Form 10-Q, a copy of which has been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three month period (subject to normal year-end adjustments).

(c) Since June 30, 1998 there has been no material adverse change in the business, financial position, operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole.

Section 4.05. Litigation. Except as disclosed in the Borrower's 1997 Form 10-K, in the Borrower's Latest Form 10-Q or as may hereafter be disclosed in writing by the Borrower to the Banks or in reports filed with the Securities and Exchange Commission, there is no action, suit or proceeding pending against, or to the knowledge of the Borrower threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, financial position, operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole, or the ability of the Borrower to perform its obligations under this Agreement. There is no action, suit or proceeding pending against, or the knowledge of the Borrower threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official which in any manner draws into question the validity of this Agreement.

Section 4.06. Environmental Matters. In the ordinary course of its business, the Borrower reviews the effect of Environmental Laws on the business, operations and properties of the Borrower and its Subsidiaries, in the course of which it identifies and evaluates associated liabilities and costs. On the basis of this review, the Borrower has reasonably concluded that, to the best of its knowledge, except as disclosed in reports filed with the Securities and Exchange Commission, copies of which reports have been delivered to the Banks, such associated liabilities and costs, including the costs of compliance with Environmental Laws, are unlikely to have a material adverse effect on the business, financial condition, results of operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole.

Section 4.07. Taxes. The Borrower and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any Subsidiary. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Borrower, adequate.

Section 4.08. Significant Subsidiaries. Each of the Borrower's Significant Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Section 4.09. Not an Investment Company. The Borrower is not an "Investment Company" within the meaning of the Investment Company Act of 1940, as amended.

Section 4.10. Full Disclosure. All information heretofore furnished by the Borrower to the Administrative Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by the Borrower to the Administrative Agent or any Bank will be, true and accurate in all material respects on the date as of which such information is stated or certified. The Borrower has disclosed to the Banks in writing or in reports filed with the Securities and Exchange Commission, copies of which reports have been delivered to the Banks, any and all facts which materially and adversely affect or may affect (to the extent the Borrower can now reasonably foresee) the business, operations or financial condition of the Borrower and its Consolidated Subsidiaries, taken as a whole, or the ability of the Borrower to perform its obligations under this Agreement.

ARTICLE 5

Covenants

The Borrower agrees that, so long as any Bank has any Commitment hereunder and so long as any Loan is outstanding hereunder:

Section 5.01. Information. The Borrower will deliver to each of the Banks:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on in a manner acceptable to the Securities and Exchange Commission by independent public accountants of nationally recognized standing;

(b) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the portion of the Borrower's fiscal year ended at the end of such quarter, setting forth in the case of such statements of income and cash flows in comparative form the figures for the corresponding quarter and the corresponding portion of the Borrower's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer or the chief accounting officer of the Borrower;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer or the chief accounting officer of the Borrower (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.07 and 5.08 on the date of such financial statements and (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(d) within five days after any officer of the Borrower obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(e) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all financial statements, reports and proxy statements so mailed;

(f) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Borrower shall have filed with the Securities and Exchange Commission;

(g) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "Reportable Event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan

under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take; and

(h) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Administrative Agent, at the request of any Bank, may reasonably request.

Section 5.02. Payment of Obligations. The Borrower will pay and discharge, and will cause each Significant Subsidiary to pay and discharge, at or before maturity, all their respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each Significant Subsidiary to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same. Obligations and liabilities in an aggregate amount equal to or less than \$20,000,000 will not be deemed "Material" for purposes of this Section 5.02.

Section 5.03. Maintenance of Property; Insurance. (a) The Borrower will keep, and will cause each Significant Subsidiary to keep, all property material to its business in good working order and condition, ordinary wear and tear excepted.

(b) The Borrower and its Significant Subsidiaries will maintain insurance with sound and reputable insurers against at least such risks (and in at least such amounts, subject to such risk retentions) as are usually insured against in the same geographic area by companies of established repute engaged in the same or a similar business.

Section 5.04. Conduct of Business and Maintenance. The Borrower will preserve, renew and keep in full force and effect, and will cause each Significant Subsidiary to preserve, renew and keep in full force and effect their respective corporate existence and their respective rights, privileges and franchises necessary or desirable in the normal conduct of business; provided that nothing in this Section 5.04 shall prohibit (i) the merger of a Subsidiary into the Borrower or the merger or consolidation of a Subsidiary with or into another Person if the corporation surviving such consolidation or merger is a Subsidiary and if, in each case, after giving effect thereto, no Default shall have occurred and be continuing or (ii) the termination of the corporate existence of any Subsidiary if the Borrower in good faith determines that such

termination is in the best interest of the Borrower and is not materially disadvantageous to the Banks.

Section 5.05. Compliance with Laws. The Borrower will comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings and with respect to which adequate reserves have been established in accordance with generally accepted accounting principles.

Section 5.06. Inspection of Property, Books and Records. The Borrower will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of any Bank at such Bank's expense to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

Section 5.07. Minimum Consolidated Net Worth. Consolidated Net Worth will at no time be less than \$650,000,000.

Section 5.08. Negative Pledge. Neither the Borrower nor any Subsidiary will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

- (a) Liens existing on the date of this Agreement securing Debt outstanding on the date of this Agreement in an aggregate principal or face amount not exceeding \$50,000,000;
- (b) any Lien existing on any asset of any corporation at the time such corporation becomes a Subsidiary and not created in contemplation of such event;
- (c) any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset, provided that such Lien attaches to such asset concurrently with or within 180 days after the acquisition thereof;
- (d) any Lien on any asset of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower or a Subsidiary and not created in contemplation of such event;
- (e) any Lien existing on any asset prior to the acquisition thereof by the Borrower or a Subsidiary and not created in contemplation of such acquisition;
- (f) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section, provided that such Debt is not increased and is not secured by any additional assets;
- (g) Liens arising in the ordinary course of its business which (i) do not secure Debt or Derivatives Obligations, (ii) do not secure any obligation in an amount exceeding \$25,000,000 and (iii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(h) Liens on cash and cash equivalents securing Derivatives Obligations, provided that the aggregate amount of cash and cash equivalents subject to such Liens may at no time exceed \$25,000,000;

(i) Liens on Margin Stock, if and to the extent that the value of such Margin Stock exceeds 25% of the total assets of the Borrower and its Subsidiaries subject to this Section; and

(j) Liens not otherwise permitted by the foregoing clauses of this Section securing Debt in an aggregate principal or face amount at any date not to exceed 10% of Consolidated Net Worth.

Section 5.09. Consolidations, Mergers and Sales of Assets. The Borrower will not (i) consolidate or merge with or into any other Person unless the Borrower is the surviving corporation or (ii) sell, lease or otherwise transfer, directly or indirectly, in a single transaction or a series of related transactions all or any substantial part of the assets of the Borrower and its Subsidiaries, taken as a whole, to any other Person; provided that (i) nothing in this Section shall restrict the sale of Margin Stock for cash consideration in an amount not less than the fair market value thereof to the extent the value of such Margin Stock exceeds 25% of the total assets of the Borrower and its Subsidiaries subject to this Section and (ii) a sale of the Borrower's Insulation Business shall not be deemed a sale of a substantial part of the assets of the Borrower and its Subsidiaries. For purposes of this Section, a substantial part of the assets of the Borrower and its Subsidiaries, taken as a whole, shall mean 20% or more of the consolidated assets of the Borrower and its Consolidated Subsidiaries.

Section 5.10. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for its general corporate purposes. None of such proceeds will be used in violation of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

ARTICLE 6

Defaults

Section 6.01. Events of Default. If one or more of the following events ("EVENTS OF DEFAULT") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal of any Loan or shall fail to pay within three days of the due date thereof any interest on any Loan, any fees or any other amount payable hereunder;

(b) the Borrower shall fail to observe or perform any covenant contained in Sections 5.07 to 5.10, inclusive;

(c) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those covered by clause (a) or (b) above) for 30 days after notice thereof has been given to the Borrower by the Administrative Agent at the request of any Bank;

(d) any representation, warranty, certification or statement made by the Borrower in this Agreement or in any certificate, financial statement or other document delivered pursuant to this Agreement shall prove to have been incorrect in any material respect when made (or deemed made);

(e) the Borrower or any Subsidiary shall fail to make any payment in respect of any Material Financial Obligations when due or within any applicable grace period;

(f) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;

(g) the Borrower or any Significant Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(h) an involuntary case or other proceeding shall be commenced against the Borrower or any Significant Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower or any Significant Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(i) (A) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$5,000,000 which it shall have become liable to pay under Title IV of ERISA; (B) notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; (C) the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; (D) a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or (E) there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans and such events listed in clauses (A) through (E) could cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$20,000,000;

(j) judgments or orders for the payment of money in excess of \$20,000,000 in the aggregate shall be rendered against the Borrower or any Subsidiary and such judgments or orders shall continue unsatisfied and unstayed for a period of 30 days; or

(k)(i) any Person becomes the beneficial owner of 28% or more of the then outstanding Voting Stock of the Borrower and within five years thereafter Disinterested Directors no longer constitute at least a majority of the Board of Directors of the Borrower or (ii) a Business Combination with an Interested Shareholder occurs which has not been approved by a majority of Disinterested Directors. (For purposes of this subsection, the terms Person, beneficial owner, Voting Stock, Disinterested Director,

Business Combination, and Interested Shareholder are defined in the Borrower's Articles of Incorporation as in effect as of the date hereof);

then, and in every such event, the Administrative Agent shall (i) if requested by Banks having more than 51% in aggregate amount of the Commitments, by notice to the Borrower terminate the Commitments and they shall thereupon terminate, and (ii) if requested by Banks with Loans of more than 51% in aggregate principal amount of the Loans, by notice to the Borrower declare the Loans (together with accrued interest thereon) to be, and the Loans shall thereupon become, immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the case of any of the Events of Default specified in clause (g) or (h) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or the Banks, the Commitments shall thereupon terminate and the Loans (together with accrued interest thereon) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Section 6.02. Notice of Default. The Administrative Agent shall give notice to the Borrower under Section 6.01(c) promptly upon being requested to do so by any Bank and shall thereupon notify all the Banks thereof.

ARTICLE 7

The Agents

Section 7.01. Appointment and Authorization. Each Bank irrevocably appoints and authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto.

Section 7.02. Administrative Agent and Affiliates. The Chase Manhattan Bank of New York shall have the same rights and powers under this Agreement as any other Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and The Chase Manhattan Bank and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrower or any Subsidiary or affiliate of the Borrower as if it were not the Administrative Agent hereunder.

Section 7.03. Action by Administrative Agent. The obligations of the Administrative Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in Article 6.

Section 7.04. Consultation with Experts. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 7.05. Liability of Administrative Agent. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or not taken by it in connection herewith (i) with the consent

or at the request of the Required Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of the Borrower; (iii) the satisfaction of any condition specified in Article 3, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness or genuineness of this Agreement or any other instrument or writing furnished in connection herewith. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex, facsimile transmission or similar writing) believed by it to be genuine or to be signed by the proper party or parties.

Section 7.06. Indemnification. Each Bank shall, ratably in accordance with its Commitment, indemnify the Administrative Agent, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrower) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct) that such indemnitees may suffer or incur in connection with this Agreement or any action taken or omitted by such indemnitees hereunder.

Section 7.07. Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon any Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon any Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement.

Section 7.08. Successor Administrative Agent. The Administrative Agent may resign at any time by giving notice thereof to the Banks and the Borrower. Upon any such resignation, the Borrower shall have the right to appoint a successor Administrative Agent, subject to the approval of the Required Banks. If no successor Administrative Agent shall have been so appointed and approved, and shall have accepted such appointment, within 45 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$50,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

Section 7.09. Agents' Fees. The Borrower shall pay to each Agent for its own account fees in the amounts and at the times previously agreed upon between the Borrower and such Agent.

Section 7.10. Other Agents. Nothing in this Agreement shall impose any duty or liability whatsoever on the Documentation Agent, Co-Documentation Agents or the Syndication Agent in such capacity.

ARTICLE 8

Change in Circumstances

Section 8.01. Basis for Determining Interest Rate Inadequate. If on or prior to the first day of any Interest Period for any Eurocurrency Borrowing, the Administrative Agent is advised by the Required Banks that deposits in Dollars (in the applicable amounts) are not being offered to the Required Banks in the relevant market for such Interest Period, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Banks to make Eurocurrency Loans shall be suspended. Unless the Borrower notifies the Administrative Agent at least two Domestic Business Days before the date of any Eurocurrency Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow such Borrowing on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 8.02. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Eurocurrency Lending Office) with any formal request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Bank (or its Eurocurrency Lending Office) to make, maintain or fund its Dollar-Denominated Eurocurrency Loans or Eurocurrency Loans denominated in a Designated Currency, as the case may be, and such Bank shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon until such Bank notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Dollar-denominated Eurocurrency Loans or Eurocurrency Loans denominated in a Designated Currency shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Bank shall designate a different Eurocurrency Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such Bank shall determine that it may not lawfully continue to maintain and fund any of its outstanding Dollar-denominated Eurocurrency Loans or Eurocurrency Loans denominated in a Designated Currency to maturity and shall so specify in such notice, the Borrower shall immediately prepay in full the then outstanding principal amount of each such Eurocurrency Loan, together with accrued interest thereon. Concurrently with prepaying each such Eurocurrency Loan, the Borrower shall borrow a Base Rate Loan in an equal principal amount (or, in the case of a Eurocurrency Loan in a Designated Currency, a Dollar amount equal to such amount based on the current Exchange Rate) from such Bank (on which interest and principal shall be payable contemporaneously with the related Eurocurrency Loans of the other Banks), and such Bank shall make such a Base Rate Loan.

Section 8.03. Increased Cost and Reduced Return. (a) If on or after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Applicable Lending Office) with any formal request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Eurocurrency Loan any such requirement included in an applicable Eurocurrency Reserve Percentage), special deposit, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Applicable Lending Office) or shall impose on any Bank (or its Applicable Lending Office) or on the London interbank market any other condition affecting its Eurocurrency Loans or its obligation to make Eurocurrency Loans and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) of making or maintaining any Eurocurrency Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) under this Agreement by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

(b) If any Bank shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any formal request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency (including any determination by any such authority, central bank or comparable agency that, for purposes of capital adequacy requirements, the Commitments hereunder do not constitute commitments with an original maturity of one year or less), has or would have the effect of reducing the rate of return on capital of such Bank (or its Parent) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank (or its Parent) for such reduction.

(c) Each Bank will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

Section 8.04. (a) Taxes. For purposes of this Section 8.04, the following terms have the following meanings:

"TAXES" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Borrower pursuant to this Agreement and all liabilities with respect thereto, excluding (i) in the case of each Bank and the Administrative Agent, taxes imposed on its income, and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Lending Office is located and (ii) in the case of each Bank, any United States withholding tax imposed on such payments but only to the extent that such Bank is subject to United States withholding tax at the time such Bank first becomes a party to this Agreement.

"OTHER TAXES" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or from the execution or delivery of, or otherwise with respect to, this Agreement.

(b) Any and all payments by the Borrower to or for the account of any Bank or the Administrative Agent hereunder shall be made without deduction for any Taxes or Other Taxes; provided that, if the Borrower shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.04) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Borrower agrees to indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 8.04) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be paid within 15 days after such Bank or the Administrative Agent (as the case may be) makes demand therefor.

(d) (i) With respect to any payment by the Borrower (or a Subsidiary) from the United States, each Bank organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Bank listed on the signature pages hereof and on or prior to the date on which it becomes a Bank in the case of each other Bank, and from time to time thereafter if requested in writing by the Borrower (but only so long as such Bank remains lawfully able to do so), shall provide the Borrower with Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Bank is entitled to benefits under an income tax treaty to which the United States is a party which exempts the Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States; provided that such Bank shall not be required to deliver any form pursuant to this Section 8.05(d)(i) that such Bank is not legally able to deliver.

(ii) With respect to any payment by the Borrower (or a Subsidiary) from a jurisdiction other than the United States, each Bank organized under the laws of a jurisdiction other than the jurisdiction from which payment is made ("RELEVANT JURISDICTION") that is entitled to an exemption from or reduction of withholding tax under the law of the Relevant Jurisdiction, or any treaty to which such Relevant Jurisdiction is a party, with respect to payments under this Agreement shall, after having received written notice from the Borrower (or the applicable Subsidiary) advising it of the availability of such exemption or reduction and containing all relevant documentation, deliver to the Borrower (or the applicable Subsidiary), with a copy to the Administrative Agent, at the time or times prescribed by the applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower (or the applicable Subsidiary) as will permit such payments to be made without withholding at a reduced rate.

(e) For any period with respect to which a Bank has failed to provide the Borrower with the appropriate form pursuant to Section 8.04(d) (unless such failure is due to a change in treaty, law or regulation occurring subsequent to the date on which such form originally was required to be provided), such Bank shall not be entitled to indemnification under Section 8.04(b) or 8.04(c) with respect to Taxes imposed by the Relevant Jurisdiction or the United States, as the case may be; provided that if a Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(f) If the Borrower is required to pay additional amounts to or for the account of any Bank pursuant to this Section 8.04, then such Bank will change the jurisdiction of its Applicable Lending Office if, in the judgment of such Bank, such change (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank.

Section 8.05. Base Rate Loans Substituted for Affected Eurocurrency Loans. If (i) the obligation of any Bank to make Eurocurrency Loans has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03 or 8.04 with respect to its Eurocurrency Loans and the Borrower shall, by at least five Eurocurrency Business Days' prior notice to such Bank through the Administrative Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer exist:

(a) all Loans which would otherwise be made by such Bank as Eurocurrency Loans, shall be made instead as Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Eurocurrency Loans of the other Banks), and

(b) after each of its Eurocurrency Loans has been repaid, all payments of principal which would otherwise be applied to repay such Eurocurrency Loans shall be applied to repay its Base Rate Loans instead.

Section 8.06. Substitution of Bank. If (i) the obligation of any Bank to make Eurocurrency Loans has been suspended pursuant to Section 8.02 or

(ii) any Bank has demanded compensation under Section 8.03 or 8.04, the Borrower shall have the right, with the assistance of the Administrative

Agent, to seek a mutually satisfactory substitute bank or banks (which may be one or more of the Banks) to assume the Commitment of such Bank.

ARTICLE 9

Miscellaneous

Section 9.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party: (x) in the case of the Borrower or the Administrative Agent, at its address, facsimile number or telex number set forth on the signature pages hereof, (y) in the case of any Bank, at its address, facsimile number or telex number set forth in its Administrative Questionnaire or (z) in the case of any party, such other address, facsimile number or telex number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Borrower. Each such notice, request or other communication shall be effective

(i) if given by telex, when such telex is transmitted to the telex number specified in this Section and the appropriate answerback is received, (ii) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received or (iii) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Administrative Agent under Article 2 or Article 8 shall not be effective until received.

Section 9.02. No Waivers. No failure or delay by the Administrative Agent or any Bank in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification. (a) The Borrower shall pay

(i) all reasonable out-of-pocket expenses of the Administrative Agent, including fees and disbursements of special counsel for the Administrative Agent, in connection with the preparation and administration of this Agreement, any waiver or consent hereunder or any amendment hereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all reasonable out-of-pocket expenses incurred by the Administrative Agent and each Bank, including (without duplication) the fees and disbursements of outside counsel and the allocated cost of inside counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Borrower agrees to indemnify the Administrative Agent and each Bank, their respective affiliates and the respective directors, officers, agents and employees of the foregoing (each an "INDEMNITEE") and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, reasonable costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; provided that (i) no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction, (ii) in the case of an investigation or a proceeding to which an Indemnitee is not a party, such Indemnitee shall be entitled to indemnification only if such Indemnitee is required to respond to process or other formal inquiry in connection therewith and (iii) any claim for

indemnification hereunder shall be made not later than three years after the termination of the Commitments and repayment in full of the Loans.

Section 9.04. Sharing of Set-Offs. The Banks agree among themselves that if any Bank shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of principal and interest due with respect to any Loan made by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Loans made by the other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Loans made by the Banks shall be shared by the Banks pro rata; provided that nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Banks (and, if the rights or duties of the Administrative Agent are affected thereby, by the Administrative Agent); provided that no such amendment or waiver shall, unless signed by all the Banks, (i) increase or decrease the Commitment of any Bank (except for a ratable decrease in the Commitments of all Banks) or subject any Bank to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or any fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan or any fees hereunder or for termination of any Commitment or (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement.

Section 9.06. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all Banks.

(b) Any Bank may at any time grant to one or more banks or other institutions (each a "PARTICIPANT") participating interests in its Commitment or any or all of its Loans. In the event of any such grant by a Bank of a participating interest to a Participant, such Bank shall remain responsible for the performance of its Commitment and its other obligations hereunder, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement described in clause (i), (ii), (iii) or (iv) of Section 9.05 without the consent of the Participant. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article with respect to its participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b).

(c) Any Bank may at any time assign to one or more banks or other institutions (each an "ASSIGNEE") all, or a proportionate part of all, of its rights and obligations under this Agreement, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit D hereto executed by such Assignee and such transferor Bank, with (and subject to) the subscribed consent of the Borrower and the Administrative Agent, which consents will not be unreasonably withheld; provided that (i) if an Assignee is a Bank prior to giving effect to such assignment or is an affiliate of such transferor Bank, no such consent shall be required and (ii) if at the time of such assignment an Event of Default shall have occurred and be continuing, no such consent of the Borrower shall be required. Upon execution and delivery of such instrument and payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, such Assignee shall be a Bank party to this Agreement and shall have all the rights and obligations of a Bank with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. In connection with any such assignment, the transferor Bank shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$2,500. If the Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 8.04.

(d) Any Bank may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder.

(e) No Assignee, Participant or other transferee of any Bank's rights shall be entitled to receive any greater payment under Section 8.03 or 8.04 than such Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Borrower's prior written consent or by reason of the provisions of Section 8.02, 8.03 or requiring such Bank to designate a different Applicable Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

Section 9.07. Collateral. Each of the Banks represents to each Agent and each of the other Banks that it in good faith is not relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Agreement.

Section 9.08 Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 9.09. Counterparts; Integration. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the

entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE BANKS HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.11. Conversion of Currencies. (a) If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum owing hereunder in one currency into another currency, each party hereto agrees, to the fullest extent that it may lawfully do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures in the relevant jurisdiction the first currency could be purchased with such other currency on the Domestic Business Day (or Eurocurrency Business Day if applicable) immediately preceding the day on which final judgment is given.

(b) The obligations of each party hereto in respect of any sum due to any other party hereto or any holder of the obligations owing hereunder (the "APPLICABLE CREDITOR") shall, notwithstanding any judgment in a currency (the "JUDGMENT CURRENCY") other than the currency in which such sum is stated to be due hereunder (the "AGREEMENT CURRENCY"), be discharged only to the extent that, on the Business Day following receipt by the Applicable Creditor of any sum adjudged to be so due in the Judgment Currency, the Applicable Creditor may in accordance with normal banking procedures in the relevant jurisdiction purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to the Applicable Creditor in the Agreement Currency, such party agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Applicable Creditor against such loss. The obligations of the parties contained in this

Section 9.11 shall survive the termination of this Agreement and the payment of all other amounts owing hereunder.

Section 9.12. European Economic and Monetary Union. (a) Definitions. In this Section 9.12 and in each other provision of this Agreement to which reference is made in this Section 9.12 expressly or impliedly, the following terms have the meanings given to them in this Section 9.12:

"COMMENCEMENT OF THE THIRD STAGE OF EMU" means the date of commencement of the third stage of EMU (at the date of this Credit Agreement expected to be January 1, 1999) or the date on which circumstances arise which (in the opinion of the Administrative Agent) have substantially the same effect and result in substantially the same consequences as commencement of the third stage of EMU as contemplated by the Treaty on European Union.

"EMU" means economic and monetary union as contemplated in the Treaty on European Union.

"EMU LEGISLATION" means legislative measures of the European Council for the introduction of, changeover to or operation of a single or unified European currency (whether known as the euro or otherwise), being in part the implementation of the third stage of EMU;

"EURO" means the single currency of participating member states of the European Union;

"EURO UNIT" means the currency unit of the euro;

"NATIONAL CURRENCY UNIT" means the unit of currency (other than a euro unit) of a participating member state;

"PARTICIPATING MEMBER STATE" means each state so described in any EMU legislation; and

"TREATY ON EUROPEAN UNION" means the Treaty of Rome of March 25, 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on February 7, 1992, and came into force on November 1, 1993), as amended from time to time.

(b) Effectiveness of Provisions. The provisions of paragraphs (c) to

(j) below (inclusive) shall be effective at and from the commencement of the third stage of EMU, provided, that if and to the extent that any such provision relates to any state (or the currency of such state) that is not a participating member state on the commencement of the third stage of EMU, such provision shall become effective in relation to such state (and the currency of such state) at and from the date on which such state becomes a participating member state.

(c) Redenomination and Foreign Currencies. Each obligation under this Agreement of a party to this Agreement which has been denominated in the national currency unit of a participating member state shall be redenominated into the euro unit in accordance with EMU legislation, provided, that if and to the extent that any EMU legislation provides that following the commencement of the third stage of EMU an amount denominated either in the euro or in the national currency unit of a participating member state and payable within that participating member state by crediting an account of the creditor can be paid by the debtor either in the euro unit or in that national currency unit, each party to this Agreement shall be entitled to pay or repay any such amount either in the euro unit or in such national currency unit.

(d) Loans. Any Loan in the currency of a participating member state shall be made or issued in the euro unit.

(e) Business Days. With respect to any amount denominated or to be denominated in the euro or a national currency unit, any reference to a "Business Day" shall be construed as a reference to a day (other than a Saturday or Sunday) on which banks are generally open for business in

(i) London and New York City and

(ii) Frankfurt am Main, Germany (or such principal financial center or centers in such participating member state or states as the Administrative Agent may from time to time nominate for this purpose).

(f) Payments to the Administrative Agent. Sections 2.02 and 2.10 shall be construed so that, in relation to the payment of any amount of euro units or national currency units, such amount shall be made available to the Administrative Agent in immediately available, freely transferable, cleared funds to such account with such bank in Frankfurt am Main, Germany (or such other principal financial center in such participating member state as the Administrative Agent may from time to time nominate for this purpose) as the Administrative Agent shall from time to time nominate for this purpose.

(g) Payments by the Administrative Agent to the Banks. Any amount payable by the Administrative Agent to the Banks under this Agreement in the currency of a participating member state shall be paid in the euro unit.

(h) Payments by the Administrative Agent Generally. With respect to the payment of any amount denominated in the euro or in a national currency unit, the Administrative Agent shall not be liable to the Borrower or any of the Banks in any way whatsoever for any delay, or the consequences of any delay, in the crediting to any account of any amount required by this Agreement to be paid by the Administrative Agent if the Administrative Agent shall have taken all relevant steps to achieve, on the date required by this Agreement, the payment of such amount in immediately available, freely transferable, cleared funds (in the euro unit or, as the case may be, in a national currency unit) to the account with the bank in the principal financial center in the participating member state which the Borrower or, as the case may be, any Bank shall have specified for such purpose. In this paragraph (h), "all relevant steps" means all such steps as may be prescribed from time to time by the regulations or operating procedures of such clearing or settlement system as the Administrative Agent may from time to time determine for the purpose of clearing or settling payments of the euro.

(i) Basis of Accrual. If the basis of accrual of interest or fees expressed in this Agreement with respect to the currency of any state that becomes a participating member state shall be inconsistent with any convention or practice in the London Interbank Market for the basis of accrual of interest or fees in respect of the euro, such convention or practice shall replace such expressed basis effective as of and from the date on which such state becomes a participating member state; provided, that if any Loan in the currency of such state is outstanding immediately prior to such date, such replacement shall take effect, with respect to such Loan, at the end of the then current Interest Period for such Loan.

(j) Rounding and Other Consequential Changes. Without prejudice and in addition to any method of conversion or rounding prescribed by any EMU legislation and without prejudice to the respective liabilities for Debt of the Borrower to the Banks and the Banks to any Borrower under or pursuant to this Agreement:

(i) each reference in this Agreement to a minimum amount (or an integral multiple thereof) in a national currency unit to be paid to or by the Administrative Agent shall be replaced by a reference to such reasonably comparable and convenient amount (or an integral multiple thereof) in the euro unit as the Administrative Agent may from time to time specify; and

(ii) except as expressly provided in this Section 9.12, each provision of this Agreement shall be subject to such reasonable changes of construction as the Administrative Agent may from time to time specify to be necessary or appropriate to reflect the introduction of or changeover to the euro in participating member states.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ARMSTRONG WORLD INDUSTRIES, INC.

by

/s/ E. Follin Smith

Name: E. Follin Smith
Title: Vice President and Treasurer

THE CHASE MANHATTAN BANK, individually and as Administrative Agent

by

/s/ Karen M. Scharf

Name: Karen M. Scharf
Title: Vice President

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION,
individually and as Documentation Agent

by

/s/ John W. Pocalyko

Name: John W. Pocalyko
Title: Managing Director

WACHOVIA BANK, N.A. individually and as Co- Documentation Agent

by

/s/ Adam T. Ogburn

Name: Adam T. Ogburn
Title: Vice President

DEUTSCHE BANK AG NEW YORK BRANCH as Co-Documentation Agent,

by

by

/s/ Hans-Josef Thiele

Name: *Hans-Josef Thiele*
Title: *Director*

/s/ Stephan A. Wiedemann

Name: *Stephan A. Wiedemann*
Title: *Director*

**DEUTSCHE BANK AG NEW YORK BRANCH AND/OR CAYMAN ISLANDS
BRANCH individually,**

by

/s/ Hans-Josef Thiele

Name: *Hans-Josef Thiele*
Title: *Director*

by

/s/ Stephan A. Wiedemann

Name: *Stephan A. Wiedemann*
Title: *Director*

BARCLAYS BANK PLC,

by

/s/ Terance Bullock

Name: *Terance Bullock*
Title: *Vice President*

BW CAPITAL MARKETS, INC.,

by

/s/ Robert B. Herber

Name: Robert B. Herber
Title: Managing Director

by

/s/ Thomas A. Lowe

Name: Thomas A. Lowe
Title: Vice President

BANQUE NATIONALE DE PARIS

by

/s/ Richard L. Sted

Name: Richard L. Sted
Title: Senior Vice President

by

/s/ Thomas George

Name: Thomas George
Title: Senior Vice President
Corporate Banking Division

UNICREDITO ITALIANO S.P.A.

by

/s/ Gianfranca Bisagni

Name: *Gianfranca Bisagni*
Title: *First Vice President*

by

/s/ Salyed A. Abbas

Name: *Salyed A. Abbas*
Title: *Assistant Vice President*

CITIBANK N.A.,

by

/s/ W. Martens

Name: *William G. Martens III*
Title: *Attorney-in-fact*

FIRST UNION NATIONAL BANK,

by

/s/ Donald W. Hans, Jr.

Name: *Donald W. Hans, Jr.*
Title: *Senior Vice President*

THE FIRST NATIONAL BANK OF CHICAGO,

by

/s/ Robert McMillan

Name: Robert McMillan
Title: Corporate Banking Officer

GENERALE BANK,

by

/s/ David Snyder

Name: David Snyder
Title: Senior Vice President

by

/s/ E. Matthews

Name: E. Matthews
Title: Senior Vice President

LANDESGIROKASSE OFFENTLICHE BANK UND LANDESSPARKASSE,

by

/s/ Joachim Erdle

Name: Joachim Erdle
Title:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

by

/s/ Diana H. Imhof

Name: Diana H. Imhof
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION,

by

/s/ Brennan T. Danile

Name: Brennan T. Danile
Title: Corporate Banking Officer

SOCIETE GENERAL FINANCE (IRELAND) LIMITED

by

/s/ Therese Leonard

Name: Therese Leonard
Title: Account Manager

by

/s/ Richard Wanless

Name: Richard Wanless
Title: Managing Director

SUNTRUST BANK ATLANTA,

by

/s/ W. David Wisdom

Name: W. David Wisdom
Title: Group Vice President

by

/s/ Robin R. Cowan

Name: Robin R. Cowan
Title: Operations Officer

WESTDEUTSCHE LANDESBANK,

by

/s/ Cynthia M. Niesen

Name: Cynthia M. Niesen
Title: Managing Director

by

/s/ Walter T. Duffy III

Name: Walter T. Duffy III
Title: Associate

MARINE MIDLAND BANK

by

/s/ William M. Holland

Name: William M. Holland
Title: Vice President

THE BANK OF NEW YORK

by

/s/ W. C. Paralli

Name: W. C. Paralli
Title: Vice President

COMMITMENT SCHEDULE

BANK ----	COMMITMENT -----
The Chase Manhattan Bank	\$35,500,000
Morgan Guaranty Trust Company of New York	\$35,500,000
Bank of America National Trust & Savings Association	\$35,500,000
Wachovia Bank, N.A.	\$35,500,000
Deutsche Bank AG New York Branch and/or Cayman Islands Branch	\$35,500,000
Barclays Bank PLC	\$21,750,000
Citibank N.A.	\$21,750,000
First Union National Bank	\$21,750,000
The First National Bank of Chicago	\$21,750,000
Marine Midland Bank	\$21,750,000
Societe Generale Finance (Ireland) Limited	\$21,750,000
Generale Bank	\$16,500,000
BW Capital Markets, Inc.	\$16,500,000
Banque Nationale De Paris	\$16,500,000
Unicredito Italiano S.p.A.	\$16,500,000
Landesgirokasse Offentliche Bank Und Landessparkasse	\$16,500,000
PNC Bank, National Association	\$16,500,000
Suntrust Bank, Atlanta	\$16,500,000
Westdeutsche Landesbank	\$16,500,000
The Bank of New York	\$10,000,000

PRICING SCHEDULE

"FACILITY FEE RATE" and "EUROCURRENCY MARGIN" mean, for any date, the applicable rate set forth below in the row opposite such term based upon the ratings by S&P and Moody's, respectively, applicable on such date to the Index Debt:

	Category 1 A/A2 or Higher	Category 2 A-/A3	Category 3 BBB+/Baa1	Category 4 BBB/Baa2 and A2/P2	Category 5 BBB/Baa2 and not A2/P2	Category 6 BBB-/Baa3 or Lower
Eurocurrency Margin (bp)	30.00	33.50	37.00	45.00	55.00	62.50
Facility Fee Rate (bp)	5.00	6.50	8.00	10.00	10.00	12.50

For purposes of the foregoing, (i) if S&P or Moody's shall not have in effect a rating for the Index Debt, then such rating agency shall be deemed to have established a rating in Category 5; (ii) if the ratings established or deemed to have been established by S&P and Moody's for the Index Debt shall fall within different categories, the applicable rate shall be based on (A) if the ratings are in adjacent categories, the higher of the two ratings and (B) if the ratings are in non-adjacent categories, the rating immediately below the higher of the two ratings; and (iii) if the ratings established or deemed to have been established by S&P and Moody's for the Index Debt shall be changed (other than as a result of a change in the rating system of such rating agency), such change shall be effective as of the date on which it is first announced by the applicable rating agency. Each change in the applicable rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change.

"MOODY'S" means Moody's Investors Service, Inc.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"INDEX DEBT" means the senior unsecured long-term debt securities of the Borrower without third-party enhancement, and any rating assigned to any other debt security of the Borrower shall be disregarded.

EXHIBIT A

**OPINION OF
COUNSEL FOR THE BORROWER**

To the Banks and the Administrative Agent Referred to Below
c/o The Chase Manhattan Bank,
as Administrative Agent
270 Park Avenue
New York, New York 10017

Dear Sirs:

I have acted as counsel for Armstrong World Industries, Inc. (the "BORROWER") in connection with the Credit Agreement (the "CREDIT AGREEMENT") dated as of _____, 1998 among the Borrower, the banks listed on the signature pages thereof and The Chase Manhattan Bank, as Administrative Agent. Terms defined in the Credit Agreement are used herein as therein defined. This opinion is being rendered to you at the request of my client pursuant to Section 3.01(c) of the Credit Agreement.

I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as I have deemed necessary or advisable for purposes of this opinion.

I am licensed to practice law in the Commonwealth of Pennsylvania. The law covered by this opinion is limited to the laws of the Commonwealth of Pennsylvania and the Federal laws of the United States. I have assumed for the purposes of this opinion that the substantive law of the State of New York is identical in all material respects to the substantive law of the Commonwealth of Pennsylvania.

Upon the basis of the foregoing, I am of the opinion that:

- (1) The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of Pennsylvania, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.
- (2) The execution, delivery and performance by the Borrower of the Credit Agreement is within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or by-laws of the Borrower or of any material agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its Subsidiaries or result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.
- (3) The Credit Agreement constitutes a valid and binding agreement of the Borrower enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

(4) Except as disclosed in the Borrower's 1997 Form 10-K, in the Borrower's Latest Form 10-Q or in the Borrower's Schedule 14D-1 filed with the Securities and Exchange Commission in connection with the Offer, there is no action, suit or proceeding pending against, or to the best of my knowledge threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official, in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, financial position, operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole, or the ability of the Borrower to perform its obligations under the Credit Agreement, or which in any manner draws into question the validity of the Credit Agreement.

(5) Each of the Borrower's Significant Subsidiaries is a corporation validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Very truly yours,

EXHIBIT B

ASSIGNMENT AND ASSUMPTION AGREEMENT

AGREEMENT dated as of _____, 19__ among [ASSIGNOR] (the "ASSIGNOR"), [ASSIGNEE] (the "ASSIGNEE"), ARMSTRONG WORLD INDUSTRIES, INC. (the "BORROWER") and THE CHASE MANHATTAN BANK, as Administrative Agent (the "ADMINISTRATIVE AGENT").

WITNESSETH

WHEREAS, this Assignment and Assumption Agreement (the "AGREEMENT") relates to the Credit Agreement dated as of October 29, 1998 among the Borrower, the Assignor and the other Banks party thereto, as Banks, and the Administrative Agent (the "CREDIT AGREEMENT");

WHEREAS, as provided under the Credit Agreement, the Assignor has a Commitment to make Loans to the Borrower in an aggregate principal amount at any time outstanding not to exceed \$ _____;

WHEREAS, Loans made to the Borrower by the Assignor under the Credit Agreement in the aggregate principal amount of \$ _____ are outstanding at the date hereof; and

WHEREAS, the Assignor proposes to assign to the Assignee all of the rights of the Assignor under the Credit Agreement in respect of a portion of its Commitment thereunder in an amount equal to \$ _____ (the "ASSIGNED AMOUNT"), together with a corresponding portion of its outstanding Loans, and the Assignee proposes to accept assignment of such rights and assume the corresponding obligations from the Assignor on such terms;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

Section 1.01. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement.

Section 1.02. Assignment. The Assignor hereby assigns and sells to the Assignee all of the rights of the Assignor under the Credit Agreement to the extent of the Assigned Amount, and the Assignee hereby accepts such assignment from the Assignor and assumes all of the obligations of the Assignor under the Credit Agreement to the extent of the Assigned Amount, including the purchase from the Assignor of the corresponding portion of the principal amount of the Loans made by the Assignor outstanding at the date hereof. Upon the execution and delivery hereof by the Assignor, the Assignee[, the Borrower and the Administrative Agent] and the payment of the amounts specified in Section 3 required to be paid on the date hereof (i) the Assignee shall, as of the date hereof, succeed to the rights and be

obligated to perform the obligations of a Bank under the Credit Agreement with a Commitment in an amount equal to the Assigned Amount, and (ii) the Commitment of the Assignor shall, as of the date hereof, be reduced by a like amount and the Assignor released from its obligations under the Credit Agreement to the extent such obligations have been assumed by the Assignee. The assignment provided for herein shall be without recourse to the Assignor.

Section 1.03. Payments. As consideration for the assignment and sale contemplated in Section 2 hereof, the Assignee shall pay to the Assignor on the date hereof in Federal funds the amount heretofore agreed between them.* It is understood that commitment and/or facility fees accrued to the date hereof are for the account of the Assignor and such fees accruing from and including the date hereof are for the account of the Assignee. Each of the Assignor and the Assignee hereby agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and shall promptly pay the same to such other party.

Section 1.04. Consent of the Borrower and the Administrative Agent. This Agreement is conditioned upon the consent of the Borrower and the Administrative Agent pursuant to Section 9.06(c) of the Credit Agreement. The execution of this Agreement by the Borrower and the Administrative Agent is evidence of this consent.

Section 1.05. Nonreliance on Assignor. The Assignor makes no representation or warranty in connection with, and shall have no responsibility with respect to, the solvency, financial condition, or statements of the Borrower, or the validity and enforceability of the obligations of the Borrower in respect of the Credit Agreement. The Assignee acknowledges that it has, independently and without reliance on the Assignor, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into *Amount should combine principal together with accrued interest and breakage compensation, if any, to be paid by the Assignee, net of any portion of any upfront fee to be paid by the Assignor to the Assignee. It may be preferable in an appropriate case to specify these amounts generically or by formula rather than as a fixed sum. This Agreement and will continue to be responsible for making its own independent appraisal of the business, affairs and financial condition of the Borrower.

Section 1.06. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Section 1.07. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

[ASSIGNOR]

by

Name:

Title:

[ASSIGNEE]

by

Name:

Title:

ARMSTRONG WORLD INDUSTRIES, INC.

by

Name:

Title:

THE CHASE MANHATTAN BANK

by

Name:

Title:

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SCHEDULES

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EXHIBITS

Exhibit A Opinion of Counsel for the Borrower Exhibit B Assignment and Assumption Agreement

CONFORMED COPY

\$450,000,000

CREDIT AGREEMENT
(Five-Year)

dated as of

October 29, 1998

among

Armstrong World Industries, Inc.,

The Banks Listed Herein

and

The Chase Manhattan Bank,
as Administrative Agent

Bank of America National Trust and Savings Association Documentation Agent

Wachovia Bank, National Association and Deutsche Bank AG New York Branch Co-Documentation Agents

J.P. Morgan Securities Inc. Syndication Agent

Chase Securities Inc. Lead Arranger and Book Manager

Credit Agreement dated as of October 29, 1998 among Armstrong World Industries, Inc., the Banks listed on the signature pages hereof and The Chase Manhattan Bank, as Administrative Agent.

The parties hereto agree as follows:

ARTICLE 1

Definitions

Section 1.01. Definitions. The following terms, as used herein, have the following meanings:

"ADJUSTED LONDON INTERBANK OFFERED RATE" has the meaning set forth in Section 2.05(c).

"ADMINISTRATIVE AGENT" means The Chase Manhattan Bank in its capacity as administrative agent for the Banks hereunder, and its successors in such capacity.

"ADMINISTRATIVE QUESTIONNAIRE" means, with respect to each Bank, an administrative questionnaire in the form prepared by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Bank.

"AGENT" means any of the Administrative Agent, either Documentation Agent, Co-Documentation Agent or the Syndication Agent, and "Agents" means any two or more of the foregoing.

"ALTERNATE CURRENCY" means, at any time, any Foreign Currency that is, at the time any Commitment is extended or any Loan is made in such Foreign Currency, freely tradeable and exchangeable into dollars in the London interbank market.

"APPLICABLE LENDING OFFICE" means, with respect to any Bank, (i) in the case of its Base Rate Loans, its Domestic Lending Office and (ii) in the case of its Eurocurrency Loans, its Eurocurrency Lending Office.

"APPLICABLE PERCENTAGE" means, with respect to any Bank, the percentage of the total Commitments represented by such Bank's Commitment.

"ASSIGNEE" has the meaning set forth in Section 9.06(c).

"BANK" means (i) each Person listed on the Commitment Schedule, (ii) each Assignee which becomes a Bank pursuant to Section 9.06 and (iii) their respective successors.

"BASE RATE" means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day.

"BASE RATE LOAN" means a Loan to be made by a Bank as a Base Rate Loan in accordance with the applicable Notice of Borrowing or pursuant to Article 8.

"BENEFIT ARRANGEMENT" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"BORROWER" means Armstrong World Industries, Inc., a Pennsylvania corporation, and its successors.

"BORROWER'S 1997 FORM 10-K" means the Borrower's annual report on Form 10-K for 1997, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

"BORROWER'S LATEST FORM 10-Q" means the Borrower's quarterly report on Form 10-Q for the quarter ended June 30, 1998, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

"BORROWING" has the meaning set forth in Section 1.03.

"BORROWING MINIMUM" means (a) in the case of a Borrowing denominated in Dollars, \$5,000,000 and (b) in the case of a Borrowing denominated in any Foreign Currency, the smallest amount of such Foreign Currency that (i) is an integral multiple of 5,000,000 units (or in the case of Sterling, 2,500,000 units) of such currency and (ii) has a U.S. Dollar Equivalent in excess of \$5,000,000.

"BORROWING MULTIPLE" means (a) in the case of a Borrowing denominated in Dollars, \$1,000,000 and (b) in the case of any Borrowing denominated in Foreign Currency 1,000,000 units (or, in the case of Sterling, 500,000 units) of such currency.

"CALCULATION DATE" means the last Eurocurrency Business Day of each calendar month, or if a Default shall have occurred and be continuing, more frequently at the option of the Administrative Agent or the Required Banks.

"CO-DOCUMENTATION AGENTS" means Deutsche Bank AG New York Branch and Wachovia Bank in their capacity as co-documentation agents in respect of this Agreement.

"COMMITMENT" means, with respect to each Bank listed in the Commitment Schedule, the amount set forth opposite the name of such Bank in the Commitment Schedule, and with respect to any Bank which becomes a party to this Agreement pursuant to Section 9.06(c), the amount of the Commitment thereby assumed by such Bank, in each case as such amount may from time to time be reduced pursuant to Sections 2.07, 2.08 and 9.06(c) or increased pursuant to Sections 2.13 and 9.06(c).

"COMMITMENT SCHEDULE" means the Schedule attached hereto identified as such.

"CONSOLIDATED NET WORTH" means at any date the consolidated stockholders' equity of the Borrower and its Consolidated Subsidiaries determined as of such date; provided, that for purposes of determining compliance with Section 5.07, up to \$100,000,000 in special charges subsequent to the date hereof related to litigation shall be disregarded.

"CONSOLIDATED SUBSIDIARY" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Borrower in its consolidated financial statements if such statements were prepared as of such date.

"DEBT" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the

deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles, (v) all non-contingent obligations (and, for purposes of Section 5.08 and the definitions of Material Debt and Material Financial Obligations, all contingent obligations) of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, (vi) all Debt secured by a Lien on any asset of such Person, whether or not such Debt is otherwise an obligation of such Person, and (vii) all Debt of others Guaranteed by such Person.

"DEFAULT" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"DERIVATIVE OBLIGATIONS" of any Person means all obligations of such Person in respect of any rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of the foregoing transactions) or any combination of the foregoing transactions.

"DESIGNATED CURRENCY" means Pounds Sterling, Swedish Kronor, Canadian Dollars, French Francs, German Marks, Swiss Francs, Spanish Peseta, Italian Lire, Australian Dollars, Japanese Yen and Euros (after their adoption by participating members of the European Union) and any other Alternate Currency that shall be designated by the Borrower in a notice delivered to the Administrative Agent and approved by the Administrative Agent and all the Banks as a Designated Currency.

"DOCUMENTATION AGENT" means Bank of America National Trust and Savings Association in its capacity as documentation agent in respect of this Agreement.

"DOLLARS" or "\$" means such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

"DOMESTIC BUSINESS DAY" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

"DOMESTIC LENDING OFFICE" means, as to each Bank, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Bank may hereafter designate as its Domestic Lending Office by notice to the Borrower and the Administrative Agent.

"EFFECTIVE DATE" means the date this Agreement becomes effective in accordance with Section 3.01.

"ENVIRONMENTAL LAWS" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to the environment, the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution,

use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the clean-up or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"ERISA GROUP" means the Borrower, any Subsidiary and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any Subsidiary, are treated as a single employer under Section 414 of the Internal Revenue Code.

"EUROCURRENCY BORROWING" means a Borrowing comprised of Eurocurrency Loans.

"EUROCURRENCY BUSINESS DAY" means any Domestic Business Day on which commercial banks are open for international business (including dealings in dollar and other Designated Currency deposits) in London.

"EUROCURRENCY LENDING OFFICE" means, as to each Bank, its office, branch or affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Eurocurrency Lending Office) or such other office, branch or affiliate of such Bank as it may hereafter designate as its Eurocurrency Lending Office by notice to the Borrower and the Administrative Agent.

"EUROCURRENCY LOAN" means a Loan to be made by a Bank as a Eurocurrency Loan in accordance with the applicable Notice of Borrowing.

"EUROCURRENCY MARGIN" has the meaning set forth in Section 2.05(b).

"EUROCURRENCY RESERVE PERCENTAGE" has the meaning set forth in Section 2.05(c).

"EVENT OF DEFAULT" has the meaning set forth in Section 6.01.

"EXCHANGE RATE" shall mean, on any day, with respect to any Foreign Currency, the rate at which such Foreign Currency may be exchanged into U.S. Dollars at 11:00 a.m., New York City Time, on such day as set forth on the Reuters World Currency Page for such currency. In the event that such rate cannot be determined pursuant to the preceding sentence, the Exchange Rate shall be the arithmetic average of the spot rates of exchange of the Administrative Agent in the market where its foreign currency exchange operations in respect of such currency are then being conducted, at 11:00 a.m. New York City Time on such date for the purchase of U.S. Dollars with the applicable currency for delivery two Eurocurrency Business Days later; provided that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may use any reasonable method it deems appropriate to determine such rate, and such determination shall be conclusive absent manifest error.

"EXISTING CREDIT AGREEMENT" means the Credit Agreement dated as of July 17, 1998, among the Borrower, the financial institutions from time to time party thereto and Morgan Guaranty Trust Company of New York, as administrative agent.

"FEDERAL FUNDS RATE" means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by

Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, provided that

(i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and

(ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to The Chase Manhattan Bank on such day on such transactions as determined by the Administrative Agent.

"FINANCIAL OFFICER" means the chief financial officer, principal accounting officer, treasurer or controller of any corporation.

"FOREIGN CURRENCY" means a currency other than Dollars.

"GOVERNMENTAL AUTHORITY" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"GUARANTEE" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt of any other Person, provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"HAZARDOUS SUBSTANCE" means any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

"INDEMNITEE" has the meaning set forth in Section 9.03(b).

"INSULATION BUSINESS" means the Borrower's insulation products operations.

"INTEREST PERIOD" means: (a) with respect to each Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable Notice of Borrowing; provided that:

(i) any Interest Period which would otherwise end on a day which is not a Eurocurrency Business Day shall, subject to clause (iii) below, be extended to the next succeeding Eurocurrency Business Day unless such Eurocurrency Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Eurocurrency Business Day;

(ii) any Interest Period which begins on the last Eurocurrency Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Eurocurrency Business Day of a calendar month; and

(iii) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date.

(b) with respect to each Base Rate Borrowing, the period commencing on the date of such Borrowing or on the last day of the immediately preceding Interest Period applicable to such Borrowing, as the case may be, and ending on the earliest of:

(i) the next succeeding March 31, June 30, September 30 or December 31;

(ii) the Termination Date; and

(iii) the date such Borrowing is prepaid in accordance with Section 2.09 or required to be paid in accordance with Section 2.08.

"INTERNAL REVENUE CODE" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"LIEN" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset. For the purposes of this Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"LOAN" means a Base Rate Loan or a Eurocurrency Loan and "LOANS" means Base Rate Loans or Eurocurrency Loans or any combination of the foregoing.

"LONDON INTERBANK OFFERED RATE" has the meaning set forth in Section 2.05(c).

"MARGIN STOCK" has the meaning specified in Regulation U.

"MATERIAL DEBT" means Debt of the Borrower (other than the Loans) and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal or face amount exceeding \$20,000,000.

"MATERIAL FINANCIAL OBLIGATIONS" means a principal or face amount of Debt and/or payment obligations in respect of Derivative Obligations of the Borrower and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, exceeding in the aggregate \$20,000,000.

"MATERIAL PLAN" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000.

"MULTIEMPLOYER PLAN" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"NOTICE OF BORROWING" has the meaning set forth in Section 2.02.

"PARENT" means, with respect to any Bank, any Person controlling such Bank.

"PARTICIPANT" has the meaning set forth in Section 9.06(b).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"PERSON" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"PLAN" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"POUNDS STERLING" or "(Pounds)" refers to lawful money of the United Kingdom.

"PRICING SCHEDULE" means the Schedule attached hereto identified as such.

"PRIME RATE" means the rate of interest publicly announced by The Chase Manhattan Bank in New York City from time to time as its Prime Rate.

"REGULATION U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"REQUIRED BANKS" means at any time Banks having at least 51% of the aggregate amount of the Commitments or, if the Commitments shall have been terminated, holding at least 51% of the aggregate unpaid principal amount of the Loans (with Foreign Currency amounts being converted into U.S. Dollar amounts for this purpose at the Exchange Rate for the applicable currency at such time).

"REVOLVING CREDIT PERIOD" means the period from and including the Effective Date to but excluding the Termination Date.

"SENIOR EXECUTIVE OFFICER" means the Chairman of the Board, President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer or the Senior Vice President, Secretary and General Counsel of the Borrower.

"SIGNIFICANT SUBSIDIARY" means any Subsidiary which satisfies the criteria set forth in subparagraph (b) of the definition of "Significant Subsidiary" in Rule 1-02 of Regulation S-X of the Securities and Exchange Commission, as in effect on the date hereof.

"SUBSIDIARY" means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person; unless otherwise specified "Subsidiary" means a subsidiary of the Borrower.

"SYNDICATION AGENT" means J.P. Morgan Securities Inc., in its capacity as syndication agent in respect of this Agreement.

"TERMINATION DATE" means October 29, 2003, or, if such day is not a Eurocurrency Business Day, the next preceding Eurocurrency Business Day.

"364-DAY AGREEMENT" means the \$450,000,000 Credit Agreement (364-day) dated as of October 29, 1998 among the Borrower, the banks party thereto and The Chase Manhattan Bank as administrative agent.

"UNFUNDED LIABILITIES" means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"UNITED STATES" means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

"U.S. DOLLAR EQUIVALENT" means (a) as to any amount denominated in Dollars, the amount thereof, and (b) as to any amount denominated in a Foreign Currency, the equivalent thereof in Dollars determined by the Administrative Agent pursuant to Section 1.04 using the Exchange Rate with respect to such currency at the time in effect.

Section 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Banks; provided that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article 5 to eliminate the effect of any change in generally accepted accounting principles on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Banks wish to amend Article 5 for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of generally accepted accounting principles in effect immediately before the relevant change in generally accepted accounting principles became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Banks.

Section 1.03. Types of Borrowings. The term "BORROWING" denotes the aggregation of Loans of one or more Banks to be made to the Borrower pursuant to Article 2 on a single date and for a single Interest Period. Borrowings are classified for purposes of this Agreement by reference to the pricing of Loans comprising such Borrowing (e.g., a "Eurocurrency Borrowing" is a Borrowing comprised of Eurocurrency Loans).

Section 1.04. Exchange Rates. (a) Not later than 1:00 p.m., New York City Time, on each Calculation Date, the Administrative Agent shall (i) determine the Exchange Rate as of such Calculation Date for each Designated Currency and (ii) give notice thereof to the Banks and the Borrower. The Exchange Rate so determined for each Designated Currency shall become effective on the first Eurocurrency Business Day of the calendar month immediately following the relevant Calculation Date (a "RESET DATE"), shall remain effective until the next succeeding Reset Date and shall for all purposes of this Agreement (except in connection with Section 8.02, Section 9.11 or any other provision expressly requiring the use of a current Exchange Rate) be the Exchange Rate employed in converting any amounts between U.S. Dollars and each Designated Currency.

(b) No later than 5:00 p.m., New York City Time, on each Reset Date and each date on which a Borrowing shall occur, the Administrative Agent shall
(i) determine the U.S.

Dollar Equivalent of the aggregate principal amount of Loans then outstanding (after giving effect to any Loans made, issued, repaid or canceled on such date) and (ii) notify the Banks and the Borrowers of such amount.

ARTICLE 2

The Credits

Section 2.01. Commitments To Lend. (a) During the Revolving Credit Period each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make loans in U.S. Dollars and/or one or more Designated Currencies (at the option of the Borrower) to the Borrower pursuant to this

Section from time to time in amounts such that (i) the U.S. Dollar Equivalent of the aggregate principal amount of Loans by such Bank at any one time outstanding shall not exceed the amount of its Commitment and (ii) the aggregate U.S. Dollar Equivalent of the outstanding Loans of all the Banks denominated in Foreign Currencies shall not exceed \$450,000,000. Each Borrowing under this Section shall be in an aggregate principal amount that is a multiple of the Borrowing Multiple and at least equal to the Borrowing Minimum (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Banks ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section, repay, or to the extent permitted by Section 2.09, prepay Loans and reborrow at any time during the Revolving Credit Period under this Section.

(b) Subject to Sections 8.01 and 8.02 (i) each Borrowing denominated in U.S. Dollars shall be comprised entirely of Base Rate Loans or Eurocurrency Loans as the Borrower may request pursuant to Section 2.02 and (ii) each Borrowing denominated in a Designated Currency shall be comprised entirely of Eurocurrency Loans.

Section 2.02. Procedure for Borrowing. (a) The Borrower shall give the Administrative Agent notice (a "NOTICE OF BORROWING") not later than 10:30

a.m. New York City Time on (x) the date of each Base Rate Borrowing, (y) the third Eurocurrency Business Day before each Eurocurrency Borrowing denominated in Dollars and (z) the fourth Eurocurrency Business Day before each Eurocurrency Borrowing denominated in a Designated Currency, specifying:

(i) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Base Rate Borrowing or a Eurocurrency Business Day in the case of a Eurocurrency Borrowing,

(ii) the aggregate amount of such Borrowing,

(iii) the currency of such Borrowing, if applicable;

(iv) in the case of a Borrowing denominated in U.S. Dollars, whether the Loans comprising such Borrowing are to be Base Rate Loans or Eurocurrency Loans, and

(v) in the case of a Borrowing in a Designated Currency, the location from which payment of the principal and interest on such Borrowing will be made, which shall comply with the requirements of Section 2.10;

(vi) the number and location of the account to which funds are to be disbursed; and

- (vii) in the case of a Eurocurrency Borrowing, the duration of the Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.
- (b) If no election as to the type of a U.S. Dollar Borrowing is specified in any such notice, then the requested Borrowing shall be a Base Rate Borrowing. If no election as to the currency of a Borrowing is specified in any such notice, then the requested Borrowing shall be denominated in U.S. Dollars. If no Interest Period with respect to any Eurocurrency Borrowing is specified in any such notice then the Borrower shall be deemed to have selected an Interest Period of one month's duration.
- (c) Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.
- (d) Not later than 12:00 noon New York City Time on the date of each Borrowing, each Bank shall (except as provided in subsection (e) of this Section) make available its share of such Borrowing in immediately available funds as may then be customary for the settlement of transactions in the relevant currency, to such account as the Administrative Agent shall specify. Unless the Administrative Agent determines that any applicable condition specified in Article 3 has not been satisfied, the Administrative Agent shall promptly transfer the amounts so received to the account designated by the Borrower in the applicable Notice of Borrowing.
- (e) If any Bank makes a new Loan hereunder on a day on which the Borrower is to repay all or any part of an outstanding Loan from such Bank, such Bank shall apply the proceeds of its new Loan to make such repayment and only an amount equal to the difference (if any) between the amount being borrowed and the amount being repaid shall be made available by such Bank to the Administrative Agent as provided in subsection (d), or remitted by the Borrower to the Administrative Agent as provided in Section 2.10, as the case may be.
- (f) Unless the Administrative Agent shall have received notice from a Bank prior to the time of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's share of such Borrowing, the Administrative Agent may assume that such Bank has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsections (d) and (e) of this Section and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Administrative Agent, such Bank and, if such Bank fails to do so within three Domestic Business Days of demand therefor, the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.05 and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan included in such Borrowing for purposes of this Agreement.

Section 2.03. Evidence of Debt. (a) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder.

(b) The Administrative Agent shall maintain accounts in which it shall record (i) the amount and currency of each Loan made hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the accounts of the Banks and each Bank's share thereof.

(c) The entries made in the accounts maintained pursuant to paragraph

(a) or (b) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Bank or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(d) Any Bank may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Bank a promissory note payable to the order of such Bank (or, if requested by such Bank, to such Bank and its registered assigns) in a form approved by the Borrower and the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.06) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.04. Maturity of Loans. Each Loan included in any Borrowing shall mature, and the principal amount thereof shall be due and payable, on the last day of the Interest Period applicable to such Borrowing.

Section 2.05. Interest Rates. (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day. Such interest shall be payable for each Interest Period on the last day thereof. Any overdue principal or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(b) Each Eurocurrency Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Eurocurrency Margin for such day plus the Adjusted London Interbank Offered Rate applicable to such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

"EUROCURRENCY MARGIN" means a rate per annum determined in accordance with the Pricing Schedule.

The "ADJUSTED LONDON INTERBANK OFFERED RATE" applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (i) the applicable London Interbank Offered Rate by (ii) 1.00 minus the Eurocurrency Reserve Percentage.

"LONDON INTERBANK OFFERED RATE" shall mean, with respect to any Eurocurrency Borrowing, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m. (London time) on the date which is two Quotation Days prior to the beginning of the relevant Interest Period (as specified in the applicable Notice of Borrowing) by reference to the British Bankers' Association Interest Settlement Rates for deposits in the

currency of such Borrowing (as reflected on the applicable Telerate screen), for a period equal to such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, the "LONDON INTERBANK OFFERED RATE" shall be the interest rate per annum determined by the Administrative Agent to be the average of the rates per annum at which deposits in the currency of such Borrowing offered for such relevant Interest Period to major banks in the London interbank market in London, England, by the Administrative Agent at approximately 11:00 a.m. (London time) on the date which is two Eurocurrency Business Days prior to the beginning of such Interest Period.

"QUOTATION DAY" shall mean, with respect to any currency, each day on which rate quotations in such currency are available through the British Bankers' Association.

"EUROCURRENCY RESERVE PERCENTAGE" means, with respect to any currency, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve, liquid asset or similar percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by any Governmental Authority of the jurisdiction of such currency to which banks in such jurisdiction are subject for any category of deposits or liabilities customarily used to fund loans in such currency or by reference to which interest rates applicable to Loans in such currency are determined. Eurocurrency Loans shall be deemed to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Bank under Regulation D or any other applicable law, rule or regulation. The Eurocurrency Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

(d) Any overdue principal of or interest on any Eurocurrency Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the higher of (i) the sum of 2% plus the Eurocurrency Margin for such day plus the Adjusted London Interbank Offered Rate applicable to the Interest Period for such Loan and (ii) the sum of 2% plus the Eurocurrency Margin for such day plus the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (x) the average (rounded to the nearest 1/16 of 1%) of the respective rates per annum at which one day (or, if such amount due remains unpaid more than three Eurocurrency Business Days, then for such other period of time not longer than six months as the Administrative Agent may select) deposits in the currency of such Loan in an amount approximately equal to such Loan are offered to the Administrative Agent in the London interbank market for the applicable period determined as provided above by (y) 1.00 minus the Eurocurrency Reserve Percentage (or, if the circumstances described in Section 8.01 shall exist, (i) in the case of a Loan denominated in Dollars, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day) and (ii) in the case of a Loan denominated in Foreign Currency, at a rate per annum equal to the sum of 2% plus the Eurocurrency Margin plus the rate determined by the Administrative Agent from time to time to represent the cost of overnight or short-term funds in the applicable currency.

(e) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the Banks of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.06. Facility Fees. (a) The Borrower shall pay to the Administrative Agent for the account of the Banks ratably a facility fee at the Facility Fee Rate (determined daily in accordance with the Pricing Schedule). Such facility fee shall accrue (i) from and

including the date of this Agreement to but excluding the Termination Date (or earlier date of termination of the Commitments in their entirety), on the daily aggregate amount of the Commitments (whether used or unused) and (ii) from and including the Termination Date or such earlier date of termination to but excluding the date the Loans shall be repaid in their entirety, on the daily aggregate outstanding principal amount of the Loans. Accrued fees under this

Section shall be payable quarterly on the last day of each March, June, September and December and upon the date of termination of the Commitments in their entirety (and, if later, the date the Loans shall be repaid in their entirety).

(b) On the date of this Agreement, the Borrower shall pay to the Administrative Agent for the account of each Bank an upfront fee in the amount heretofore mutually agreed.

Section 2.07. Optional Termination or Reduction of Commitments. (a) During the Revolving Credit Period, the Borrower may, upon at least three Domestic Business Days' notice to the Administrative Agent, (i) terminate the Commitments at any time, if no Loans are outstanding at such time or (ii) ratably reduce from time to time by an aggregate amount of \$25,000,000 or any larger multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate U.S. Dollar Equivalent of the outstanding principal amount of the Loans.

Section 2.08. Mandatory Termination and Reduction of Commitments. The Commitments shall terminate on the Termination Date, and any Loans then outstanding (together with accrued interest thereon) shall be due and payable on such date.

Section 2.09. Optional Payments. (a) Subject in the case of any Eurocurrency Borrowing to Section 2.11, the Borrower may, upon at least one Domestic Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing, or upon at least three Eurocurrency Business Days' notice to the Administrative Agent, prepay any Eurocurrency Borrowing, in each case in whole at any time, or from time to time in part in amounts that are multiples of the Borrowing Multiple and at least equal to the Borrowing Minimum by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Banks included in such Borrowing.

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share (if any) of such prepayment and such notice shall not thereafter be revocable by the Borrower.

Section 2.10. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loans and of fees hereunder, without setoff, counterclaim or other deduction, not later than 12:00 Noon New York City Time on the date when due, in U.S. Dollars or the applicable Designated Currency, as the case may be, in immediately available funds to such account as the Administrative Agent shall specify. All payments due under this Agreement other than the payments of the principal of and interest on Loans denominated in Foreign Currencies shall be made in U.S. Dollars. The Administrative Agent will promptly distribute to each Bank its ratable share of each such payment received by the Administrative Agent for the account of the Banks. Whenever any payment of principal of, or interest on, Base Rate Loans or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Eurocurrency Loans shall be due on a day which is not a Eurocurrency Business Day, the date for payment thereof shall be extended to the next succeeding Eurocurrency Business Day unless such Eurocurrency Business

Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Eurocurrency Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the Borrower shall not have so made such payment, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.11. Funding Losses. If (i) the Borrower makes any payment of principal with respect to any Eurocurrency Loan (pursuant to Article 2, 6, or 8 or otherwise) or (ii) any Non-Increasing Bank receives a payment of principal pursuant to Section 2.13(b) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.05(d), or if the Borrower fails to borrow or prepay any Eurocurrency Loan after notice has been given to any Bank in accordance with Section 2.02(c) or 2.09(b), the Borrower shall reimburse each Bank within 15 days after demand for any resulting loss or reasonable expense incurred by it (or by an existing Participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin, for the period after any such payment or failure to borrow or prepay, provided that such Bank shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.12. Computation of Interest and Fees. Interest based on the Prime Rate hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). Interest based on the Federal Funds Rate or the Adjusted London Interbank Offered Rate shall be computed on the basis of a year of 360 days, and paid for the actual number of days elapsed (including the first day but excluding the last day). Fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.13. Increase in Commitments. (a) The Borrower may, by written notice to the Administrative Agent (which shall promptly deliver a copy to each of the Banks), request that the total Commitments be increased by an amount not less than \$25,000,000 for any such increase and not greater than \$250,000,000 minus the aggregate amount of prior or simultaneous increases of the Commitments under this Agreement and the 364-Day Agreement. Such notice shall set forth the amount of the requested increase in the total Commitments and the date on which such increase is requested to become effective (which shall be not less than 45 days or more than 60 days after the date of such notice), and shall offer each Bank the opportunity to increase its Commitment by its Applicable Percentage of the proposed increased amount. Each Bank shall, by notice to the Borrower and the Administrative Agent given not more than 20 days after the date of the Borrower's notice, either agree to increase its Commitment by all or a portion of the offered amount (each Bank so agreeing being an "INCREASING BANK") or decline to increase its Commitment (and any Bank that does not

deliver such a notice within such period of 20 days shall be deemed to have declined to increase its Commitment) (each Bank so declining or deemed to have declined being a "NON-INCREASING BANK"). In the event that, on the 20th day after the Borrower shall have delivered a notice pursuant to the first sentence of this paragraph, the Banks shall have agreed pursuant to the preceding sentence to increase their Commitments by an aggregate amount less than the increase in the total Commitments requested by the Borrower, the Borrower may arrange for one or more banks or other financial institutions (any such bank or other financial institution referred to in this paragraph (a) being called an "AUGMENTING BANK"), which may include any Bank, to extend Commitments or increase its existing Commitments in an aggregate amount equal to the unsubscribed amount; provided that each Augmenting Bank, if not already a Bank hereunder, shall be subject to the approval of the Administrative Agent (which approval shall not be unreasonably withheld) and each Augmenting Bank shall execute all such documentation as the Administrative Agent shall specify to evidence its Commitment and its status as a Bank hereunder. Increases and new Commitments created pursuant to this paragraph (a) shall become effective on the date specified in the notice delivered by the Borrower pursuant to the first sentence of this paragraph. Notwithstanding the foregoing, no increase in the total Commitments (or in the Commitment of any Bank) shall become effective under this paragraph unless, (i) on the date of such increase, the conditions set forth in paragraphs (b) and (c) of Section 3.02 shall be satisfied and the Administrative Agent shall have received a certificate to that effect dated such date and executed by a Financial Officer of the Borrower, and (ii) the Administrative Agent shall have received (with sufficient copies for each of the Banks) documents consistent with those delivered under clauses (b) and (c) of Section 3.01 as to the corporate power and authority of the Borrower to borrow hereunder and as to the enforceability of this Agreement after giving effect to such increase.

(b) On the effective date (the "INCREASE EFFECTIVE DATE") of any increase in the total Commitments pursuant to paragraph (a) above (the "COMMITMENT INCREASE"), (i) the aggregate principal amount of the Loans outstanding (the "INITIAL LOANS") immediately prior to giving effect to the Commitment Increase on the Increase Effective Date shall be deemed to be paid, (ii) each Increasing Bank and each Augmenting Bank that shall have been a Bank prior to the Commitment Increase shall pay to the Administrative Agent in same day funds an amount equal to the difference between (A) the product of (1) such Bank's Applicable Percentage (calculated after giving effect to the Commitment Increase) multiplied by (2) the amount of the Subsequent Borrowings (as hereinafter defined) and (B) the product of (1) such Bank's Applicable Percentage (calculated without giving effect to the Commitment Increase) multiplied by (2) the amount of the Initial Loans, (iii) each Augmenting Bank that shall not have been a Bank prior to the Commitment Increase shall pay to Administrative Agent in same day funds an amount equal to the product of (1) such Augmenting Bank's Applicable Percentage (calculated after giving effect to the Commitment Increase) multiplied by (2) the amount of the Subsequent Borrowings, (iv) after the Administrative Agent receives the funds specified in clauses (ii) and (iii) above, the Administrative Agent shall pay to each Non-Increasing Bank the portion of such funds that is equal to the difference between (A) the product of (1) such Non-Increasing Bank's Applicable Percentage (calculated without giving effect to the Commitment Increase) multiplied by (2) the amount of the Initial Loans, and (B) the product of (1) such Non-Increasing Bank's Applicable Percentage (calculated after giving effect to the Commitment Increase) multiplied by (2) the amount of the Subsequent Borrowings (v) after the effectiveness of the Commitment Increase, the Borrower shall be deemed to have made new Borrowings (the "SUBSEQUENT BORROWINGS") in an aggregate principal amount equal to the aggregate principal amount of the Initial Loans in the currency or currencies, and of the types and for the Interest Periods specified in a Notice of Borrowing delivered to the

Administrative Agent in accordance with Section 2.02, (vi) each Non-Increasing Bank, each Increasing Bank and each Augmenting Bank shall be deemed to hold its Applicable Percentage of each Subsequent Borrowing (calculated after giving effect to the Commitment Increase) and (vii) the Borrower shall pay each Increasing Bank and each Non-Increasing Bank any and all accrued but unpaid interest on the Initial Loans.

ARTICLE 3

Conditions

Section 3.01. Effectiveness. This Agreement shall become effective on the date that each of the following conditions shall have been satisfied (or waived in accordance with Section 9.05):

- (a) receipt by the Administrative Agent of counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex or other written confirmation from such party of execution of a counterpart hereof by such party);
- (b) receipt by the Administrative Agent of an opinion of David D. Wilson, Assistant Secretary and Associate General Counsel of the Borrower, substantially in the form of Exhibit A hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;
- (c) receipt by the Administrative Agent of all documents the Administrative Agent may reasonably request relating to the existence of the Borrower, the corporate authority for and the validity of this Agreement, and any other matters relevant hereto, all in form and substance satisfactory to the Administrative Agent; and
- (d) receipt by the Administrative Agent of a certificate of a Financial Officer of the Borrower certifying as to (i) the termination of the Existing Credit Agreement, and (ii) the payment in full of all obligations of the Borrower outstanding under the Existing Credit Agreement.

The Administrative Agent shall promptly notify the Borrower and the Banks of the Effective Date, and such notice shall be conclusive and binding on all parties hereto.

Section 3.02. Borrowings. The obligation of any Bank to make a Loan on the occasion of any Borrowing is subject to the satisfaction of the following conditions:

- (a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.02;
- (b) the fact that, immediately before and after such Borrowing, no Default shall have occurred and be continuing; and
- (c) the fact that the representations and warranties of the Borrower contained in this Agreement (except (i) the representation and warranty set forth in Section 4.04(c) and (ii) the representations and warranties set forth in Sections 4.05 and 4.06 as to any matter which has theretofore been disclosed in writing by the Borrower to the Banks or in reports filed with the Securities and Exchange Commission, copies of which reports have been delivered to the Banks) shall be true on and as of the date of such Borrowing.

Each Borrowing hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE 4

Representations and Warranties

Section 4.01. Corporate Existence and Power. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of Pennsylvania, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Section 4.02. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by the Borrower of this Agreement is within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or by-laws of the Borrower or of any material agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its Subsidiaries or result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

Section 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of the Borrower, enforceable in accordance with its terms and each note, when executed and delivered in accordance with this Agreement will constitute a valid and binding obligation of the Borrower in each case enforceable in accordance with its terms.

Section 4.04. Financial Information. (a) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 1997 and the related consolidated statements of earnings and cash flows for the fiscal year then ended, reported on by independent public accountants and set forth in the Borrower's 1997 Form 10-K, a copy of which has been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 1998 and the related unaudited consolidated statements of earnings and cash flows for the six months then ended, set forth in the Borrower's latest Form 10-Q, a copy of which has been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three month period (subject to normal year-end adjustments).

(c) Since June 30, 1998 there has been no material adverse change in the business, financial position, operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole.

Section 4.05. Litigation. Except as disclosed in the Borrower's 1997 Form 10-K, in the Borrower's Latest Form 10-Q or as may hereafter be disclosed in writing by the Borrower to the Banks or in reports filed with the Securities and Exchange Commission, there is no action, suit or proceeding pending against, or to the knowledge of the Borrower threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, financial position, operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole, or the ability of the Borrower to perform its obligations under this Agreement. There is no action, suit or proceeding pending against, or the knowledge of the Borrower threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official which in any manner draws into question the validity of this Agreement.

Section 4.06. Environmental Matters. In the ordinary course of its business, the Borrower reviews the effect of Environmental Laws on the business, operations and properties of the Borrower and its Subsidiaries, in the course of which it identifies and evaluates associated liabilities and costs. On the basis of this review, the Borrower has reasonably concluded that, to the best of its knowledge, except as disclosed in reports filed with the Securities and Exchange Commission, copies of which reports have been delivered to the Banks, such associated liabilities and costs, including the costs of compliance with Environmental Laws, are unlikely to have a material adverse effect on the business, financial condition, results of operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole.

Section 4.07. Taxes. The Borrower and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any Subsidiary. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Borrower, adequate.

Section 4.08. Significant Subsidiaries. Each of the Borrower's Significant Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Section 4.09. Not an Investment Company. The Borrower is not an "Investment Company" within the meaning of the Investment Company Act of 1940, as amended.

Section 4.10 Full Disclosure. All information heretofore furnished by the Borrower to the Administrative Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by the Borrower to the Administrative Agent or any Bank will be, true and accurate in all material respects on the date as of which such information is stated or certified. The Borrower has disclosed to the Banks in writing or in reports filed with the Securities and Exchange Commission, copies of which reports have been delivered to the Banks, any and all facts which materially and adversely affect or may affect (to the extent the Borrower can now reasonably foresee) the business, operations or financial condition of the Borrower and its Consolidated Subsidiaries, taken as a whole, or the ability of the Borrower to perform its obligations under this Agreement.

ARTICLE 5

Covenants

The Borrower agrees that, so long as any Bank has any Commitment hereunder and so long as any Loan is outstanding hereunder:

Section 5.01 Information. The Borrower will deliver to each of the Banks:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on in a manner acceptable to the Securities and Exchange Commission by independent public accountants of nationally recognized standing;

(b) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the portion of the Borrower's fiscal year ended at the end of such quarter, setting forth in the case of such statements of income and cash flows in comparative form the figures for the corresponding quarter and the corresponding portion of the Borrower's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer or the chief accounting officer of the Borrower;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer or the chief accounting officer of the Borrower (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.07 and 5.08 on the date of such financial statements and (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(d) within five days after any officer of the Borrower obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(e) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all financial statements, reports and proxy statements so mailed;

(f) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Borrower shall have filed with the Securities and Exchange Commission;

(g) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "Reportable Event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan

under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take; and

(h) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Administrative Agent, at the request of any Bank, may reasonably request.

Section 5.02. Payment of Obligations. The Borrower will pay and discharge, and will cause each Significant Subsidiary to pay and discharge, at or before maturity, all their respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each Significant Subsidiary to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same. Obligations and liabilities in an aggregate amount equal to or less than \$20,000,000 will not be deemed "Material" for purposes of this Section 5.02.

Section 5.03. Maintenance of Property; Insurance. (a) The Borrower will keep, and will cause each Significant Subsidiary to keep, all property material to its business in good working order and condition, ordinary wear and tear excepted.

(b) The Borrower and its Significant Subsidiaries will maintain insurance with sound and reputable insurers against at least such risks (and in at least such amounts, subject to such risk retentions) as are usually insured against in the same geographic area by companies of established repute engaged in the same or a similar business.

Section 5.04. Conduct of Business and Maintenance. The Borrower will preserve, renew and keep in full force and effect, and will cause each Significant Subsidiary to preserve, renew and keep in full force and effect their respective corporate existence and their respective rights, privileges and franchises necessary or desirable in the normal conduct of business; provided that nothing in this Section 5.04 shall prohibit (i) the merger of a Subsidiary into the Borrower or the merger or consolidation of a Subsidiary with or into another Person if the corporation surviving such consolidation or merger is a Subsidiary and if, in each case, after giving effect thereto, no Default shall have occurred and be continuing or (ii) the termination of the corporate existence of any Subsidiary if the Borrower in good faith determines that such

termination is in the best interest of the Borrower and is not materially disadvantageous to the Banks.

Section 5.05. Compliance with Laws. The Borrower will comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings and with respect to which adequate reserves have been established in accordance with generally accepted accounting principles.

Section 5.06. Inspection of Property, Books and Records. The Borrower will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of any Bank at such Bank's expense to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

Section 5.07. Minimum Consolidated Net Worth. Consolidated Net Worth will at no time be less than \$650,000,000.

Section 5.08. Negative Pledge. Neither the Borrower nor any Subsidiary will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

- (a) Liens existing on the date of this Agreement securing Debt outstanding on the date of this Agreement in an aggregate principal or face amount not exceeding \$50,000,000;
- (b) any Lien existing on any asset of any corporation at the time such corporation becomes a Subsidiary and not created in contemplation of such event;
- (c) any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset, provided that such Lien attaches to such asset concurrently with or within 180 days after the acquisition thereof;
- (d) any Lien on any asset of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower or a Subsidiary and not created in contemplation of such event;
- (e) any Lien existing on any asset prior to the acquisition thereof by the Borrower or a Subsidiary and not created in contemplation of such acquisition;
- (f) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section, provided that such Debt is not increased and is not secured by any additional assets;
- (g) Liens arising in the ordinary course of its business which (i) do not secure Debt or Derivatives Obligations, (ii) do not secure any obligation in an amount exceeding \$25,000,000 and (iii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(h) Liens on cash and cash equivalents securing Derivatives Obligations, provided that the aggregate amount of cash and cash equivalents subject to such Liens may at no time exceed \$25,000,000;

(i) Liens on Margin Stock, if and to the extent that the value of such Margin Stock exceeds 25% of the total assets of the Borrower and its Subsidiaries subject to this Section; and

(j) Liens not otherwise permitted by the foregoing clauses of this Section securing Debt in an aggregate principal or face amount at any date not to exceed 10% of Consolidated Net Worth.

Section 5.09. Consolidations, Mergers and Sales of Assets. The Borrower will not (i) consolidate or merge with or into any other Person unless the Borrower is the surviving corporation or (ii) sell, lease or otherwise transfer, directly or indirectly, in a single transaction or a series of related transactions all or any substantial part of the assets of the Borrower and its Subsidiaries, taken as a whole, to any other Person; provided that (i) nothing in this Section shall restrict the sale of Margin Stock for cash consideration in an amount not less than the fair market value thereof to the extent the value of such Margin Stock exceeds 25% of the total assets of the Borrower and its Subsidiaries subject to this Section and (ii) a sale of the Borrower's Insulation Business shall not be deemed a sale of a substantial part of the assets of the Borrower and its Subsidiaries. For purposes of this Section, a substantial part of the assets of the Borrower and its Subsidiaries, taken as a whole, shall mean 20% or more of the consolidated assets of the Borrower and its Consolidated Subsidiaries.

Section 5.10. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for its general corporate purposes. None of such proceeds will be used in violation of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

ARTICLE 6

Defaults

Section 6.01 Events of Default. If one or more of the following events ("EVENTS OF DEFAULT") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal of any Loan or shall fail to pay within three days of the due date thereof any interest on any Loan, any fees or any other amount payable hereunder;

(b) the Borrower shall fail to observe or perform any covenant contained in Sections 5.07 to 5.10, inclusive;

(c) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those covered by clause (a) or (b) above) for 30 days after notice thereof has been given to the Borrower by the Administrative Agent at the request of any Bank;

(d) any representation, warranty, certification or statement made by the Borrower in this Agreement or in any certificate, financial statement or other document delivered pursuant to this Agreement shall prove to have been incorrect in any material respect when made (or deemed made);

(e) the Borrower or any Subsidiary shall fail to make any payment in respect of any Material Financial Obligations when due or within any applicable grace period;

(f) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;

(g) the Borrower or any Significant Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(h) an involuntary case or other proceeding shall be commenced against the Borrower or any Significant Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower or any Significant Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(i) (A) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$5,000,000 which it shall have become liable to pay under Title IV of ERISA; (B) notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; (C) the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; (D) a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or (E) there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans and such events listed in clauses (A) through (E) could cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$20,000,000;

(j) judgments or orders for the payment of money in excess of \$20,000,000 in the aggregate shall be rendered against the Borrower or any Subsidiary and such judgments or orders shall continue unsatisfied and unstayed for a period of 30 days; or

(k)(i) any Person becomes the beneficial owner of 28% or more of the then outstanding Voting Stock of the Borrower and within five years thereafter Disinterested Directors no longer constitute at least a majority of the Board of Directors of the Borrower or (ii) a Business Combination with an Interested Shareholder occurs which has not been approved by a majority of Disinterested Directors. (For purposes of this subsection, the terms Person, beneficial owner, Voting Stock, Disinterested Director,

Business Combination, and Interested Shareholder are defined in the Borrower's Articles of Incorporation as in effect as of the date hereof);

then, and in every such event, the Administrative Agent shall (i) if requested by Banks having more than 51% in aggregate amount of the Commitments, by notice to the Borrower terminate the Commitments and they shall thereupon terminate, and (ii) if requested by Banks with Loans of more than 51% in aggregate principal amount of the Loans, by notice to the Borrower declare the Loans (together with accrued interest thereon) to be, and the Loans shall thereupon become, immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the case of any of the Events of Default specified in clause (g) or (h) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or the Banks, the Commitments shall thereupon terminate and the Loans (together with accrued interest thereon) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Section 6.02. Notice of Default. The Administrative Agent shall give notice to the Borrower under Section 6.02 promptly upon being requested to do so by any Bank and shall thereupon notify all the Banks thereof.

ARTICLE 7

The Agents

Section 7.01. Appointment and Authorization. Each Bank irrevocably appoints and authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto.

Section 7.02. Administrative Agent and Affiliates. The Chase Manhattan Bank of New York shall have the same rights and powers under this Agreement as any other Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and The Chase Manhattan Bank and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrower or any Subsidiary or affiliate of the Borrower as if it were not the Administrative Agent hereunder.

Section 7.03. Action by Administrative Agent. The obligations of the Administrative Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in Article 6.

Section 7.04. Consultation with Experts. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 7.05. Liability of Administrative Agent. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or not taken by it in connection herewith (i) with the consent

or at the request of the Required Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of the Borrower; (iii) the satisfaction of any condition specified in Article 3, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness or genuineness of this Agreement or any other instrument or writing furnished in connection herewith. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex, facsimile transmission or similar writing) believed by it to be genuine or to be signed by the proper party or parties.

Section 7.06. Indemnification. Each Bank shall, ratably in accordance with its Commitment, indemnify the Administrative Agent, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrower) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct) that such indemnitees may suffer or incur in connection with this Agreement or any action taken or omitted by such indemnitees hereunder.

Section 7.07. Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon any Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon any Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement.

Section 7.08. Successor Administrative Agent. The Administrative Agent may resign at any time by giving notice thereof to the Banks and the Borrower. Upon any such resignation, the Borrower shall have the right to appoint a successor Administrative Agent, subject to the approval of the Required Banks. If no successor Administrative Agent shall have been so appointed and approved, and shall have accepted such appointment, within 45 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$50,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

Section 7.09. Agents' Fees. The Borrower shall pay to each Agent for its own account fees in the amounts and at the times previously agreed upon between the Borrower and such Agent.

Section 7.10. Other Agents. Nothing in this Agreement shall impose any duty or liability whatsoever on the Documentation Agent, Co-Documentation Agents or the Syndication Agent in such capacity.

ARTICLE 8

Change in Circumstances

Section 8.01. Basis for Determining Interest Rate Inadequate. If on or prior to the first day of any Interest Period for any Eurocurrency Borrowing, the Administrative Agent is advised by the Required Banks that deposits in Dollars (in the applicable amounts) are not being offered to the Required Banks in the relevant market for such Interest Period, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Banks to make Eurocurrency Loans shall be suspended. Unless the Borrower notifies the Administrative Agent at least two Domestic Business Days before the date of any Eurocurrency Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow such Borrowing on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 8.02. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Eurocurrency Lending Office) with any formal request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Bank (or its Eurocurrency Lending Office) to make, maintain or fund its Dollar-Denominated Eurocurrency Loans or Eurocurrency Loans denominated in a Designated Currency, as the case may be, and such Bank shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon until such Bank notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Dollar-denominated Eurocurrency Loans or Eurocurrency Loans denominated in a Designated Currency shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Bank shall designate a different Eurocurrency Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such Bank shall determine that it may not lawfully continue to maintain and fund any of its outstanding Dollar-denominated Eurocurrency Loans or Eurocurrency Loans denominated in a Designated Currency to maturity and shall so specify in such notice, the Borrower shall immediately prepay in full the then outstanding principal amount of each such Eurocurrency Loan, together with accrued interest thereon. Concurrently with prepaying each such Eurocurrency Loan, the Borrower shall borrow a Base Rate Loan in an equal principal amount (or, in the case of a Eurocurrency Loan in a Designated Currency, a Dollar amount equal to such amount based on the current Exchange Rate) from such Bank (on which interest and principal shall be payable contemporaneously with the related Eurocurrency Loans of the other Banks), and such Bank shall make such a Base Rate Loan.

Section 8.03. Increased Cost and Reduced Return. (a) If on or after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Applicable Lending Office) with any formal request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Eurocurrency Loan any such requirement included in an applicable Eurocurrency Reserve Percentage), special deposit, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Applicable Lending Office) or shall impose on any Bank (or its Applicable Lending Office) or on the London interbank market any other condition affecting its Eurocurrency Loans or its obligation to make Eurocurrency Loans and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) of making or maintaining any Eurocurrency Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) under this Agreement by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

(b) If any Bank shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any formal request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency (including any determination by any such authority, central bank or comparable agency that, for purposes of capital adequacy requirements, the Commitments hereunder do not constitute commitments with an original maturity of one year or less), has or would have the effect of reducing the rate of return on capital of such Bank (or its Parent) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank (or its Parent) for such reduction.

(c) Each Bank will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

Section 8.04. (a) Taxes. For purposes of this Section 8.04, the following terms have the following meanings:

"TAXES" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Borrower pursuant to this Agreement and all liabilities with respect thereto, excluding (i) in the case of each Bank and the Administrative Agent, taxes imposed on its income, and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Lending Office is located and (ii) in the case of each Bank, any United States withholding tax imposed on such payments but only to the extent that such Bank is subject to United States withholding tax at the time such Bank first becomes a party to this Agreement.

"OTHER TAXES" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or from the execution or delivery of, or otherwise with respect to, this Agreement.

(b) Any and all payments by the Borrower to or for the account of any Bank or the Administrative Agent hereunder shall be made without deduction for any Taxes or Other Taxes; provided that, if the Borrower shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.04) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Borrower agrees to indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 8.04) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be paid within 15 days after such Bank or the Administrative Agent (as the case may be) makes demand therefor.

(d) (i) With respect to any payment by the Borrower (or a Subsidiary) from the United States, each Bank organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Bank listed on the signature pages hereof and on or prior to the date on which it becomes a Bank in the case of each other Bank, and from time to time thereafter if requested in writing by the Borrower (but only so long as such Bank remains lawfully able to do so), shall provide the Borrower with Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Bank is entitled to benefits under an income tax treaty to which the United States is a party which exempts the Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States; provided that such Bank shall not be required to deliver any form pursuant to this Section 8.05(d)(i) that such Bank is not legally able to deliver.

(ii) With respect to any payment by the Borrower (or a Subsidiary) from a jurisdiction other than the United States, each Bank organized under the laws of a jurisdiction other than the jurisdiction from which payment is made ("RELEVANT JURISDICTION") that is entitled to an exemption from or reduction of withholding tax under the law of the Relevant Jurisdiction, or any treaty to which such Relevant Jurisdiction is a party, with respect to payments under this Agreement shall, after having received written notice from the Borrower (or the applicable Subsidiary) advising it of the availability of such exemption or reduction and containing all relevant documentation, deliver to the Borrower (or the applicable Subsidiary), with a copy to the Administrative Agent, at the time or times prescribed by the applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower (or the applicable Subsidiary) as will permit such payments to be made without withholding at a reduced rate.

(e) For any period with respect to which a Bank has failed to provide the Borrower with the appropriate form pursuant to Section 8.04(d) (unless such failure is due to a change in treaty, law or regulation occurring subsequent to the date on which such form originally was required to be provided), such Bank shall not be entitled to indemnification under Section 8.04(b) or 8.04(c) with respect to Taxes imposed by the Relevant Jurisdiction or the United States, as the case may be; provided that if a Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(f) If the Borrower is required to pay additional amounts to or for the account of any Bank pursuant to this Section 8.04, then such Bank will change the jurisdiction of its Applicable Lending Office if, in the judgment of such Bank, such change (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank.

Section 8.05. Base Rate Loans Substituted for Affected Eurocurrency Loans. If (i) the obligation of any Bank to make Eurocurrency Loans has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03 or 8.04 with respect to its Eurocurrency Loans and the Borrower shall, by at least five Eurocurrency Business Days' prior notice to such Bank through the Administrative Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer exist:

(a) all Loans which would otherwise be made by such Bank as Eurocurrency Loans, shall be made instead as Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Eurocurrency Loans of the other Banks), and

(b) after each of its Eurocurrency Loans has been repaid, all payments of principal which would otherwise be applied to repay such Eurocurrency Loans shall be applied to repay its Base Rate Loans instead.

Section 8.06. Substitution of Bank. If (i) the obligation of any Bank to make Eurocurrency Loans has been suspended pursuant to Section 8.02 or

(ii) any Bank has demanded compensation under Section 8.03 or 8.04, the Borrower shall have the right, with the assistance of the Administrative

Agent, to seek a mutually satisfactory substitute bank or banks (which may be one or more of the Banks) to assume the Commitment of such Bank.

ARTICLE 9

Miscellaneous

Section 9.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party: (x) in the case of the Borrower or the Administrative Agent, at its address, facsimile number or telex number set forth on the signature pages hereof, (y) in the case of any Bank, at its address, facsimile number or telex number set forth in its Administrative Questionnaire or (z) in the case of any party, such other address, facsimile number or telex number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Borrower. Each such notice, request or other communication shall be effective

(i) if given by telex, when such telex is transmitted to the telex number specified in this Section and the appropriate answerback is received, (ii) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received or (iii) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Administrative Agent under Article 2 or Article 8 shall not be effective until received.

Section 9.02. No Waivers. No failure or delay by the Administrative Agent or any Bank in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification. (a) The Borrower shall pay

(i) all reasonable out-of-pocket expenses of the Administrative Agent, including fees and disbursements of special counsel for the Administrative Agent, in connection with the preparation and administration of this Agreement, any waiver or consent hereunder or any amendment hereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all reasonable out-of-pocket expenses incurred by the Administrative Agent and each Bank, including (without duplication) the fees and disbursements of outside counsel and the allocated cost of inside counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Borrower agrees to indemnify the Administrative Agent and each Bank, their respective affiliates and the respective directors, officers, agents and employees of the foregoing (each an "INDEMNITEE") and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, reasonable costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; provided that (i) no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction, (ii) in the case of an investigation or a proceeding to which an Indemnitee is not a party, such Indemnitee shall be entitled to indemnification only if such Indemnitee is required to respond to process or other formal inquiry in connection therewith and (iii) any claim for

indemnification hereunder shall be made not later than three years after the termination of the Commitments and repayment in full of the Loans.

Section 9.04. Sharing of Set-Offs. The Banks agree among themselves that if any Bank shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of principal and interest due with respect to any Loan made by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Loans made by the other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Loans made by the Banks shall be shared by the Banks pro rata; provided that nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Banks (and, if the rights or duties of the Administrative Agent are affected thereby, by the Administrative Agent); provided that no such amendment or waiver shall, unless signed by all the Banks, (i) increase or decrease the Commitment of any Bank (except for a ratable decrease in the Commitments of all Banks) or subject any Bank to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or any fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan or any fees hereunder or for termination of any Commitment or (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement.

Section 9.06. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all Banks.

(b) Any Bank may at any time grant to one or more banks or other institutions (each a "PARTICIPANT") participating interests in its Commitment or any or all of its Loans. In the event of any such grant by a Bank of a participating interest to a Participant, such Bank shall remain responsible for the performance of its Commitment and its other obligations hereunder, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement described in clause (i), (ii), (iii) or (iv) of Section 9.05 without the consent of the Participant. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article with respect to its participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b).

(c) Any Bank may at any time assign to one or more banks or other institutions (each an "ASSIGNEE") all, or a proportionate part of all, of its rights and obligations under this Agreement, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit D hereto executed by such Assignee and such transferor Bank, with (and subject to) the subscribed consent of the Borrower and the Administrative Agent, which consents will not be unreasonably withheld; provided that (i) if an Assignee is a Bank prior to giving effect to such assignment or is an affiliate of such transferor Bank, no such consent shall be required and (ii) if at the time of such assignment an Event of Default shall have occurred and be continuing, no such consent of the Borrower shall be required. Upon execution and delivery of such instrument and payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, such Assignee shall be a Bank party to this Agreement and shall have all the rights and obligations of a Bank with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. In connection with any such assignment, the transferor Bank shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$2,500. If the Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 8.04.

(d) Any Bank may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder.

(e) No Assignee, Participant or other transferee of any Bank's rights shall be entitled to receive any greater payment under Section 8.03 or 8.04 than such Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Borrower's prior written consent or by reason of the provisions of Section 8.02, 8.03 or requiring such Bank to designate a different Applicable Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

Section 9.07. Collateral. Each of the Banks represents to each Agent and each of the other Banks that it in good faith is not relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Agreement.

Section 9.08 Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 9.09. Counterparts; Integration. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the

entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE BANKS HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.11. Conversion of Currencies. (a) If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum owing hereunder in one currency into another currency, each party hereto agrees, to the fullest extent that it may lawfully do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures in the relevant jurisdiction the first currency could be purchased with such other currency on the Domestic Business Day (or Eurocurrency Business Day if applicable) immediately preceding the day on which final judgment is given.

(b) The obligations of each party hereto in respect of any sum due to any other party hereto or any holder of the obligations owing hereunder (the "APPLICABLE CREDITOR") shall, notwithstanding any judgment in a currency (the "JUDGMENT CURRENCY") other than the currency in which such sum is stated to be due hereunder (the "AGREEMENT CURRENCY"), be discharged only to the extent that, on the Business Day following receipt by the Applicable Creditor of any sum adjudged to be so due in the Judgment Currency, the Applicable Creditor may in accordance with normal banking procedures in the relevant jurisdiction purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to the Applicable Creditor in the Agreement Currency, such party agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Applicable Creditor against such loss. The obligations of the parties contained in this

Section 9.11 shall survive the termination of this Agreement and the payment of all other amounts owing hereunder.

Section 9.12. European Economic and Monetary Union. (a) Definitions. In this Section 9.12 and in each other provision of this Agreement to which reference is made in this Section 9.12 expressly or impliedly, the following terms have the meanings given to them in this Section 9.12:

"COMMENCEMENT OF THE THIRD STAGE OF EMU" means the date of commencement of the third stage of EMU (at the date of this Credit Agreement expected to be January 1, 1999) or the date on which circumstances arise which (in the opinion of the Administrative Agent) have substantially the same effect and result in substantially the same consequences as commencement of the third stage of EMU as contemplated by the Treaty on European Union.

"EMU" means economic and monetary union as contemplated in the Treaty on European Union.

"EMU LEGISLATION" means legislative measures of the European Council for the introduction of, changeover to or operation of a single or unified European currency (whether known as the euro or otherwise), being in part the implementation of the third stage of EMU;

"EURO" means the single currency of participating member states of the European Union;

"EURO UNIT" means the currency unit of the euro;

"NATIONAL CURRENCY UNIT" means the unit of currency (other than a euro unit) of a participating member state;

"PARTICIPATING MEMBER STATE" means each state so described in any EMU legislation; and

"TREATY ON EUROPEAN UNION" means the Treaty of Rome of March 25, 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on February 7, 1992, and came into force on November 1, 1993), as amended from time to time.

(b) Effectiveness of Provisions. The provisions of paragraphs (c) to

(j) below (inclusive) shall be effective at and from the commencement of the third stage of EMU, provided, that if and to the extent that any such provision relates to any state (or the currency of such state) that is not a participating member state on the commencement of the third stage of EMU, such provision shall become effective in relation to such state (and the currency of such state) at and from the date on which such state becomes a participating member state.

(c) Redenomination and Foreign Currencies. Each obligation under this Agreement of a party to this Agreement which has been denominated in the national currency unit of a participating member state shall be redenominated into the euro unit in accordance with EMU legislation, provided, that if and to the extent that any EMU legislation provides that following the commencement of the third stage of EMU an amount denominated either in the euro or in the national currency unit of a participating member state and payable within that participating member state by crediting an account of the creditor can be paid by the debtor either in the euro unit or in that national currency unit, each party to this Agreement shall be entitled to pay or repay any such amount either in the euro unit or in such national currency unit.

(d) Loans. Any Loan in the currency of a participating member state shall be made or issued in the euro unit.

(e) Business Days. With respect to any amount denominated or to be denominated in the euro or a national currency unit, any reference to a "Business Day" shall be construed as a reference to a day (other than a Saturday or Sunday) on which banks are generally open for business in

(i) London and New York City and

(ii) Frankfurt am Main, Germany (or such principal financial center or centers in such participating member state or states as the Administrative Agent may from time to time nominate for this purpose).

(f) Payments to the Administrative Agent. Sections 2.02 and 2.10 shall be construed so that, in relation to the payment of any amount of euro units or national currency units, such amount shall be made available to the Administrative Agent in immediately available, freely transferable, cleared funds to such account with such bank in Frankfurt am Main, Germany (or such other principal financial center in such participating member state as the Administrative Agent may from time to time nominate for this purpose) as the Administrative Agent shall from time to time nominate for this purpose.

(g) Payments by the Administrative Agent to the Banks. Any amount payable by the Administrative Agent to the Banks under this Agreement in the currency of a participating member state shall be paid in the euro unit.

(h) Payments by the Administrative Agent Generally. With respect to the payment of any amount denominated in the euro or in a national currency unit, the Administrative Agent shall not be liable to the Borrower or any of the Banks in any way whatsoever for any delay, or the consequences of any delay, in the crediting to any account of any amount required by this Agreement to be paid by the Administrative Agent if the Administrative Agent shall have taken all relevant steps to achieve, on the date required by this Agreement, the payment of such amount in immediately available, freely transferable, cleared funds (in the euro unit or, as the case may be, in a national currency unit) to the account with the bank in the principal financial center in the participating member state which the Borrower or, as the case may be, any Bank shall have specified for such purpose. In this paragraph (h), "all relevant steps" means all such steps as may be prescribed from time to time by the regulations or operating procedures of such clearing or settlement system as the Administrative Agent may from time to time determine for the purpose of clearing or settling payments of the euro.

(i) Basis of Accrual. If the basis of accrual of interest or fees expressed in this Agreement with respect to the currency of any state that becomes a participating member state shall be inconsistent with any convention or practice in the London Interbank Market for the basis of accrual of interest or fees in respect of the euro, such convention or practice shall replace such expressed basis effective as of and from the date on which such state becomes a participating member state; provided, that if any Loan in the currency of such state is outstanding immediately prior to such date, such replacement shall take effect, with respect to such Loan, at the end of the then current Interest Period for such Loan.

(j) Rounding and Other Consequential Changes. Without prejudice and in addition to any method of conversion or rounding prescribed by any EMU legislation and without prejudice to the respective liabilities for Debt of the Borrower to the Banks and the Banks to any Borrower under or pursuant to this Agreement:

(i) each reference in this Agreement to a minimum amount (or an integral multiple thereof) in a national currency unit to be paid to or by the Administrative Agent shall be replaced by a reference to such reasonably comparable and convenient amount (or an integral multiple thereof) in the euro unit as the Administrative Agent may from time to time specify; and

(ii) except as expressly provided in this Section 9.12, each provision of this Agreement shall be subject to such reasonable changes of construction as the Administrative Agent may from time to time specify to be necessary or appropriate to reflect the introduction of or changeover to the euro in participating member states.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ARMSTRONG WORLD INDUSTRIES, INC.

by /s/ E. Follin Smith

Name: E. Follin Smith

Title: Vice President and Treasurer

THE CHASE MANHATTAN BANK, individually and as Administrative Agent

by /s/ Karen M. Scharf

Name: Karen M. Scharf
Title: Vice President

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION,
individually and as Documentation Agent

by /s/ John W. Pocalyko

Name: John W. Pocalyko
Title: Managing Director

WACHOVIA BANK, N.A. individually and as Co- Documentation Agent

by /s/ Adam T. Ogburn

Name: Adam T. Ogburn
Title: Vice President

DEUTSCHE BANK AG NEW YORK BRANCH as Co-
Documentation Agent,
by

Name: Hans-Josef Thiele Title: Director
by

Name: Stephan A. Wiedemann Title: Director

**DEUTSCHE BANK AG NEW YORK BRANCH
AND/OR CAYMAN ISLANDS BRANCH**
individually,
by

Name: Hans-Josef Thiele
Title: Director
by

BARCLAYS BANK PLC,

by /s/ Terance Bullock

Name: Terance Bullock
Title: Vice President

BW CAPITAL MARKETS, INC.,

by

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Name: Robert B. Herber Title: Managing Director

Name: Thomas A. Lowe Title: Vice President

BANQUE NATIONALE DE PARIS

by /s/ Richard L. Sted

Name: Richard L. Sted
Title: Senior Vice President

by /s/ Thomas George

Name: Thomas George
Title: Senior Vice President
Corporate Banking Division

UNICREDITO ITALIANO S.P.A.

by /s/ Gianfranca Bisagni

Name: Gianfranca Bisagni
Title: First Vice President

by /s/ Salyed A. Abbas

Name: Salyed A. Abbas
Title: Assistant Vice President

CITIBANK N.A.,

by /s/ W. Martens

Name: William G. Martens III
Title: Attorney-in-fact

FIRST UNION NATIONAL BANK,

by /s/ Donald W. Hans, Jr.

Name: Donald W. Hans, Jr.
Title: Senior Vice President

THE FIRST NATIONAL BANK OF CHICAGO,

by /s/ Robert McMillan

Name: Robert McMillan
Title: Corporate Banking Officer

GENERALE BANK,

by /s/ David Snyder

Name: David Snyder
Title: Senior Vice President

by /s/ E. Matthews

Name: E. Matthews
Title: Senior Vice President

LANDESGIROKASSE OFFENTLICHE BANK UND LANDESSPARKASSE,

by /s/ Joachim Erdle

Name: Joachim Erdle
Title:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

by /s/ Diana H. Imhof

PNC BANK, NATIONAL ASSOCIATION,

by /s/ Brennan T. Danile

Name: Brennan T. Danile
Title: Corporate Banking Officer

SOCIETE GENERAL FINANCE (IRELAND) LIMITED

by /s/ Therese Leonard

Name: Therese Leonard
Title: Account Manager

by /s/ Richard Wanless

Name: Richard Wanless
Title: Managing Director

SUNTRUST BANK ATLANTA,

by /s/ W. David Wisdom

Name: W. David Wisdom
Title: Group Vice President

by /s/ Robin R. Cowan

Name: Robin R. Cowan
Title: Operations Officer

WESTDEUTSCHE LANDESBANK,

by /s/ Cynthia M. Niesen

by /s/ Walter T. Duffy III

Name: Walter T. Duffy III
Title: Associate

MARINE MIDLAND BANK

by /s/ William M. Holland

Name: William M. Holland
Title: Vice President

THE BANK OF NEW YORK

by /s/ W. C. Paralli

Name: W. C. Paralli
Title: Vice President

COMMITMENT SCHEDULE

BANK	COMMITMENT
The Chase Manhattan Bank	\$35,500,000
Morgan Guaranty Trust Company of New York	\$35,500,000
Bank of America National Trust & Savings Association	\$35,500,000
Wachovia Bank, N.A.	\$35,500,000
Deutsche Bank AG New York Branch and/or Cayman Islands Branch	\$35,500,000
Barclays Bank PLC	\$21,750,000
Citibank N.A.	\$21,750,000
First Union National Bank	\$21,750,000
The First National Bank of Chicago	\$21,750,000
Marine Midland Bank	\$21,750,000
Societe Generale Finance (Ireland) Limited	\$21,750,000
Generale Bank	\$16,500,000
BW Capital Markets, Inc.	\$16,500,000
Banque Nationale De Paris	\$16,500,000
Unicredito Italiano S.p.A.	\$16,500,000
Landesgirokasse Offentliche Bank Und Landessparkasse	\$16,500,000
PNC Bank, National Association	\$16,500,000
Suntrust Bank, Atlanta	\$16,500,000
Westdeutsche Landesbank	\$16,500,000
The Bank of New York	\$10,000,000

PRICING SCHEDULE

"FACILITY FEE RATE" and "EUROCURRENCY MARGIN" mean, for any date, the applicable rate set forth below in the row opposite such term based upon the ratings by S&P and Moody's, respectively, applicable on such date to the Index Debt:

	Category 1 A/A2 or Higher	Category 2 A-/A3	Category 3 BBB+/Baa1	Category 4 BBB/Baa2 and A2/P2	Category 5 BBB/Baa2 and not A2/P2	Category 6 BBB-/Baa3 or Lower
Eurocurrency Margin (bp)	27.50	31.00	35.00	42.50	52.50	60.00
Facility Fee Rate (bp)	7.50	9.00	10.00	12.50	12.50	15.00

For purposes of the foregoing, (i) if S&P or Moody's shall not have in effect a rating for the Index Debt, then such rating agency shall be deemed to have established a rating in Category 5; (ii) if the ratings established or deemed to have been established by S&P and Moody's for the Index Debt shall fall within different categories, the applicable rate shall be based on (A) if the ratings are in adjacent categories, the higher of the two ratings and (B) if the ratings are in non-adjacent categories, the rating immediately below the higher of the two ratings; and (iii) if the ratings established or deemed to have been established by S&P and Moody's for the Index Debt shall be changed (other than as a result of a change in the rating system of such rating agency), such change shall be effective as of the date on which it is first announced by the applicable rating agency. Each change in the applicable rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change.

"MOODY'S" means Moody's Investors Service, Inc.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"INDEX DEBT" means the senior unsecured long-term debt securities of the Borrower without third-party enhancement, and any rating assigned to any other debt security of the Borrower shall be disregarded.

EXHIBIT A

**OPINION OF
COUNSEL FOR THE BORROWER**

To the Banks and the Administrative Agent Referred to Below
c/o The Chase Manhattan Bank,
as Administrative Agent
270 Park Avenue
New York, New York 10017

Dear Sirs:

I have acted as counsel for Armstrong World Industries, Inc. (the "BORROWER") in connection with the Credit Agreement (the "CREDIT AGREEMENT") dated as of _____, 1998 among the Borrower, the banks listed on the signature pages thereof and The Chase Manhattan Bank, as Administrative Agent. Terms defined in the Credit Agreement are used herein as therein defined. This opinion is being rendered to you at the request of my client pursuant to Section 3.01(c) of the Credit Agreement.

I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as I have deemed necessary or advisable for purposes of this opinion.

I am licensed to practice law in the Commonwealth of Pennsylvania. The law covered by this opinion is limited to the laws of the Commonwealth of Pennsylvania and the Federal laws of the United States. I have assumed for the purposes of this opinion that the substantive law of the State of New York is identical in all material respects to the substantive law of the Commonwealth of Pennsylvania.

Upon the basis of the foregoing, I am of the opinion that:

- (1) The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of Pennsylvania, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.
- (2) The execution, delivery and performance by the Borrower of the Credit Agreement is within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or by-laws of the Borrower or of any material agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its Subsidiaries or result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

(3) The Credit Agreement constitutes a valid and binding agreement of the Borrower enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

(4) Except as disclosed in the Borrower's 1997 Form 10-K, in the Borrower's Latest Form 10-Q or in the Borrower's Schedule 14D-1 filed with the Securities and Exchange Commission in connection with the Offer, there is no action, suit or proceeding pending against, or to the best of my knowledge threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official, in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, financial position, operations or prospects of the Borrower and its Consolidated Subsidiaries, considered as a whole, or the ability of the Borrower to perform its obligations under the Credit Agreement, or which in any manner draws into question the validity of the Credit Agreement.

(5) Each of the Borrower's Significant Subsidiaries is a corporation validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Very truly yours,

EXHIBIT B

ASSIGNMENT AND ASSUMPTION AGREEMENT

AGREEMENT dated as of _____, 19__ among [ASSIGNOR] (the "ASSIGNOR"), [ASSIGNEE] (the "ASSIGNEE"), ARMSTRONG WORLD INDUSTRIES, INC. (the "BORROWER") and THE CHASE MANHATTAN BANK, as Administrative Agent (the "ADMINISTRATIVE AGENT").

WITNESSETH

WHEREAS, this Assignment and Assumption Agreement (the "AGREEMENT") relates to the Credit Agreement dated as of October 29, 1998 among the Borrower, the Assignor and the other Banks party thereto, as Banks, and the Administrative Agent (the "CREDIT AGREEMENT");

WHEREAS, as provided under the Credit Agreement, the Assignor has a Commitment to make Loans to the Borrower in an aggregate principal amount at any time outstanding not to exceed \$ _____;

WHEREAS, Loans made to the Borrower by the Assignor under the Credit Agreement in the aggregate principal amount of \$ _____ are outstanding at the date hereof; and

WHEREAS, the Assignor proposes to assign to the Assignee all of the rights of the Assignor under the Credit Agreement in respect of a portion of its Commitment thereunder in an amount equal to \$ _____ (the "ASSIGNED AMOUNT"), together with a corresponding portion of its outstanding Loans, and the Assignee proposes to accept assignment of such rights and assume the corresponding obligations from the Assignor on such terms;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

Section 1.01. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement.

Section 1.02. Assignment. The Assignor hereby assigns and sells to the Assignee all of the rights of the Assignor under the Credit Agreement to the extent of the Assigned Amount, and the Assignee hereby accepts such assignment from the Assignor and assumes all of the obligations of the Assignor under the Credit Agreement to the extent of the Assigned Amount, including the purchase from the Assignor of the corresponding portion of the principal amount of the Loans made by the Assignor outstanding at the date hereof. Upon the execution

and delivery hereof by the Assignor, the Assignee[, the Borrower and the Administrative Agent] and the payment of the amounts specified in Section 3 required to be paid on the date hereof (i) the Assignee shall, as of the date

hereof, succeed to the rights and be obligated to perform the obligations of a Bank under the Credit Agreement with a Commitment in an amount equal to the Assigned Amount, and (ii) the Commitment of the Assignor shall, as of the date

hereof, be reduced by a like amount and the Assignor released from its obligations under the Credit Agreement to the extent such obligations have been assumed by the Assignee. The assignment provided for herein shall be without recourse to the Assignor.

Section 1.03. Payments. As consideration for the assignment and sale contemplated in Section 2 hereof, the Assignee shall pay to the Assignor on the date hereof in Federal funds the amount heretofore agreed between them.* It is understood that commitment and/or facility fees accrued to the date hereof are for the account of the Assignor and such fees accruing from and including the date hereof are for the account of the Assignee. Each of the Assignor and the Assignee hereby agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and shall promptly pay the same to such other party.

Section 1.04. Consent of the Borrower and the Administrative Agent. This Agreement is conditioned upon the consent of the Borrower and the Administrative Agent pursuant to Section 9.06(c) of the Credit Agreement. The execution of this Agreement by the Borrower and the Administrative Agent is evidence of this consent.

Section 1.05. Nonreliance on Assignor. The Assignor makes no representation or warranty in connection with, and shall have no responsibility with respect to, the solvency, financial condition, or statements of the Borrower, or the validity and enforceability of the obligations of the Borrower in respect of the Credit Agreement. The Assignee acknowledges that it has, independently and without reliance on the Assignor, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into *Amount should combine principal together with accrued interest and breakage compensation, if any, to be paid by the Assignee, net of any portion of any upfront fee to be paid by the Assignor to the Assignee. It may be preferable in an appropriate case to specify these amounts generically or by formula rather than as a fixed sum. This Agreement and will continue to be responsible for making its own independent appraisal of the business, affairs and financial condition of the Borrower.

Section 1.06. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Section 1.07. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

[ASSIGNOR]

by

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Name:

Title:

[ASSIGNEE]

by

Name:

Title:

ARMSTRONG WORLD INDUSTRIES, INC.

by

Name:

Title:

THE CHASE MANHATTAN BANK

by

Name:

Title:

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EXHIBITS

Exhibit A Opinion of Counsel for the Borrower Exhibit B Assignment and Assumption Agreement

ARMSTRONG WORLD INDUSTRIES, INC. RESOLUTIONS

6.35% SENIOR NOTES DUE 2003 AND 6.5% SENIOR NOTES DUE 2005

RESOLVED, that pursuant to Section 201 and 301 of the Indenture:

(1) there is hereby created (i) a series of securities to be designated the 6.35% Senior Notes due 2003 (the "2003 Notes") and (ii) a series of debt securities to be designated the 6.5% Senior Notes due 2005 (the "2005 Notes");

(2) (i) the 2003 Notes shall be limited in aggregate principal amount to \$200,000,000, shall bear interest at the rate of 6.35% per year, payable semiannually on each February 15 and August 15, commencing February 15, 1999, shall mature on August 15, 2003, and shall be unsecured obligations of the Company and (ii) the 2005 Notes shall be limited in aggregate principal amount to \$150,000,000, shall bear interest at the rate of 6.5% per year, payable semiannually on each February 15 and August 15, commencing February 15, 1999, shall mature on August 15, 2005, and shall be unsecured obligations of the Company.

(3) (i) the 2003 Notes shall accrue interest from August 11, 1998 and have regular record dates of February 1 and August 1 and (ii) the 2005 Notes shall accrue interest from August 11, 1998 and have regular record dates of February 1 and August 1; and

(4) the 2003 Notes and the 2005 Notes shall have the other terms and provisions contained in the Indenture and the Prospectus dated August 6, 1998 with respect to the 2003 Notes and the 2005 Notes, and shall be governed by the Indenture as the same may be amended and supplemented from time to time; and further

RESOLVED, that the Company shall issue and sell up to \$150,000,000 in aggregate principal amount of 2005 Notes to Morgan Stanley Dean Witter, Chase Securities Inc. and J.P. Morgan & Co. (collectively, the "2005 Underwriters") at a price equal to 99.804% of their principal amount, to be sold to the public at a price of \$149,706,000, for gross proceeds to the Company in the aggregate amount of \$148,768,500; and further

RESOLVED, that the Company shall issue and sell up to \$200,000,000 in aggregate principal amount of 2003 Notes to Chase Securities Inc., BancAmerica Robertson Stephens, Morgan Stanley Dean Witter and HSBC Markets (collectively, the "2003 Underwriters") at a price equal to 99.910% of their principal amount, to be sold to the public at a price of \$199,820,000, for gross proceeds of the

Company in the aggregate amount of \$198,620,000.

PUBLIC OFFERING OF 7.45% SENIOR QUARTERLY INTEREST BONDS DUE 2038

RESOLVED, That pursuant to Sections 201 and 301 of the Indenture:

- (1) there is hereby created a series of securities to be designated the 7.45% Senior Quarterly Interest Bonds due 2038 "(the Bonds)";
- (2) the Bonds shall be limited in aggregate principal amount to \$180,000,000, shall bear interest at the rate of 7.45% per year, payable quarterly on each January 15, April 15, July 15 and October 15, commencing January 15, 1999, shall mature on October 15, 2038 and shall be unsecured obligations of the Company;
- (3) the Bonds shall accrue interest from October 28, 1998 and have regular record dates of fifteen days prior to the interest payment dates specified above; and
- (4) the Bonds shall have the other terms and provisions contained in the Indenture and the Prospectus dated October 21, 1998 with respect to the Bonds, including the terms and provisions relating to the redemption of the Bonds, and shall be governed by the Indenture as the same may be amended and supplemented from time to time; and further

RESOLVED, That the Company shall issue and sell up to \$180,000,000 in aggregate principal amount of the Bonds to Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, PaineWebber Incorporated, Prudential Securities Incorporated, Salomon Smith Barney, SG Cowen Securities Corporation and certain other underwriters to be selected by the Authorized Officers (collectively, the "Underwriters"), at the price equal to 96.85% of their principal amount to be sold to the public at a price of \$180,000,000, for

gross proceeds to the Company in the aggregate amount of \$174,330,000.

[CONFORMED COPY]

AMENDMENT NO. 1 TO CREDIT AGREEMENT

AMENDMENT dated as of April 9, 1996 among ARMSTRONG WORLD INDUSTRIES, INC. (the "Borrower"), the BANKS listed on the signature pages hereof (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

WITNESSETH:

WHEREAS, the parties hereto have heretofore entered into a Credit Agreement dated as of February 7, 1995 (the "Agreement"); and

WHEREAS, the parties hereto desire to amend the Agreement to modify the rates of interest payable thereunder, to extend the term thereof, to add the New Banks (as defined below) as parties to the Agreement as amended hereby and to provided for changes in the total and respective Commitments of the Banks;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement shall have the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby. The term "Notes" defined in the Agreement shall include from and after the date hereof the New Notes (as defined below).

SECTION 2. Amendment of Section 1.01 of the Agreement. (a) Each of the following definitions in Section 1.01 of the Agreement are amended to read in full as follows:

"Pricing Schedule" means the Schedule attached to Amendment No. 1 to the Credit Agreement identified as such.

"Termination Date" means April 9, 2001, or if such day is not a Euro-Dollar Business Day, the next preceding Euro-Dollar Business Day.

(b) The definition of "Consolidated Net Worth" is amended by replacing the amount "\$50,000,000" with "\$100,000,000" and by replacing the words "write offs" with the words "special charges."

SECTION 3. Amendment of Section 5.07 of the Agreement. Section 5.07 is amended by replacing the amount "\$470,000,000" with "\$500,000,000."

SECTION 4. Amendment of Section 9.07(a) of the Agreement. Section 9.07(a) is amended by replacing the amount "\$300,000,000" with "\$500,000,000."

SECTION 5. New Banks; Changes in Commitments. With effect from and including the date this Amendment becomes effective in accordance with Section 8 hereof, (i) each Person listed on the signature pages hereof which is not a party to the Agreement (a "New Bank") shall become a Bank party to the Agreement and (ii) the Commitment of each Bank shall be the amount set forth opposite the name of such Bank on the signature pages hereof, as such amount may be reduced from time to time pursuant to Section 2.09 of the Agreement. Any Bank whose Commitment is changed to zero shall upon such effectiveness cease to be a Bank party to the Agreement, and all accrued fees and other amounts payable under the Agreement for the account of such Bank shall be due and payable on such date; provided that the provisions of Section 9.03 of the Agreement shall continue to inure to the benefit of each such Bank.

SECTION 6. Representations and Warranties. The Borrower hereby represents and warrants that as of the date hereof and after giving effect hereto:

(a) no Default under the Agreement has occurred and is continuing; and

(b) each representation and warranty of the Borrower set forth in the Agreement is true and correct as though made on and as of this date.

SECTION 7. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 8. Counterparts; Conditions to Effectiveness. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective as of the date hereof when the Agent shall have received:

(a) duly executed counterparts hereof signed by the Borrower and the Banks (or, in the case of any party as to which an executed counterpart shall not have been received, the Agent shall have received telegraphic, telex or other written confirmation from such party of execution of a counterpart hereof by such party);

(b) a duly executed Note for each New Bank (a "New Note"), dated on or before the date of effectiveness hereof and otherwise in compliance with Section 2.05 of the Agreement;

(c) an opinion of counsel for the Borrower, addressed to the Banks and the Agent, substantially in the form of Exhibit A hereto (which the Borrower hereby expressly instructs such counsel to prepare and deliver);

(d) a certificate signed by the Chief Financial Officer of the Borrower, dated the date hereof, to the effect that no Default shall have occurred and be continuing and that the representations and warranties of the Borrower contained in the Agreement, as amended hereby, shall be true and correct as of the date of effectiveness hereof; and

(e) all documents that the Agent may reasonably request relating to the existence of the Borrower, the corporate authority for and validity of this Amendment and the New Notes, and any other matters relevant hereto, all in form and substance satisfactory to the Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

ARMSTRONG WORLD INDUSTRIES, INC.

By: /s/ Frank A. Riddick, III

Title: Senior Vice President
and C.F.O.

By: /s/ Stephen C. Hendrix

Title: Treasurer
313 West Liberty Street
Lancaster, PA 17603
Facsimile number: 717-396-2408

Commitments

\$38,000,000

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By: /s/ Laura E. Reim

Title: Vice President

\$29,000,000

ABN AMRO BANK N.V.
By: ABN AMRO NORTH AMERICA, INC.,
as Agent

By: /s/ James M. Janovsky

Title: Group V.P. and Director

By: /s/ Dennis F. Lennon

Title: V.P. and Director

\$29,000,000

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By: /s/ Dale Robert Mason

Title: Vice President

\$29,000,000

CHEMICAL BANK

By: /s/ Peter C. Eckstein

Title: Vice President

\$29,000,000

MELLON BANK, N.A.

By: /s/ Gilbert B. Mateer

Title: Vice President

\$29,000,000

SOCIETE GENERALE

By: /s/ Bruce Drossman

Title: Vice President

\$29,000,000

UNION BANK OF SWITZERLAND

By: /s/ Peter B. Yearley

Title: Managing Director

By: /s/ James P. Kelleher

Title: Assistant Vice
President

\$29,000,000

WACHOVIA BANK OF GEORGIA, N.A.

By: /s/ Adam T. Ogburn

Title: Vice President

\$29,000,000

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK AND
CAYMAN ISLAND BRANCHES

By: /s/ Franz J. Vohn

Title: Vice President

By: /s/ Karen Hoplock

Title: Vice President

\$15,000,000

BARCLAYS BANK PLC

By: /s/ Terance Bullock

Title: Associate Director

\$15,000,000

STANDARD CHARTERED BANK

By: /s/ Marianne R. Murray

Title: Vice President

\$-0-

CITIBANK, N.A.

By: /s/ William G. Martens III

Title: Attorney-In-Fact

Total Commitments

\$300,000,000

=====

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK, as Agent

By: /s/ Laura E. Reim

Title: Vice President

60 Wall Street
New York, New York 10260-0060
Attention: Laura E. Reim
Telex number: 177615
Facsimile number: (212) 648-5336

Employment and Pension Contract

between

DLW Corporation, Bietigheim
- hereafter referred as "the company" -
represented by the board of supervisors, in turn
represented by its chairman, Dr. Horst Burgard

- first party -

and

Dr. Bernd Pelz,
born February 11, 1944

-second party-

(S)1

(1) By decision of the board of supervisors on October 6, 1989, Dr. Pelz has been appointed to be a member of the executive board of the company, effective April 1, 1990. This appointment will be effective until March 31, 1995.

(2) Dr. Pelz promises to carry out his assigned duties in observance of the legal regulations, statutes, orders of the executive board, decisions of the board of supervisors, and this employment contract.

(3) Dr. Pelz must devote his entire effort and time in service exclusively to the company and must preserve and promote the interests of the company with great care.

(4) In the absence of prior written consent from the chairman of the board of supervisors for this company, Dr. Pelz may not undertake any business or professional activity (whether alone or in collaboration, compensated or not), participate in similar or related enterprises, or serve as a member of the board

or in any similar function for another company. The acceptance of honorary offices, unless required by law, also requires the approval of the chairman of the board of supervisors. The same also applies to publications that could have an adverse effect on the interests of the company.

(S)2

Dr. Pelz represents the company [effective only] together with another member of the executive board or an authorized official.

(S)3

(1) As remuneration for his service, Dr. Pelz shall receive

a) a fixed, gross annual salary of 220,000.00 DM, to be paid out in equal monthly payments over the course of the year.

b) in addition, Dr. Pelz shall receive a profit-based bonus for each percent of dividends distributed by the company for the fiscal year, as long as no prior claims on profits or amounts designated for reserves are included therein.

The bonus amounts to

7,000.00 DM with dividend rates up to and including 16% and 12,500.00 DM with dividend rates over 16%

It shall be issued at the close of the shareholders' meeting that deals with the handling of profits.

The profit-based bonus is guaranteed [at a minimum of] 180,000.00 DM for the first two years this contract is in effect.

(2) Travel expenses and other expenditures arising from company business are reimbursed separately up to the maximum amount allowed by tax laws.

(S)4

Dr. Pelz is entitled to five weeks of vacation per year. The [scheduling of] vacation time is to be coordinated with the other members of the executive board as well as the chairman of the board of supervisors.

(S)5

(1) Should Dr. Pelz be prevented from carrying out his duties because of illness or through circumstances beyond his control, he will be entitled to receive his salary for up to 6 months, but not beyond the end of the employment contract.

(2) Should Dr. Pelz die while the contract is in force, his widow or--if she is no longer living--his children shall be entitled to the fixed salary, per (S) 3, paragraph 1 a), for the duration of three months after the month of his death as well as to a prorated, profit-based bonus, per (S) 3, paragraph 1b).

(S)6

Dr. Pelz shall be obliged, upon his departure from the executive board, to make available to the company all seats held within the supervisory board and other offices connected with his appointment as an executive board member and, if requested by the company, to do all he can to assist with the installation to his position of an individual to be designated by the board of supervisors.

(S)7

(1) Should Dr. Pelz depart from his service in the company

a) due to permanent disability or

b) after reaching age 65 or

c) because the company does not renew his appointment as executive board member after April 1, 1995 through no fault of his own,

then Dr. Pelz shall receive a retirement pension, to be paid in equal monthly payments at the end of each month for the remainder of his life. Should the employment contract end before he reaches age 65 due to reasons not listed in paragraph 1 a) or c), then Dr. Pelz shall become entitled to his maintenance settlement, if and so far as the legal requirements for nonforfeitability are met.

(2) In the event of (S) 7, paragraph 1 c), Dr. Pelz must allow any income from other professional endeavors to be deducted from his retirement pension, if the combined amount exceeds the fixed salary, as per section (S) 3, paragraph 1 a).

(3) Upon reaching age 65, Dr. Pelz shall become eligible to retire.

(S)8

(1) The amount of the retirement pension is calculated on the basis of time in active service with the company at the moment entitlement begins. This amounts to 45% of the fixed annual salary as of April 1, 1990 and increases for each full year in service after April 1, 1990 by 1% of the fixed annual salary, up to a maximum of 60%. The executive bonus does not fall under the meaning of salary.

(2) Should the base salary for an unmarried federal civil servant in the B 9 salary bracket (ministry department head), including Christmas bonus--however, not including salary weighting allowance or other remuneration and benefits of any kind--change from the amount effective at the beginning of the retirement payment, then at that time the retirement pension shall also change at the same percentage rate. [This change will take place] at the beginning of the month after the change in the official civil servant salary comes into effect.

(S)9

In addition to the executive bonus for the previous fiscal year, to which Dr. Pelz is entitled in the first year of retirement, Dr. Pelz shall also receive in the second year of retirement $\frac{3}{4}$ of the full bonus; in the third year, one half; and in the fourth year, $\frac{1}{4}$, based at the time on the previous fiscal year.

(S)10

The entitlements per (S) 7 through 9 shall cease if, after becoming eligible for retirement, Dr. Pelz participates, without the approval of the board of supervisors, directly or indirectly in a competing enterprise or undertakes any activity which harms the interests of the company.

(S)11

Should Dr. Pelz die during active service or after he becomes eligible to receive his retirement pension, in the absence of grounds to revoke his entitlement to the pension, his widow shall become entitled, notwithstanding the stipulation of (S) 5, paragraph 2, to a widow's pension as follows:

(1) The widow shall become entitled to 60% of the benefits per (S) 8 and (S) 9. This entitlement shall cease in the event of her death or her remarriage.

(2) Should Dr. Pelz no longer be married at the time of his death, or should his widow die later, each child shall receive 30% of the payments arranged for in (S) 8 and (S) 9; however, together the children may receive no more

than 60% of the pension entitlement described in (S) 8.

The orphan's pension entitlement for each child ceases at age 21. If a child is still a student at this time, the orphan's pension entitlement will be extended to the end of his/her studies, but not beyond the 25th birthday. The entitlement to the orphan's pension ceases likewise when the child marries. Should the spouse be unable to earn a shared living wage, then [the entitlement shall be extended] up to but not beyond the 25th birthday.

(S)12

(1) This contract shall remain in effect until the end of the period for which Dr. Pelz has been appointed a member of the executive board. It shall be extended--under the same terms as before--to [cover any subsequent] period for which Dr. Pelz, by decision of the board of supervisors at that time, is newly appointed as a member of the executive board. It shall cease in any case with the completion of the appointment.

(2) The board of supervisors shall renew the appointment at the time not later than a half-year before its completion. Should the board fail to do this, it shall be expressing thereby that the appointment shall not be renewed.

Changes and amendments to this contract must be in written form. If any of the terms of this contract cease to be in effect, the force of the remaining terms shall not be affected.

Frankfurt/Main, October 13, 1989

[signature]
Dr. Horst Burgard
Chairman of the Board of Supervisors
of DLW Corporation

Bornheim, dated

[signature] Dr. Bernd Pelz

Dr. Burgard's letter dated August 10, 1989:

Dear Dr. Pelz,

referring to our telephone conversation I am sending you attached the amended draft contract.

In supplementing the contract I am in the position to state that after the necessary introductory and transition period you shall have the sole responsibility for the "operations" position in the Vorstand (Management Board). In that function you are responsible for the production of all companies of the DLW AG and its subsidiaries, the technical equipment, development etc.. The functions of the other Members of the Board are contained in the statutes of the Board.

The following prerequisites are common with DLW:

- . automobiles (Daimler Benz, largest size of the middle class) to be used for company and private use (taxation as usual),
- . the usual employers payments for social security as well as
- . an accident insurance

sincerely yours,

Dr. Horst Burgard

November 19, 1991

Personal/Confidential

Dr. Bernd F. Pelz
Chairman of the Executive Board
DLW Corporation
PO Box 1 40

7120 Bietigheim-Bissingen

Dear Mr. Pelz,

The executive committee of the board of supervisors has decided to amend (S) 8, paragraph (1) of the employment and pension contract you signed on October 13, 1989, as follows:

(S)8(1)

"The amount of the retirement pension is calculated, subject to Section 3, on the basis of time in active service with the company at the moment entitlement begins. This amounts to 45% of the fixed annual salary as of April 1, 1990 and increases for each full year in service after April 1, 1990 by 1% of the fixed annual salary, up to a maximum of 60%. In the event of permanent disability, per (S) 7, paragraph 1 a), the retirement pension shall amount to 60% of the fixed annual salary, regardless of the number of years in service. The executive bonus does not fall under the definition of salary."

Please confirm your acceptance of this contract amendment on the enclosed copy of the letter.

Sincerely,

[initialed]

Bietigheim 11-22-91... [signature]

November 19, 1991

Dr. Bernd F. Pelz
Chairman of the Executive Board
DLW Corporation
PO Box 1 40

7120 Bietigheim-Bissingen

Dear Mr. Pelz,

In order to ensure fairness to all members of the executive board and to reconcile the time of departure [in the fiscal year] from active service in DLW Corporation with the [calendar] year of entry into retirement, (S) 9 of your employment and pension contract is being amended and shall now read as follows:

(S)9

"In addition to the executive bonus to which Dr. Pelz is entitled for the fiscal year underway at the time of his entry into retirement (first [calendar] year of retirement), for the second year of retirement Dr. Pelz shall receive: the full bonus share for his time in active service with the executive board during that fiscal year, plus three fourths for the remaining time; in the third year of retirement, one half; and in the fourth year of retirement, one fourth. This will occur as if he were an active board member."

Per regulations, please confirm your acceptance of this amendment on the enclosed copy of the letter.

Sincerely,

[initialed]

Bietigheim 11-22-91
Place, Date

[signature]
Dr. Bernd F. Pelz

December 20, 1996

Dr. Bernd F. Pelz
Chairman of the Executive Board
DLW Corporation
Stuttgarter StraBe 75

74321 Bietigheim-Bissingen

Dear Dr. Pelz,

The executive committee of the board of supervisors has decided, in light of the financial situation of DLW AG, to leave the fixed salary for the board unchanged for 1997. However, the executive bonus plan, which up to now has been purely dividend-based, will be replaced. Because the old plan made payment of special, partial bonuses necessary, due to low or no dividend payments by DLW AG in past years, it will be replaced with a new plan which makes possible a variable remuneration based upon results and projects in the individual areas of responsibility. By standardizing the relationship between projected bonus and fixed salary at a 5 to 8 ratio, the new executive bonus plan is tied to an increase in your total salary (if projections are met) to 634,000.00 DM in 1997.

The executive committee is convinced that, with the following changes in your employment contract, the basis for a transparent, results-based and fully adaptable remuneration system will result.

(S)3(1)

"As remuneration for his work, Dr. Pelz shall receive

- a) a fixed, gross annual salary of 390,000.00 DM, which is to be paid out in equal monthly payments over the course of the year;
- b) a results-based, annual bonus, the amount of which is to be based upon the plan to be drawn up at the beginning of the fiscal year. This bonus shall be calculated from the results and projects for which Dr. Pelz is responsible as well as from the shared results of

the combined corporation, which are included in the planning. If projections are met, the bonus should amount to 244,000.00 DM. The bonus will be issued at the close of the regular shareholders' meeting at the end of the fiscal year."

For the year 1997, your bonus shall be calculated according to a plan, which was already discussed with you and which is detailed in the enclosed document. On a related matter, I would be grateful if you could provide me with an overview of the basic distribution among the different corporate divisions as well as the central division.

Please confirm on the enclosed copy of the letter your acceptance of the change in the contract and the bonus plan for the year 1997.

I hope you have a nice Christmas, a good start in 1997 and continued success with DLW.

Sincerely,

[signature]

Enclosure

I accept:
ref. Letter Dr. Breuer dated 1-21-97
Bietigheim-Bissingen, dated 1-23-97 [signature]

(Dr. Bernd F. Pelz)

Dr. Breuer's letter dated January 6, 1998:

Dear Dr. Pelz,

I am pleased to be able to tell you that the Presidential Committee of the DLW Supervisory Board has decided effective January 1, 1998 to raise your fixed salary to DM 415,000 - and to have the variable part of your total income constitute 40% of your total salary, provided plans are met.

For 1998 the committee suggests that the variable income be dependent upon following performance criteria:

	% of variable income
Return on gross sales DLW Group	33.3 %
Return on equity DLW AG	33.3 %
Return on gross sales floorings	16.7 %
Return on assets floorings	16.7 %

The weight of the individual criteria reflects your responsibility for the total DLW Group as Chairman of the Management Board and also considering your special responsibility for the floor covering division. In addition to this we intend to base the bonus payments on your proposal dated November 26, 1997 in regard to the variability and the band width.

Concerning 1997 the auditors of DLW AG will determine the relevant values upon which your bonus payments for 1997 will be based.

The raise in your compensation is an appreciation of your services to the company and the expectation that you will continue to bond a sustainable profitability of DLW AG.

Please confirm with your signature that you accept the bonus scheme for 1998 and return the relevant document.

With our best wishes for a successful business in the coming new year.

Dr. Rolf-E. Breuer

MANAGEMENT ACHIEVEMENT PLAN

PLAN TEXT AND ADMINISTRATIVE GUIDELINES

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

AS AMENDED DECEMBER 14, 1997

AS AMENDED DECEMBER 14, 1998

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%.
- E) The incentive award determined in accordance with the provisions of Paragraphs A through D of this Section 4 shall be reduced for such year as follows for Plan participants who are eligible to participate in the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc.:
- (1) If a Plan participant's grade level is at least 1200 but not higher than 1459 as of January 1 of the calendar year for which the incentive award is determined, the incentive award otherwise payable shall be reduced by the lesser of (i) 50% of the amount determined under Paragraphs A through D, (ii) \$7,500 or (iii) the authorized contribution to the Bonus Replacement Retirement Plan.
 - (2) If a Plan participant's grade level is at least 1460 but not higher than 1929 as of January 1 of the calendar year for which the incentive award is determined, the

incentive award otherwise payable shall be reduced by the lesser of

(i) 50% of the amount determined under Paragraphs A through D, (ii) \$15,000 or (iii) the authorized contribution to the Bonus Replacement Retirement Plan.

(3) If a Plan participant's grade level is at least 1930 as of January 1 of the calendar year for which the incentive award is determined, the incentive award otherwise payable shall be reduced by the lesser of

(i) 50% of the amount determined under Paragraphs A through D, (ii) \$20,000 or (iii) the authorized contribution to the Bonus Replacement Retirement Plan.

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 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.

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 and amounts contributed by the Company to the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc. (the "Bonus Replacement Plan") on behalf of a Member in the year in which such contribution is made.

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,

* AMENDED THROUGH FEBRUARY 28, 1999

(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, or

(e) he has a contribution made on his behalf to the Bonus Replacement 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;

(iv) including, for purposes of determining compensation, any amounts contributed on a Member's behalf to the Bonus Replacement 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.

Notwithstanding the preceding provisions of this Section 3.01, in the event a retired or terminated Member's benefit calculated under the Retirement Income Plan is increased for any reason after the Member's supplemental benefit payments have commenced, the amount of any supplemental benefits payable to or on account of such Member under this Plan shall be reduced correspondingly on a prospective basis, and in the event such increase is made retroactively resulting in overpayments of the Member's supplemental benefits, future benefit payments under this Plan shall be reduced to reflect such prior overpayments in any manner determined by the Committee, in its discretion, and applied on a consistent basis to all similarly situated Members, until an amount equal to the total overpayments in the Member's supplemental benefit payments are recovered.

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 who receives severance pay benefits under the Severance Pay Plan for Salaried Employees of Armstrong World Industries, Inc. or any individual severance agreement, or who is eligible for severance pay benefits under the Employment Protection Plan for Salaried Employees of Armstrong World Industries, Inc., 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, 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 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.

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 Retirement Benefit Equity 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.

ARMSTRONG

DEFERRED COMPENSATION PLAN

The Armstrong Deferred Compensation Plan (the "Plan") has been authorized by the Board of Directors of Armstrong World Industries, Inc. to be effective on and after September 30, 1985, to allow certain directors and management employees of the Company to defer receipt of a portion of their Compensation and, as a result, to receive certain supplemental retirement or survivor benefits. In addition, effective January 1, 1996, certain directors were required to defer receipt of a portion of their Compensation until termination of Board service. The Plan has been amended and restated as of September 21, 1998.

1. DEFINITIONS

1.01 "COMPANY" shall mean Armstrong World Industries, Inc. or any successor by merger, purchase or otherwise. In addition, the term Company shall include any subsidiary corporation controlled by Armstrong World Industries, Inc. that shall have adopted this Plan with the permission of the Board of Directors of Armstrong World Industries, Inc.

1.02 "COMMITTEE" shall mean the Deferred Compensation Committee whose membership shall include the Chief Executive Officer of the Company and at least two (2) other employees of the Company selected by the Chief Executive Officer.

1.03 "COMPENSATION" for an employee Participant shall include a Participant's annual base salary and any actual bonus payable under the Company's annual bonus plan received by the employee for services with the Company and, in the case of a nonemployee director Participant, shall include payments by the Company to the director in the form of retainer fees, meeting fees, and special assignment fees, as well as share awards made by the Company to the director's Stock Subaccount. Upon the prior approval of the Committee and subject to any conditions imposed by the Committee, an employee Participant may elect to include in annual base salary an applicable amount of any "severance pay" to be provided to a Participant under the Employment Protection Plan for Salaried Employees, the Severance Pay Plan for Salaried Employees or any individual agreement.

1.04 "PARTICIPANT" shall be each nonemployee director and employee who has been selected for participation by the Committee, who satisfies all conditions of eligibility, and who elects to participate by entering into a Participation Agreement.

1.05 "PARTICIPATION AGREEMENT" is the contract between the Company and the Participant covering participation in the Plan.

1.06 "CHANGE IN CONTROL" shall occur if and when (i) any person acquires "beneficial ownership" of more than twenty-eight percent (28%) of the then outstanding "voting stock" of the Company and, within five (5) 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 those individuals with individual agreements, "Change in Control" shall occur as defined within such agreement.

For the purpose of this section, 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.

1.07 "SUPPLEMENTAL RETIREMENT ACCOUNT BALANCE" at any date shall mean with respect to any Participant an amount equal to the amounts credited (including deferrals and earnings thereon) to the Participant's Cash Subaccount, the Participant's Stock Subaccount, and the Participant's Fund Subaccount, as determined pursuant to Sections 1.09, 1.10 and 1.11.

1.08 "TERMINATION ACCOUNT BALANCE" at any date shall mean with respect to any Participant a lump sum amount equal to the lesser of (i) the sum of the amount credited to the Participant's Cash Subaccount (including deferrals and earnings thereon) as determined pursuant to Section 1.09, plus the amount credited to the Participant's Stock Subaccount (including deferrals and earnings thereon), as determined pursuant to Section 1.10, plus the amount credited to the Participant's Fund Subaccount (including deferrals and hypothetical earnings thereon), as determined pursuant to Section 1.11, or (ii) the Participant's Compensation deferred under the Cash Subaccount, the Stock Subaccount and the Fund Subaccount plus interest at a rate of six percent (6%) per annum compounded monthly on each deferral from the date of deferral to the date of payment.

1.09 "CASH SUBACCOUNT" shall mean with respect to any Participant:

(a) The amount which a Participant actually defers under this Plan unless such Participant elects in writing that all or a portion of such

deferral be credited to his Stock Subaccount or his Fund Subaccount in accordance with subsections 3.02(h) or 3.02(i) of this Plan, plus

(b) Interest credited on each such deferral for the following period:

(i) From the date on which the deferred Compensation normally would have been paid in the case of deferrals to the Cash Subaccount or, in all other cases, from the date of transfer from the Stock Subaccount or the Fund Subaccount pursuant to subsection 3.02(i),

(ii) Until the earlier of the date of payment or the date of transfer to the Stock Subaccount or the Fund Subaccount pursuant to subsection 3.02(i), in accordance with the following provisions:

(A) For purposes of determining a Participant's Supplemental Retirement Account Balance, each Participant's Cash Subaccount shall be credited with interest at a rate equal to the rate which would be payable if the Participant were eligible for a supplemental retirement benefit pursuant to Section 4.01, compounded monthly.

(B) For purposes of determining a Participant's Termination Account Balance, each Participant's Cash Subaccount shall be credited with interest at a rate of six percent (6%) per annum compounded monthly.

1.10 "STOCK SUBACCOUNT" at any date shall mean with respect to any Participant the amount which a Participant elects to defer and have credited to his Stock Subaccount in accordance with subsection 3.02(h) of this Plan or, in the case of a nonemployee director Participant, the share awards made by the Company which the Participant defers in accordance with subsection 3.02(j), plus any amounts the Participant elects to transfer to this Subaccount from the Cash Subaccount or the Fund Subaccount in accordance with the provisions of Section 3.02(i), reduced by any amounts which are transferred from this Subaccount to the Cash Subaccount or the Fund Subaccount. A bookkeeping entry shall be made of the number of whole and fractional shares of Company common stock that were awarded or that could have been purchased with the amounts actually deferred under or transferred to the Stock Subaccount by the Participant, based on the fair market value of such stock on the date the deferral is made or the transfer is credited to the Participant's Stock Subaccount. The Stock Subaccount also shall be credited with a bookkeeping entry indicating the number of additional whole or fractional shares which would be payable as a

stock dividend on the shares previously credited to the Stock Subaccount. Any amounts which would represent cash dividends on Company common stock credited to a Participant's Stock Subaccount shall be converted to an entry representing the number of additional shares of Company common stock which could be purchased at fair market value with such dividends as of the date such dividends are credited to the Subaccount.

For purposes of this section, "fair market value" of a share of Company common stock shall mean the closing price of a single share of Company common stock as reported by the New York Stock Exchange on the applicable date or, if no sales were made on such date, on the next preceding date on which sales of the Company common stock were made. The "applicable date" for deferred amounts shall be the date on which the deferred Compensation would have been paid. The "applicable date" for transfers to or from the Stock Subaccount shall be the effective date of the Participant's conversion election under Section 3.02(i).

In the event of any changes in the outstanding shares of Company common stock by reason of stock dividends, stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the date of deferral, the Committee shall adjust the balance in the Participant's Stock Subaccount appropriately to reflect such change.

1.11 "FUND SUBACCOUNT" at any date shall mean with respect to any Participant the amount which a Participant elects to defer and have credited to his Fund Subaccount in accordance with subsection 3.02(h) of this Plan, plus any amounts the Participant elects to transfer to this Subaccount from the Cash Subaccount or the Stock Subaccount in accordance with the provisions of Section 3.02(i), reduced by any amounts which are transferred from this Subaccount to the Cash Subaccount or the Stock Subaccount. The Participant shall designate his preference for the investment of the funds deferred by him under this Subaccount. Such designation shall be limited to the selection of one or more investment funds designated on the Participant's Deferral Election forms for the period in question. The Company and the Trustee, if a trust is funded, may elect to invest trust assets in such designated investment funds, but shall not be required to do so. In any event, the Participant's Fund Subaccount shall be credited with the hypothetical earnings, gains, losses, and changes in the fair market value of such Fund Subaccount for the time period that a Participant has amounts credited to the Fund Subaccount as if the Company had followed such investment designation (such amount being referred to herein as the "hypothetical earnings"). A bookkeeping entry shall be made of the amounts deferred or transferred to the Fund Subaccount, along with the hypothetical earnings on such amounts for each investment fund selected by the Participant.

Deferrals credited to the Fund Subaccount under the Plan may be deemed to be invested in one or more investment funds as approved by the Committee, including but not limited to the following:

- (a) Equity Investment Fund - One or more diversified equity funds invested in equity securities or securities convertible into equity securities.
- (b) Fixed Income Investment Fund - One or more fixed income funds invested in, but not limited to, guaranteed income contracts, bonds, notes, debentures, asset-backed securities and fixed income derivatives.
- (c) Money Market Fund - One or more money market funds 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.
- (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.

Dividends, interest and other distributions which would otherwise be received in respect to each hypothetical investment under the Fund Subaccount shall be deemed to be reinvested in the respective investment fund.

2. ELIGIBILITY FOR PARTICIPATION

Participation in the Plan is limited to nonemployee directors of the Company and those management employees who have been selected for participation by the Committee.

3. DEFERRAL OF COMPENSATION

3.01 DEFERRAL PERIOD: During such period or periods as may, from time to time, be selected by the Committee (the "Deferral Period") each person eligible to participate in the Plan shall be given the opportunity to elect to defer a portion of his or her Compensation. The length of the initial Deferral Period shall be four (4) years, commencing on January 1, 1986.

3.02 DEFERRAL RULES:

- (a) There shall be no minimum amount a Participant is required to defer.

(b) The maximum amount an employee Participant may defer for each year of the Deferral Period shall be twenty percent (20%) of the Participant's annual base salary at the time of the deferral election and one hundred percent (100%) of the Participant's actual bonus payable under the Company's annual bonus plan; or, with the approval of the Board of Directors, up to the sum of twenty percent (20%) of the Participant's annual base salary and one hundred percent (100%) of the Participant's target bonus award. The amount of any bonus deferral may not exceed the gross amount of the bonus reduced by any tax required to be withheld from such amounts under Code Sections 3111(a) and (b) or any state or local statute. Subject to the above deferral limitations, the Board of Directors may also approve deferrals from any payment of cash compensation to the employee Participant. The maximum amount of Compensation deferred by a nonemployee director shall be determined by the director.

(c) The amount deferred by an employee Participant shall be deferred by means of reductions in the employee's annual base salary or bonus, whichever is applicable under the Participant's deferral election. Amounts deferred by a nonemployee director shall be made from the director's retainer fees, meeting fees and special assignment fees, and share awards made by the Company to the director's Stock Subaccount under Section 3.02(j).

(d) The decision by a Participant to defer a portion of Compensation (other than share awards to nonemployee directors under Section 3.02(j)) is an election for the full Deferral Period which must be made by the December 1 prior to the Deferral Period to which an election to defer Compensation relates; provided, however, that in the case of a Participant whose eligibility to participate in the Plan initially commences after January 1 of a year, a decision to defer a portion of Compensation earned after such a deferral election and during the remaining part of a Deferral Period must be made no later than thirty (30) days after the Participant's commencement of participation.

The decision by a Participant of the amount to be deferred under this Plan for each calendar year in the Deferral Period (other than share awards to nonemployee directors under Section 3.02(j)) is an annual election which must be made by December 1 of the calendar year prior to the year in which the amount is to be deferred.

Deferrals of share awards to nonemployee directors under Section 3.02(j) shall be automatic at the time such award is made and shall not require a deferral election other than the initial election described in Section 3.02(j) for Participants who were directors prior to January 1, 1996.

(e) Except as provided below and in Section 3.02(f), a Participant's election to defer Compensation shall be irrevocable for the Deferral Period and a Participant's election of the amount to be deferred shall be irrevocable for the calendar year in which the election is effective. Notwithstanding the prior sentence, the Committee may permit a Participant to waive the remainder of the deferral commitment upon a finding based upon uniform standards established by the Committee that the Participant has suffered a severe financial hardship.

For these purposes, a severe financial hardship includes a sudden and unexpected illness or accident of the Participant or a dependent (as defined under Section 152(a) of the Internal Revenue Code of 1986, as amended), loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, to the extent not reimbursed by insurance or otherwise, and to the extent the Participant does not have other funds reasonably available to alleviate the hardship.

(f) Any Participant receiving a supplemental retirement benefit under Section 4 shall forfeit his or her right to make further deferrals under the Plan.

(g) Notwithstanding the above or Section 3.02(f), any Participant, after approval of the Committee, may elect to complete the deferral of annual base salary as specified in the current Deferral Election from any "severance pay" which the employee is eligible to receive under the Employment Protection Plan for Salaried Employees, the Severance Pay Plan for Salaried Employees or any individual agreement following the date of termination.

(h) At the time a Participant makes an election for the amount to be deferred for a calendar year during the Deferral Period in accordance with this Section 3.02, such Participant may elect in writing that a specified percentage (stated in five percent (5%) increments) of the Compensation he is deferring pursuant to the Plan for such calendar year be credited to his Cash Subaccount, to his Stock Subaccount or to the individual investment funds elected by the Participant in his Fund Subaccount. Such percentage allocation may be changed with respect to future deferrals at any time. If the Participant's election fails to specify the percentage to be allocated to each Subaccount or allocates less than one hundred percent (100%) of the amounts to be deferred, the amounts deferred by the Participant for which no allocation election has been made for the calendar year shall be credited to the Participant's Cash Subaccount.

(i) At any time, a Participant may elect to convert all or a portion of amounts previously deferred under one Subaccount to any other Subaccount; provided, however, that amounts deferred or otherwise credited to the Stock Subaccount may not be converted to the Cash Subaccount or the Fund Subaccount if the Participant is a reporting person subject to the provisions of Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Act"). For purposes of this Plan, a person shall be deemed to be a reporting person subject to Section 16(a) of the Act for the period he is such a reporting person and six (6) months thereafter. The Participant's election shall be effective on the first day of the month following the receipt of such election by the Secretary of the Committee, provided that the Secretary is notified of such election by the twenty-fifth (25th) day of the month prior to the conversion date. Notice by telephone or facsimile shall be deemed to constitute notice to the Secretary of the conversion election, provided that a written form is submitted immediately subsequent to such notice. The number of shares to be credited to a Participant's Stock Subaccount, or the number of shares to be debited from a Participant's Stock Subaccount and the cash to be credited to the Participant's Cash Subaccount, or an investment fund in the Fund Subaccount, shall be based on the fair market value of Company common stock (as determined in Section 1.10 of the Plan) on the date that the conversion election is effective. The interest rates for amounts transferred to the Cash Subaccount shall be the rates in effect under Section 1.09(b)(ii) for deferrals made during the Deferral Period in which the conversion election is effective. Hypothetical earnings credited on amounts transferred to the Fund Subaccount shall be based on the actual investment performance of each applicable investment fund for the time period that a Participant has an account balance in such investment funds.

(j) Effective January 1, 1996, nonemployee directors of the Company who were members of the Board prior to January 1, 1996, were able to elect to discontinue their participation in the Directors' Retirement Income Plan ("Directors' Plan") and waive their right to any benefit accrued under the Directors' Plan. If a nonemployee director made this election, such director became eligible to receive an annual award equivalent to the value of two hundred (200) shares of Company common stock which shall be credited to his Stock Subaccount. The annual share award shall be made each January 1 up until the time a director attains twelve (12) years of Board service, including years of Board service prior to January 1, 1996. The first such award was made on January 1, 1996. Further, such director received, effective January 1, 1996, a share award grant to replace the value of the accrued Directors' Retirement Income Plan benefit the director elected to forfeit. This share award grant was credited to the director's Stock Subaccount and was the greater of:

(i) Two hundred (200) shares times the number of full years of Board service as of January 1, 1996, up to a maximum of twelve (12) years, or

(ii) The number of shares whose value (based on the fair market value of Armstrong common stock on January 1, 1996) equated to the present value of the benefits accrued under the Directors' Retirement Income Plan using a six and one half percent (6.5%) discount rate and assuming benefit payments commence on the first day of the month following the director's sixty-fifth (65th) birthday (January 1, 1996, if the director was older than sixty-five (65)).

Nonemployee directors who join the Board after January 1, 1996, shall be eligible to receive an annual award equivalent to two hundred (200) shares of Armstrong common stock which shall be credited to their Stock Subaccount unless the director elects to receive stock options in lieu of this award. The annual share award shall be made each January 1 until such time as a director attains twelve (12) years of Board service.

3.03 Manner of Electing Deferral and Payment of Benefits: A Participant shall elect to defer Compensation by giving written notice to the Company on forms provided for such purposes, which notice shall include:

(a) The amount and manner of Compensation to be deferred in each calendar year of a specified Deferral Period. An employee Participant shall make a separate election for amounts of annual base salary to be deferred and amounts of bonus awards to be deferred.

(b) A Designation of Beneficiary.

(c) The date of commencement of payment of deferred Compensation and interest thereon, subject to the limitations of Section 4.04.

(d) The designation of the Subaccount (Cash, Stock or Fund and, if applicable, the investment fund or funds under the Fund Subaccount) to which deferrals are to be credited for each calendar year of the specified Deferral Period.

The Designation of the Beneficiary shall continue to be effective until and unless a new election is filed in writing with the Committee. The designation of the date of commencement of benefits shall be irrevocable, except as provided in Section 4.04.

4. PAYMENT AND AMOUNT OF BENEFITS

4.01 A Participant who, in the case of a nonemployee director, ceases to be a director following one (1) year of service on the Board of Directors for any reason other than death or, in the case of an employee, who retires under any Company Pension Plan, shall be entitled to receive from the Company supplemental retirement benefits as specified in the Participation Agreement or in any amendment thereto or as otherwise agreed upon between the Company and the Participant pursuant to an early retirement opportunity. The normal payment period for nonemployee directors shall be one hundred twenty (120) months; for employees, one hundred eighty (180) months, provided however that alternative payment schedules may be established by the Management Development and Compensation Committee of the Board of Directors.

4.02 The supplemental retirement benefit for a Deferral Period will be paid, but in a lesser amount, if:

- (a) By the end of a Deferral Period the Compensation payable to a Participant has proved insufficient to accommodate full deferral;
- (b) Prior to the end of a Deferral Period, a nonemployee director ceases to be a director after completing one (1) year of service on the Board of Directors for any reason other than death;
- (c) A Participant ceases to be a Participant within a Deferral Period because his or her employment with the Company ceases or such Participant retires under any Company Pension Plan within that period;
- (d) A Participant discontinues deferrals due to severe financial hardship.

4.03 If a Participant dies after the commencement of supplemental retirement benefit payments but before receipt of the last payment, the remaining amounts shall be paid, on their respective due dates, to the Participant's beneficiary designated in the Beneficiary Designation Form provided for such purpose or, failing such designation, to the Participant's estate.

4.04 Payment of all benefits under this Plan shall commence in accordance with the election made by the Participant pursuant to Section 3.03, provided, however, that:

- (a) For a Participant who is a nonemployee director, payment may commence at any time following termination of service as a director, but in no event earlier than age sixty-five (65) for directors who begin Plan participation before January 1, 1996; provided that payments never will

commence later than the first day of the month following the Participant's seventieth (70th) birthday, regardless of whether service as a director has terminated at that time.

(b) For a Participant who is an employee, payment shall commence at any time subsequent to retirement; provided, however, that payment will commence in all events not later than the first day of the month following such Participant's sixty-fifth (65th) birthday regardless of whether the Participant has actually retired at that time.

The Company reserves the right to impose conditions, including with respect to payment commencement, in connection with early retirement opportunities or any other severance arrangements which otherwise enhance an employee Participant's retirement income.

Subject to the concurrence of the Committee, a Participant may change such election to commence the receipt of supplemental retirement benefits to an otherwise permissible date earlier than the date the Participant had elected previously for the commencement of such benefits, provided that such change occurs at least one (1) year prior to the calendar year in which such payments are to commence and provided further that no distribution from the Stock Subaccount shall be made to a Participant who is a reporting person subject to the provisions of Section 16 (a) of the Act prior to the Participant's disability or termination of employment or, in the case of a nonemployee director, termination of service.

4.05 Notwithstanding anything hereinbefore to the contrary, if an employee Participant resigns without the written approval of the Committee or if a Participant who is a nonemployee director terminates service on the Board of Directors prior to the completion of one (1) year of service, then in lieu of the supplemental retirement benefit there shall be paid to the Participant a lump sum, as soon as practical following termination, in an amount equal to the Participant's Termination Account Balance.

4.06 Notwithstanding Section 4.05, an employee Participant shall be entitled to the supplemental retirement benefit if such Participant is terminated, or terminates for good reason as set forth in the Employment Protection Plan for Salaried Employees or an individual agreement, within two (2) years following a "Change in Control." In the event of such termination or termination for good reason, or in the event an employee retires pursuant to an early retirement opportunity or any other severance arrangement in which the Participant agrees to commence payment of the supplemental retirement benefit following the Participant's sixty-fifth (65th) birthday and a "Change in Control" precedes commencement of such payments, the Participant shall have the option to be paid a lump sum amount equal to his Supplemental Retirement Account

Balance, less a penalty of six percent (6%) of such amount. If, however, the termination shall be in connection with a conviction or admission of dishonesty or fraud, then such Participant shall only be entitled to the benefit described in Section 4.05.

4.07 Notwithstanding any other provision of the Plan, a Participant at any time shall be entitled to receive, upon written request to the Committee, a lump-sum distribution of the entire amount owed to the Participant under the Plan subject to penalties determined by the Participant's status in the Plan as set forth below; provided, however, that a Participant who is a reporting person subject to the provisions of Section 16(a) of the Act shall not be entitled to receive a distribution of the amount owed to the Participant under the Stock Subaccount prior to the Participant's disability or termination of employment or, in the case of a nonemployee director, termination of service.

(a) For a Participant who is a current employee but ineligible to retire under the Retirement Income Plan, or for a Participant who is a nonemployee director with less than one (1) year of service, the lump-sum distribution will be equal to ninety percent (90%) of the Participant's Termination Account Balance; provided, however, that if a Participant is a reporting person subject to the provisions of Section 16(a) of the Act, the distribution shall be limited to ninety percent (90%) of the Participant's Termination Account Balance credited to the Cash Subaccount and the Fund Subaccount thereunder.

(b) For a Participant who is a current employee eligible to retire under the Retirement Income Plan, the lump-sum distribution will be equal to the lesser of:

(i) Ninety percent (90%) of the Participant's Supplemental Retirement Account Balance; or

(ii) the Participant's Termination Account Balance; provided, however, that if a Participant is a reporting person subject to the provisions of Section 16(a) of the Act, the distribution shall be limited to the lesser of:

(A) Ninety percent (90%) of the Participant's Supplemental Retirement Account Balance credited to the Cash Subaccount and the Fund Subaccount thereunder; or

(B) The Participant's Termination Account Balance credited to the Cash Subaccount and the Fund Subaccount thereunder.

(c) For a Participant who is a current nonemployee director with at least one (1) year of service, the lump-sum distribution will be equal to ninety percent (90%) of the Participant's Supplemental Retirement Account Balance; provided, however, that if a Participant is a reporting person subject to the provisions of Section 16(a) of the Act, the distribution will be equal to ninety percent (90%) of the Participant's Supplemental Retirement Account Balance credited to the Cash Subaccount and the Fund Subaccount thereunder.

(d) For a Participant who is an employee or a nonemployee director who has terminated service with the Company and has either commenced installment payments or is entitled to such payments in the future, the lump-sum distribution will be equal to ninety percent (90%) of the Participant's Supplemental Retirement Account Balance.

The remaining balance of the portion of such Participant's Subaccount(s) from which a payment has been made pursuant to this Section 4.07 (i.e., the Cash

and Fund Subaccounts or the Cash, Fund and Stock Subaccounts) shall be forfeited by the Participant and the Participant will not be eligible to recommence deferrals until the first of the year that follows a one (1) year period commencing on the date of withdrawal, and then only if otherwise eligible under the terms of the Plan. The amount payable under this section shall be paid within forty-five (45) days following receipt of written notice by the Committee.

5. SURVIVOR BENEFIT

If a Participant dies prior to commencement of any payments under this Plan, including payment of the supplemental retirement benefit, no supplemental retirement benefit shall be payable, but in lieu thereof the survivor benefit specified in the Participation Agreement shall be paid to the Participant's designated beneficiary or, failing such designation, to the Participant's estate.

6. WITHDRAWAL OF DEFERRED AMOUNTS

6.01 Other than pursuant to Section 4.04, 4.07 or termination, a Participant may not receive any amount deferred under this Plan, unless the Committee determines that, based upon uniform, established standards, the Participant has suffered a severe financial hardship. For these purposes, a severe financial hardship shall have the same meaning as under Section 3.02(e). Notwithstanding the foregoing, amounts deferred under the Stock Subaccount shall not be distributable due to such a severe financial hardship if the Participant is a reporting person subject to the provisions of Section 16(a) of the Act.

6.02 Upon such determination, the Participant will receive an amount necessary to satisfy the financial hardship but in no event more than the total of amounts deferred plus earnings credited to the Participant's account at the date of withdrawal.

6.03 A Participant who has made a withdrawal will not be eligible to recommence deferrals for a new Deferral Period under the Plan until the first of the year that follows a one (1) year period commencing on the date of withdrawal.

7. AMOUNTS OF SUPPLEMENTAL RETIREMENT AND SURVIVOR BENEFITS

The amount of the supplemental retirement and survivor benefits shall be prescribed in accordance with a general plan applicable to all Participants which has been established by the Committee and approved by the Management Development and Compensation Committee of the Board of Directors.

8. FINANCING

The Company may finance obligations under this Plan by the purchase of one (1) or more policies of life insurance upon the lives of Participants, with the Company as owner of and beneficiary under such policies. No Participant shall have any right or interest in any such policy or the proceeds thereof or in any other specific fund or asset of the Company as a result of the Plan. The rights of Participants to benefit payments hereunder shall be no greater than those of an unsecured creditor. Each Participant shall cooperate fully in the application for, and in the maintenance of, any such policy or policies of insurance upon the Participant's life.

9. AMENDMENT OR TERMINATION

9.01 The Board of Directors of the Company may, by written resolution, terminate or amend this Plan at any time. However, the Committee may amend this Plan, retroactively if necessary, by means of a resolution, to bring this Plan into conformity with any law or governmental regulation relating to plans or trusts of this character. The rights of any Participant under a Participation Agreement shall not be impaired by such termination or amendment except as provided under Section 9.02.

9.02 If the reason for termination or amendment is a change in the tax laws adversely affecting the financing of the supplemental retirement benefit or survivor benefit under the Plan, then the Board of Directors of the Company may terminate all (but not less than all) of the then existing Participation Agreements except any under which benefits are then being paid.

(a) Each Participant with a terminated Agreement will be paid in lieu of any and all other benefits hereunder an amount equal to the Participant's Supplemental Retirement Account balance as of the date of termination.

(b) Such amount resulting from termination may be paid in a lump sum within forty-five (45) days of the date of such termination or in such other manner and at such other time or times as the Committee may reasonably determine.

10. ADMINISTRATION

10.01 Responsibility for establishing the requirements for participation and for administration of the Plan shall be vested in the Committee, which shall have the full and exclusive discretionary authority to interpret the Plan or the Participation Agreements, to determine all benefits and to resolve all questions arising from the administration, interpretation, and application of their 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. The Committee may delegate administrative tasks as necessary to persons who are not Committee members. All decisions of the Committee shall be conclusive and binding upon all affected persons.

10.02 The expenses of administering the Plan shall be borne by the Company. No member of the Committee shall receive any remuneration for service in such capacity. However, expenses of the Committee or its members paid or incurred in connection with administering the Plan shall be reimbursed by the Company.

10.03 The Company shall indemnify and hold harmless the members of the Committee against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct.

11. CLAIMS PROCEDURE

11.01 CLAIM. 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.

11.02 DENIAL OF CLAIM. If the claim or request is denied, the written notice of denial shall state:

- (a) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.
- (b) A description of any additional material or information required and an explanation of why it is necessary.
- (c) An explanation of the Plan's claim review procedure.

11.03 REVIEW OF CLAIM. 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.

11.04 FINAL DECISION. 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 shall bind all parties concerned.

12. MISCELLANEOUS

12.01 No amount payable under the Plan or any Participation Agreement shall be subject to assignment, transfer, sale, pledge, encumbrance, alienation or charge by a Participant or the Beneficiary of a Participant except as may be required by law.

12.02 Neither the Plan nor any action taken hereunder shall be construed as giving any employee who is a Participant or who becomes a Participant any right to be retained in the employ of the Company.

12.03 "Retirement" under the Company Pension Plan shall mean retirement under the Retirement Income Plan. However, in the event of any retirement arising by reason of a "Change in Control" and which, as set forth in the Retirement Income Plan, results in an enhancement of an employee Participant's retirement income then:

- (a) "Retirement" for purposes of this Plan shall mean the Participant's sixty-fifth (65th) birthday; or

(b) A Participant may elect to treat retirement as "retirement" under the Plan subject to the penalties imposed in an early retirement opportunity under Sections 4.04 and 4.06 of this Plan.

12.04 The Management Development and Compensation Committee of the Board of Directors may at any time direct the Company to establish a Trust to secure part or all of the obligations of the Company with respect to payments and benefits to be paid to Participants under this Plan. Funding of the Trust shall be at the direction of the Board of Directors and shall be irrevocable in nature. Notwithstanding the foregoing, the assets of such Trust shall be subject to the claim of the general creditors of the Company in the event of

bankruptcy or insolvency of the Company.

SEVERANCE PAY PLAN FOR SALARIED EMPLOYEES

OF

ARMSTRONG WORLD INDUSTRIES, INC.

The Severance Pay Plan for Salaried Employees of Armstrong World Industries, Inc. (the "Plan") has been authorized by the Executive Committee of the Board of Directors of Armstrong World Industries, Inc. to be effective on and after May 1, 1989. This Plan supersedes, with the exception of the Armstrong Employment Protection Plan, all prior separation pay policies, practices, and plans of the Company whether in writing or otherwise.

1. DEFINITIONS

1.01 "Company" shall mean Armstrong World Industries, Inc., and any subsidiary corporation of Armstrong World Industries, Inc. that shall have adopted this Plan.

1.02 "Committee" shall mean the Severance Pay Committee where membership shall include at least three salaried employees of the Company who are appointed by the President to administer the Plan.

1.03 "Date of Termination" shall mean the date on which an eligible Participant terminates service pursuant to Subsection 2.02 hereof.

1.04 "Disability" shall mean such incapacity due to physical or mental illness or injury as causes an Employee to be absent from employment duties for 180 consecutive calendar days.

1.05 "Employee" shall mean an individual who is either a Regular Full-Time Salaried Employee; Regular Part-Time Salaried Employee; or a Job Sharing Employee.

1.06 "Job Sharing Employee" shall mean an individual who is employed by the Company on a salaried basis as an employee on a continuing basis and is expected to work less than the normal number of work hours while sharing responsibility for a full-time salaried job with another Job Sharing Employee.

1.07 "Earnings" shall mean the greater of either (1) the Employee's unadjusted current monthly base salary multiplied by twelve (12); or (2) the prior calendar year's earnings as defined in Article I, Section 11 of the Retirement Income Plan for Employees of Armstrong World Industries, except for employees eligible for the Retirement Benefit Equity Plan of Armstrong World Industries, Inc., for whom Earnings shall have the meaning as set forth in Article 1.04 of that Plan. Notwithstanding the foregoing, any Employee whose last day of employment is the last day of a calendar year, the Earnings shall mean the calendar year's earnings (as defined above) paid through the last day of the Employee's employment.

1.08 "Regular Full-Time Employee" shall mean any individual who is employed by the Company on a salaried basis as an employee on a continuing basis and is expected to work the normal number of work hours for the location as determined by the Company.

1.09 "Years of Service" shall mean the eligible Participant's period of service with the Company, including partial years. A Participant who is a key executive as designated by the Board of Directors, or its delegate, will receive credit for years of service for employment prior to such Participant's Company employment.

1.10 "Regular Part-Time Employee" shall mean any individual who is employed by the Company on a salaried basis as an employee on a continuing basis and is expected to work for the Company less than the normal number of work hours.

2. PARTICIPATION AND ELIGIBILITY

2.01 Participants. The participants in the Plan are all Regular Full-Time or Regular Part-Time Employees of the Company. Any employee who was previously employed by the Company and is rehired shall be entitled to credit for any prior period(s) of employment with the Company for the purpose of calculating Years of Service referenced in Section 1.09 and Section 3.01, in the event that the Employee's reemployment is terminated under conditions which would otherwise entitle the Employee to benefits under the Plan. Any Employee who was previously employed by the Company and who terminated employment and received benefits under this Plan and is subsequently reemployed by the Company shall not be entitled to receive credit for any prior period of employment for which benefits have been paid under this Plan.

2.02 Eligibility.

(a) Except as otherwise provided in this Section 2.02 or Section 3 of this Plan, any Participant whose employment with the Company is terminated by the Company shall be eligible for benefits under the Appendix, Schedule 2, unless the termination is:

- (1) because of the death or Disability of the Employee;
- (2) by the Company for Cause (as defined in Subsection 2.03);
- (3) by the Employee;
- (4) by the Company in connection with the sale or transfer of a plant, unit, division, or subsidiary of the Company to a successor (whether by reason of a sale of stock or assets), by means of which the Employee continues employment with the successor organization or is offered employment with the successor organization in essentially the same or a similar position, with comparable compensation, within the same geographical area, even if not at the same plant or office;
- (5) by the Company and the employee was offered essentially the same or a similar position, with comparable compensation, within the

same geographical area, even if not at the same plant, office or location.

(b) Any Participant who is involuntarily terminated, as determined by the Committee, due to a reduction in the workforce of the office or manufacturing location at which the Participant is employed, will be eligible for severance benefits set forth in the Appendix, Schedule 3 in lieu of benefits under Schedule 2, provided: (1) the Participant is notified in writing before January 1, 1999, that (s)he will be terminated, and his or her employment ends before January 1, 2000; and (2) the Participant is not otherwise excluded from receiving benefits under Paragraph (a) above. This benefit is provided out of concern for employees who lose their jobs during this time of significant technological change and restructuring of the work force.

(c) Any Participant who is involuntarily terminated, as determined by the Committee, due to a finding of the Executive Committee of the Board of Directors that the requirements of the Participant's position or position status have been fundamentally altered, including changes due to a lack of promotability, will be eligible for severance benefits set forth in the Appendix, Schedule 3 in lieu of benefits under Schedule 2, provided: (1) the Participant is notified in writing before January 1, 1999, that (s)he will be terminated, and his or her employment ends before January 1, 2000; and (2) the Participant is not otherwise excluded from receiving benefits under Paragraph (a) above. This benefit is provided out of concern for employees who lose their jobs because the requirements of their positions or their position status have been fundamentally altered due to economic conditions, or present or anticipated structural, procedural or technological change.

(d) Any Participant who is terminated by the Company for performance- related reasons after January 1, 1999, will be eligible for severance benefits as set forth in the Appendix, Schedule 1, provided that the Participant is not otherwise excluded from receiving benefits under Paragraph (a) or Section 3 of this Plan. This section is not intended to otherwise make benefits available to employees terminated by the Company for Cause (as defined in Subsection 2.03).

2.03 Termination for Cause. Termination of a Participant's employment for Cause shall be deemed to have occurred if the Participant's employment is terminated by the Company due to the Participant's deliberately engaging in gross misconduct which is demonstrably and materially

injurious to the Company, monetarily or otherwise, including but not limited to fraud or embezzlement by the Employee.

For purposes of this Section 2.03, no act, or failure to act, on the part of the Participant shall be considered "deliberate" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that such action or omission was in the best interests of the Company.

2.04 Effect of Participant's Eligibility to Retire. No eligible Participant will be denied severance benefits solely because such Participant is also eligible for retirement benefits under another plan of the Company.

2.05 Reservation of Rights. The Company reserves the right for the Committee to depart from the Schedules listed in the Appendix where the eligible Participant's attendance, job performance, or other job-related conduct appears to the Company to justify an upward or downward adjustment in benefits. However, in no event shall the maximum benefit payable under the Plan exceed twice such Participant's annual compensation, as defined in 29 C.F.R. Section 2510.3-2(b)(2); nor shall the maximum payment period exceed 24 months after the termination of the Participant's employment.

2.06 Classification of Employees to Whom the Plan Does Not Relate. The severance policies and procedures contained in this Plan do not apply to employees classified by the Company as temporary or hourly paid employees.

3. BENEFITS

3.01 Amount and Schedule of Benefit Payments. The Company will provide severance pay and benefits, as described in paragraphs (a) through (e) below, to a Participant eligible for benefits under this Plan.

(a) Accrued Salary. Any accrued salary not yet paid to the Participant for services performed prior to the Date of Termination shall be paid in compliance with state law, but not later than 20 calendar days following the Date of Termination.

(b) Vacation Pay. The Participant will be reimbursed for vacation pay to the Date of Termination in accordance with Company policy.

(c) Severance Pay. Effective January 1, 1998, except for Employees notified in writing prior to that date, whose severance pay shall be calculated in the manner in effect prior to that date, the Participant shall be paid a severance payment related to the Participant's Years of Service and Earnings. The amount of severance payment shall be calculated using the relevant Schedule of the Appendix as

determined under Sections 2.02 and 2.05. Weeks of Severance for partial years of service will be calculated proportionately. A week's pay shall be the Earnings divided by 52.

(d) Mode of Payment. After the eligible Participant has satisfied all conditions precedent to receive severance benefits, such benefits will be paid to the Participant by salary continuation until the severance allowance is exhausted, unless the Plan Administrator approves a lump sum payment or some combination of periodic or lump sum payments.

(e) Insurance Benefits. An eligible Participant's insurance benefits shall be determined in accordance with the applicable insurance benefit plan.

3.02 Other Circumstances That Can Result in Disqualification, Forfeiture.

Reduction or Suspension of Severance Benefits.

(a) Elective Deductions. An eligible Participant may elect to have insurance premiums for Company-sponsored insurance plans deducted from severance payments.

(b) Legally Required Deductions. Appropriate federal, state and local taxes will be withheld from all severance payments.

(c) Effect of Rehire or Reinstatement (Or An Offer of Same). If an eligible Participant is granted severance benefits and the Participant is either rehired or reinstated as a regular salaried employee on a regular full-time basis by the Company (or is offered rehire or reinstatement on a full-time basis by the Company) before the end of the pay continuation period, then the Participant forfeits any unpaid severance payments for the periods following rehire or reinstatement (or the date of offer of same).

(d) Effect of Sale of Portion of Business Assets. Any Participant whose employment with the Company is terminated during or in anticipation of a sale of some, but not all, assets of the Company is not entitled to severance benefits if the purchaser of such assets offers to employ the Participant for substantially the same or greater compensation as the Participant was receiving immediately prior to the Date of Termination, and such offer of employment is made by the purchaser within no later than eight (8) weeks after the termination of the Participant's employment by the Company.

(e) Effect of Participant Misconduct. Any Participant who accepts severance benefits is obligated to reimburse the Company for the full amount of such payments if the Participant subsequently discloses any of the Company's trade secrets, violates any

written covenants between the Participant and the Company, or otherwise engages in conduct that may adversely affect the Company's reputation or business relations. Likewise, a Participant who engages in such conduct shall forfeit any right to any unpaid severance payments.

(f) Effect of Adverse Economic Conditions. The Company may permanently suspend benefits under severance allowances in pay status (1) in the event of the Company's insolvency, liquidation, or bankruptcy reorganization or (2) in the event the cost of providing such benefits would lead to the Company's insolvency, liquidation, or bankruptcy reorganization.

(g) Effect of Other Severance Pay Laws. Any severance benefits provided by the Company under this Plan shall be reduced dollar-for-dollar by any severance, separation, or any other termination pay benefit that the Company or any of its subsidiaries is required to pay to an eligible Participant under any federal or state law.

(h) Effect of Catastrophes and Other Extraordinary Events. Severance payments will not be made if the Participant's employment is terminated because of fire, flood, explosion, bombing, earthquake or other disaster causing damage to the location facilities or when strikes, work stoppages or civil disturbances prevent continued operations.

(i) Effect of Temporary Layoffs. Severance payments will not be made if a layoff is deemed to be temporary and of limited duration, e.g., a need for inventory reduction in a production facility or activities closely aligned with it. During such periods, Participants are encouraged to take any available vacation to which they may be entitled.

(j) Non-Compete Agreement. The Participant who has been involuntarily terminated may be required to execute a Non-Compete Agreement when the Committee determines that such an Agreement is required to protect the Company. Any Participant who is asked to execute a Non-Compete Agreement will receive severance in the amount of One Thousand Dollars (\$1,000) as consideration for the Non-Compete Agreement. The Non-Compete Agreement must be signed and returned to the Company within 60 days after the Participant's termination date in order for the Participant to receive benefits under this Plan.

3.03 Condition Precedent to Severance Payments. For the Employee who becomes eligible for severance payments under Section 2.02 of the Plan because the Company eliminates the Participant's position or because the Participant's position has been fundamentally altered, severance payments will not be paid under any circumstances until the eligible Participant

executes a Company approved release of the Participant's then existing rights and claims against the Company. The release must be signed and returned to the Company within 60 days after the Participant's Date of Termination in order for the Participant to receive benefits under this Plan. For the Employee who becomes eligible for benefits under the Plan for any other reason, the Committee may but is not required to obtain the release mentioned above.

3.04 Impact of Armstrong Employment Protection Plan. Notwithstanding anything to the contrary in this Plan, in the event the Participant's Date of Termination coincides with or follows a change in control, as defined in the Armstrong Employment Protection Plan, no benefits will be paid under this Plan. This Plan applies only in the case of an eligible Participant whose employment has been terminated by the Company prior to the change in control and who is otherwise eligible to receive a benefit hereunder.

4. AMENDMENT OR TERMINATION.

The Executive Committee of the Board of Directors of the Company may by written resolution terminate or amend this Plan at any time, provided that no amendment or termination of the Plan may adversely affect the amount, type, or timing of payment of benefits accrued and due and payable hereunder with respect to Participants whose employment has been terminated, except as provided in Section 3.02 of this Plan. Notwithstanding the foregoing, the Executive Committee of the Board of Directors has delegated the authority to amend the Plan to the Retirement Committee; provided, however, that the Executive Committee reserves the right to rescind or modify such delegation at any time and for any reason and retains the right to amend the Plan itself at any time.

5. ADMINISTRATION

5.01 Responsibility for administration of the Plan shall be vested in the Committee, which shall have the sole and exclusive discretionary authority to determine conclusively all questions arising in connection with the administration, interpretation and application of the Plan, either by general rules or by particular decisions, including (but not limited to) questions regarding eligibility for benefits hereunder and the amount, form and timing of payments thereof, and any other matter (including any question of fact) raised by a claimant or identified by the Committee. Any such determination by the Committee shall be binding and conclusive upon all persons. The Committee may correct any defect, supply any information, or reconcile any inconsistency in such manner and to such extent as shall be deemed necessary or advisable by it to carry out the purpose of this Plan. The Committee may delegate administrative tasks as necessary to persons who are not Committee members.

5.02 All expenses of administering the Plan shall be borne by the Company. No member of the Committee shall receive any remuneration for service in such capacity. However,

expenses of the Committee or its members paid or incurred in connection with administering the Plan shall be reimbursed by the Company.

5.03 The Company may purchase insurance to cover potential liability of the Plan's fiduciaries. The Plan may purchase insurance for its fiduciaries and/or for itself to cover liability and losses occurring by reason of the act or omission of a fiduciary.

5.04 The Plan is unfunded and all severance payments under the Plan shall be made from the general assets of the Company.

6. SUCCESSORS; BINDING AGREEMENT

6.01 In the event of a sale or transfer of a plant, unit, division, or subsidiary of the Company to a successor (whether by reason of a sale of stock or assets) by means of which any Employee continues employment with the successor organization or is offered employment with the successor organization, the Company shall not be obliged to negotiate with the successor organization over whether to establish any severance pay plan, policy, or practice with respect to such Employees or whether to cover such Employees under any existing severance pay plan, policy, or practice already maintained by the successor organization.

6.02 All rights of an eligible Employee hereunder shall inure to the benefit of and be enforceable by such Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If an eligible Employee should die after having satisfied all conditions precedent to the receipt of such benefits, but prior to receiving all amounts of benefits payable hereunder, all such amounts, unless otherwise provided herein, shall be paid in a lump sum in accordance with the terms of this Plan to the Employee's devisee, legatee, or other designee or, if there be no such designee, to the Employee's estate.

7. ARBITRATION.

Any dispute or controversy arising under or in connection with this Plan shall be settled exclusively by arbitration in Lancaster County, Pennsylvania, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

8. MISCELLANEOUS

8.01 No amount payable under the Plan shall be subject to assignment, transfer, sale, pledge, encumbrance, alienation or change by an eligible Employee or the beneficiary of such Employee except as may be required by law.

8.02 Neither the Plan nor any action taken hereunder shall be construed either (1) as giving any individual employed by the Company any right to receive severance benefits of a type or in any amount similar to the benefits described in Section 3.01 above, unless the individual qualifies for benefits under this Plan; or (2) as giving any Employee any right to be retained in the employ of the Company.

8.03 Payments of benefits under this Plan shall be made in lieu of payments of any severance benefits of a type similar to the benefits described in Section 3.01 above that may be offered under any written or unwritten severance pay policy maintained by the Company and there shall be no duplication of benefits previously paid under any such policy.

8.04 This Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania except to the extent preempted by the Employee Retirement Income Security Act or any other federal law.

8.05 The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall remain in full force and effect.

8.06 Any notice or other communication provided for in this Plan shall be in writing and, unless otherwise expressly stated herein, shall be deemed to have been duly given if mailed by United States registered mail, return receipt requested, postage prepaid addressed in the case of an Employee to the Employee's office at the Company with a copy to the Employee's residence and in the case of the Company to its principal executive offices, attention of the Severance Plan Administrator.

As Amended Through 7/13/98

The APPENDIX
Severance Pay Schedules
Effective July 13, 1998

Years of Service -----	Schedule 1 -----	Number of Weeks Schedule 2 -----	Schedule 3 -----
1 or less	2.0	2.0	2.0
2	2.0	2.0	2.0
3	2.0	3.0	3.0
4	2.0	4.0	4.0
5	2.5	5.0	5.0
6	3.0	6.0	7.0
7	3.5	7.0	9.0
8	4.0	8.0	10.0
9	4.5	9.0	12.0
10	5.0	10.0	14.0
11	5.5	11.0	15.5
12	6.0	12.0	17.5
13	6.5	13.0	19.5
14	7.0	14.0	21.5
15	8.0	16.0	23.5
16	9.0	18.0	25.5
17	10.0	20.0	27.5
18	11.0	22.0	30.0
19	12.0	24.0	32.0
20	13.0	26.0	34.5
21	14.0	28.0	36.5
22	15.0	30.0	39.0
23	16.0	32.0	41.5
24	17.0	34.0	44.0
25	18.0	36.0	46.5
26	19.0	38.0	49.0
27	20.0	40.0	51.5
28	22.0	44.0	54.5
29	24.0	48.0	57.0
30	26.0	52.0	59.5
31	26.0	52.0	62.5
32	26.0	52.0	65.0
33	26.0	52.0	68.0
34	26.0	52.0	71.0
35	26.0	52.0	74.0
36	26.0	52.0	76.5
37 & over	26.0	52.0	78.0

1993 LONG-TERM STOCK INCENTIVE PLAN

ARTICLE I - GENERAL PROVISIONS

1.1 PURPOSES

The purposes of the 1993 Long-Term Stock Incentive Plan (the "Plan") are to advance the long-term success of Armstrong World Industries, Inc. (the "Company"), and to increase shareholder value by providing the incentive of long-term stock-based rewards to officers, directors and key employees. The Plan is designed to: (1) encourage stock ownership by Participants to further align their interest in increasing the value of the Company; and (2) to assist in the attraction and retention of key employees vital to the Company's success.

1.2 DEFINITIONS

For the purpose of the Plan, the following terms shall have the meanings indicated:

- (a) "Board" means the Board of Directors of the Company.
- (b) "Change in Control" means a situation where: (1) any person acquires beneficial ownership of 28 percent or more 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 Board, or (2) a business combination with an interested shareholder occurs which has not been approved by a majority of disinterested directors. The terms person, beneficial ownership, voting stock, disinterested director, business combination, and interested shareholder are defined in Article 7 of the Company's Articles of Incorporation.
- (c) "Code" means the Internal Revenue Code of 1986, as amended, including any successor law thereto.
- (d) "Company" means Armstrong World Industries, Inc. and solely for purposes of determining (i) eligibility for participation in the Plan; (ii) employment; and (iii) the establishment of performance goals, shall include any corporation, partnership, or other organization of which Armstrong owns or controls, directly or indirectly, not less than 50 percent of the total combined voting power of all classes of stock or other equity interests. For purposes of this Plan, the terms "Armstrong" and "Company" shall include any successor to Armstrong World Industries, Inc.
- (e) "Committee" means the Management Development and Compensation Committee of the Board or the full Board, as the case may be.
- (f) "Common Stock" means the Common Stock of the Company, par value \$1.00 per share.
- (g) "Disability" means total and permanent disability within the meaning of Section 22 (e) (3) of the Code.
- (h) "Dividend Equivalent" means an amount equal to the cash dividend paid on one share of Common Stock for each Performance Restricted Share granted during the Performance Period. All Dividend Equivalents will be reinvested in Performance Restricted Shares at a purchase price equal to the Fair Market Value on the dividend date.
- (i) "Employee or employment" means with respect to any Non-Employee Director (as defined herein), service on the Board.
- (j) "Fair Market Value" means the closing price of the Common Stock as reported on the New York Stock Exchange Composite Transactions reporting system on the applicable date or, if no sales were made on such date, on the next preceding date on which sales of the Common Stock were made.
- (k) "Incentive Stock Option" means a Stock Option which meets the definition under Section 422 of the Code.
- (l) "Nonstatutory Stock Option" means a Stock Option which does not meet the definition of an Incentive Stock Option.

- (m) "Participant" means any officer, director or key employee who has met the eligibility requirements set forth in Section 1.6 hereof and to whom a grant has been made and is outstanding under the Plan.
- (n) "Performance Period" means, in relation to Performance Restricted Shares, any period for which performance goals have been established.
- (o) "Performance Restricted Share" means a right granted to a Participant pursuant to Article IV.
- (p) "Restricted Stock Award" means an award of Common Stock granted to a Participant pursuant to Article V.
- (q) "Restriction Period" means (1) in relation to Performance Restricted Shares, the period of time, beginning at the end of the Performance Period, during which the Participant shall not be permitted to sell, assign, transfer, pledge, or otherwise dispose of such shares, and (2) in relation to Restricted Stock Awards, the period of time during which such shares are subject to forfeiture pursuant to the Plan.
- (r) "Retirement" means termination from employment with the Company after the Participant has attained age 55 and has completed five years of service with the Company or termination of employment under circumstances which the Committee deems equivalent to retirement.
- (s) "Stock Appreciation Right" means a right granted to a Participant pursuant to Article III to surrender to the Company all or any portion of the related Stock Option and to receive in shares of Common Stock an amount equal to the excess of the Fair Market Value over the option price on the date of such exercise.
- (t) "Stock Option" means a right, granted to a Participant pursuant to Article II, to purchase, before a specified date and at a specified price, a specified number of shares of Common Stock.
- (u) "Vesting Period" means the period of time, beginning at the end of the Performance Period, during which Performance Restricted Shares are subject to forfeiture pursuant to the Plan.

1.3 ADMINISTRATION

The Plan shall be administered by the Management Development and Compensation Committee of the Board which shall consist of not less than three directors of the Company; provided, however, that the Board shall administer the Plan as it relates to the terms, conditions and grant of awards to Non-Employee Directors. For purposes of the Plan, the term Committee shall refer to the Management Development and Compensation Committee of the Board or the full Board, as the case may be. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee, shall be deemed the acts of the Committee. Subject to the provisions of the Plan and to directions by the Board, the Committee is authorized to interpret the Plan, to adopt administrative rules, regulations, and guidelines for the Plan, and to impose such terms, conditions, and restrictions on grants as it deems appropriate. The Committee, in its discretion, may allow certain optionees holding unexercised Incentive Stock Options to convert such options to Nonstatutory Stock Options. The Committee may, with respect to Participants who are not subject to Section 16 (b) of the Exchange Act, delegate such of its powers and authority under the Plan as it deems appropriate to designated officers or employees of the Company.

1.4 TYPES OF GRANTS UNDER THE PLAN

Grants under the Plan may be in the form of any one or more of the following:

- (a) Nonstatutory Stock Options
- (b) Incentive Stock Options
- (c) Stock Appreciation Rights
- (d) Performance Restricted Shares
- (e) Restricted Stock Awards

1.5 SHARES SUBJECT TO THE PLAN AND INDIVIDUAL AWARD LIMITATION

(a) A maximum of 4,300,000 shares of Common Stock may be issued under the Plan provided, however, that no more than 430,000 shares may be granted in the form of Restricted Stock Awards. The total number of shares authorized is subject to adjustment as provided in Section 7.1 hereof. Shares of Common Stock issued under the Plan may be treasury shares or authorized but unissued shares. No fractional shares shall be issued under the Plan.

(b) If any Stock Option granted under the Plan expires or terminates, the underlying shares of Common Stock may again be made available for the purposes of the Plan. Any shares of Common Stock that have been granted as Restricted Stock Awards, or that have been reserved for distribution in payment for Performance Restricted Shares but are later forfeited or for any other reason are not payable under the Plan, may again be made available for the purposes of the Plan.

(c) The aggregate maximum number of shares of Common Stock that may be granted to any Participant in the form of Stock Options, Stock Appreciation Rights, Performance Restricted Shares and Restricted Stock Awards in any one calendar year is 300,000.

1.6 ELIGIBILITY AND PARTICIPATION

Participation in the Plan shall be limited to officers, who may also be members of the Board, other key employees of the Company and directors who are not employees of the Company ("Non-Employee Directors").

ARTICLE II - STOCK OPTIONS

2.1 GRANT OF STOCK OPTIONS

The Committee may from time to time, subject to the provisions of the Plan, grant Stock Options to such Participants. The Committee shall determine the number of shares of Common Stock to be covered by each Stock Option and shall have the authority to grant Incentive Stock Options, Nonstatutory Stock Options, or a combination thereof. Furthermore, the Committee may grant a Stock Appreciation Right in connection with a Stock Option, as provided in Article III.

2.2 INCENTIVE STOCK OPTION EXERCISE LIMITATIONS

The aggregate Fair Market Value (determined at the time an Incentive Stock Option is granted) of the shares of Common Stock with respect to which an Incentive Stock Option is exercisable for the first time by a Participant during any calendar year (under all plans of the Company) shall not exceed \$100,000 or such other limit as may be established from time to time under the Code.

2.3 OPTION DOCUMENTATION

Each Stock Option shall be evidenced by a written stock option agreement between the Company and the Participant to whom such option is granted, specifying the number of shares of Common Stock that may be acquired by its exercise and containing such terms and conditions consistent with the Plan as the Committee shall determine.

2.4 EXERCISE PRICE

The price at which each share covered by a Stock Option may be acquired shall be determined by the Committee at the time the option is granted and shall not be less than the Fair Market Value of the underlying shares of Common Stock on the day the Stock Option is granted. The exercise price will be subject to adjustment in accordance with the provisions of Section 7.1 of the Plan.

2.5 EXERCISE OF STOCK OPTIONS

(a) **Exercisability.** Stock Options shall become exercisable at such times and upon the satisfaction of such conditions and in such installments as the Committee may provide at the time of grant.

(b) **Option Period.** For each Stock Option granted, the Committee shall specify the period during which the Stock Option may be exercised, provided that no Stock Option shall be exercisable after the expiration of ten years from the date the option was granted.

(c) **Exercise in the Event of Termination of Employment.**

(i) **Death:** Unless otherwise provided by the Committee at the time of grant, in the event of death of the Participant, the option must be exercised by the Participant's estate or beneficiaries prior to its expiration. Each option may be exercised as to all or any portion thereof regardless of whether or not fully exercisable under the terms of the grant.

(ii) Disability: Unless otherwise provided by the Committee at the time of grant, in the event of the Disability of the Participant, the option must be exercised prior to its expiration. An unexercised Incentive Stock Option will cease to be treated as such and will become a Nonstatutory Stock Option twelve months following the date of termination due to Disability. Each option may be exercised as to all or any portion thereof regardless of whether or not fully exercisable under the terms of the grant.

(iii) Retirement: Unless otherwise provided by the Committee at the time of grant, in the event of the Retirement of the Participant the option must be exercised prior to its expiration. An unexercised Incentive Stock Option will cease to be treated as such and will become a Nonstatutory Stock Option three months following the date of Retirement.

(iv) Other Terminations: Unless otherwise provided by the Committee at the time of grant, in the event a Participant ceases to be an employee of the Company for any reason other than death, Disability, or Retirement, options which are exercisable on the date of termination must be exercised within three months after termination. All options which are not exercisable on the date of termination shall be cancelled.

(v) Extension of Exercise Period: Notwithstanding all other provisions under Section 2.5(c), in the event a Participant's employment is terminated, the Committee may, in its sole discretion, extend the post termination period during which the option may be exercised, provided however that such period may not extend beyond the original option period.

(d) Exercise in the Event of Change in Control. In the event of any Change in Control, all Stock Options shall immediately become exercisable without regard to the exercise period set forth in 2.5(a).

2.6 METHOD OF EXERCISE

The option may be exercised in whole or in part from time to time by written request received by the Treasurer of the Company. The option price of each share acquired pursuant to an option shall be paid in full at the time of each exercise of the option either (1) in cash, or (2) by delivering to the Company shares of Common Stock or any combination of shares and cash having an aggregate Fair Market Value equal to the option price of the shares being acquired. However, shares of Common Stock previously acquired by the Participant under the Plan or any other incentive plan of the Company shall not be utilized for purposes of payment upon the exercise of an option unless those shares have been owned by the Participant for a twelve-month period or such longer period as the Committee may determine.

ARTICLE III - STOCK APPRECIATION RIGHTS

3.1 GRANT OF STOCK APPRECIATION RIGHTS

The Committee may, in its discretion, grant Stock Appreciation Rights in connection with all or any part of an option granted under the Plan. Any Stock Appreciation Right granted in connection with an option shall be governed by the terms of the Stock Option agreement and the Plan.

3.2 EXERCISE OF STOCK APPRECIATION RIGHTS

Stock Appreciation Rights shall become exercisable under the Stock Option terms set forth in Section 2.5 but shall be exercisable only when the Fair Market Value of the shares subject thereto exceeds the option price of the related option.

3.3 METHOD OF EXERCISE

(a) Stock Appreciation Rights shall permit the Participant, upon exercise of such rights, to surrender the related option, or any portion thereof, and to receive, without payment to the Company (except for applicable withholding taxes), an amount equal to the excess of the Fair Market Value over the option price. Such amount shall be paid in shares of Common Stock valued at Fair Market Value on the date of exercise.

(b) Upon the exercise of a Stock Appreciation Right and surrender of the related option, or portion thereof, such option, to the extent surrendered, shall be terminated, and the shares covered by the option so surrendered shall no longer be available for purposes of the Plan.

ARTICLE IV - PERFORMANCE RESTRICTED SHARES

4.1 GRANT OF PERFORMANCE RESTRICTED SHARES

The Committee may from time to time grant Performance Restricted Shares to Participants under which payment may be made in shares of Common Stock if the performance of the Company meets certain goals established by the Committee. Such Performance Restricted Shares shall be subject to the provisions of the Plan terms and conditions, and, if earned, a Vesting Period and a Restriction Period as the Committee shall determine.

4.2 PERFORMANCE RESTRICTED SHARE AGREEMENT

Each grant of Performance Restricted Shares shall be evidenced by a written agreement between the Company and Participant to whom such shares are granted. The agreement shall specify the number of Performance Restricted Shares granted, the terms and conditions of the grant, the duration of the Performance Period, the performance goals to be achieved, and the Vesting Period and the Restriction Period applicable to shares of Common Stock earned.

4.3 COMMON STOCK EQUIVALENT

Each Performance Restricted Share shall be credited to an account to be maintained for each such Participant during the Performance Period and shall be deemed to be the equivalent of one share of Common Stock. At the conclusion of the Performance Period, Performance Restricted Shares earned, if any, shall be converted to shares of Common Stock subject to a Vesting Period and a Restriction Period.

4.4 PERFORMANCE GOALS

Performance Restricted Share awards shall be conditioned upon the Company's attainment of a specified goal with respect to one or more of the following performance measures: (i) total shareholder return; (ii) EVA as defined below; (iii) return on shareholders' equity; (iv) return on capital; (v) earnings per share; (vi) sales; (vii) earnings; (viii) cash flow; and (ix) operating income. EVA equals the dollar amount arrived at by taking net operating profit after taxes and subtracting a charge for the use of the capital needed to generate that profit. The Committee shall determine a minimum performance level below which no Performance Restricted Shares shall be payable and a performance schedule under which the number of shares earned may be less than, equal to, or greater than the number of Performance Restricted Shares granted based upon the Company's performance. The Committee may adjust the performance goals and measurements to reflect significant unforeseen events; provided, however, that the Committee may not make any such adjustment with respect to any award of Performance Restricted Shares to an individual who is then a "covered employee" as such term is defined in Regulation 1.162-27(c)(2) promulgated under Section 162(m) of the Code ("Section 162(m)"), if such adjustment would cause compensation pursuant to such Performance Restricted Share award to cease to be performance-based compensation under Section 162(m).

4.5 PERFORMANCE PERIOD

The Committee shall establish a Performance Period applicable to each grant of Performance Restricted Shares. Each such Performance Period shall commence on January 1 of the calendar year in which grants are made. There shall be no limitation on the number of Performance Periods established by the Committee, and more than one Performance Period may encompass the same calendar year. The Committee may shorten any Performance Period if it determines that unusual or unforeseen events so warrant.

4.6 DIVIDEND EQUIVALENTS DURING PERFORMANCE PERIOD

During the Performance Period, a Participant shall be entitled to receive Dividend Equivalents which shall be deemed to have been reinvested in additional Performance Restricted Shares at the same time as such underlying Common Stock cash dividend is paid. Performance Restricted Shares granted through such reinvestment shall be credited to the Participant's account and shall be payable to the Participant in the same manner and at the same time as the Performance Restricted Shares with respect to which such Dividend Equivalents were issued.

4.7 RIGHT TO PAYMENT OF PERFORMANCE RESTRICTED SHARES

- (a) At the conclusion of the Performance Period, the Committee shall determine the number of Performance Restricted Shares, if any, which have been earned on the basis of Company performance in relation to the established performance goals. In no event shall such number exceed 300% of the shares contingently granted.
- (b) Performance Restricted Shares earned shall be converted to shares of Common Stock and shall be represented by a stock certificate registered in the name of the Participant. Certificates evidencing such shares shall be held in custody by the Company until the restrictions thereon are no longer in effect. After the lapse or waiver of the restrictions imposed, the Company shall deliver in the Participant's name one or more stock certificates, free of restrictions, evidencing the shares of Common Stock to which the restrictions have lapsed or been waived.

4.8 VESTING PERIOD

At the time a Performance Restricted Share grant is made, the Committee shall establish a period of time (the "Vesting Period") applicable to such shares earned, if any, which shall begin at the end of the Performance Period. During the Vesting Period, Performance Restricted Shares shall be subject to the risk of forfeiture. The Committee may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions, in whole or in part, based on service and such other factors as the Committee may determine.

4.9 RESTRICTION PERIOD

At the time a Performance Restricted Share grant is made, the Committee shall establish a period of time (the "Restriction Period") applicable to such shares earned, if any, which shall begin at the end of the Performance Period. During the Restriction Period, the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise dispose of Performance Restricted Shares that have been earned. The Committee may provide for the lapse of such restrictions in installments, in whole or in part, based on service and such other factors as the Committee may determine.

4.10 OTHER TERMS AND CONDITIONS

Performance Restricted Shares earned and restricted shares received with respect to such shares shall be subject to the following terms and conditions:

- (a) Except as otherwise provided in the Plan or in the Performance Restricted Share agreement, the Participant shall have all the rights of a shareholder of the Company, including the right to vote the shares.
- (b) Cash dividends paid with respect to Performance Restricted Shares shall be reinvested to purchase additional shares of Common Stock that shall be subject to the same terms, conditions, and restrictions that apply to the Performance Restricted Shares with respect to which such dividends were issued.
- (c) Except as otherwise provided in the Plan or in the Performance Restricted Share agreement, upon termination of a Participant's employment, all unvested shares subject to restriction shall be forfeited by the Participant.

4.11 TERMINATION OF EMPLOYMENT - PROVISIONS DURING A PERFORMANCE PERIOD

- (a) In the event a Participant terminates employment during a Performance Period by reason of death, Disability, or Retirement, the Participant shall be entitled to the full number of shares earned, if any, as long as the Participant had completed a minimum of one year of employment during the Performance Period. If the termination of employment is by reason of death or Disability, all other restrictions shall lapse and shares of Common Stock shall be issued to the Participant or the Participant's designated beneficiary following the Performance Period. If the termination of employment is by reason of Retirement, any applicable Restriction Period shall continue in effect, but in no event beyond the end of the three-year period following the Participant's Retirement. Following the expiration of such Restriction Period, shares of Common Stock shall be issued to the Participant. In the event the Participant had not completed one year of employment during the Performance Period, the Participant shall forfeit all rights to earn such Performance Restricted Shares.
- (b) If a Participant terminates employment for any reason other than death, Disability, or Retirement, the Participant shall forfeit all rights to earn such Performance Restricted Shares.

(c) Notwithstanding Sections 4.11(a) and 4.11(b), in the event a Participant's employment is terminated under special circumstances, the Committee may, in its sole discretion, continue a Participant's rights to earn any or all Performance Restricted Shares and waive in whole or in part any or all remaining restrictions.

4.12 TERMINATION OF EMPLOYMENT - PROVISIONS FOLLOWING A PERFORMANCE PERIOD

(a) In the event a Participant terminates employment following a Performance Period by reason of death, Disability, or Retirement, all Performance Restricted Shares earned shall immediately vest. If the termination of employment is by reason of death or Disability, all other restrictions shall lapse and shares of Common Stock shall be issued to the Participant or the Participant's designated beneficiary. If the termination of employment is by reason of Retirement, any applicable Restriction Period shall continue in effect, but in no event beyond the end of the three-year period following the Participant's Retirement. Following the expiration of such Restriction Period, shares of Common Stock shall be issued to the Participant.

(b) If a Participant terminates employment for any reason other than death, Disability, or Retirement, the Participant shall forfeit all Performance Restricted Shares subject to the Vesting Period. Any applicable Restriction Period shall continue in effect, but in no event beyond the end of the three-year period following the Participant's date of termination of employment. Following the expiration of such Restriction Period, shares of Common Stock shall be issued to the Participant.

(c) Notwithstanding Sections 4.12 (a) and 4.12 (b), in the event a Participant's employment is terminated under special circumstances, the Committee may, in its sole discretion, waive in whole or in part any or all remaining restrictions.

4.13 CHANGE IN CONTROL PROVISIONS

In the event of any Change in Control, all Performance Restricted Shares earned shall immediately vest and restrictions shall lapse on all shares subject to restrictions as of the date of such Change in Control. Further, all Performance Restricted Shares granted, including those granted pursuant to Dividend Equivalents, shall be deemed to have been earned to the maximum extent permitted pursuant to Section 4.4 for any Performance Period not yet completed as of the effective date of such Change in Control.

ARTICLE V - RESTRICTED STOCK AWARDS

5.1 AWARD OF RESTRICTED STOCK

The Committee may authorize awards of Common Stock to officers and key employees subject to terms, conditions, and a Restriction Period as the Committee shall determine. Restricted Stock Awards shall be used for the purposes of recruitment, recognition, and retention of key employees vital to the Company's success.

5.2 RESTRICTED STOCK AWARD AGREEMENT

Each Restricted Stock Award shall be evidenced by a written agreement between the Company and the Participant to whom such award is granted. The agreement shall specify the number of shares awarded, the terms and conditions of the award, the Restriction Period, the rights of the Participant, and the consequences of forfeiture consistent with the Plan as the Committee shall determine.

5.3 AWARDS AND CERTIFICATES

Shares of Common Stock awarded pursuant to a Restricted Stock Award shall be registered in the name of the Participant. Certificates evidencing such shares shall be held in custody by the Company until the restrictions thereon are no longer in effect. After the lapse or waiver of the restrictions imposed, the Company shall deliver in the Participant's name one or more stock certificates, free of restrictions, evidencing the shares of Common Stock to which the restrictions have lapsed or been waived.

5.4 RESTRICTION PERIOD

At the time a Restricted Stock Award is made, the Committee shall establish a period of time (the "Restriction Period") applicable to such award during which the shares of restricted stock are subject to the risk of forfeiture and the Participant shall not be permitted to sell, assign, transfer, pledge, or otherwise dispose of such shares. The Committee may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions, in whole or in part, based on service and such other factors as the Committee may determine.

5.5 OTHER TERMS AND CONDITIONS

Shares of restricted stock awarded and restricted shares received with respect to such shares shall be subject to the following terms and conditions:

- (a) Except as otherwise provided in the Plan or in the Restricted Stock Award agreement, the Participant shall have all the rights of a shareholder of the Company, including the right to vote the shares.
- (b) Cash dividends paid with respect to restricted shares shall be reinvested to purchase additional shares of Common Stock that shall be subject to the same terms, conditions, and restrictions that apply to the Restricted Stock Award with respect to which such dividends were issued.
- (c) Except as otherwise provided in the Plan or in the Restricted Stock Award agreement, upon termination of a Participant's employment, all shares subject to restriction shall be forfeited by the Participant.

5.6 TERMINATION OF EMPLOYMENT

- (a) In the event a Participant terminates employment during the Restriction Period by reason of death or Disability, restrictions shall lapse on all shares subject to restriction at the time of such termination.
- (b) In the event a Participant terminates employment during the Restriction Period by reason of Retirement, restrictions shall lapse on a proportion of any shares subject to restriction at the time of such Retirement. Any applicable Restriction Period shall continue in effect, but in no event beyond the end of the three-year period following the Participant's Retirement. The number of shares upon which the restrictions shall lapse shall be prorated for the number of months of employment during the Restriction Period prior to the Participant's termination of employment.
- (c) If a Participant terminates employment for any reason other than death, Disability, or Retirement, the Participant shall forfeit all shares subject to restriction.
- (d) Notwithstanding Sections 5.6 (a), 5.6 (b) and 5.6 (c), in the event a Participant's employment is terminated under special circumstances, the Committee may, in its sole discretion, waive in whole or in part any or all remaining restrictions.

5.7 CHANGE IN CONTROL PROVISIONS

In the event of any Change in Control, restrictions shall lapse on all shares subject to restrictions as of the date of such Change in Control.

ARTICLE VI - SHARE TAX WITHHOLDING AND DEFERRAL OF PAYMENT

6.1 SHARE TAX WITHHOLDING

- (a) At the discretion of the Committee, share tax withholding may be included as a term of any grant of Stock Options, Stock Appreciation Rights, Performance Restricted Shares, and Restricted Stock Award.
- (b) Share tax withholding shall entitle the Participant to elect to satisfy, in whole or in part, any tax withholding obligations in connection with the issuance of shares of Common Stock earned under the Plan by requesting that the Company either:
 - (i) withhold shares of Common Stock otherwise issuable to the Participant, or
 - (ii) by accepting delivery of shares of Common Stock previously owned by the Participant.

In either case, the Fair Market Value of such shares of Common Stock will generally be determined on the date of exercise for Stock Options and Stock Appreciation Rights and on the date following the Restriction Period for Performance Restricted Shares and Restricted Stock Awards. Notwithstanding the foregoing, in the case of a Participant subject to the reporting requirements of Section 16(a) of the Exchange Act, no such election shall be effective unless made in compliance with any applicable requirements of Rule 16b-3(e) or any successor Rule under the Exchange Act.

(c) Shares of Common Stock previously acquired by the Participant under the Plan or any other incentive plan of the Company shall not be utilized for satisfaction of any withholding obligation unless those shares have been owned by the Participant for a twelve-month period or such longer period as the Committee may determine.

(d) Notwithstanding any other provision hereof to the contrary, the Committee, in its sole discretion may at any time suspend, terminate, or disallow any or all entitlements to share tax withholding previously granted or extended to any Participant.

6.2 DEFERRAL OF PAYMENT

At the discretion of the Committee, a Participant may be offered the right to defer the receipt of all or any portion of Performance Restricted Shares or Restricted Stock Awards otherwise distributable to such Participant. Such right shall be exercised by execution of a written agreement by the Participant (1), with respect to Restricted Stock Awards, prior to the expiration of the applicable Restriction Period and (2), with respect to Performance Restricted Shares, prior to the expiration of the applicable Vesting Period. Upon any such deferral, the number of shares of Common Stock subject to the deferral shall remain in the custody of the Company. Cash dividends paid with respect to these shares shall be reinvested to purchase additional shares of Common Stock that shall be subject to the same deferral provisions. All other terms and conditions of deferred payments shall be as contained in said written agreement.

ARTICLE VII - OTHER PROVISIONS

7.1 ADJUSTMENT IN NUMBER OF SHARES AND OPTION PRICES

Grants of Stock Options, Stock Appreciation Rights, Performance Restricted Shares, and Restricted Stock Awards shall be subject to adjustment by the Committee as to the number and price of shares of Common Stock or other considerations subject to such grants in the event of changes in the outstanding shares by reason of stock dividends, stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the date of grant. In the event of any such change in the outstanding shares, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee.

7.2 NO RIGHT TO EMPLOYMENT

Nothing contained in the Plan, nor in any grant pursuant to the Plan, shall confer upon any Participant any right with respect to continuance of employment by the Company or its subsidiaries, nor interfere in any way with the right of the Company or its subsidiaries to terminate the employment or change the compensation of any employee at any time.

7.3 NONTRANSFERABILITY

A Participant's rights under the Plan, including the right to any shares or amounts payable, may not be assigned, pledged, or otherwise transferred except, in the event of a Participant's death, to the Participant's designated beneficiary or, in the absence of such a designation, by will or by the laws of descent and distribution; provided, however, that the Committee may, in its discretion, at the time of grant of a Nonstatutory Stock Option or by amendment of an option agreement for an Incentive Stock Option or a Nonstatutory Stock Option, provide that Stock Options granted to or held by a Participant may be transferred, in whole or in part, to one or more transferees and exercised by any such transferee, provided further that (i) any such transfer must be without consideration, (ii) each transferee must be a member of such Participant's "immediate family" or a trust established for the exclusive benefit of one or more members of the Participant's immediate family; and (iii) such transfer is specifically approved by the Committee following the receipt of a written request for approval of the transfer (no approval shall be required for Non-Employee Director transfers); and provided further that any Incentive Stock Option which is amended to permit transfers during the lifetime of the Participant shall, upon the effectiveness of such amendment, be treated thereafter as a Nonstatutory Stock Option. In the event a Stock Option is transferred as contemplated in this Section, such transfer shall become effective when approved by the Committee and such Stock Option may not be subsequently transferred by the transferee other than by will or the laws of descent and distribution. Any transferred Stock Option shall continue to be governed by and subject to the terms and conditions of this Plan and the relevant option agreement, and the transferee shall be entitled to the same rights as the Participant as if no transfer had taken place. As used in this Section, "immediate family" shall mean, with respect to any person, any spouse, child, stepchild or grandchild, and shall include relationships arising from legal adoption.

7.4 COMPLIANCE WITH GOVERNMENT REGULATIONS

(a) The Company shall not be required to issue or deliver shares or make payment upon any right granted under the Plan prior to complying with the requirements of any governmental authority in connection with the authorization, issuance, or sale of such shares.

(b) The Plan shall be construed and its provisions enforced and administered in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts entered into and performed entirely in such State.

7.5 RIGHTS AS A SHAREHOLDER

The recipient of any grant under the Plan shall have no rights as a shareholder with respect thereto unless and until certificates for shares of Common Stock are issued to such recipient.

7.6 UNFUNDED PLAN

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or separate funds. With respect to any payment not yet made to a Participant, nothing contained herein shall give any Participant any rights that are greater than those of a general creditor of the Company.

7.7 FOREIGN JURISDICTION

The Committee shall have the authority to adopt, amend, or terminate such arrangements, not inconsistent with the intent of the Plan, as it may deem necessary or desirable to make available tax or other benefits of the laws of foreign countries in order to promote achievement of the purposes of the Plan.

7.8 OTHER COMPENSATION PLANS

Nothing contained in this Plan shall prevent the Company from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required.

7.9 TERMINATION OF EMPLOYMENT - CERTAIN FORFEITURES

Notwithstanding any other provision of the Plan (other than provisions regarding Change in Control, including without limitation Sections 2.5, 4.13 and 5.7 which shall apply in all events) and except for Performance Restricted Shares or Restricted Stock Awards which would otherwise be free of restrictions and the receipt of which has been deferred pursuant to Section 6.2, a Participant shall have no right to exercise any Stock Option or Stock Appreciation Right or receive payment of any Performance Restricted Share or Restricted Stock Award if: (1) the Participant is discharged for willful, deliberate, or gross misconduct as determined by the Committee in its sole discretion or (2) if following the Participant's termination of employment with the Company, and within a period of three years thereafter, the Participant engages in any business or enters into any employment which the Committee in its sole discretion determines to be (a) directly or indirectly competitive with the business of the Company or (b) substantially injurious to the Company's financial interest. A Participant may request the Committee in writing to determine whether any proposed business or employment activity would justify such a forfeiture. Such a request shall fully describe the proposed activity and the Committee's determination shall be limited to the specific activity so described.

ARTICLE VIII - AMENDMENT AND TERMINATION

8.1 AMENDMENT AND TERMINATION

The Board of Directors may modify, amend, or terminate the Plan at any time except that, to the extent then required by applicable law, rule, or regulation, approval of the holders of a majority of shares of Common Stock represented in person or by proxy at a meeting of the shareholders will be required to increase the maximum number of shares of Common Stock available for distribution under the Plan (other than increases due to adjustments in accordance with the Plan). No modification, amendment, or termination of the Plan shall adversely affect the rights of a Participant under a grant previously made to him without the consent of such Participant.

ARTICLE IX - EFFECTIVE DATE AND DURATION OF PLAN

9.1 EFFECTIVE DATE AND DURATION OF PLAN

The Plan shall become effective immediately upon the approval and adoption thereof at the Annual Meeting of the shareholders on April 26, 1993. All rights granted under the Plan must be granted within ten years from its adoption date by the shareholders of the Company. Any rights outstanding ten years after the adoption of the Plan may be exercised within the periods prescribed under or

pursuant to the Plan.

Exhibit 10(iii)(k)

REVISED SCHEDULE

The Company has entered into substantially similar agreements with certain officers, including its Executive Officers, who are employees of Armstrong World Industries, Inc., other than Ulrich J. Weimer, Edward R. Case, E. Follin Smith and Dr. Bernd F. Pelz. Floyd F. Sherman's agreement has been modified to reflect that he does not participate in the Company's defined benefit retirement plan or its split-dollar life insurance plan and his benefits under his agreement have

been modified accordingly.

**BONUS REPLACEMENT RETIREMENT PLAN
OF ARMSTRONG WORLD INDUSTRIES, INC.**

As Initially Adopted
Effective January 1, 1998

**THIS WORKING COPY OF THE PLAN
INCORPORATES ALL AMENDMENTS ADOPTED
THROUGH FEBRUARY 28, 1999**

**BONUS REPLACEMENT RETIREMENT PLAN
OF ARMSTRONG WORLD INDUSTRIES, INC.**

Foreword

Effective January 1, 1998, Armstrong World Industries, Inc. has adopted the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc. (the "Plan") for the benefit of certain of its employees.

The Plan hereinafter set forth has been approved by the Board of Directors of Armstrong World Industries, Inc. and is intended to conform to the requirements of the Employee Retirement Income Security Act of 1974, as amended, and to qualify as a profit sharing plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, or any other applicable sections thereof.

The rights to benefits of any eligible employee whose employment terminates prior to any amendment to the Plan shall be determined solely by the provisions of the Plan under which such eligible employee is covered, if any, as in effect at the time of such termination of employment, unless otherwise specifically provided herein.

**BONUS REPLACEMENT RETIREMENT PLAN
OF ARMSTRONG WORLD INDUSTRIES, INC.**

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ARTICLE I

DEFINITIONS

As used herein, unless otherwise defined or required by the context, the following words and phrases shall have the meanings indicated. Some of the words and phrases used in the Plan are not defined in this Article I, but, for convenience, are defined as they are introduced into the text.

1.1 "Account" means the Member's account into which shall be credited the amounts in the Investment Funds attributable to contributions made by the Company on the Member's behalf pursuant to Section 3.1.

1.2 "Affiliated Company" means any company which is related to the Company as a member of a controlled group of corporations in accordance with Section 414(b) of the Code, or as a trade or business under common control in accordance with Section 414(c) of the Code, or any other entity to the extent it is required to be treated as an Affiliated Company in accordance with Section 414(o) of the Code and any regulations thereunder, or any organization which is part of an affiliated service group in accordance with Section 414(m) of the Code. For the purposes under the Plan of determining whether or not a person is an employee and the period of employment of such person, each such company shall be considered an Affiliated Company only for such period or periods during which such other company is a member of the controlled group or under common control.

1.3 "Beneficiary" means such beneficiary as may be designated pursuant to Section 2.3.

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

1.5 "Code" means the Internal Revenue Code of 1986, as amended.

1.6 "Committee" means the committee appointed in accordance with Section 8.1.

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

1.8 "Company Contributions" mean those contributions made by the Company under Section 3.1.

1.9 "Continuous Employment" means, subject to all of the provisions set forth herein, service with the Company or one or more Affiliated Companies, including successive service with two or more Affiliated Companies.

(a) Notwithstanding the foregoing, periods while on an uncompensated leave of absence or an uncompensated layoff shall be disregarded in the determination of an Employee's Continuous Employment.

(b) Continuous Employment shall be deemed terminated on the earliest of the following events:

- (1) Death, retirement, resignation, or quit by the Employee;
- (2) Discharge;
- (3) Failure to return to work on:
 - (i) Expiration of approved leave of absence;
 - (ii) Recall after layoff;
 - (iii) Expiration of reemployment rights protected by law; or
- (4) Elapse of 12 months following layoff without recall.

1.10 "Effective Date" means January 1, 1998, or such later date as of which the Plan is made applicable in accordance with Section 10.8.

1.11 "Employee" means a person in the employ of the Company or an Affiliated Company. The term "Employee" shall exclude any person who is (i) a leased employee, (ii) a member of a bargaining unit, and (iii) a foreign national or citizen of a territorial possession of the United States of America whose employment relationship or contract of employment originates at, and whose services are performed solely for and at, a branch facility of the Company outside the United States. The term "leased employee" shall mean any person (other than an Employee of the Company or an Affiliated Company) who pursuant to an agreement between the Company or Affiliated Company and any other person ("leasing organization") has performed services for the Company or an Affiliated Company on a substantially full-time basis for a period of at least one year, and such services are performed under the primary direction or control by the Company or an Affiliated Company. A leased employee shall not be considered an Employee of the Company or an Affiliated Company if: (i) such individual is covered by a money purchase pension plan providing (1) an employer contribution of 10% of compensation as defined under Section 11.1, (2) immediate participation, and (3) full and immediate vesting; and (ii) leased employees do not constitute more than 20% of the Company's nonhighly compensated workforce.

1.12 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended .

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

1.14 "Hours of Service" means:

- (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:
- (1) Due to vacation, holiday, layoff, or leave of absence, and during which he is paid or entitled to payment by the Company or an Affiliated Company.
 - (2) 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.
 - (3) Due to total or total and permanent 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.
- (c) An Employee shall be credited with Hours of Service during periods he is absent from the service of the Company or an Affiliated Company due to jury duty or military duty in the Armed Forces of the United States, expiring with the expiration of any reemployment rights protected by law.
- (d) 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. Provided, however, that no credit shall be given under this Section 1.14 during the period for which payment is made solely to comply with unemployment compensation laws or for which payment is made solely to reimburse an Employee for medical or medically- related expenses incurred by the Employee or for the period following retirement.
- (e) 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. A 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.
- (f) Hours of Service credited under Section (b), (c) or (d) hereof for a period during which an 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:
- (1) If payments made for a period of absence are computed with specific reference to units of time, the number of Hours 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.

(2) If payments made for a period of absence are computed without regard to units of time, the number of Hours of Service 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.

(3) 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 to pay back pay shall be credited to the calendar year to which the award or agreement pertains.

(4) 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. No more than 501 Hours of Service shall be credited by reason of an award or agreement to pay back pay. Nothing contained herein shall result in double credit for the same period.

(g) The number of Hours of Service credited under the Plan for military service or for any other period described in Section (c) hereof during which an 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.

(h) An Employee who is absent from work due to the pregnancy of the Employee, the birth of a child of the Employee, the placement of a child with the Employee in connection with the adoption of such child by the Employee, the caring for such child for the period immediately following birth or placement, a leave of absence under the Family and Medical Leave Act of 1993, as it may be amended from time to time, and who is not entitled to credit for such absence under any of the other provisions of this Section 1.14 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 1.14(h). If in the year in which the absence begins, the Employee has not yet been credited with at least 501 Hours of Service, then the Hours of Service credited by reason of this Section 1.14(h) 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.

- 1.15 "Insurance Company" means the insurance company which issues a contract, and any successor insurance company thereto.
- 1.16 "Insurance Contract" means a contract issued by an Insurance Company to fund benefits under the Plan, and any successor contract thereto.
- 1.17 "Investing Institution" means a Trustee, or Insurance Company, mutual fund or investment manager which is designated by the Committee, by Trust Agreement or Insurance Contract, to manage the Funds.
- 1.18 "Member" means any Employee who becomes a Member of this Plan as provided in Section 2.1.
- 1.19 "Named Fiduciary" means the Board of Directors, the Committee, and the Trustee.
- 1.20 "Participating Company" means the Company or any other Affiliated Company approved by the Committee.
- 1.21 "Plan" means the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc., as described herein.
- 1.22 "Plan Year" means the 12-month period beginning on January 1 and ending on the following December 31.
- 1.23 "Trust Agreement" means the agreement entered into between the Company and the Trustee to fund benefits under the Plan.
- 1.24 "Trust Fund" means the cash and other properties arising from contributions made by the Company in accordance with the provisions of this Plan and held and administered by the Trustee pursuant to the Trust Agreement.
- 1.25 "Trustee" means any bank or trust company designated by the Board of Directors under a trust agreement to receive Company Contributions made in accordance with Section 3.1.
- 1.26 "Valuation Date" means the date or dates, as applicable, on which the Trust Fund is valued in accordance with Article V.
- 1.27 "Year of Continuous Employment" means a calendar year during which an Employee completes not less than 1,000 Hours of Service, regardless of the number of months of such service. For purposes of determining an Employee's vested interest under the Plan, Years of Continuous Employment completed prior to the date an Employee becomes a Member of the Plan shall be taken into account, as shall all service with an Affiliated Company.

ARTICLE II

ELIGIBILITY, MEMBERSHIP, AND BENEFICIARY DESIGNATION

2.1 Eligibility - Each Employee of a Participating Company who, on the first day of the Plan Year, is (1) at a grade level of 1,200 or more on the Company's organizational management system, and (2) eligible to participate in the Company's Management Achievement Plan, shall become a Member on the later of (A) the Effective Date of the Plan, or (B) the date the Employee first satisfies the criteria for Plan eligibility. An Employee who has transferred from the employment of a foreign subsidiary of the Company to the employment of a Participating Company and who is accruing benefits under a retirement program maintained by such foreign subsidiary shall not become a Member of the Plan until the earliest of the date on which:

- (a) He becomes a United States citizen;
- (b) He is granted permanent resident alien status under the laws of the United States; or
- (c) He ceases to accrue benefits under such foreign subsidiary retirement program.

2.2 Suspension of Membership due to Transfer to Non-Covered Employment -

If, in any Plan Year, a Member is not in a category of employment described in Section 2.1 above as of the last day of such Plan Year, but continues in the employment of the Company or an Affiliated Company, he shall be a suspended Member for the entire such Plan Year subject to the following conditions:

- (a) During the period of his suspension, the Member shall not be entitled to share in any allocations of Company Contributions. If during the period of his suspension his employment terminates or he retires or dies, there shall be a distribution of his Account in accordance with Article VI.
- (b) If and when a suspended Member again becomes employed by the Company at a grade level of 1,200 or above, he shall again be an active Member as of that date and may share in any allocations of Company Contributions (in accordance with the terms of the Plan).

2.3 Beneficiary Designation - Subject to the rules set forth below with respect to married Members, each Member has the right to name a Beneficiary to receive any death benefits payable hereunder. Each Member also has the right, from time to time, to change any designation of Beneficiary. A designation or change of Beneficiary must be in writing on forms supplied by the Committee and any change of Beneficiary will not become effective until such change of Beneficiary is filed with the Committee or its designee whether or not the Member is alive at the time of such filing; provided, however, that any such change will not be effective with respect to any payments made by the Trustee in accordance with the Member's last designation and prior to the time such change was received by the Committee or its designee. In

the case of any Member who is married on the date of his death, the Member's spouse as of his date of death shall be his Beneficiary unless such spouse shall have consented to a different Beneficiary on prescribed forms and before either a notary public or an individual designated by the Committee. Such spousal consent must acknowledge the effect of the Beneficiary designation. In the absence of an effective Beneficiary designation or if a named Beneficiary shall have died and no contingent Beneficiary shall have been properly designated, the first of the following classes of successive preference beneficiaries shall be the Beneficiary:

- (a) the Member's surviving spouse;
- (b) the Member's surviving children;
- (c) the estate of the Member.

Any individual who is designated as an alternate payee under a "qualified domestic relations order" (as defined in Code Section 414(p)) relating to a Member's Account under this Plan shall be treated as a Beneficiary hereunder, to the extent provided by such order. The Committee may require and rely upon such proof of death and such evidence of the right of any Beneficiary or other person to receive the undistributed value of a deceased Member's Account as the Committee may deem proper, and its determination of death and of the right of such Beneficiary or other person to receive payment shall be conclusive.

ARTICLE III

COMPANY CONTRIBUTIONS

3.1 Company Contributions - The Company may contribute to the Plan the amounts necessary to make the following allocations.

(a) Allocations - Company Contributions for a Plan Year shall be allocated to the Accounts of Members who are employed in a category described in Section 2.1 on the last day of such Plan Year in accordance with the following:

(1) If a Member's employment grade is at least grade 1,200 but not more than grade 1,459 under the Company's organizational management system as of January 1 of the Plan Year, the Company Contributions allocated on behalf of such Member for the Plan Year shall be equal to the lesser of (i) 50% of the actual "gross bonus" (as such term is defined under the Company's Management Achievement Plan) awarded to the Employee under the Company's Management Achievement Plan with respect to services performed by the Member for the Company for the calendar year coinciding with such Plan Year, or (ii) \$7,500.

(2) If a Member's employment grade is at least grade 1,460 but not more than grade 1,929 under the Company's organizational management system as of January 1 of the Plan Year, the Company Contributions allocated on behalf of such Member for the Plan Year shall be equal to the lesser of (i) 50% of the actual "gross bonus" awarded to the Employee under the Company's Management Achievement Plan with respect to services performed by the Member for the Company for the calendar year coinciding with such Plan Year, or (ii) \$15,000.

(3) If a Member's employment grade is at least grade 1,930 under the Company's organizational management system as of January 1 of the Plan Year, the Company Contributions allocated on behalf of such Member for the Plan Year shall be equal to the lesser of (i) 50% of the actual "gross bonus" awarded to the Employee under the Company's Management Achievement Plan with respect to services performed by the Member for the Company for the calendar year coinciding with such Plan Year, or (ii) \$20,000.

(b) Allocation and Payment to Trust - Company Contributions for a Plan Year shall be allocated to the Members' Accounts as of the last day of the Plan Year for which such contributions are made. Company Contributions for any Plan Year shall be paid to the Investing Institution not later than the date which is prescribed by law for filing the Company's income tax return, including any extension thereof.

(c) Additional Company Contributions or Reallocations Permitted to

Correct Administrative Error - If, with respect to a Plan Year, an administrative error results in a Member's Account not being properly credited with the amount of Company Contributions, or earnings on such contributions, corrective Company Contributions or Account reallocations may

be made in accordance with this subsection. Solely for the purpose of placing any affected Member's Account in the position that it would have been in if no error had been made:

- (1) The Company may make additional contributions to such Member's Account; or
- (2) The Committee may reallocate existing Company Contributions made under Section 3.1 among the Accounts of affected Members.

3.2 Return of Contributions - All Company Contributions are conditioned on their being allowed as a deduction for federal income tax purposes. Notwithstanding any provision of the Plan to the contrary, Company Contributions made to the Plan may be returned to the Company if:

- (a) the contribution is made by reason of mistake of fact; or
- (b) the contribution is conditioned on its deductibility under Code Section 404 and such deductibility is denied;

provided such return of contribution is made within one year of the mistaken payment of the contribution or the disallowance of the deduction, as the case may be. A contribution shall be considered to be made by reason of a mistake of fact if, for example, it is based on incorrect information as to eligibility or compensation of an Employee, a mathematical error or an erroneous belief that such contribution is consistent with the limitations of Section 11.1. So much of the contribution as is attributable to the mistake of fact shall be repaid by the Trustee upon demand by the Company upon presentation of evidence of the mistake of fact and calculation as to the impact of the mistake.

3.3 Vesting of Member's Account and Forfeitures - A Member shall have a vested and nonforfeitable interest in his Account upon (a) his completion of five (5) Years of Continuous Employment, (b) his death, (c) his retirement, (d) the sale of substantially all of the assets of a trade or business, unit or location where the Member is employed, (e) the sale by the Company of its interest in a subsidiary where the Member is employed, or (f) the transfer of the Member to employment with WAVE, a Delaware general partnership. If a Member's Continuous Employment is terminated prior to the time such Member has a nonforfeitable interest in his Account, the amount in such Member's Account shall be forfeited. If a former Member resumes employment with the Company or an Affiliated Company, the amount forfeited shall be restored (without earnings) to his Account.

Amounts forfeited under this Section shall be used, not later than as of the last day of the Plan Year in which the forfeiture occurs, to reduce future Company Contributions, to defray administrative expenses of the Plan, and to restore Members' Accounts in accordance with the preceding paragraph of this Section.

ARTICLE IV

INVESTMENT OF CONTRIBUTIONS

4.1 Investment Funds - Contributions to the Plan shall be invested by the Investing Institution in one or more of the following Investment Funds in accordance with Section 4.2:

(a) "Equity Investment Fund" is 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 Investing Institution. 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" is 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 Investing Institution. 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, bankers, acceptances, certificates of deposit, and obligations of the U.S. Government and any agency or instrumentality thereof.

(c) "Money Market Fund" is one or more 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) "Company Stock Fund" is a fund designed solely to invest in Company common stock or to hold Company common stock contributed to the Plan by the Company. Up to 100% of the assets of the Plan may be invested in the Company Stock Fund.

(e) "Balanced Fund" is 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.

Any such common, collective or commingled trust funds referred to in connection with the Funds referred to in Subsections 4.1(a), 4.1(b), 4.1(c), or 4.1(e) shall satisfy such requirements of ERISA governing the establishment of such funds for the investment of assets of employee benefit plans qualified under

Section 401(a) and exempt under Section 501(a) of the Code whereupon the instrument or instruments establishing such common, collective or commingled trust funds, as amended from time to time, shall constitute a part of this Plan and the Trust Agreement with respect to any assets of the Investment Fund(s) which are at the time invested in such funds. Any portion of an Investment Fund may, pending permanent investment or distribution, be invested in short term securities issued or guaranteed by the United States of America or any agency or instrumentality thereof or any other investments of a short term nature, including corporate obligations or participation's therein or through the medium of any common, collective or commingled trust fund maintained by the Trustee which is invested principally in property of the kind specified in this Section. A portion of an Investment Fund may be maintained in cash.

4.2 Investment Elections - Company Contributions made on a Member's behalf under Section 3.1 will be invested in multiples of 1%, in any one or more of the Investment Funds, as elected by the Member in accordance with such uniform rules as the Committee may adopt from time to time. If Company Contributions are made prior to the time that a Member has made an election under this Section 4.2, such Company Contributions shall be invested in the Fixed Income Investment Fund until such investment election is received.

4.3 Change in Investment Options - A Member may change his investment elections pursuant to Section 4.2 at any time with respect to any subsequent Company Contributions to be allocated on his behalf, by giving notice (including telephonic notice) to the Committee in such manner and within the time limit prescribed by the Committee.

4.4 Transfer Between Funds -

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

(1) Any election to transfer between and among the Equity Investment Fund, the Fixed Income Investment Fund, the Money Market Fund and the Balanced Fund (and any related funds maintained in the Equity Investment Fund, the Fixed Income 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

(2) Any election to transfer to or from the Company Stock Fund may be made at any time, to be effective as follows: elections initiated by the fifteenth day of the month shall be effective as soon as practicable after the fifteenth day of the month; elections initiated after the fifteenth day of the month and by the last day of the month shall be effective as soon as practicable after the last day of the month. For purposes of the preceding sentence, if the

fifteenth or last day of a month falls on a Saturday, Sunday or holiday, the fifteenth or last day of such month shall be deemed to be the last business day preceding the fifteenth or last day, respectively.

(b) Notwithstanding the foregoing,

(1) no direct transfers are permitted from the Fixed Income Investment Fund to the Money Market Fund or the 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"); and

(2) 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 for three (3) months following such transfer.

(c) Except as otherwise provided, transfers pursuant to this Section 4.4 may be made by telephoning notice to the Investing Institution, and shall be effective as soon as practicable following the Investing Institution's receipt of the notice.

4.5 Investment Options - Each Member is solely responsible for the selection of his investment option. The Investing Institutions, the Committee, the Company or any of the officers or supervisors of the Company are not empowered to advise a Member as to the manner in which his 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 the Company, its directors, officers or employees, the Investing Institutions, the Committee or any Member of the Plan.

4.6 Voting Rights; Offer to Purchase Stock -

(a) Voting - All Company stock (including fractional shares), the value of which is allocated to Members' Accounts, shall be voted by the Trustee of the Trust, in accordance with instructions from the Members. The Company shall provide Members with notices and information statements when voting rights are to be exercised, the content of which must generally be the same as for all holders of interests in Company stock. Fractional shares may be voted by the Trustee on a combined basis, in order to reflect the direction of the Members holding such shares. The Trustee shall tabulate the instructions and shall determine the ratio of votes for and against each proposition. The Trustee shall then vote all stock held by it, including stock for which no instructions have been received, in the ratios determined by the vote of those Members who returned voting instructions.

(b) Tender Offer Procedure - In the event any offer is made to shareholders of the Company generally by any person corporation or other entity (the "Offeror") to purchase any or all of the Company's outstanding stock including the stock the value of which is then held in Members' Accounts, then and in that event the Trustee shall promptly forward to each Member

all materials and written information furnished to the Trustee by the Offeror and/or by the Company in connection therewith, and shall notify each Member in writing of the number of shares of Company stock the value of which is then credited to such Member's Account. Such notice shall also set forth the rights afforded each Member by the following sentence and shall state that, absent timely instructions from such Member to the Trustee, no tender to the Offeror shall be made of any of the shares specified in such written notice. Each Member shall be entitled to instruct the Trustee as to whether all (but not less than all) of the shares of Company stock standing to his credit should be tendered by the Trustee pursuant to such offer.

(c) Shares Tendered - The Trustee shall tender only those shares of Company stock the value of which is held in a Member's Account for which it receives instructions to so tender from such Member and shall not tender any shares as to which such instructions are not so received.

(d) Proceeds - In the event that Company stock the value of which is held in a Member's Account is tendered, the proceeds received upon the acceptance of such tender by the Offeror shall be credited to such Member's Account. The Trustee shall invest amounts representing the proceeds of tendered Company stock and any earnings thereon, in accordance with instructions from the Committee.

4.7 Limitations - Provisions of this Article are subject to the limitations of any contract with any Investing Institution.

ARTICLE V

VALUATION OF A MEMBER'S ACCOUNT

"Valuation Date" shall mean any day that the New York Stock Exchange is open for trading or such other date as may be designated by the Committee or its delegate. The Investment Funds described in Section 4.1 shall be valued on each Valuation Date in accordance with rules established by the Committee. Whenever a distribution to a Member is made, the amount paid to the Member shall be based on the value of the Member's Account determined as of the Valuation Date set forth in Article VI.

Each Member's Account will be credited, as of the Valuation Date on which such amounts are received by the Trustee, with all contributions made on the Member's behalf and debited with the amount of any distribution made to the Member or on the Member's behalf pursuant to Article VI. The Account of each Member will also be adjusted, as of each Valuation Date, for increases reflecting the Member's share of the net investment income and any realized and unrealized capital gains of the Funds and decreases reflecting the Member's share of any realized and unrealized losses, including capital losses, as well as the payment of brokerage fees and transfer taxes applicable to purchases and sales for each Investment Fund and all similar transactions, and any Plan administrative expenses to the extent they are not paid by the Company, of the Investment Funds that occurred since the last Valuation Date. Except to the extent otherwise reflected in the value of mutual fund shares, such Member's share of such income and losses will be that portion of the total net investment income, capital gains and losses of each such Investment Fund which bears the same ratio to such total as the balance of his Member Accounts attributable to each such Investment Fund on the preceding Valuation Date bears to the aggregate of the balances of all Member Accounts attributable to each such Investment Fund as of the preceding Valuation Date.

ARTICLE VI

Distributions

6.1 Distributions on Termination of Employment Other than by Reason of a Member's Death -

- (a) A Member whose Continuous Employment is terminated prior to the date such Member has a nonforfeitable interest in his Account in accordance with Section 3.3 shall not be entitled to any benefits under the Plan, and instead shall be deemed to have received a distribution of zero dollars upon his termination of Continuous Employment; provided that if such Member is reemployed by the Company or an Affiliated Company, such Member shall be deemed to have repaid such zero dollar distribution.
- (b) Subject to Section 6.4, 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 a single sum cash payment of the nonforfeitable portion of his Account as soon as practicable following the Committee's receipt of the Member's election.
- (c) If a Member is eligible to receive a distribution in accordance with subsection (b), he may request in the manner prescribed by the Committee (including telephonically) to have such distribution paid directly to him or paid as a "direct rollover distribution" (as defined in Code Section 402(c) and the regulations and other guidance issued thereunder).
- (d) The amount of such distribution shall be determined as follows:
for any request made by the fifteenth day of the month, the amount of such distribution shall be determined as of the next Valuation Date following the fifteenth day of the month; for any request made after the fifteenth day of the month and by the last day of the month, the amount of such distribution shall be determined as of the next Valuation Date following the last day of the month. For purposes of the preceding sentence, if the fifteenth or last day of a month falls on a Saturday, Sunday or holiday, the fifteenth or last day of such month shall be deemed to be the last business day preceding the fifteenth or last day, respectively.
- (e) Notwithstanding subsection (b), the portion of the Member's Account that is invested in the Company Stock Fund 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, prior to the time the time such distribution is to be processed pursuant to the Member's election or pursuant to the requirements of Section 6.4, to receive the portion of his Account invested in the Company Stock Fund in shares of Company Stock, such distribution shall be made in cash.
- (f) The Committee or its designee 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 6.5 below, and his right to receive a distribution of his Account under this Section 6.1. Distribution of a Member's Account under the Plan may occur prior to 30 days after the Committee or its designee provides such notice, provided:

- (1) the Member is informed 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
- (2) the Member, after receiving the notice, requests to receive an immediate distribution in the manner prescribed by the Committee (including telephonically).

6.2 Distribution Upon a Member's Death -

(a) In the event a Member dies prior to his receipt of a distribution under Section 6.1, the entire value of his Account shall be paid in a single sum cash payment to the Member's Beneficiary as soon as practicable following receipt of proper payment instructions by the Trustee from the Committee. The amount of such distribution shall be determined in accordance with Section 6.1(d), substituting "for payment instructions received" for the phrase "for any request made" in such section. The Committee shall provide the Trustee payment instructions as soon as practicable after the Member's death or notification of the Member's death, if later. No benefits shall be payable under this Section 6.2 to any Beneficiary if the Member dies after commencing to receive a distribution of his Accounts.

(b) Notwithstanding the foregoing, if the Member's Beneficiary is the Member's spouse, such Beneficiary may elect to defer receipt of the single sum payment beyond the date on which it normally would become payable, but in no event later than December 31 of the calendar year in which the Member would have attained age 70 1/2.

(c) In no event may a Beneficiary elect to receive a payment of a Member's Account in any form of payment other than a single sum payment. Further, if a spousal Beneficiary defers distribution of any amounts from the Plan, then prior to the distribution of such Account, the Beneficiary may not obtain any partial distributions. However, such Beneficiary may continue to invest amounts in the Member's Account in accordance with Article IV.

(d) Notwithstanding subsection (a), the portion of the Member's Account that is invested in the Company Stock Fund shall be distributed in a single sum in either cash or Company Stock (with cash for fractional shares), as elected by the Beneficiary. If the Beneficiary fails to elect to receive the portion of the Member's Account invested in the Company Stock Fund in shares of Company Stock, such distribution shall be made in cash.

6.3 Lost Members or Beneficiaries - 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 to reduce future Company Contributions, defray administrative expenses of the Plan, and restore Members' Accounts in accordance with this section; provided, however, that

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 shall, after furnishing proof of his identity and right to make such claim to the Committee, file a written request for such benefit with the Committee.

6.4 Required Distributions -

(a) Notwithstanding anything to the contrary in this Plan, unless the Member elects otherwise, in writing, payments under the Plan to a Member shall begin not later than the 60th day after the latest of the close of the Plan Year in which:

- (1) the Member attains age 65;
- (2) occurs the tenth anniversary of the year in which the Member commences participation in the Plan; or
- (3) the Member terminates employment.

(b) All payments under this Plan shall be adjusted to meet the requirements of Section 401(a)(9) of the Code and the regulations and other guidance issued thereunder, subject to the provisions of this Section 6.4. In addition, all distributions under the Plan shall comply with the incidental death benefit requirements of Section 401(a)(9)(G) of the Code.

(c) Payment of benefits to any Member who is not a 5% owner as defined in Code Section 416 shall be paid in the form of a lump sum payment not later than the April 1 following the later of: (i) the calendar year in which such Member attains age 70 1/2, or (ii) the calendar year in which such Member terminates employment. Payment of benefits to any Member who is a 5% owner as defined in Code section 416 shall be paid in the form of a lump sum payment not later than the April 1 following the calendar year in which such Member attains age 70 1/2.

6.5 Direct Rollover Distributions - At the 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 under Section 10.5 (referred to as the "distributee") and upon receipt of the 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 Code

Section 401(a)(31), to an eligible retirement plan (as defined in Code Section 402(c)(8)(B)). 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 Code Section 402(c) Code and the regulations and other guidance issued thereunder. All direct rollover distributions shall be made in accordance with the following subsections (a) through (d):

(a) A direct rollover distribution may 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.

(b) Direct rollover distributions shall be made in cash to the Trustee of the eligible retirement plan, in accordance with procedures established by the Committee, plus shares of common stock otherwise distributable under the Plan to the distributee, which shares shall be registered in a manner necessary to effectuate a direct rollover under Code

Section 401(a)(31), provided, however, that the distributee may request that such direct rollover distribution be made entirely in cash in the manner described above.

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

(d) 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.

6.6 Distributions on Sales of Businesses - For the sole purpose of determining a Member's entitlement to a distribution under this Plan, no distribution shall be permitted upon the sale or other business disposition by the Company of a trade or business or the sale by the Company of its interest in a subsidiary, with respect to a Member who is employed by such trade or business or subsidiary immediately prior to such sale or disposition and who continues in the employ of (i) the employer that acquires the assets of such trade or business or acquires the interest of such subsidiary or (ii) any other entity related to such employer.

6.7 Payments to Minors and Incompetents - If a Member or Beneficiary entitled to receive any benefits hereunder is a minor or is deemed by the Committee or is adjudged to be legally incapable of giving valid receipt and discharge for such benefits, they will be paid to such persons as the Committee might designate or to the duly appointed guardian. Any such payment shall be a complete discharge of the liability of the Plan and the Trust therefor.

ARTICLE VII

Management of Funds

7.1 General Responsibilities - All the funds of the Plan shall be held by a Trustee or Trustees appointed from time to time by the Board of Directors, in one or more trusts under a trust instrument or instruments approved or authorized by the Board of Directors for use in providing the benefits of the Plan; provided that no part of the corpus or income of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Members and their Beneficiaries.

7.2 Funding Agreements -

(a) All the funds of the Plan shall be held by one or more Investing Institutions appointed from time to time by the Company under a Trust Agreement or an Insurance Contract adopted, or as amended, by the Company for the administration of the funds of the Plan. The Company shall have no liability for the investment of the funds paid over to the Investing Institution.

(b) The Company retains the right to act on behalf of all persons having an interest in any Trust Fund or under any Insurance Contract, and to enter into additional Trust Agreements or Insurance Contracts.

7.3 Investment Managers - The Committee may appoint one or more Investment Managers to manage the investment of all or any part of one or more of the Investment Funds. Every Investment Manager so appointed must meet the requirements of ERISA Section 3(38). An Investment Manager shall acknowledge in writing its appointment as a fiduciary of the Plan, and shall serve until a proper resignation is received by the Committee, or until it is removed and/or replaced by the Committee. The Committee and the Trustee shall be under no duty to question any direction or lack of direction of any Investment Manager, but shall act, and shall be fully protected in acting, in accordance with each such direction. An Investment Manager shall have sole investment responsibility for that portion of the Funds which it is appointed to manage, and no other Plan fiduciary shall have any responsibility for the investment of any asset of the Fund, the management of which has been delegated to an Investment Manager, or liability for any loss or diminution in value of the Fund resulting from any action directed, taken or omitted by an Investment Manager.

ARTICLE VIII

Administration of the Plan

8.1 The Committee - The administration of this Plan, the exclusive power to interpret and construe it and the responsibility for carrying out its provisions, shall be vested in the Committee, which shall consist of the same persons as constitute 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 this Committee. In the event no members of the Committee are in office, the Company shall be deemed the Committee.

8.2 Duties of the Committee - The members of the Committee may appoint from their number such subcommittees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; may retain counsel, employ agents and provide for such clerical, accounting and consulting services as they may require in carrying out the provisions of the Plan; and may allocate among themselves or delegate to other persons all or such portion of their duties hereunder, other than those granted to any Investment Manager pursuant to Section 7.3 or the Trust agreement adopted for use in implementing the Plan, as they, in their sole discretion shall decide.

8.3 Meetings - The Committee shall hold meetings upon such notice, at such place or places, and at such time or times as it may from time to time determine.

8.4 Action by Majority - Any act which the Plan authorizes or requires the Committee to do may be done by a majority of its members. The action of such majority expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the Committee and shall have the same effect for all purposes as if assented to by all members of the Committee at the time in office.

8.5 Compensation - No member of the Committee shall receive any compensation from the Plan for his services as such. However, all expenses of the Committee shall be paid by the Company.

8.6 Establishment of Rules - Subject to the provisions of any Insurance Contract and the limitations of the Plan, the Committee from time to time shall establish rules for the administration of the Plan and the transaction of its business. The Committee shall have the full and exclusive discretionary authority to interpret the Plan, 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 Committee. All decisions of the Committee shall be conclusive and binding upon all affected persons.

8.7 Prudent Conduct - The members of the Committee shall use that degree of care, skill, prudence and diligence that a prudent man acting in a like capacity and familiar with such

matters would use in his conduct of a similar situation. A member of the Committee shall not be liable for the breach of fiduciary responsibility of another fiduciary unless (a) he participates knowingly in, or knowingly undertakes to conceal, an act or omission of such other fiduciary, knowing such act or omission is a breach; or (b) by his failure to discharge his duties solely in the interest of the Members and Beneficiaries for the exclusive purpose of providing their benefits and defraying reasonable expenses of administering the Plan not met by the Company, he has enabled such other fiduciary to commit a breach; or (c) he has knowledge of a breach by such other fiduciary and does not make reasonable efforts to remedy the breach; or (d) the Committee improperly allocates responsibilities among themselves or improperly delegates responsibilities to others, or fails to properly review any allocation or delegation of fiduciary responsibilities.

8.8 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.

ARTICLE IX

Amendment and Termination

This Plan may be terminated, modified, altered or amended by the Retirement Committee by resolution at any time, provided that no such termination, modification, alteration or amendment shall cause or permit the Trust Fund to be used for, or diverted to, any purposes other than for the exclusive benefit of the employees of the Company included in this Plan. In no case shall any amendment of this Plan cause the reduction or elimination of any Member's accrued benefit (including optional forms of benefit and the manner and timing thereof) in violation of Code Section 411(d)(6) or ERISA Section 204(g). Notwithstanding the foregoing, any modification or amendment of the Plan may be made, retroactively if necessary, which the Retirement Committee 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. Further, notwithstanding the foregoing, in the event of the complete or partial termination of the Plan (which partial termination shall occur only in the event of a reduction of a substantial number or percentage of participants due to employer-initiated actions, as determined in accordance with applicable law), or the complete discontinuance of contributions thereto, the Account balances of all affected Members shall become fully vested. The Account balance of each affected Member shall continue to be held in trust until the Member is entitled to a distribution under Article VI.

ARTICLE X

General Provisions

10.1 Expenses - All costs and expenses in administering the Plan and managing the Trust Fund shall be paid from the Trust Fund and charged within the Trust Fund to the appropriate Investment Funds to which such costs and expenses are attributable to the extent such expenses are not paid by the Company. Notwithstanding the foregoing, brokerage fees, commissions, stock transfer taxes and other charges and expenses in connection with the purchase and sale of securities shall be paid from the Trust Fund and charged within the Trust Fund to the Investment Fund to which such charges and expenses are attributable.

10.2 Source of Payment - Benefits under the Plan shall be payable only out of the Trust Fund and the Company shall not have any legal obligation or liability to make any direct payment of benefits under the Plan. Neither the Company nor the Trustee guarantees the Trust Fund against any loss or depreciation, or guarantees the payment of any benefit hereunder. No persons shall have any rights under the Plan with respect to the Trust Fund, or against the Trustee or the Company, except as specifically provided for herein.

10.3 No Right of Employment - Nothing contained in the Plan shall be deemed to give any employee the right to be retained in the service of the Company or to interfere with the right of the Company to discharge or to retire any employee at any time.

10.4 Non-Alienation of Benefits - Except as specifically provided in the Plan, no benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge, attach or otherwise encumber any such benefit, whether presently or thereafter payable, shall be void. Neither any benefit, nor the Trust Fund shall, in any manner, be liable for or subject to the debts or liability of any employee included in this Plan or any beneficiary. If any employee included in this Plan or any Beneficiary shall attempt to or shall alienate, sell, transfer, assign, pledge, attach or otherwise encumber his rights or benefits under this Plan or any part thereof, or if by reason of bankruptcy or otherwise the rights or benefits of any employee included in this Plan or of any beneficiary would devolve upon anyone else or would not be enjoyed by him, then the Committee, in its discretion and to the extent permitted by law, may terminate his interest in any such right or benefit and direct the Trustee to hold or apply it for his use or account or for the use or account of his spouse, children, or other dependents or any of them in such manner as the Committee may deem proper.

10.5 Qualified Domestic Relations Orders - Notwithstanding any provision in the Plan to the contrary, the Committee shall take such steps as are necessary under the Plan to comply with the terms of any applicable "qualified domestic relations order" (as defined by Code Section 414 (p) and ERISA Section 206(d)). The Account of any Member subject to such an order shall be adjusted to reflect any payments made pursuant to such order. Payments may be made from this Plan pursuant to such an order at any time prior to earliest retirement age, as defined in the Code and ERISA. The Committee shall adopt such procedures as it deems necessary and appropriate to carry out the provisions of this Section.

10.6 Invalidation of Provisions - If any provision of this Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such invalid or unenforceable provision had not been included.

10.7 Failure to Initially Qualify Plan - In no event shall any part of the corpus or the income of the Plan be used for, or diverted to, any purpose other than the exclusive benefit of Members, former Members and their Beneficiaries hereunder. Notwithstanding the foregoing, in the event that the Internal Revenue Service initially determines that the Plan does not qualify under Code Section 401(a), all Company Contributions made prior to such initial determination as to the qualification of the Plan may be returned to the Company within one year of the denial of qualification.

10.8 Adoption of Plan by Subsidiary, Affiliated or Associated Company

- The Company may, by resolution of the Board of Directors, exclude from participation in this Plan any or all of the Employees of the Company or an Affiliated Company. Any subsidiary company of the Company may, by action of its board of directors with the approval of the Board of Directors of the Company, adopt this Plan with respect to its Employees. The Company may, by resolution of the Board of Directors, or by action of the appropriate officers of the Company, make this Plan applicable to any Employees of the Company or an Affiliated Company. With respect to any such Employees to which this Plan is made applicable, Effective Date refers to the date as of which the Plan is made applicable to such Employees. The Committee shall adopt such procedures as it deems necessary and appropriate to carry out the provisions of this Section.

10.9 Mergers and Transfers - No merger or consolidation with, or transfer of assets or liabilities to, any profit sharing or retirement plan, shall be made unless the benefit each Member in this Plan would receive if the Plan were terminated immediately after such merger or consolidation, or transfer of assets and liabilities, would be at least as great as the benefit he would have received had the Plan terminated immediately before such merger, consolidation or transfer.

10.10 Compliance with Securities Laws - Any other provisions in this Plan to the contrary notwithstanding, purchase or distribution of Company common stock shall be subject to compliance with any applicable federal or state securities laws or rules and regulations thereunder.

10.11 Governing Law - To the extent such laws are not preempted by ERISA, the provisions of the Plan shall be interpreted in accordance with the laws of the Commonwealth of Pennsylvania.

10.12 Trust-to-Trust Transfers - In the event of a transfer from a qualified plan (other than a plan subject to the requirements of Section 417 of the Code), and at the discretion of the Committee, and pursuant to procedures issued by the Committee, the individuals who were participants in such other plan may be given the opportunity to elect to have their entire interests in such plan transferred directly on a trust-to-trust basis into this Plan. Any such transferred

amounts shall be allocated to Accounts of Members as determined by the Committee.

10.13 Construction - The masculine pronoun includes the feminine and the singular includes the plural.

10.14 Nondiscrimination Testing - For purposes of satisfying the nondiscrimination requirements under Code Section 401(a)(4), the term "highly compensated employee" shall mean an Employee of the Company or an Affiliated Company who:

(a) was a 5% owner, as defined in Section 416(i)(1) of the Code, at any time during the Plan Year or the preceding Plan Year; or

(b) for the preceding Plan Year performed services for the Company or an Affiliated Company and received compensation (within the meaning of Treasury Regulation section 1.415-2(d)(11)(i)) in excess of \$80,000 (adjusted at the same time and in the same manner as under Section 415 (d) of the Code).

Notwithstanding the foregoing, the Committee may make a "top-paid group" election under the regulations or other guidance issued pursuant to

Section 414(q) of the Code with respect to any preceding year. If such election is made, the foregoing provisions of subsection (b) shall be applied in accordance with such election. The "top-paid group" shall include all Employees who are in the top 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; (ii) Employees who normally work less than 17 1/2 hours per week; (iii) Employees who normally work not more than six (6) months during any calendar year; (iv) Employees who have not attained age 21; and (v) 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.

ARTICLE XI

Contribution Limitations

11.1 Annual Addition Limitation -

(a) Notwithstanding any provision of the Plan to the contrary, in no event shall the Annual Addition (as hereinafter defined) with respect to any Member in any calendar year (which shall be the "Limitation Year") exceed the lesser of (1) 25% of the Member's compensation (within the meaning of Treasury Regulation section 1.415-2(d)(11)(i)) or (2) the dollar limit in effect for such calendar year in accordance with Code Section 415(c)(1)(A).

(b) For purposes of this Section 11.1, the term "Annual Addition" with respect to any Member means the Company Contributions made pursuant to Section 3.1 allocated to the Member's Account and amounts described in Code Sections 415(l)(1) and 419A(d)(2).

(c) If a Member is also participating in another tax-qualified defined contribution plan maintained by the Company or an Affiliated Company (as modified by application of Code Section 415(h)), the otherwise applicable limitation on Annual Additions under this Plan shall be reduced by the amount of annual additions (within the meaning of Code Section 415(c)(2)) under any such other defined contribution plan.

(d) For Plan Years beginning prior to January 1, 2000, if a Member in this Plan is a Member in any tax-qualified defined benefit plan maintained by the Company or any Affiliated Company (as modified by application of Code Section 415(h)), the overall limitation of Code Section 415(e) shall be complied with by limiting the amount of contributions that may be made on behalf of a Member under this Plan.

(e) Excess Company Contributions, as determined under subsections (a) through (d) above, shall be used to reduce future Company 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.

11.2 Top-Heavy Provisions -

(a) Special Top-Heavy Definitions - For purposes of this Section 11.2, the following terms shall have the following meanings:

(1) "Determination Date" means, with respect to any Plan Year, the last Valuation Date of the preceding Plan Year.

(2) "Key Employee" means a Member or former member who is a "key

employee" as defined in Code Section 416(i).

(3) "Permissive Aggregation Group" means, with respect to a given Plan Year, this Plan and all other plans of the Company and its Affiliated Companies (other than those included in the Required Aggregation Group) which, when aggregated with the plans in the Required Aggregation Group, continue to meet the requirement of Code Sections 401(a)(4) and 410.

(4) "Present Value of Accounts" means, as of a given Determination Date, the sum of the Members' Accounts under the Plan as of such Valuation Date. The determination of the Present Value of Accounts shall take into consideration distributions made to or on behalf of the Member in the Plan Year ending on the Determination Date and the four preceding Plan Years, but shall not take into consideration the Accounts of any Member who has not performed any services for the Company during the five year period ending on the Determination Date.

(5) "Required Aggregation Group" means with respect to a given Plan Year, (i) this Plan, (ii) each other plan of the Company and its Affiliated Companies in which a Key Employee is a participant (regardless of whether the plan has terminated within the last five (5) Plan Years), and (iii) each other plan of the Company and its Affiliated Companies which enables a plan described in (i) or (ii) to meet the requirements of Code Sections 401(a)(4) or 410.

(6) "Top-Heavy" means, with respect to the Plan for a Plan Year:

(i) that the Present Value of Accounts of Key Employees exceeds 60% of the Present Value of Accounts of all Members; or

(ii) the Plan is part of a Required Aggregation Group and such Required Aggregation Group is a Top-Heavy Group, unless the Plan or such Top-Heavy Group is itself part of a Permissive Aggregation Group which is not a Top-Heavy Group.

(7) "Top-Heavy Group" means, with respect to a given Plan Year, a group of Plans of the Company which, in the aggregate, meet the requirements of the definition contained in Code Section 416(g)(2)(B). Solely for the purpose of determining if the Plan, or any other Plan included in a required aggregation group of which this Plan is a part, is top-heavy (within the meaning of Code Section 416(g)) the accrued benefit of an Employee other than a key employee (within the meaning of Code Section 416(i)(1)) shall be determined under (1) the method, if any, that uniformly applies for accrual purposes under all Plans maintained by the Company, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Code Section 411(b)(1)(C).

(b) Special Top-Heavy Rules - Notwithstanding any other provision of the Plan to the contrary, the following provisions of this Section 11.2 shall automatically become operative and shall supersede any conflicting provisions of the Plan if, in any Plan Year, the Plan is Top-Heavy.

(1) The minimum Company Contribution during the Plan Year on behalf of a

Member who is not a Key Employee shall be equal to the lesser of (i) 3% of such Member's compensation (within the meaning of Section 415 of the Code); or (ii) the percentage of compensation at which Company Contributions are made (or required to be made) under the Plan on behalf of the Key Employee for whom such percentage is the highest.

(2) In order to comply with the requirements of Code Section 416(h), in the case of a Member who is or has also participated in a defined benefit plan of the Company (or any Affiliated Company that is required to be aggregated with the Company in accordance with Section 415(h) of the Code) in any Plan Year in which the Plan is Top-Heavy, there shall be imposed under such defined benefit plan the following limitation in addition to any limitation which may be imposed as described in Section 11.1. In any such year, for purposes of satisfying the aggregate limit on contributions and benefits imposed by Section 415 (e) of the Code, contributions to this Plan shall, except as hereinafter described, be reduced so as to comply with a limit determined in accordance with Section 415(e) of the Code, but with the number "1.0" substituted for the number "1.25" in the "defined benefit plan fraction" (as defined in Section 415(e)(2) of the Code) and in the "defined contribution plan fraction" (as defined in Section 415(e)(3) of the Code). Notwithstanding the foregoing, if the application of the additional limitation set forth in this Subsection 11.2(b) would result in the reduction of accrued benefits of any Member under the defined benefit plan, such additional limitation shall not become operative, so long as (i) no additional Company Contributions, forfeitures or voluntary nondeductible contributions are allocated to such Member's accounts under any defined contribution plan maintained by the Company including this Plan and (ii) no additional benefits accrue to such Member under any defined benefit plan maintained by the Company. Accordingly, in any Plan Year that the Plan is Top-Heavy, no additional benefits shall accrue under the defined benefit plan on behalf of any Member whose overall benefits under the defined benefit plan otherwise would be reduced in accordance with the limitation described in this subsection (b)(2).

(3) A Member who is not a Key Employee and whose employment is terminated prior to the completion of two (2) or more Years of Continuous Employment shall not be entitled to any portion of his Account under the Plan. A Member who is not a Key Employee and whose employment is terminated after the completion of two (2) or more Years of Continuous Employment shall be entitled to receive the vested portion of his Account, determined in accordance with the following schedule:

Years of Continuous Employment	Vested Percentage
2	20%
3	40%
4	60%
5 or more	100%

The vesting schedule under this subsection (b)(3) shall apply to the portion of the Account of a Member who is a non-Key Employee that represents contributions made by the Company on the Member's behalf before or while the Plan is a Top-Heavy Plan. In the event the Plan previously

was a Top-Heavy Plan but subsequently is not a Top-Heavy Plan, the vesting schedule under this subsection (b)(3) shall be changed to the vesting schedule provided in Section 3.3 of the Plan; provided, however, that any non-Key Employee who has completed at least three (3) or more Years of Continuous Employment and who had at least one Hour of Service while the Plan was a Top- Heavy Plan, shall be entitled to elect, within a reasonable period, which of the above two vesting schedules is applicable to his Account.

(4) In the event that Congress should provide by statute, or the Treasury Department should provide by regulation or ruling, that the limitations provided in this Section 11.2 are no longer necessary for the Plan to meet the requirements of Section 401 or other applicable law then in effect, such limitations shall become void and shall no longer apply, without the necessity of further amendment to the Plan.

Exhibit No. 11(a)

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

	1998	1997	1996
	----	----	----
Common Stock and Common Stock Equivalents			

Average number of common shares outstanding	39.8	40.6	39.1
	=====	=====	=====
 Basic Earnings (Loss) Per Share			

Earnings (loss) from continuing businesses	\$ (9.3)	\$ 185.0	\$ 164.8
Less:			
Dividend requirement on Series A convertible preferred stock	--	--	8.8
Plus:			
Tax benefit on dividends paid on unallocated preferred shares	--	--	2.0
	-----	-----	-----
Earnings (loss) available for common shareholders:			

Continuing businesses before extraordinary loss	(9.3)	185.0	158.0
Extraordinary Loss	--	--	(8.9)
	-----	-----	-----
Net Earnings (loss)	\$ (9.3)	\$ 185.0	\$ 149.1
	=====	=====	=====
 Basic earnings (loss) per share of common stock			

Continuing businesses, before extraordinary loss	\$ (0.23)	\$ 4.55	\$ 4.04
Extraordinary Loss	--	--	(0.23)
	-----	-----	-----
Net Earnings (loss)	\$ (0.23)	\$ 4.55	\$ 3.81
	=====	=====	=====

Exhibit No. 11(b)

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

	1998	1997	1996
	----	----	----
Common Stock and Common Stock Equivalents			

Average number of common shares outstanding	39.8	40.6	39.1
Average number of common shares issuable under stock options	0.6	0.4	0.4
Average number of common shares issuable under the Employee Stock Ownership Plan	--	--	2.6
	---	---	---
Average number of common and common equivalent shares outstanding	40.4	41.0	42.1
	=====	=====	=====
Adjustments to Earnings (Loss)			

Earnings (loss) from continuing businesses	\$ (9.3)	\$185.0	\$164.8
Less:			
Increased contribution to the Employee Stock Ownership Plan assuming conversion of preferred shares to common	--	--	3.2
	---	---	---
Net reduction in tax benefits assuming conversion of the Employee Stock Ownership Plan preferred shares to common	--	--	0.6
	---	---	---
Earnings (Loss) available for common shareholders:			

Continuing businesses before extraordinary loss	(9.3)	185.0	161.0
Extraordinary Loss	--	--	(8.9)
	---	---	-----
Net Earnings (loss)	\$ (9.3)	\$185.0	\$152.1
	=====	=====	=====
Diluted earnings (loss) per share of common stock			

Continuing businesses before extraordinary loss	\$(0.23)(a)	\$4.50	\$3.82
Extraordinary Loss	--	--	(0.21)
	---	---	-----
Net Earnings (loss)	\$(0.23)(a)	\$4.50	\$3.61
	=====	=====	=====

(a) Diluted earnings (loss) per share for 1998 was antidilutive.

EXHIBIT NO. 21
(as of January 1999)

Domestic Subsidiaries -----	Jurisdiction of Incorporation -----
Armstrong Cork Finance Corporation	Delaware
Armstrong Enterprises, Inc.	Vermont
Armstrong Holdings Canada, Inc.	Delaware
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
Triangle Pacific Corp.	Delaware
The Worthington Armstrong Venture (50%-owned unincorporated affiliate)	
 Triangle Pacific Corp. Domestic Subsidiaries -----	
BHFG Corp.	Delaware
BHFL Corp.	Delaware
Bruce Hardwood Flooring L.P.	Texas
Hartco Flooring Company	Tennessee
HFPG Corp.	Delaware
HFCL Corp.	Delaware
DTM Corp.	Delaware
Hartco Hardwood Flooring L.P.	Delaware
Robbins Hardwood Flooring, Inc.	Delaware
Worldwide Kitchens, Inc.	Delaware
 Foreign Subsidiaries -----	
A&S (1998)	United Kingdom
Alphacoustic (UK) Ltd.	England
Armstrong Acquisition Canada, Inc.	Canada
Armstrong Architectural Products S.L	Spain
Armstrong Building Products	England
Armstrong Building Products B.V.	Netherlands
Armstrong Building Products Company (Shanghai) Ltd.	People's Republic of China
Armstrong Building Products G.m.b.H	Germany
Armstrong Building Products S.A.	France
Armstrong Building Products S.r.l.	Italy
Armstrong Europa G.m.b.H.	Germany
Armstrong Europe Services	England
Armstrong (Floor) Holdings, B.V.	Netherlands
Armstrong (Floor) Holdings Ltd.	United Kingdom
Armstrong Floor Products Europe G.m.b.H.	Germany
Armstrong Floor Products Europe Ltd.	England
Armstrong Floor Products Europe Ltd.	Spain
Armstrong Floor Products Europe Sarl.	France

Armstrong FSC, Ltd.	Bermuda
Armstrong Hunter Douglas Limited	England
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
	England
Armstrong Insulation Products	Switzerland
Armstrong Insulation Products A.G.	Belgium
Armstrong Insulation Products Benelux, SPRL	Germany
Armstrong Insulation Products G.m.b.H.	Spain
Armstrong Insulation Products S.A.	France
Armstrong Insulation Products S.A.	Poland
Armstrong Insulation Products Sp. zo.o.	Italy
Armstrong Insulation Products S.r.l.	Russia
Armstrong Insulation Rus.	Japan
Armstrong (Japan) K.K.	Canada
Armstrong Nova Scotia Unlimited Liability Company	Australia
Armstrong-Nylex Pty. Ltd.	Sweden
Armstrong Parafon A.B.	Singapore
Armstrong (Singapore) Pte. Ltd.	Sweden
Armstrong Sweden AB	Germany
Armstrong Textile Products G.m.b.H.	Italy
Armstrong Textile Products G.m.b.H.	England
Armstrong (U.K.) Investments	Sweden
Armstrong World Industries AB	Canada
Armstrong World Industries Canada Ltd.	People's Republic of China
Armstrong World Industries (China) Ltd.	Mexico
	Brazil
Armstrong World Industries de Mexico, S.A. de C.V.	Germany
Armstrong World Industries do Brasil Ltda.	Hong Kong
Armstrong World Industries, G.m.b.H.	Germany
Armstrong World Industries (H.K.) Limited	Korea
Armstrong World Industries Holding G.m.b.H.	England
Armstrong World Industries Korea, Ltd.	Australia
Armstrong World Industries Ltd.	Thailand
Armstrong World Industries Pty. Ltd.	Germany
Armstrong World Industries (Thailand) Ltd.	India
DLW Aktiengesellschaft (93% owned)	Bermuda
Inarco Limited (40%-owned affiliate)	Poland
Liberty Commercial Services Ltd.	
Novita Market SA (30%-owned affiliate)	Spain
Perfiles y Techos, S.L.	Spain
(owned by Worthington Armstrong Espana, S.L.)	
Worthington Armstrong Espana, S.L.	People's Republic of China
Worthington Armstrong Metal Products Co. (Shanghai) Ltd.	England
(owned by WAVE)	
	France
Worthington Armstrong UK Ltd.	
Worthington Venture Europe S.A. (50% owned by WAVE, 50% owned by AVI)	

Triangle Pacific Corp. Foreign Subsidiaries

Bruce Hardwood Floors (Belgium) N.V.	Belgium
Bruce International Corp. (Barbados)	Barbados
Bruce Hardwood Floors Mexico, S.A. de C.V.	Mexico
Servitec Mexico, S.A. de C.V.	Mexico
Bruce Hardwood Floors (UK) Limited	United Kingdom

DLW Aktiengesellschaft Subsidiaries

Bergoss B.V.,	Oss/Niederlande/Netherlands
Birla-DLW Ltd.	Kalkutta/Indien
Tapijtfabriek H. Desseaux N.V.	Oss/Niederlande/Netherlands
Verkoopmaatschappij Desso Belgie N.V.	Dendermonde/Belgien/Belgium
DD Martin Surfacing Inc.	Hunt Valley, USA
Desso-France S.A.R.L.	Aubervilliers Cedex/ Frankreich/France
Desso (U.K.) Ltd.	London/Großbritannien/Great Britain
Desso (U.S.A.) Inc.	Philadelphia, PA/USA
Desso DLW Sports Systems B.V.	Oss/Niederlande
Desso DLW Sports Systems GmbH	Bietigheim-Bissingen
Desso DLW Sports Systems U.K.	Abingdon, Großbritannien
Desso-Mercur Teppichboden G.m.b.H.	Neustadt
Desseaux Corporation of North America	Delaware, USA
Desseaux Teppichvertriebs-Ges.m.b.H.	Wien/Osterreich/Austria
Desseaux Coördinatiecentrum N.V.	Dendermonde/Belgien/Belgium
Tapijtfabriek H. Desseaux Belgien N.V.	Dendermonde/Belgien/Belgium
DLW Austria Ges.m.b.H.	Wien/Osterreich
DLW Belgie N.V.	Brussel/Belgien
DLW Buromobel Holding GmbH	Bietigheim-Bissingen
DLW Buroeinrichtungen GmbH	Berlin
DLW Financial Services	
Finanzierungsvermittlungs-GmbH	Bietigheim-Bissingen
DLW Floorings Ltd.	Milton-Großbritannien
DLW Flooring Systems Ltd.	Mississauga/Canada
DLW France S.a.r.l.	Paris/Frankreich
DLW Iberica S.A.	Madrid/Spainien
DLW International Finance Company	Dublin/Irland/Ireland
DLW Italia S.p.a.	Mailand/Italien
DLW Nederland B.V.	Amsterdam/Niederlande
DLW Norge A/S	Oslo/Norwegen
DLW Osteuropa Consulting Finanzberatungs-GmbH	Bietigheim-Bissingen
DLW Scandinavia A/S	Glostrup/Danemark
DLW (Schweiz) AG	Zurich/Schweiz
DLW-Ural T.O.O.	Jekaterinenburg/Russische Föderation
DLW Versicherungs-und Werbevermittlungs-GmbH	Bietigheim-Bissingen
DLW VYBAVENI Interier S.R.O.	Prag/CFR
Esco B.V.	Waalwijk/Niederlande/ Netherlands
Esco France S.a.r.l.	Aubervilliers Cedex Frankreich/France
Esco Italia Spa	Milano, Italien
Esco Moquette Modular Espana S.A.	Madrid, Spanien
Esco Carpet Tiles (U.K.) Ltd.	Abingdon/Großbritannien/Great Britain
Indol Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Grunwald
Kemen Comercial S.A.	Vitoria/Spainien/Spain
Kemen Portugal Lda	Loures/Portugal
Keman S.A.R.L.	Paris/Frankreich/France
Marka Bodenbelags-Vertriebs-GmbH	Bietigheim-Bissingen
Nestler GmbH Nestler TechCenter Buromobel Nestler TechLine Zeichenanlagen	Lahr
Ossfloor Tapijtfabrieken B.V.	Oss/Niederlande/Netherlands
Ossfloor GmbH	Kleve
Ossfloor Nederland B.V.	Oss/Niederlande
Roder GmbH Sitzmobelwerke	Frankfurt/Main
Suomen DLW Oy	Helsinki/Finnland
Svitex Heimtextilien GmbH	Kleve
Teppich-Werk Neumunster GmbH	Neumunster

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. 2-77936, 33-91890, 33-18996, 33-18997, 33-60070, 33-29768, and 33-65768 on Form S-8 of Armstrong World Industries, Inc., of our report dated February 2, 1999, relating to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of earnings, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 1998, and the related financial statement schedule which report is included herein.

KPMG LLP

Philadelphia, Pennsylvania

March 12, 1999

Exhibit No. 24

POWER OF ATTORNEY

Re: 1998 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, FRANK A. RIDDICK, III, or, in the case of his absence or inability to act as such, DEBORAH K. OWEN, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, 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 22, 1999

(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 22, 1999, and the power by Frank A. Riddick appoints only George A. Lorch or Deborah K. Owen as his agent:

Frank A. Riddick, III	Senior Vice-President, Finance (Principal Financial Officer)
Edward R. Case	Vice President and Controller (Principal Accounting Officer)
H. Jesse Arnelle	Director
Van C. Campbell	Director
Donald C. Clark	Director
Judith R. Haberkorn	Director
John A. Krol	Director
David M. LeVan	Director
James E. Marley	Director
David W. Raisbeck	Director
Jerre L. Stead	Director

(Exhibit No. 24)

I, Deborah K. Owen, 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 22nd day of February, 1999, 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 1998 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, Frank A. Riddick, III or Deborah K. Owen, with such changes therein and additions or deletions thereto as any 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 1998 annual report on Form 10-K by George A. Lorch, Frank A. Riddick, III and Edward R. Case, 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 3rd day of March, 1999.

/s/ Deborah K. Owen

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, 1998, and is qualified in its entirety by reference to such financial statements.

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	DEC 31 1998
CASH	38
SECURITIES	0
RECEIVABLES	440
ALLOWANCES	50
INVENTORY	465
CURRENT ASSETS	1,121
PP&E	1,502
DEPRECIATION	1,122
TOTAL ASSETS	4,273
CURRENT LIABILITIES	753
BONDS	1,563
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	52
OTHER SE	658
TOTAL LIABILITY AND EQUITY	4,273
SALES	2,746
TOTAL REVENUES	2,746
CGS	1,839
TOTAL COSTS	1,839
OTHER EXPENSES	346
LOSS PROVISION	7
INTEREST EXPENSE	62
INCOME PRETAX	(21)
INCOME TAX	(11)
INCOME CONTINUING	(9)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(9)
EPS PRIMARY	(0.23)
EPS DILUTED	(0.23)

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